OVERSEAS DIRECT INVESTMENT

# Indian companies in the European Union

Reigniting Economic Growth

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## BACKGROUND

This study has been commissioned in the background of the emergence of Indian Multinational Corporations, many of which have impressively transformed themselves and vibrantly embraced globalization to integrate in the global economy. Recent acquisitions by Indian companies in Europe provide ample evidence of the growing urge to expand reach beyond domestic markets. However, the surge in Outward Foreign Direct investment (OFDI) by Indian firms gives rise to a host of novel situations and raises interesting questions. While there have been keen debates on allowing FDI in different sectors of the Indian economy, there has been little public discourse on the quantum of investments made by home-bred companies in overseas markets

Today, Indian companies are investing large enough sums to stand respectable in comparison to foreign capital inflows. This is quite unprecedented as India has historical been a recipient of foreign funds. In addition to capital, the country has always been a net importer of technology and know-how.

Till few years back, it was unthinkable to discuss the contribution of Indian companies to the fiscal health of Europe. However, drastic changes in the global economic and financial scenario mean that Europe now needs large dollops of inwards direct investments.

Indian companies have been making their presence felt through greenfield investments and landmark acquisitions that have been successful on all major counts. Indian brands have proven their global competitiveness by expanding into new territories. However, there is a growing perception in the West, particularly Europe, that Indians are taking away local jobs. EICC believes that investments by Indian companies in Europe have boosted the local economies to wade through the debt crisis. Hence it is important that a greater sensibility and awareness is created amongst politicians and businesses in the continent.

The Report will serve as a valuable resource for information, statistics and analysis pertaining to Indian investments between 2003 and 2012. The Report also makes some interesting projections about future outlook on investments and job creation by Indian entrepreneurs. It also spells out ways in which Indian and European companies can partner together in order to create more value and boost consumption at the EU level.

We have tried to highlight concerns faced by forward-looking business leaders in Europe and India. The findings contained herein will help policymakers in taking informed decisions to address the economic and social aspects of Europe-India relations. While the endeavour has been to put trade and investment practices into perspective, the Report does not seek to identify fault lines in EU's policies. Given the current climate of uncertainty, the Report explains why it is important to make the EU-India economic cooperation "inseparable".



## FOREWORD

It is with pleasure that I introduce to you the Research Study Report entitled "Indian Companies in the European Union: Reigniting Economic Growth" carried out by our Europe India Chamber of Commerce (EICC). The Report goes beyond its purpose and objective of being a mere research paper, but serves as a valuable resource on India's emerging multinational enterprises, and provides insights into the patterns and trends of their emergence in the global FDI market. The Report also aims to create a better understating of Indian MNCs and their role in Europe's economic development.

This Report is unique as it offers a comprehensive review of the potentials of Europe-India trade and economic relations. The rising presence of Indian companies in Europe is just one part of the economic relations. The Study reveals several interesting aspects of Indian investment in Europe when both the EU and India are in the advanced stages of inking a bilateral trade and investment agreement (BTIA). This agreement will be a watershed moment in the history of the trading partners, as it will open up previously uncharted avenues of trade and investments.

The remarkable transformation of Indian MNC's has altered business equation globally. The surge in outward foreign direct investment (OFDI) by Indian firms during last few years is also raising a host of interesting questions. Today Indian companies are investing sums large enough to stand respectable in comparison to the foreign capital flow to India. This is something quite unprecedented as India is used to capital flow in one direction:Inwards. Traditionally India has been a net importer of capital and technology.

The emergence of Indian multinationals as major global economic players heralds a new political and economic reality. There is a perceptible shift in balance towards the East and India is as a key architect of this change. The kindling of entrepreneurial and intellectual ability of the Indian business and corporate world have encouraged Indian brands to expand globally and prove their global competitiveness – the Report reveals all these issues.

To our knowledge, this work is the first of its kind to be conducted by any Chamber at pan-European level.

Research on the subject of Indian corporate investments is of particular importance for policy-makers and social scientists across Europe given the current economic environment in Europe. Inward investments are vital as European countries strive to create substantive new jobs and increase economic competitiveness. Like any form of international trade, Indian investment in Europe creates winners and losers and hence cause apprehension in certain quarters.

Our study has enabled us to set out and comment on India's economic relationship with the major economies in Western Europe, relating to both trade and investment; Indian multinational enterprises and their role in economic development and job creation; Factors that could determine the future course of India's economic relationship with the EU and its member states; along with the author's Policy recommendations.

I sincerely hope that the report will prove useful to a diverse readership of investors, businessmen and policy makers. I very much hope that we shall be able to follow this in due course with a study of "European Companies in India".

31 December 2012

Geoffrey Van Orden, MEP
Chairman
Europe India Chamber of Commerce

## EXECUTIVE SUMMARY

Our study finds that Indian companies have invested $56 Billion in Europe since 2003. Of this, $38 billion was spent on mergers and acquisitions while $18 billion was canalised for Greenfield projects. During this period, Indian investors financed 511 Greenfield projects and acquired interests in 411 companies. Majority of the M&A transactions are in the $15-$100 million range. Despite the sovereign debt crisis having a negative impact on Indian investments for 2008-09, there has been a significant pick up in the following years. Our analysis shows that Indian companies spent $15.2 billion between 2009 and the first half of 2012. There was a noticeable slowdown in the quantum of overseas acquisitions with only 159 deals taking place. This drop coincides with an overall decline in the number of acquisitions pursued by Indian investors worldwide in the last three years. Decline in M&A activity was made up for by an increase in Greenfield investments. Between 2009 and the first half of 2012, Indian companies spent $8.7 billion for setting up 240 Greenfield projects.

## GEOGRAPHICAL PRESENCE

Geographically, India's OFDI preferences look typical for a developing country, with United Kingdom, Germany, Netherlands and Belgium in the lead. An economy's competitive advantage, size and scale of the domestic market, investment sops, and proximity to large customers play a major role in attracting the first time investor. Between 2003 and 2012, close to 43 per cent ($24 billion) of Indian corporate investments were directed towards the UK, followed by Germany (12.4 per cent, $6.9 billion). UK continues to be the most favoured investment destination as Indian companies are well versed with its strengths: Open economy, significant financial sector, key IT markets and many more. The share has been amplified by mega deals such as Tata Motors' $2.3 billion acquisition of Jaguar and Land Rover and Tata Steel's $13.3 billion (final enterprise valuation) purchase of Anglo-Dutch steel maker Corus. In Germany, Indian companies are attracted to the country's strong Manufacturing sector, particularly for Automotive and Industrial tools. One could also argue that the four countries also score due to their structured approach in reaching out to foreign investors. Today, Indian companies are present in all the major European countries. Corporate activity has also picked up in countries such as Italy and Spain, especially in recent years. India Inc's exposure to peripheral countries Portugal, Ireland, Greece and Spain, however, continues to be relatively limited. Apart from country specific challenges, we also find that there is a lack of information about the opportunities that exists in several European markets.

## BENEFITS OF INDIAN INVESTMENTS IN EUROPE

Foreign Direct Investment (FDI) increases the welfare of both producers and consumers. It allows companies to explore new markets and operate more efficiently across borders. FDI reduces reduces prices of goods and services, lends itself to economies of scale and promotes specialization. In the case of Indian firms, we have pinned down the following economic benefits to the host economy.



### 1) Creation of new Jobs

In UK, Germany, France, Belgium and The Netherlands, Indian companies have a collective workforce of over 1,34,000 as against a few hundreds in the late 90's. For Western Europe as a whole, Indian firms generated 5,000 new jobs in 2011. A private study by FDI Markets shows that close to 40,000 openings were created by Indian Greenfield investments. Generally, it is difficult to determine whether M&A activity can create new employment opportunities. New jobs may be created through upselling, cross-selling and new product development opportunities if the acquired company has a complimentary business model. In the absence of complimentarities, the employee base can shrink. Such a scenario could happen especially if the acquirer embarks on a restructuring exercise or decides to merge the acquired entity with itself. However, our dataset shows that Indian companies can preserve jobs in firms that are on the brink of shutdown, and add new jobs once a troubled firm is stabilized. The biggest pan-European employer is the salt-to-software Tata Group, which counts approximately 80,000 workers in Europe on the rolls of its 19 group companies. In UK alone, the group continues to be the largest industrial employer, with an active headcount of around 50,000.

### 2) Pricing and Productivity Gains

Indian companies are able to competitively price their goods and services in Europe as they have mastered the concepts of frugal engineering, reverse engineering and offshore delivery. However, only limited pricing and productivity gains can be transferred through exports without direct presence in the target market. Three Indian sectors, IT/ITES (offshoring), Pharmaceuticals and Manufacturing lead the pack. Indian IT Services companies are performing the important economic task of propping up demand for goods and services by reducing cost overheads. In the longer term, their services help to tide over the shortage of trained professionals by giving access to new pools of highly skilled labour, both in the offshore and home market. The European Commission had recently estimated that the across Europe there could potentially be a shortfall of 700,000 trained professionals in the IT sector by 2015. India's talent surplus in the IT sector could significantly help in mitigating this gap for Europe in an area that is crucial to the future competitiveness of European firms. FDI by Indian IT/BPO (Business Process Outsourcing) companies has benefited the economies of Romania, Czech Republic, Poland and Hungary as they are emerging as new hotspots for outsurcing. While several new jobs are being created in these countries, they are also mastering the nuances of services through the process of technology transfer. Apart from direct employment, offshoring and outsourcing generate employment opportunities in tertiary sectors such as construction, housekeeping, catering, security and many more. The exchequer stands to gain, since there is an increase in indirect tax collections. Offshoring sector employees generally enjoy higher wages in comparison to their domestic counterparts. Higher disposable income means higher consumption which results in a GDP increase for developing countries.

Indian generic drugs are made at a fraction of the cost of a patented drug and hence they can be major major contributors to social welfare. Indian generics are cheaper in comparison to generics made in other countries. Debt ridden countries have a great opportunity to reduce their overall healthcare budgets without tinkering with quality and safety by opening up to Indian generic drugs. At the moment, Indian drug makers are clamouring for a level-playing field in Europe, since there is a union-wide tendency to label generics' as counterfeits.

### 3) New Capital

Europe needs to adopt pro-growth measures and increase spending. Under normal circumstances, Governments would be expected to fiscally stimulate the economy, which is currently not feasible. Intra-European cross-border FDI has also dried up.[1] Given these complexities, external capital infusion is the need of the hour. Hence, the expanding footprint of Indian OFDI is a positive indicator.

### 4) Value for shareholders

Greater investment interest from Indian companies increases the notional value for assets, thus raising the prices for European sellers. Indian investors, especially industry leaders, have a tendency to overpay for acquisitions as they find themselves competing with global brands. Industry captains tend to be aggressive when it comes to deal financing, not shying away from raising external capital. Shareholders exiting a company benefit as valuations usually rise when an Indian party enters the bidding fray for an asset.

1. China invests in Europe Rhodium Group, 2012

## MOTIVES

India is investing like any other commercially motivated investor seeking access to new markets, technologies, research facilities and economies of scale. Companies have common motives of diversifying risks and increasing profits through their beachheads in Europe. In addition, the sovereign debt crisis has given firms the opportunity to pitch for European firms whose values have tumbled and hence eager to sell out. In the case of Greenfield investments, factors such as skilled workforce availability, Government support, favourable business climate and infrastructure and logistics play an important role.

The Indian Government has played the role of a facilitator by easing norms for Overseas Direct Investments. However, we find no instances of the Government trying to influence FDI decisions of Indian companies in Europe. The occasional crests and troughs in India's diplomatic situation with individual EU economies do not have a bearing on Corporate India's investment decisions.

## SECTORAL MIX

The sectoral mix of investment in Europe is consistent with the overall internationalisation strategy of Indian companies globally. Twenty per cent of Indian investments are in the IT/ITES space (IT services, software product development, back office), followed by other major sectors such as Automotive, Manufacturing and Steel. We see country-specific and region specific interests from companies operating in renewable energy, financial services and logistics.

## POLICY RECOMMENDATIONS

The emergence of protectionism is a major deterrent to further Indian investments in Europe. Indian investors are worried about non-tariff barriers and other insidious moves such as red tape and increased bureaucracy. The need of the hour is a pan-European economic policy that is free from nationalism. Europe must defend its reputation of free markets by having a strong open door policy. Common, clear and transparent guidelines should be adopted at the individual country level and the EU level to promote investments.

Monitoring of investing companies should be stepped up to ensure that investment aid given is not misused and that investment norms and terms agreed upon are being followed. Steps should be taken to ensure that expensive operating costs, rigid labour markets and heavy regulation do not disenfranchise potential investors.

Individual countries should push for the speedy adoption of the Single Permit Directive well before the deadline of December 2013. As part of the ongoing Broad-based Trade and Investment Agreement (BTIA) discussions, EU should address India's request for preferential treatment so that the number of work permits given to Indian professionals is hiked. The move will also ease the numerous layers of bureaucracy that companies have to deal with while sending their employees on long-term European assignments.

Visa and work permit regulations should be simplified for bonafide commercial investors. Taking cues from France and Germany, other EU countries should join hands for a single "aligned" business tax rate for corporates across Europe. Businesses want to limit regulatory costs and red tape caused by differences in regulations, standards and assessment procedures on both sides.

Indian entrepreneurs see capital and value-based manufacturing as the next big opportunity. The European Commission should create Special Economic Zones (SEZ) like Shenzhen which offers lower taxes, less red tape and other favourable investment conditions to attract overseas investors. These new factories would set the tone for higher manufacturing-based economic growth, create more jobs and propel overall GDP of the EU.



EU should endeavour to create a 'European Silicon valley'. This will attract Indian entrepreneurs with novel ideas. A region wide initiative should be envisaged for creating a new home for the Electronics, Technology and Life Sciences industry, which will attract the best talent and foster the research spirit. Many technology companies, Indian and foreign, will be willing to invest in such an alternative as many locations in Europe have good supply of highly skilled software engineers, who are available at globally competitive salaries. For a project of this scale to be successful, EU stakeholders will need to implement policies for R&D and innovation, higher education and also create streams for financing risky ventures and first time entrepreneurs.

Special focus should be placed on getting on board Indian Small and Medium Size (SME) companies who are the hotbed of innovation. Many of them are venturing abroad for the first time and hence require specialized support. Investment promotion units of individual countries should earmark special teams to cater to the SME sector. In addition to large cities such as New Delhi and Mumbai, investment promotion offices should be established in SME clusters located in and around Tier-II cities, be it Jalandhar (for sports goods), Nagpur (for powerloom and fabrication) or Coimbatore (machine tools). European banks must be more supportive while lending to Indian SME's trying to find their feet in Europe.

In the next 10 years, there should be a pan-European move to attract Indian investment in virtually untapped sectors such as Tourism, Food processing industry, Environmental technology and many more. Individual countries should scout for investors in sectors of their competitive advantage by offering attractive investment terms.

The EU should push for speedy adoption of the BTIA. Both the trading partners should stick to the timeline of finalizing the agreement by the spring of 2013, before the India-EU Summit in Brussels. The air of secrecy around the discussions should be dispelled so that un-necessary apprehensions are not created. All negotiating texts and positions with regards to the BTIA Free Trade Agreement (FTA) should be made public on both sides. Comprehensive impact assessments and meaningful consultations should take place with the most affected groups in Europe and India.

## RECOMMENDATIONS FOR INDIAN COMPANIES

We advise Indian companies to stay invested in the region. There are significant cherry-picking opportunities for fresh investments in sectors such as IT Services, Pharmaceuticals, Food processing, Value-based manufacturing and Logistics. We are bullish on the future prospects of Europe and we value the political bandwidth that is keen to sustain the region. We believe that the sovereign debt crisis will cause Europe to integrate even further. For the first 60 years, Europe's integration was a 'top-down' approach; the next few decades will see a 'bottom-up' approach. We see enough signs to believe that the larger stakeholders of the European project; Germany, France and the UK, are committed to keep the union, albeit for different reasons. The crisis has already compelled European nations to create a common bailout fund and agree on ways to impose more fiscal restraint on each other. Soon, EU nations may agree on instituting a common banking regulator.

With most EU countries trying to reduce internal and external imbalances, we think that it has become more economical to do business in the Eurozone. Higher unemployment has resulted in a natural correction in wage expectations. Barring Italy and Greece, unit labor costs have fallen in all crisis-bugged countries. On the other hand, Germany's labour markets continue to be as compressed as ever. The debt crisis has also caused a significant fall in commercial and residential property prices making infrastructure investments cheaper for cost-sensitive foreign companies. Indian companies love 'fire sales' and the crisis is a good opportunity to bag good assets (companies and other infrastructure) at discounted rates.

However, investing in Europe is a long-term game. Companies need to have strong cash flow positions in order to wade through periods of uncertainties. Companies that seek external funding must be ready to look at non-EU sources. Once a decision is taken to invest in a particular country or region, focus should be on generating employment opportunities to make it a win-win for all. Engaging with the local communities, through Corporate Social Responsibility projects or training opportunities, will help in creating a strong connect with the local labour pool.



## 1 RISE OF THE INDIAN TNC AND INCREASE IN OVERSEAS FDIs

The rise of Indian Transnational Corporation (TNC's) has attracted headlines, drawing the attention of international policymakers and the corporate world. In the last decade, Indian conglomerates (such as the Tatas, Birlas and the Ambanis) have displayed an insatiable appetite for mergers, acquisitions, joint ventures and Greenfield investment ventures in overseas markets. India is expected to have the maximum number of Emerging Market Multination Enterprises (MNEs) by 2024, according to a recent report by PricewaterhouseCoopers (PwC). By 2024, India would be having 20 per cent more multinational enterprises than China. More than 2,200 Indian firms are anticipated to invest overseas in the next fifteen years. These developments have changed an incorrect, but commonly held perception; MNCs ought to have their origins in a developed country.

According to data from the Reserve Bank of India[2], the stock of outward FDI from India more than doubled in 2012 to touch US$112 billion from US$43 billion in 2011[3]. In the 10-year period between March 2001 and March 2012, the spike in outward FDI stock has been nearly 42-fold, growing from US$2.6 billion. Despite persistent weakness in the global economic climate FDI outflows from India have risen by 12 % to US$15 billion in 2012[4]. The actual figure may be higher as several FDI projects are carried out by overseas subsidiaries on behalf of the 'parent' firm back home and hence not necessarily incorporated in official Government data on the host economy's side.[5] OFDI takes two forms, namely Greenfield investments (setting up of new production facility, delivery center etc.) and mergers and acquisitions (taking over/ taking stake in an existing facility). Post 2008, a rise in overseas Greenfield projects, particularly in extractive industries, metal and metal products, and business services, have compensated for a drop in cross-border M&As[6].

An analysis of India's Foreign Direct Investment pattern shows that Manufacturing and Financial and Business services were the most preferred sectors between 2006-07 and 2010-11 (see Exhibit 2). Within Manufacturing, major sub-sectors which attracted OFDI included Agriculture Machineries and equipments, Basic organic chemicals, Drugs, Medicines & Allied products, Refined petroleum products, Indigenous sugar and more. Similarly, within the Financial and Business services sector, a majority of outward FDI had gone into business services (software services, back office, call centres), data processing, financial services, Architecture and engineering, and other technical consultancy activities.

### EXHIBIT 1

**Greenfield investment project overview, 2005-2007 average, 2009-2011**

(Millions of dollars)

| Region/economy | As Destination | | | | As Source | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005-2007 | 2009 | 2010 | 2011 | 2005-2007 | 2009 | 2010 | 2011 |
| | (Pre-crisis annual average) | | | | (Pre-crisis annual average) | | | |
| India | 59796 | 57170 | 51 956 | 58 273 | 23 412 | 24 308 | 19 912 | 34 621 |
| Memorandum | | | | | | | | |
| China | 110 553 | 116 765 | 98 406 | 100 696 | 20 088 | 30 512 | 32 880 | 39 718 |
| Pakistan | 13 728 | 3 955 | 1 255 | 2 397 | 179 | 42 | 153 | 227 |
| South Asia | 76 150 | 77 147 | 62 899 | 68 019 | 28 199 | 30 196 | 20 777 | 35 593 |
| Asia and Oceania | 375 825 | 449 451 | 338 959 | 347 980 | 227 079 | 243 839 | 201 077 | 205 604 |
| Developing Economies | 550 013 | 670 185 | 547 991 | 568 376 | 247 455 | 277 061 | 239 492 | 242 811 |
| World | 920 067 | 1 051 581 | 904 572 | 904 267 | 920 067 | 1 051 581 | 904 572 | 904 267 |

Source: UNCTAD World Investment Report 2012

2. The Reserve Bank of India is the country's Central Bank     3. RBI Annual Report 2011-12

## 1.2 HISTORY

India's fixation with foreign shores goes back to the pre-independence era. Few Indian companies then invested in physical assets and raw material processing facilities at other British colonies. (Morris, 1987 & 1990). In 1956, the Birla Group setup a textile mill in Ethiopia to become the first overseas mover in independent India (Lall, 1986). Though this project did not take off till much later, the stage was set for Corporate India to play a larger role abroad. By 1976, Indian companies had 133 foreign ventures, majority of which were in the developing countries of Kenya, Uganda, Nigeria, Malaysia, Thailand and Sri Lanka (Morris, 1987). By 1991, this number had swelled up to more than 300.

### EXHIBIT 2: Major Sector-wise overseas investments by Indian companies (In US$ Billion)

| Period | 2008-09 | 2009-10 | 2010-11 | 2011-12* | Total |
|---|---|---|---|---|---|
| Manufacturing | 10.18 | 5.35 | 5.04 | 2.74 | 23.31 |
| Financial Insurance, Real Estate Business & Business Services | 3.55 | 4.41 | 6.53 | 2.53 | 17.03 |
| Wholesale & Retail Trade, Restaurants & Hotels, | 1.17 | 1.13 | 1.89 | 1 | 5.19 |
| Agriculture & allied activities | 2.38 | 0.95 | 1.21 | 0.41 | 4.94 |
| Transport, Communication & Storage Services | 0.31 | 0.38 | 0.82 | 1.34 | 2.85 |
| Construction | 0.35 | 0.36 | 0.38 | 0.37 | 1.46 |
| Community, Social & Personal Services | 0.39 | 0.18 | 0.7 | 0.18 | 1.45 |
| Electricity, Gas & Water | 0.14 | 0.84 | 0.1 | 0.04 | 1.19 |
| Miscellaneous | 0.12 | 0.11 | 0.18 | 0.1 | 0.51 |
| Total | 18.58 | 13.71 | 16.84 | 8.73 | 57.86 |

Source: Data from the Reserve Bank of India

*April 2011- February 2012

[4]UNCTAD (2012), World Investment Report 2012, United Nations Conference on Trade and Development, New York and Geneva

[5]'Indian Investments in Germany'. Pp 2. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1998417

[6]UNCTAD (2012), World Investment Report 2012, United Nations Conference on Trade and Development, New York and Geneva



As illustrated by Morris (1987), the development of OFDI from India can be divided into two phases; The First Wave (starting with the investment boom in the 1970s to 1990) and the Second Wave (beginning with the adoption of the new Industrial Policy from 1991 onwards). Prior to the first phase, the only reason Indian companies were expected to internationalize was to generate foreign exchange for the exchequer. This made it tough to acquire foreign currency to expand abroad. The Government had put in place strict rules about ownership as well as the repatriation of profits[7]. Though some of these norms were eased in the first phase, the policy aim to internationalize for the Indian external balance of payments still continued. The Government allowing firms to pick up minority stakes in joint ventures characterized the first wave. (Morris, 1990) The major beneficiaries were family-owned conglomerates such as Tata, Birla, Kirloskar, Thapar, Mafatlal, Singhania,

Mahindra, etc. (Pradhan, 2008). Volumes during this phase were stumpy due to two main factors: restrictive Government (regulatory and approval) policies and low level of exports (Pradhan, 2008).

In the first phase, Government policies such as the Monopolies and Restrictive Trade Practices Act and the Foreign Exchange Regulation Act (FEMA) were the major impediments. The Government sensed the FDI relaxations as a tool to increase the country's clout among emerging economies. Thus Indian companies made investments in companies operating in developing countries such as Kenya, Uganda, Nigeria, Malaysia, Thailand and Sri Lanka in the first wave.

Moreover, not many Indian corporations felt the need to export their product and services as they were being protected from foreign competitors in the pre-reforms period. In other words, they were not compelled to internationalize in a more active way because of satisfactory domestic demand.

In many ways, the Indian Government's move to 'neo-liberalize' the economy in 1991[8] shaped the overseas aspirations of Indian corporates, ushering in the second wave of Indian OFDI. Major policy level and structural changes were put in place. Liberalization had three integrated effects on the development of Indian FDI[9].

- It provided corporations with a wider scope of activities and possibilities of financing than earlier
- As the economy was deregulated, competition increased through both local and international entrants, which enhanced the competitiveness of Indian firms
- Deregulation boosted the rapid growth of the Indian market; an average growth of six percent was recorded from the late 1980s to early 2000

In the late nineties, several large family businesses began the process of professionalizing their boards. The Indian growth story, coupled with the inward FDI relaxations beginning 1991, lured several foreign companies to invest in Indian assets. This led to the transformation of many family businesses into professional outfits harbouring high growth aspirations.

### EXHIBIT 3: Indian presence in the top 100 non-financial transnational corporations from developing countries, ranked by foreign assets (Millions of dollars and number of employees)

| Corporation | Industry | Ranking By: | | Foreign | | | TNI* |
|---|---|---|---|---|---|---|---|
| | | Foreign Assets | TNI* | Assets | Sales | Employment | (Percent) |
| Tata Steel Ltd. | Metal and Metal Products | 12 | 25 | 18 913 | 19 301 | 46 339 | 64 |
| Tata Motors Ltd. | Automobile | 24 | 42 | 12 585 | 16 931 | 22 226 | 54 |
| Hindalco Industries Ltd. | Diversified | 31 | 29 | 10 849 | 12 179 | 11 103 | 64 |
| Oil and Ntaural Gas Corp Ltd. | Petroleum explorer/re-finer/distributor | 54 | 93 | 6 119 | 4 070 | 3 949 | 15 |
| Tata Consultancy Services | Other Services | 65 | 38 | 5 058 | 7 368 | 10 475 | 55 |
| Suzlon Energy Ltd. | Diversified | 67 | 23 | 4 563 | 2 496 | 9 064 | 68 |
| Reliance Communications Ltd. | Telecommunications | 86 | 88 | 3 000 | 1 674 | 3 968 | 21 |
| Tata Chemicals Ltd. | Chemicals | 100 | 67 | 2 020 | 668 | 1 479 | 39 |

Source: UNCTAD World Investment Report 2012

TNI3, The Transnationality Index, is calculated as the average of the following three ratios: Foreign assets to total asset, Foreign sales to total sales and Foreign employment to total employment

[7]Jonsson, S. (2008). Indian multinational corporations: Low-cost, high-tech or both?

Significant changes in the international policy context also played an important role. Akin to India, many of the developing and transitional economies opened up their markets. The seeds for change were sowed at the Uruguay Round of trade negotiations[10], which encouraged Free Trade and significantly reduced the ability of developing countries to adopt protectionist policies. Since the Round put in place stronger intellectual property laws and a robust dispute settlement mechanism, individual countries had to strictly abide by the multilateral trade commitments they had made.

[8]India was faced with a balance of payments crisis in the early 90's. The Indian governments initiated a host of liberalization-cum-structural adjustment as part of a bailout deal with the International Monetary Fund. The reforms, namely industrial deregulation, trade liberalization, and relaxation of regulations governing FDI and foreign technology, was a clear departure from the planned economic structure that India had in place since 1947.

[9]Jonsson, S. (2008).

[10]Eight year long, multilateral trade negotiations among 123 states. It is the round that transformed the GATT into the World Trade Organization.



## 1.3 THE THIRD WAVE

From 2001 onwards, a third wave of Indian Overseas Direct Investments can be discerned. Mergers and acquisitions by fast growing Indian companies, supported by further policy-level relaxations, mark this phase. There was a fundamental recalibration in the role Indian companies were expected to play in the country's economic development. 'India Inc' was expected to be the torchbearer of the country's economic prowess at the world stage. Prime Minister Dr Manmohan Singh confirmed the commitment to overseas investments at the highest level in 2005. "All our firms, be they in the public sector or the private sector, must become more competitive so that they can face increased competition with success from abroad. Many Indian firms today have the managerial leadership to go global and compete at the global scale…we need to understand how we can replicate such success stories so that more and more Indian firms go global" (Sauvant, 2005).

The scope of outward FDI increased significantly after the introduction of the Foreign Exchange Management Act (FEMA) in 2000. In 2003, Indian companies were allowed to invest 100 per cent of their net worth for overseas ventures. This was gradually raised by 400 per cent of net worth. A progressive loosening up of the access to international financial markets followed this. Indian corporates were permitted to use Special Purpose Vehicles (SPV) in international financial markets to finance their cross-border acquisitions. These liberalizations accelerated the pace of cross border investments in the last decade. Between 2000 and 2012, Indian companies (listed and unlisted) concluded 1995 overseas acquisitions, at an estimated investment value of nearly US$ 116 billion[11], as per data sourced from Bloomberg. During this period, Indian companies took over foreign players in diverse sectors such as Automotive, Hospitality, ICT, Manufacturing and others.

Continuing from the second wave, nearly 83 percent of the targets of Indian acquisitions were in developed countries (Pradhan 2010). Emerging markets attracted just 17% of the total value of Indian overseas acquisitions in this period. Indian acquisitions in emerging markets tend to focus more on gaining access to natural resources like Oil, Gas, and Minerals (Pradhan 2010) Deals in developed markets are pursued to get access to new technologies, markets, skillsets and scale.

For the first time in 2006, India Inc saw more outbound acquisitions than inbound, thanks to big-ticket deals such as Tata Tea's acquisition of Energy Brands (US), Dr Reddy's Lab's acquisition of Betapharm, (Germany) Suzlon Energy's acquisition of Hansen Transmissions, (Belgium) and many more. Total value of the outbound acquisitions stood at around $10 billion[12] that year.

### EXHIBIT 4: Top 10 Country-Wise Distribution of Indian OFDI (In US$ Billion)

| Country | 2008-09 | 2009-10 | 2010-11 | 2011-12* | Total |
|---|---|---|---|---|---|
| Singapore | 4.06 | 4.2 | 3.99 | 1.86 | 14.11 |
| Mauritius | 2.08 | 2.15 | 5.08 | 2.27 | 11.57 |
| Netherlands | 2.79 | 1.53 | 1.52 | 0.7 | 6.54 |
| United States of America | 1.02 | 0.87 | 1.21 | 0.87 | 3.97 |
| United Arab Emirates | 0.63 | 0.64 | 0.86 | 0.38 | 2.51 |
| British Virgin Islands | 0 | 0.75 | 0.28 | 0.52 | 1.55 |
| United Kingdom | 0.35 | 0.34 | 0.4 | 0.44 | 1.53 |
| Cayman Islands | 0 | 0.04 | 0.44 | 0.14 | 0.62 |
| Hong Kong | 0 | 0 | 0.16 | 0.31 | 0.46 |
| Switzerland | 0 | 0 | 0.25 | 0.16 | 0.41 |
| Other Countries | 7.65 | 3.19 | 2.65 | 1.23 | 14.71 |
| Total | 18.58 | 13.71 | 16.84 | 8.86 | |

Source: Data from the Reserve Bank of India

*April 2011- February 28, 2012

[11]In several cases, companies have not disclosed the financial terms of the acquisition hence the value of US$ 116 billion is an estimated one.

[12]M&A's abroad now part of India's growth story, http://economictimes.indiatimes.com/special-report/mas-abroad-now-part-of-india-growth-strategy/articleshow/5758616.cms

The momentum of outbound acquisitions showed a dramatic increase in 2007, with several high profile deals such as Tata-Corus (UK), Hindalco-Novelis (US), Suzlon-Repower (Germany), United Spirits-Whyte & Mackay (Scotland) etc. At over $32 billion, the value of outbound deals was more than double in comparison to the inbound deals in 2007. In several cases, the acquiring company was several times the size of the target company.

However, many of these acquisitions faced several challenges in the second half of 2008 and 2009 because of the economic slowdown. In their zest to acquire overseas assets, Indian companies had outbid the other interested parties. As a result many deals were concluded at very high valuations, forcing the acquirer to raise debt. Due to the slowdown, many acquired units were unable to generate adequate cash to service the debt. The liquidity crisis has made debt refinancing tough. The valuations paid for acquiring companies looked higher when the stock markets crashed. The slowdown meant that acquired businesses have not been able to meet their targets.

Other reasons for the failure of high profile Indian acquisitions are[13] :

- Target companies are primarily marketing setups and their values have been significantly eroded compared to companies with real assets and end-to-end solutions.

- Several acquirers underestimated cultural issues during the acquisitions.



## 1.4 SLOWDOWN IN M&A ACTIVITY

Data from Thomson Reuters suggests that Indian overseas acquisitions shrank this year with deal values amounting to US$3.8 billion, down 55.4% from the comparable period last year (US$8.6 billion). In the third quarter of 2012 volumes slightly increased by 9.9% to US$1.6 billion from the second quarter of 2012 but declined 50.8% from third quarter of 2011. One of the main reasons is the absence of large deals in the mix. Typically, Indian companies borrow heavily to pay for their purchases abroad. The current uncertain economic environment has made it expensive to raise finances abroad.

The volatility in the currency market, though not exclusively dependent on the international credit crisis, is not helping the cause either. A year ago, the Indian rupee stood at a strong Rs 44.5 to the US dollar. At that level, the rupee had appreciated by more than 13 % vis-a-vis the greenback over the preceding 13 months. However between August of last year and the middle of December the value of the rupee fell to Rs 54 to the dollar, or depreciated by as much as 21 %.

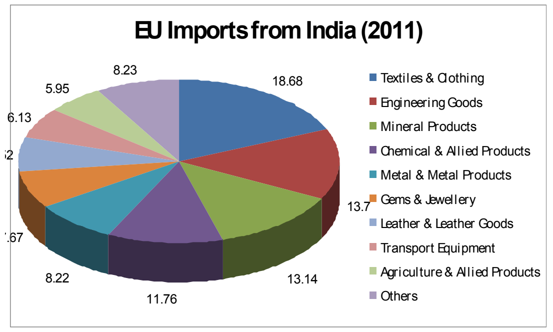
Between December and early March this year, the currency regained some of its earlier strength to be valued at Rs 49 to the dollar. However, it has once again lost value and currently is above Rs 53 to the dollar, and possibly heading to its December low.

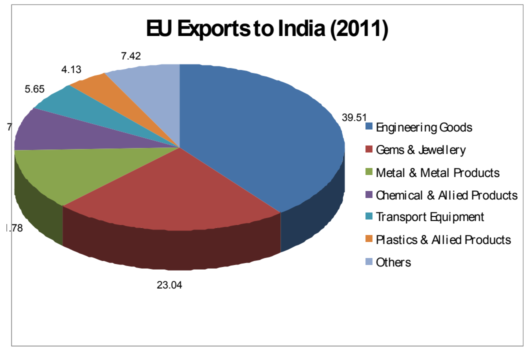
[13] M&A's abroad now part of India's growth story, http://economictimes.indiatimes.com/special-report/mas-abroad-now-part-of-india-growth-strategy/articleshow/5758616.cms

## 2. INDIA INC AND EUROPE

Thanks to India's colonial past, its economic relationship with the EU has been one of the longest standing ones. The far-reaching influence of European colonial rulers began with the Portuguese occupation in the 16th century, followed by the Dutch and French. In 1756, the "British East India Company", a company chartered for trade with Asia, set its foot in India and went on to institute the Queen of Britain's rule in the country for two centuries. Even after India's independence in 1947, London and New Delhi have maintained close relations on trade, investments and development issues. India was among the first few countries to establish diplomatic relations with the erstwhile European Economic Community (EEC) that was formed in 1957, courtesy the Treaty of Rome.

### Exhibit 5




Source: Eurostat

However, the Indian reaction to different phases of the European relations has been mixed. In 1957, India protested against formation of the common European Market, terming it as 'convention between European countries with the sole aim of agreeing on preferential tariffs.'1 India did not understand the European construction and its willingness to integrate 'from below', considering that India was constructed 'from above'. In 1962 Jawaharlal Nehru, the Indian Prime Minister established a diplomatic mission in Brussels, a gesture that pointed towards a new, egalitarian relation between the two entities. This decision reflected two aims of the Government in New Delhi; ensuring better access for its products in the Community market and contribute to the EEC's recognition of setting up an encompassing development state



India's relationship with the EU touched a new level after a cooperation agreement was established in 1994. Since 2000, annual India-EU summits have been jointly conducted. 2004-05 was a watershed year for the relationship, as India became one of the EU's "strategic partners". Since 2005, the EU-India Joint Action Plan has been in place with the agenda of 'realising the full potential of this partnership in key areas of interest to both the regions. The same year, a separate window was established under the Erasmus Mundus programme for providing scholarships to Indian Master students.

### EXHIBIT 6: Official FDI Flows Between EU And India

| Year | Inflows from India into the EU (€ billion) | Outflows from the EU to India (€ billion) |
|---|---|---|
| 2000 | 0.2 | 0.7 |
| 2001 | 0.1 | 0.4 |
| 2002 | 0.1 | 1.1 |
| 2003 | 0.6 | 0.8 |
| 2004 | 0 | 1.6 |
| 2005 | 0.5 | 2.5 |
| 2006 | 0.5 | 2.5 |
| 2007 | 1.2 | 4.6 |
| 2008 | 3.5 | 3.3 |
| 2009 | 0.8 | 3.1 |
| 2010 | 0.6 | 3 |
| 2011 | 0.6 | 12 |
| Total | 8.1 | 23.6 |

Provisional Data

Source: Eurostat

[14]'India and Europe in the New Millennium', Rajendra Kumar Jain, New Delhi: Radiant Publishers, 2001, http://www.easternbookcorporation.com/moreinfo.php?txt_searchstring=2684

[15]Taken from the thesis written by Cyril Berthod, titled 'India and the European Union: Evolution and interlinking issues of a multi-level relationship', defended in April 2009 at Panthéon-Sorbonne Paris 1 University.

## 2.2 BILATERAL TRADE

Trade and investment continue to be at the core of India-EU relations. India-EU trade has been steadily rising since 2001. EU is India's largest trading partner accounting for €100 billion in trade in goods and services in 2011. EU accounted for 20.34% of India's total exports and 14.31% of India's total imports. On the other hand, India accounts for 2.6% of EU's total exports and 2.3% of the EU's total imports. India is ranked 8th in the list of EU's main trading partners in 2011, up from 15th in 2002. Bilateral trade rose by 29.4 per cent to $108 billion in 2011 from $83.46 billion in 20101.

## 2.3 FDI OUTFLOWS FROM INDIA

### Official Data

Official data shows that values of India's overseas investments remain small compared to Europe's total inward FDI stock, but the change in trend is what matters the most. Dataset pertaining to Indian overseas investment shows that Indian outflows to Europe grew almost 10 times between 2000 and 2011. It touched an all-time high of €3.5 billion euro in 2008. In 2008, for the first time India's FDI outflows to the EU were higher than inflows. (See Exhibit 5). However, inflows since then have been muted, largely due to the uncertainties generated by the sovereign debt crisis. Provisional data for 2011 reveals that Indian FDI into Europe for the year more than doubled to €1.9 billion from €0.6 billion in 2010. At the same time, 2011 saw a two and a half times increase of FDI from the EU into India, breaking all previous records and reaching €12 billion. The average annual level of European FDI into India over the last 5 years (2007-11) has been €5.6 billion. The EU has been the biggest investor in India with a cumulative volume of about €37.6 billion since 2000. The EU is the second largest destination of outward investment from India – it received €10 billion cumulative investment from India since 2000

### Our Dataset

Though official data is important from a historical perspective, we find that it does not paint the real picture for several reasons. As mentioned in Chapter 1, several FDI projects are carried out by overseas subsidiaries on behalf of the 'parent' firm back home and hence not necessarily incorporated in official Government data. Eurostat data is published with a significant delay. Comprehensive data is available only through 2010 (data for 2011 is provisional); a lag of almost two years. From the Indian side, the Reserve Bank of India has publicly published India's OFDI data only since 2007. Moreover, 60 per cent of Indian FDI deals are routed through tax havens such as Mauritius, Netherlands, Cayman Islands and others, and hence not captured by state agencies.

Hence, we have developed an alternate dataset which helps in analysing spends by Indian companies in Europe since 2003. We constructed this database by dwelling into secondary sources such as the investment promotion agencies, Thomson Reuters database, Zephyr Database, KPMG Emerging Markets Acquisition Tracker, FDI Markets, and newspaper reports.

Our dataset shows that Indian companies have invested $56 Billion in Europe. Of this, $38 billion was spent on mergers and acquisitions while $18 billion was canalised for Greenfield projects. During this period, Indian investors financed 511 Greenfield projects and acquired interests in 411 companies. The average spend per European acquisition was $107 million. Though the sovereign debt crisis had a negative impact on Indian overseas investments for 2008-09, there has been a significant pick up in the following years. Our analysis shows that Indian companies spent $15.2 billion between 2009 and the first half of 2012. There was an exhibit slowdown in the quantum of overseas acquisitions with only 159 deals taking place. This drop coincides with an overall decline in the number of acquisition deals pursued by Indian investors worldwide in the last three years. The dip in M&A activity was made up for by an increase in Greenfield investments. Between 2009 and first half of 2012, Indian companies spent $8.7 billion for setting up 240 Greenfield projects.

Geographically India's OFDI preferences look typical for an Anglophone country, with United Kingdom, Germany, Netherlands and Belgium in the lead. On the other hand, Chinese investors have preferences for France, the United Kingdom and Germany, in that order

[16] Statistics released on 9th February 2012, ahead of the 12th EU-India summit in New Delhi



## 2.4 MOTIVES

India's rising involvement with the European economies could be seen in line with its growing share of trade and investment world over. Indian investments in Europe have been overwhelmingly motivated by commercial considerations alone. The occasional highs and lows in the India's diplomatic situation with individual countries or the EU in general do not seem to have had a bearing on the investment preferences of investors. There is enough evidence to confirm that the Indian Government does not interfere in the decision making of its investors. Traditional literature suggests that FDI decisions are taken for three main reasons1: (i) Resource seeking, (ii) Market-seeking and (iii) Non-marketable asset seeking. In the case of Indian corporates, we can condense the motives as follows:

### 1) Increase Profits

With the advent of liberalization in 1991, homebred companies had to face increased competition in the domestic market from foreign players. The dwindling profitability of the home business compelled Indian firms to look for overseas markets to sell their goods and services. With close to 500 million citizens who have a very high purchasing power, Europe is the world's most lucrative consumer market (market seeking). Of the top ten trading nations in the world, six are EU Member States. A strong exchange rate (€1= 70 Indian rupees) ensures high realization for Indian exporters as they bill European customers in the Euro but incur operational costs in the weaker Indian rupee. A lot of the value that makes up the profits comes with greater consumer engagement. While Indian companies started with exports, they soon realised the need to be present in the target market. In doing so, they are able to better understand customer tastes and tailor their offerings accordingly.

Many acquisitions done by Indian IT companies in Europe are targeted at getting access to larger customers or increasing access to an existent customer. In line with this strategy, the preferred targets are companies with large number of client facing associates.

### 2) Diversify Risks

Companies understand that greater wealth can be created for shareholders by diversifying operations in different new industries and geographical markets (non-tangible asset seeking). During an economic downturn, the geographical breadth of a company's operation can be pivotal to survival. Indian companies have traditionally preferred trade and investments with English speaking countries such as UK and US. The US accounted for more than 90 per cent of the export market for Indian Pharmaceutical and Software companies till the late nineties. However, the dot-com bust and the NASDAQ bubble that followed in the new millennium forced companies to diversify their investment portfolios. The logical progression was to use UK as a beachhead for tapping other markets in the continent. A case in point is software services company Infosys Technologies that setup presence in the UK 15 years ago. In the next round, it went after Germany, France and the Netherlands. Today, it has expanded its presence even into Eastern European countries such as Romania and Czech Republic, and services clients across Europe.

### 3) Access to New Technologies /Research and Development

India has never had a well-developed ecosystem for promoting innovation. The innovation ecosystem has been under-financed with public funding of R&D activities not reaching even one per cent of GDP. India has lacked a cohesive innovation policy as a result of which even Private Equity funds are reluctant to invest in unproven ideas. Starting a manufacturing company in India is a difficult task considering all the bureaucracy, inspections and regulations that come into the picture2. Starting a services company in India is relatively simple. Gubbi, Aulakh, Ray, Sarkar, and Chittoor (2009) claim that acquiring R&D and internally developing innovation by acquiring intellectual capital are the two essential capabilities to make it possible for Indian companies to enter higher value added segments and to compete on a worldwide scale with large MNEs. Indian companies' are banking on Europe's clear patent laws and evolved research capabilities to usher in the next level of growth. Domain specialists in the areas of High-end manufacturing, Software writing and Pharmaceutical are in high demand from Indian companies. (Intangible asset seeking motive) Thanks to its $13.3 Billion acquisition of Anglo-Dutch maker Corus in 2006, Tata Steel today has 60-odd patents in its kitty, as against none prior to the acquisition.

### 4) Low Valuations

The economic crisis in Europe has significantly dented the valuation of domestic companies. Further, transaction volumes in the geography have been impacted. Many Private Equity players who had acquired companies in European markets are at the end of their investment cycle, looking to cash out. Given this backdrop, cash-rich domestic companies aiming to expand in Europe are looking to acquire strategic assets at bargain prices.

[17] Why do firms invest abroad: An analysis of the key motives, Franco, Rentochinni & Marzetti, August 2008 http://etsg.org/ETSG2008/Papers/Franco.pdf

## 2.5 INDIA INC IN EUROPE: GREENFIELD / EXPANSION INVESTMENTS

Baskaran and Chaarlas (Zenith Research, 2012), define Greenfield investment as an internationalisation strategy playing four key functions. Firstly, the role of Greenfield investment must be seen as a medium of maximizing economic gains from the competitive assets of the Indian firms through overseas production. Secondly, firms undertake Greenfield investment to build trade-supporting networks aboard, which may in turn allow exploitation of competitive advantages via enhanced exports from India and lastly, a Greenfield investment is undertaken to source quality raw materials, intermediates and natural resources which may be lacking in the host economy. Most of the Greenfield investments in Europe are undertaken for the first two reasons. Hence, they are not as capital intensive as acquisitions. On the other hand, Indian companies conduct sourcing of raw materials and intermediaries on a large scale in oil-rich middle-east countries and mineral rich Africa.

### EXHIBIT 7: Greenfield FDI investments by destination country (for Indian Companis) (2002-2012)

| Destination Country | No. of projects | No. of companies | Jobs Created | | Capex (In US$ million) | |
|---|---|---|---|---|---|---|
| | | | Total | Average | Total | Average |
| UK | 244 | 161 | 24,903 | 102 | 8,148.40 | 33.4 |
| Germany | 101 | 94 | 4,545 | 45 | 1,532.70 | 15.2 |
| Netherlands | 33 | 28 | 1,205 | 36 | 2,455.60 | 74.4 |
| France | 31 | 30 | 1,313 | 42 | 365.4 | 11.8 |
| Belgium | 23 | 19 | 1,675 | 72 | 861 | 37.4 |
| Spain | 16 | 16 | 1,744 | 109 | 668.9 | 41.8 |
| Italy | 15 | 12 | 2,239 | 149 | 2,003.80 | 133.6 |
| Switzerland | 14 | 14 | 545 | 38 | 201 | 14.4 |
| Denmark | 10 | 8 | 456 | 45 | 142.8 | 14.3 |
| Sweden | 7 | 7 | 281 | 40 | 181.4 | 25.9 |
| Other destination countries | 17 | 15 | 893 | 52 | 956 | 56.2 |
| Total | 511 | 321 | 39,799 | 77 | 17,517 | 34.3 |

Source: 'India into Western Europe', FDI Intelligence from The Financial Times Ltd

[18]New York Times, 2012 In India anxiety over innovation, http://www.nytimes.com/2009/12/09/business/global/09innovate.html?pagewanted=2&_r=2&ref=technology



Most Indian Greenfield investments in Europe are small operations that carry out sales and marketing activities.

For Greenfield investments, we rely heavily on a database provided by FDI Markets (FT Group), as part of a report titled, 'Indian companies in Western Europe'. The report shows that Indian companies were behind 511 FDI projects in Europe between January 2003 and July 2012. These projects led to a total capital infusion of US$17.52 billion, an average investment of US$34 million per month. Indian corporates cited the following as key reasons (in that order) for FDI investments in Europe: (i) Proximity to market or customers; (ii) Domestic market growth potential; (iii) Skilled workforce availability.

A total of 275 companies from India invested in Western Europe between January 2003 and July 2012. They created 39,799 new jobs.

### EXHIBIT 8: Greenfield Investment Trends By Sector ( 2003-2012 )

| Destination Country | No. of projects | Jobs Created | | Capex (In US$ million) | |
|---|---|---|---|---|---|
| | | Total | Average | Total | Average |
| ICT & Electronics | 120 | 7,249 | 60 | 2,163.10 | 18 |
| Financial Services | 83 | 2,688 | 32 | 2,347 | 28.3 |
| Professional Services | 51 | 8,861 | 173 | 274.3 | 5.4 |
| Life Sciences | 44 | 2,067 | 46 | 857.3 | 19.5 |
| Industrial | 40 | 1,225 | 30 | 347 | 8.7 |
| Transport Equipment | 34 | 6,099 | 179 | 2,677.10 | 78.7 |
| Creative Industries | 32 | 1,324 | 41 | 575.5 | 18 |
| Environmental Technology | 22 | 2,294 | 104 | 1,472.40 | 66.9 |
| Physical Sciences | 21 | 2,285 | 108 | 586.5 | 27.9 |
| Food, Beverage & Tobacco | 15 | 473 | 31 | 170 | 11.3 |
| Other Cluster | 5,234 | 106 | 6,046.60 | 123.4 | 56.2 |
| Total | 511 | 39,799 | 77 | 17,517 | 34.3 |

Source: 'India into Western Europe', FDI Intelligence from The Financial Times Ltd

Tata Group, State Bank of India and Punjab National Bank are behind the maximum number of Greenfield FDI projects in Europe. The top 10 Indian companies account for 29 % (148 projects) of the total FDI projects being tracked. This data shows that banks (State Bank of India, Punjab National Bank and ICICI Bank) are increasingly investing in Europe by opening up branches to predominantly service the needs of the Indian Diaspora.

In terms of company size, almost one-fifth of investing companies have an annual turnover of between US$100 million and US$999.99 million. One-eighth of companies have a turnover of US$24.99 million or more. UK has received the maximum patronage by Indian companies, followed by Germany and Netherlands. There seem to be regions in Western Europe that attract more FDI from Indian corporates than the others. South East UK is the top destination, attracting the highest number of investment with the highest total number of jobs created. Project volumes here peaked in 2008 when 20 projects brought in US$2.49 billion worth of investment. Indian companies created 4,945 jobs in the region. West-Nederland (Germany) and Northern Ireland have the largest project size, on average, in terms of investment and job creation respectively.

The top four sectors for Greenfield investments in Europe are: ICT & Electronics, Financial Services, Professional services and Life Sciences.

### EXHIBIT 9: Top Five Overseas Acquisitions For Indian Comapnies Ever

| Buyer | Target | Target Headquarters | Target Business | Enterprise deal value in Billions (US$) | Announcement date |
|---|---|---|---|---|---|
| Tata Steel | Corus | London, United Kingdom | Steelmaker | 13.3 | Jan-07 |
| Bharti Airtel | Zain Africa | Amsterdam, The Netherlands | Telecommunications Service Provider | 10.7 | Feb-10 |
| Hindalco (Aditya Birla Group) | Novelis | Atlanta, United States | Aluminum products | 6.2 | Feb-07 |
| Tata Motors | Jaguar and Land Rover | London, United Kingdom | Luxury sedans | 2.3 | Mar-08 |
| Suzlon Energy | RePower | Hamburg, Germany | Wind turbine | 1.74 | May-07 |

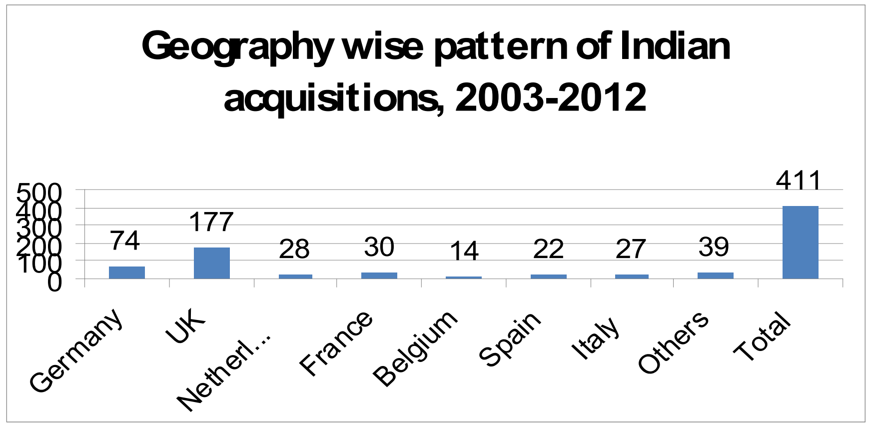
Sources: Media Reports / Company Balance Sheets / Analyst views

## 2.6 INDIA INC IN EUROPE: ACQUISITIONS

As noted by Jaya Prakash Pradhan (2006), Indian service firms are pioneers in the use of M&A as a means of global expansion. Manufacturing companies joined the fray much later. This fact about brownfield investment is in contrast with the Greenfield investment by Indian multinationals where manufacturing firms are the pioneers. The most export oriented service sector of Indian economy; Software & IT Services, adopted M&As in the early 1990s for building the onshore and offshore service delivery models1. In the process, they created India's brand names among international venture capitalists, banks, financial advisors, etc. Their success had a positive spillover effect on Indian Pharmaceutical companies. Indian drugs firms led the next round of M&A wave to strengthen their position in regulated overseas markets like the US, UK and Germany, largely focusing on generics. The successful adoption of M&As by Software and Pharmaceutical firms had all round effects on Indian firms from other sectors like Automotive, Steel and many more. The positive impression of Indian Software and Pharmaceutical companies led many international investors to provide the necessary funding to Indian companies acquiring overseas units.

Europe has become an important destination for cross-border investments and overseas acquisitions for Indian companies. The first major acquisition in the new millennium was Tata Tea's acquisition of Tetley Tea for $431 million in 2000. M&As in Europe hit a peak of US$28 billion in 2007, from US$1 billion in 2000. The next big overseas deal was Essel Packaging's move to merge with Switzerland-based Propack to create the worlds' largest manufactured of laminated tubes. Due to the financial crisis, high valuations and lack of cheap debt, the quantum of outbound deals came down by 40% to US$17 billion by 2009.Deal volumes came down to 29 in 2009 from an all-time high of 89 in 2008. However, the stage has been set for a recovery with a total of 111 deals being announced for 2010 and 2011. From 2006 through December 2011, Indian firms have spent US$37.9 billion on European acquisitions, according to data gathered for Business Line newspaper by research firm Dealogic. Three of India Inc.'s largest M&A activity has been in Europe. (See Exhibit 5)

### Exhibit 10




Authors calculation based on a dataset derived from multiple sources such as Pradhan (2006), Zephyr Database, Thomson One, KPMG Emerging Markets Acquisition Tracker, other private datasets and news reports

Authors calculation based on a dataset derived from multiple sources such as Pradhan (2006), Zephyr Database, Thomson One, KPMG Emerging Markets Acquisition Tracker, other private datasets and news reports

One of the largest European M&A deals to be announced in 2012 was Indian software giant Infosys' decision to acquire Zurich-based Lodestone Holding AG for US$350 million. Lodestone, a SAP implementation and consultancy firm, has 850 employees and 200 clients across Europe.

Despite the occasional large deals, most transactions are in the $20 million to $100 million range. There is a predominant bias towards UK because of language commonality and the "comfort" factor. Over the last five years alone, Indian companies have been involved in M&As worth US$22.6 billion in UK. Germany is a distant second at US$3.3 billion. When Indian companies look at Germany, it is the country's strong Manufacturing sector, Automotive space, Industrial tools, & Engineering that catches their attention. Suzlon Energy's US$1.75 billion acquisition of Hamburg based RePower is the largest deal involving an Indian multinational in Germany.

[19]Trends and patterns of overseas acquisitions by Indian multinationals, JP Pradhan 2007

## WHY ACQUISITIONS?

As noted in Jaya Prakash Pradhan (2006), there are four dominant ways in which overseas acquisitions can affect the competitive strength of Indian companies. First, it can be a strategy to gain access to firm-specific assets like new products, brands, technology and skills, thus, augmenting the competitive asset position for the firms. Secondly, it could provide market access in foreign countries through the existing customer base of the acquired entity. Third, Indian firms can get access to marketing and distribution channels of the overseas entity. Fourth, a lot of operating synergies and best practices can be shared across the group.

Most acquisitions by Indian software companies in Europe come in the first and second category where the underlying need is to acquire new technologies and skills through inorganic activity. An example can be given of the ICT sector in Europe. Thanks to well-defined patent laws and evolved research and development capabilities, European firms are well ahead of their Indian counterparts when it comes to writing original software. Indian companies, on the other hand, are good at building a service around the established software and market it using their large workforce. By acquiring product companies which give access to niche new technologies; Indian companies are trying to move up the value chain. Many acquisitions are also driven by the need to break into a key customer account or increase the share of an existing customers' portfolio.

Tata Steel's US$7.6 billion takeover of Anglo Dutch steel-maker Corus in 2006 is a good example of the four dominant ways mentioned above coming together. Corus made Tata Steel an international steel maker, giving it access to the developed and demanding markets of Europe, on the back of a prudent brand. Today it has 60-odd patents in its kitty, as against none prior to the acquisition, which also made it the fifth largest steel-maker in the world. The acquisition enabled it to fully explore the potential for significant synergies with Corus in the areas of Manufacturing, Logistics, R&D and so on

Mumbai based-Bharat Forge is a good example of how acquisitions have given Indian firms access to new markets. The company emerged as the world's second-largest forging company by way of its focus on mergers and acquisitions especially in Europe. It acquired Carl Dan Peddinghaus GmbH, (one of the largest German forging companies), in late-2003, CDP Aluminiumtechnik of Germany in December 2004, Federal Forge of the US in June 2005 and Imatra Kilsta AB of Sweden (along with its wholly-owned subsidiary Scottish Stampings, Scotland)b in September 2005[20].

## 1.4 The Turnaround of Sick Overseas Units

Despite the above-mentioned factors, Indian companies have a higher success rate, at a global level, when it comes to turning around "sick units". Statistics show that one in two acquisitions is a failure for the acquiring company. In the case of Indian companies, the failure rate is one in three.[21]

A corporate turnaround may be defined simply as the recovery of a firm's economic performance following an existence-threatening decline (Pandit 2000, Walshe 2004). Khandwalla (1992) defines a corporate decline as a loss situation, and turnaround as equivalent to reaching at least a breakeven from a loss situation. The dominant rationale behind the success of Indian acquisitions is that Indian companies do not push for immediate changes in the acquired company very soon by imposing their style of doing business. For instance, the Mumbai-based Tata Group chose a London suburb as the headquarters for its global beverage business, following its acquisition of the 'Tetley' brand in 2000. Even the day-to-day running of the iconic Jaguar and Land Rover brands (acquired by Tata in 2008) continues to be driven from their headquarters in UK.Indian companies look at acquisitions as long-term bets and very few entrepreneurs will put the acquired company on the block when the going gets tough. Indian companies have also acquired a reputation of ramping up output in their acquired overseas entities. GHCL Ltd (formerly known as Gujarat Heavy Chemicals) acquired a controlling stake of 65 % in Romanian soda ash firm SC Bega Upsom at US$19.50 million in December 2005. Few weeks after the acquisition, the GHCL scaled up the production in Bega Upsom by 34%. Romgas, which is a State monopoly, was supplying gas, which is a very critical raw material to SC Bega at the prevailing international price. However, immediately after take over by GHCL Ltd, an Indian Company, the gas price was substantially increased, much more than the international price, which made the project unviable. This is a very peculiar case, wherein investment from India was discriminated, otherwise why should the gas price increased substantially and that too much more than the international price after the take-over. This is also a classic case how an Indian investment in Romania is held hostage to investment policy of the government and Romgas; controlled by the government.

[20] 'India Inc., the new turnaround specialists on the block,' The Hindu Business Line newspaper online edition, November 15, 2006 http://www.thehindubusinessline.com/todays-paper/tp-opinion/india-inc-the-new-turnaround-specialist-on-the-block/article1752942.ece?ref=archive

[21] 'Indian firm's acquisitions bucks global trend', The Indian Express newspaper, article quoting Mr Prashant Kale Research fellow with Wharton School's Mack Centre for Technological Innovation, http://www.indianexpress.com/news/indian-firms--acquisitions-buck-global-success-trend/937180



## 3. BENEFITS OF INDIAN CORPORATE INVESTMENTS IN THE HOST ECONOMY

An extensive body of literature exists on the benefits presented by domestically owned firms in host economies. FDI increases the welfare of both producers and consumers in those markets. It allows firms to explore new areas and operate more efficiently across borders. This in turn reduces production costs, increases economies of scale and promotes specialization[22]. Consumer gains are also delivered in the form of product diversity, increase in selection and faster innovation cycles. In the case of Indian firms, we have identified the following benefits:

### 1) NEW CAPITAL (All Sectors)

A recent research by the International Monetary Fund shows that fiscal consolidation has a much sharper negative effect on growth than previously thought. Fiscal austerity generates recession that is made longer by tightening credit standards in the context of high unemployment. Thus, Europe needs to adopt pro-growth measures and increase spending. Under normal circumstances, Governments would be expected to fiscally stimulate the economy, but that is not feasible anymore. Even intra-European cross-border FDI, one of the most important drivers creating "European multinationals" has dried up[23]. Given these complexities, external capital infusion is the need of the hour. To that extent, the rising footprint of Indian OFDI is a positive indicator.

Since 2003, Indian companies have invested $56 Billion in Europe. Of this, $38 billion was spent on mergers and acquisitions while $18 billion was canalised for Greenfield projects. During this period, Indian investors financed 511 Greenfield projects and acquired interests in 411 companies. The average spend per European acquisition was $107 million. Though the sovereign debt crisis had a negative impact on Indian overseas investments for 2008-09, there has been a significant pick up in the following years. Our analysis shows that Indian companies spent $15.2 billion between 2009 and the first half of 2012. There was a no Exhibit slowdown in the quantum of overseas acquisitions with only 159 deals taking place. This drop coincides with an overall decline in the number of acquisition deals pursued by Indian investors worldwide in the last three years. The dip in M&A activity was made up for by an increase in Greenfield investments. Between 2009 and first half of 2012, Indian companies spent $8.7 billion for setting up 240 Greenfield projects.

### 2) EMPLOYMENT GENERATION (All Sectors)

In our analysis, we restricted ourselves to look at employment generated by Indian companies in key European markets- UK, Germany, France, Belgium and The Netherlands. We have not considered other major EU economies because of fragmented and inaccurate availability of data. Even for the countries tracked we faced similar challenges, albeit at a manageable level. To get a more accurate picture of the employment situation, we had to base our analysis on data provided in bits and pieces by the various export promotion agencies, chambers of commerce, statistic offices of individual countries and Eurostat.

By injecting capital into the European economy, either via new Greenfield projects or by taking positions in existing ones, Indian investments will generate employment. In UK, Germany, France, Belgium and The Netherlands, Indian companies collectively employ an over 1,34,000 people as against a few hundreds in the late 90's. Seventy five to eighty per cent of the workforce consists of locals. For Western Europe as a whole, 5,000 new jobs were added last year. Other studies have shown that 40,000 new jobs have been created by Indian Greenfield investments, alone since 2003. A recent study by the Rhodium Group says that Chinese FDI has created 15,000 jobs in Europe through 428 Greenfield projects from 2000 onwards. A strict comparison helps us to conclude that Indian companies have created jobs three times more than their Chinese counterparts. Mergers and acquisitions do not create as many new jobs as Greenfield investments. The employee base can shrink if the acquirer embarks on a restructuring exercise or decides to merge the acquired entity with itself. However, our dataset shows that Indian companies can preserve jobs in firms on the brink of shutdown, and add new jobs once a troubled firm is stabilized.

A good example is the Tata Motors acquisition of the Jaguar and Land Rover brands. After concluding a deal for two dying brands that left Tata Motors highly leveraged, it had to cut a few thousand jobs in UK. Cut to fiscal year ended March 2012; Jaguar Land Rover posted a 27% jump in retail sales, to sell 306,000 vehicles. The big sales jump has been the primary driver of growth and profit for Tata Motors. In the last three years, 8,000 new jobs have been added at three JLR plants in the UK.

[22]China Invests in Europe, Rhodium Group, 2012
[23]China invests in Europe Rhodium Group, 2012

The salt-to-software Tata Group employs approximately 80,000 workers across Europe through its 19 group companies. In UK alone, the group continues to be the largest industrial employer, with an active headcount of approximately 50,000.

## 3) REDUCTION IN THE PRICE OF GOODS AND SERVICES (Predominantly IT, Automotives and Pharmaceuticals)

Indian companies have developed strong leadership positions in automotives, IT/ITES and Pharmaceuticals. They have championed the concepts of frugal engineering, low cost production and offshore delivery of services. The influx of low cost foreign products or services in any market reduces the overall price-points in that market, thereby contributing to consumer welfare. We provide more details on the three Indian industries that have played a key role on this front.

### a. Outsourcing / Offshoring

Outsourcing refers to any task, operation, job or process that is given out to a third party for a significant period of time instead of being performed by a firm's in-house employees. The contractor could perform these functions either within the premises of the client firm or from an alternate location. Companies outsource mainly for cost savings (No need to make investment in people, processes and facilities if a particular function is your vendors' responsibility), freeing up of resources (Making resources more productive by deploying them on functions core to the business), availability of talent (A third party contractor will attract the best talent in its particular domain which will then service the client), high customer satisfaction, risk management (specialists are able to do the job better and you have a throat to choke if things go wrong) and so on. When the outsourced functions leave the borders and are performed or delivered from another country, the phenomena is called offshoring. Thus, offshoring is a type of outsourcing. Cost savings are amplified with offshoring because of the wage disparity and living costs between workers in western countries and rest of the world. Another key benefit is that offshoring helps businesses to support operations on a 24/7 basis. This is especially true for call centre operations, back office support, transaction processing and other critical functions where round-the-clock support Is desired.

Indian IT companies have taken the lead in IT/ITES and back office offshoring because of the following home advantages, low labour costs, proven English language capabilities and a large pool of engineers. By bringing down the price of goods and services and on the strength of the template business model, offshoring focused FDI creates three sets of winners.

### EUROPEAN COMPANIES THAT LEVERAGE OFFSHORING

A European Internet service provider was able to save $30 million every year by outsourcing its call centre operations to a Bangalore-based company. For every corporate dollar spent on offshoring, additional income of $1.25-$1.3 is generated. Cost savings differ from industry to industry, but most industry experts estimate a range between 30 and 60 per cent[24]. EU companies can re-direct these savings in sustaining their core businesses through innovation and research. In the longer term, these companies will also gain access to new pools of highly skilled labour, both in the offshore market (courtesy the process outsourced) and the home market (due to onsite presence of offshore employees). Interestingly, the European Commission estimates that up to 700,000 jobs in the ICT domain could go unfulfilled by 2015 due to want of talent.

The second sets of winners are the ultimate consumers of products and services. St Jude's was able to reduce the cost of its pacemaker by close to 35 per cent because it offshored a chunk of the product development work to a Mumbai-based company. Lower product costs stimulate higher sales, benefiting both the producers and consumers.

Though Indian companies prefer rendering services from low cost locations such as India and China, they cannot move every chunk of work outside of Europe. There are regulations that prevent sensitive tasks from leaving EU shores. Moreover, Indian companies are not adept at offering support in languages other than English. Firms have found a way out of this conundrum by setting shop in Eastern Europe, where labour costs may be higher than India but are much lower than core EU countries. Hence Romania, Czech Republic, Poland and Hungary have emerged as the third set of winners.

Indian IT companies, including BPO entities, which have set up operations in Eastern Europe, include Infosys, Wipro, TCS and Genpact. Most of these facilities have multi-language capabilities. Wipro has a 250-seater centre in Bucharest in Romania while Infosys has 450-seat unit in Brno, Czech Republic. TCS has a delivery centre in Budapest, Hugary since 2001 which employs over 900 local nationals.

[24]Outsourcing & Offshoring: Pushing the European model over the hill rather than off the cliff, 2005, Working Paper Series, Institute of International Economics



The new supplier countries see immediate benefits such as FDI inflows and jobs generated and long-term gains in terms of technology and skill transfer to the local labour force. Once new destinations are recognised as mature outsourcing destinations, the number of jobs added can be doubled every year (going by the example of India). Offshoring creates employment opportunities in tertiary sectors such as Construction, Housekeeping, Catering, Security etc. Even the exchequer gains as there is an increase in indirect tax collections. Those employed by the offshoring sector generally enjoy higher wages than their domestic counterparts. Higher disposable income means higher consumption resulting in an increase in GDP for developing countries.

### b. Automotive

To better understand the low-cost model promulgated by Indian automotive companies, one needs to look at the history of the Indian manufacturing sector. The sector developed in a resource-scarce environment where prohibitive import duties curtailing global inputs until 1991. A premium has developed on engineering skills that fully utilize cost-effective work-round's already in the design1. Thus, 'frugal engineering' capabilities developed as an indigenous part of engineering across India. Several global automotive manufacturers such as Renault and Nissan have established Design and Manufacturing presence in India to pick up the skills of frugal engineering43. Though cost is the key competitive advantage of Indian automotive manufacturers, it does not mean that India churns out inferior quality automobiles.

Automotive major Mahindra & Mahindra for instance reportedly invested less than $150 million develop the 'Scorpio', its multi-utility vehicle, from concept to production. In Italy, M&M launched the Scorpio XUV variant (rechristened Mahindra Goa) at a competitive pricing in the range of 22,400-24,600 euros. M&M has been present in Europe since 2002. It sells cars in Italy, Spain, Macedonia, Hungary, Greece, Croatia, Bulgaria, Slovakia, and Serbia. Going forward, M&M is planning to expand into other European countries such as the UK, France, Poland, The Czech Republic and Romania with new product launches like the Genio Pickup & Quanto. The company is also planning to introduce its all-new Electric Vehicle, the Mahindra Reva NXR in Europe during 2013. In 2005, Mahindra Europe Srl. (ME) was setup in Italy as a joint venture between M&M and a local Italian partner in May 2005. Since then, M&M has sold more than 6,400 vehicles.

The best example of frugal engineering is Tata Motor's Nano, touted as the world's cheapest car for five passengers. The car, which retails at Rs 1,00,00 (or euro 1430) in India, will be launched in select European countries in 2013.

### c. Pharmaceuticals

India's prowess in the Pharmaceutical space is a prime example of an industry going global with local expertise. Today, India exports 50 per cent of its annual generic medicine produce of $12 billion, making it the 'pharmacy of the world'. Till 1995, Indian pharmaceutical companies grew by reverse engineering drugs and manufacturing these for the local market. The Indian Patent Act of 1970, which allowed patenting processes rather than end products, aided them. After signing on to the World Trade Organisation (WTO) in 1995, India had to make commitments to change the patent regime by 2005 to align itself with TRIPS (give the full form of trips) and honour product patents. Although India shifted to the product patent regime, the capabilities developed during the past two decades became a competitive advantage for the Pharmaceutical industry. The rising healthcare costs are forcing many European economies to adopt the cheaper generic drug option1. Indian generic drugs are made at a fraction of the cost of a patented drug. Indian generics are cheaper than generics made in other countries. Cashing in on the generics opportunity, Indian Pharmaceutical companies first started with medicine exports (to UK, Germany and other European countries) before moving in with trading subsidiaries. Further, these companies went about augmenting existing skills in production capabilities and process R&D by acquiring technology focused firms. All major Indian pharmaceutical players like Ranbaxy (when it was under Indian promoters), Unichem, Dr Reddy's, Piramal, Unichem and others have investments in Europe. Companies such as Glenmark have Piramal Healthcare initiated programs of developing new drugs by drawing on their frugal engineering skills and leveraging the advantages of Europe as an R&D location.

In 2009, Brazil and India had initiated proceedings against the EU for confiscating Indian generic drugs transiting through European ports on their way to other developing countries. India and Brazil have been seeing these instances as attempts by developed countries to club counterfeits or copies of patented drugs with fake or spurious ones.

[25]S, Jonnson, Swedish Institute of Policy Studies

## 4) ENHANCE VALUE FOR SHAREHOLDERS

Greater investment interest from Indian companies increases the notional value for assets and thus raises prices for European sellers. Indian investors, especially industry leaders, do have a tendency to overpay for acquisitions as they compete with global brands. They tend to be aggressive when it comes to deal financing, not shying away from raising external capital. Selling shareholders benefit as valuations often go up when an Indian party enters the bidding fray for an asset.



## 4. VALUE CREATION (INDIAN COMPANIES) IN KEY WESTERN MARKETS

### 1. GERMANY

### Exhibit 11: Germany-India: A snapshot

| | |
|---|---|
| India-Germany bilateral trade | €20 billion (2012)* |
| Number of Indian companies in Germany | 208 (2012)** |
| Employment generated by Indian companies | Estimated 22,500 ** (2012) |

*Publicly stated estimate for calendar year 2012, by SM Krishna, India's External Affairs Minister
** Data available in 'Indian investments in Germany: A win-win proposition', a report by Rajnish Tiwari
This figure does not include the approx. 3,600 employees of the Luxemburg-based Mittal Group

Germany has emerged as an FDI hotspot in a cooling Europe. Its economic strength, coupled with a well-established prowess in engineering, are major attractions for investors. In May 2011, a survey by consultancy firm Ernst & Young declared Germany to be "the" most attractive FDI location within Europe. Germany has all the ingredients to continue its domination over inward FDI. Germany's strength lie in having the world's fourth largest GDP at nearly €2.5 trillion, a domestic base of 82 million consumers with relatively high purchasing power, and the successful "Made in Germany" brand.

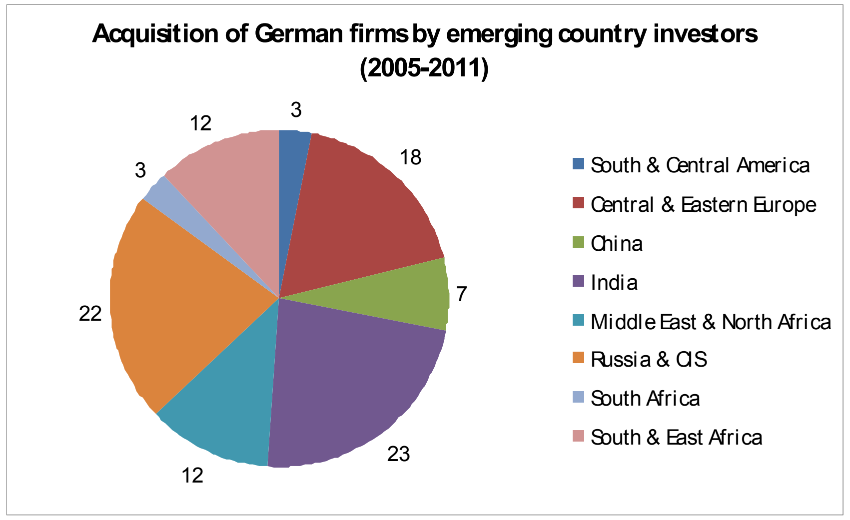
### Exhibit 12: Indian Investments In Germany (January 2003- July 2012)

| | **Number** | **Value** |
|---|---|---|
| Greenfield investment projects (Indian companies) | 101 | $1.53 billion |
| Acquisitions by Indian companies (January 2000-December 2011) | 74 | $6.91 billion |
| Total | 175 | $8.44 billion |

Source: FDI Intelligence by Financial Times, Author's database constructed from multiple sources

Indo-German economic relations date as far back as the 16th century. Jakob Fugger, a merchant and banker from Augsburg, financed the voyage of the first German ships to Goa, thus opening up trade routes between the two countries. Between the 16th and the 18th centuries, a number of German companies were established with the aim of trading with Indian and other East Asian countries. In the 19th century, German company Siemens built the first telegraph connection between Kolkata and London, via Berlin.

## Exhibit 13



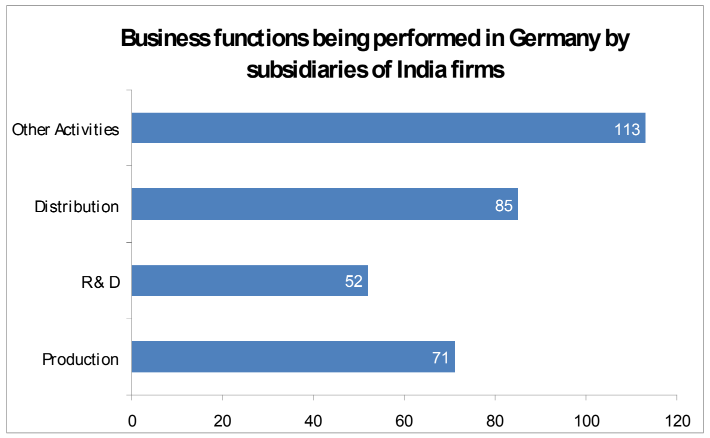

Source: Indian investments in Germany, A report by Rajnish Tiwari

In the 2012 edition of Ernst & Young's 'Europe Attractiveness Survey', 35% of investors rank Germany as the most attractive country in Europe, and 13% see it as the most attractive country in the world for investment projects. After UK, Germany is the most sought after destination for Indian OFDI in the continent. Europe's largest economy provides ample market foray opportunities given its established technological prowess, high-quality infrastructure and reliable institutional set-up. Germany is considered an excellent investment target by many Indian firms in their pursuit of modern technologies and commercially viable cutting edge innovations.

India tops the list of emerging market investments in Germany, followed by Russia and China (see Exhibit 13). India ranks 12th in Greenfield and brownfield projects in Germany. Seventy-three out of the 208 Indian firms present in Germany are from the Software services sector. The second most investing sector is the Automotive industry, which accounted for 41 firms (20 per cent) followed by Consultancy firms (9 per cent), Pharmaceuticals (7 per cent) and Wind energy (7 per cent)1.

Ten important Indian companies that have invested in Germany since 2003 are Suzlon Energy, Kalyani Group, Jet Airways, Hexaware Technologies, Firepro Systems, Dabur India, Veauli Engineers, Ensoft Informatics, Orient Autocom Stamping, and Bharat Fritz Werner. These companies are spread all over the 16 federal states of Germany.

## Exhibit 14: Business Functions Performed In Germany By Subsidiaries Of Indian Firms




Source: Indian investments in Germany, A report by Rajnish Tiwari

[26]Tiwari, Rajnish 2012



As per the Emerging Markets International Acquisition Tracker report published by KPMG in April 2012, an Indian company was behind every fourth acquisition carried out by emerging market investor between 2005 and 2011. India Inc acquired 41 German companies in that seven-year period. One fourth of the 176 acquisitions in Germany were carried out by an emerging market investor.

Our dataset shows that Indian companies have invested in 175 FDI projects, spending a total of $8.5 billion since 2003. Seventy four acquisitions were made for $6.91 billion. Ninety-four Indian companies were driving a total of 101 Greenfield investment projects, spending $1.53 billion in the process

Germany enacted a new law in 2009 that covers mergers and acquisitions of German companies by investors from non-EU countries[27]. The Federal Ministry of Economics and Technology (BMWI) can review foreign investments and also prohibit or suspend transactions which are perceived as a threat to national security or public order. The groundwork for this law was done before the financial crisis and it was inspired by US legislation. Though the requirements of the security review are quite strict, there are no indications of the German Government having applied this regulation to intervene in any Indian investment in the country.

## Exhibit 15: Major Indian Companies In Germany

| Company Name | Sector |
|---|---|
| Tata Steel (Corus) | Steel |
| Hindalco (Novelis) | Metals, Manufacturing, Recycling |
| Sona Group | Precision Forging |
| Suzlon Energy (RePower) | Wind Power |
| Mahindra Forgings | Castings and Forgings |
| Kalyani Group (RSB) | Wind Turbines |
| Tata Consultancy Services | ICT and Back Office Services |
| Rolta | Engineering & Geospatial Services |
| KPIT Cummins | Engineering and IT Services |
| Rain Commodities (Ruetgers) | Cement, Calcined Petroleum Coke and Power |

[27]'Germany, Merger control,' available at http://www.globalcompetitionreview.com/reviews/47/sections/164/chapters/1836/germany-merger-control/

# REASONS FOR INDIAN INTEREST IN GERMANY

## 1) Low per unit labour costs

Low per unit labour cost, which translates into low per-unit production cost, has been a German feature, thanks to labour market reforms it adopted in the late 90s. This has enabled the German industry to maintain competitiveness even in the face of export competition. The German Government correctly targeted the labour market with respect to its limited fiscal stimulus. Recognizing that German wages tend to be sticky in the downward direction (like it happens in most unionised countries) Government subsidies were designed to keep workers on payroll at reduced wages[28]. Under the plan, companies reduce worker hours but keep them on the payroll, with the Government contributing for some of their lost wages and providing social security assistance. Instead of the Government subsidising the jobless, it is paying individuals to retain their jobs, and is encouraging companies to hire more such workers. Indian companies have understood this trend and are looking to benefit from it by acquiring German workforce through acquisitions. This explains why an Indian firm buys one in four companies that sells out.

## 2) Out-performance Of the Manufacturing Sector

Indian investors are bullish on the following sectors of the German economy: Machinery manufacturing, machine tools, automobile spare parts, engineering machinery, and alternative energy (wind and solar). In these arenas, the world's most advanced technologies and IPR's are with German companies. Indian companies seek access to new technologies and solutions that can be replicated in the home market. German manufacturing companies are thus ideal investment targets.

## 3) Strategic Location

Germany is located at the heart of Europe, bordering Scandinavia in the North, Austria and Switzerland in the South and the growing Eastern European markets to the East. To its west are Netherlands, Belgium, Luxembourg and France. Thanks to its location, Germany guarantees swift access to the whole of Europe. Most European cities are within a two to three hour reach from Frankfurt Airport. German highways and rail routes connect the country with all major cities in Western Europe. German companies are spread across Europe, even in Eastern European countries such as Hungary, Czech Republic and Poland. Acquiring a German company means access to all these markets.

## 4) Culture Of small and medium businesses

Germany has a large number of firms with 1,000 and 4,999 employees in the Manufacturing sector. They form the backbone of the German economy. Many of them are being sold, resold, or inviting fresh investments, for various reasons. This presents a a good opportunity for Indian firms. Conversely, sound prospects of consumption in the Indian domestic market raises valuation expectations for German sellers. At the same time, non-monetary values and the acquirer's future plans for the company are often very important. In other words, the owners of these companies not only look at the financial package when choosing a buyer but also consider the long-term impact on the company and the local community. A reasonable, well-argued concept might outweigh the higher price offered by a competing bidder. Since many Indian companies are themselves family owned, they form a strong cultural connect with their German counterparts. Hence, acquisitions and mergers of small and medium-sized enterprises constitute an important part of India's investments in Germany.

[28]"Failures of Macroeconomic Theory," Charles Rowley's blog, available at http://charlesrowley.wordpress.com/category/failure-of-macroeconomic-theory/page/3/





## 5) The German Education System and R&D

Germany has many well-known technical universities, such as the Technical University of Darmstadt and Aachen University. Since the opening-up of overseas study opportunities, many Indian students can be seen on these campuses. Indo-German co-operation has also been enhanced in the realm of Education. Germany has relaxed the criteria for the issue of the "blue card" that provides permanent resident status to migrants. Now any Indian, who completes education in Germany, can stay for one more year even without a job. There has been a 25% increase in Indian students in Germany in the last two years. The German system does not require students to pay for education. It is not difficult for Indian companies in Germany to find Indian engineers and technicians that are familiar with the German culture and can speak a bit of the language. Germany has managed to attract over 6,000 Indian students and this number is expected to grow every year[29]. The German educational system is known for producing practical-minded, diligent, and hard-working graduates. Many Indian companies are willing to set up their R&D centres in Germany to benefit from the German talent pool.

A 2009 Survey conducted by Rajnish Tiwari[31] confirms the positive employment effect of acquisitions for Germany. 189 jobs were moved from India to Germany, 155 from Germany to India. (More than 100 Indian firms with operations in Germany were contacted for this survey). In half of the cases (50%), the initial investments did not exceed €5 million. The largest initial investment reported was between €30-50 million. Participants reported that they have plans to further invest around €270 Million in the next few years.

# LATEST NEWS ABOUT INDIAN COMPANIES IN GERMANY

1. Sundram Fasteners Limited, part of the $5-billion TVS Group, has entered into a 50:50 joint venture with Wolfgang Walter Naumann of Germany. The Indian company will invest €3 million by way of equity capital and loans in order to set up a new plant for the manufacturing of fasteners for wind energy generators. (August 2012)

2. Mobile advertising company InMobi has setup a new office in Hamburg with an investment of roughly US$3 million. The office, which will drive business from Germany and Austria, will create 10 new jobs. This is just to give an example of how even small investments in Germany are important to Indian companies. (July, 2012)

3. Life sciences major Piramal has taken over Bayer Health Care's molecular-imaging pipeline. Since then, it has been continuing research and development work on the acquired PET radiopharmaceuticals in its labs in Berlin. (April 2012)

# THE NETHERLANDS

## Exhibit 16: Netherlands-India: A Snapshot

| | |
|---|---|
| India-Netherlands bilateral trade | €5.3 billion* (2011) |
| Number of Indian companies in Netherlands | Around 135 ** (2012) |
| Employment generated by Indian companies | Estimated 3,200** (2012) |

*Central Bureau of Statistics, Netherlands

**Netherlands Foreign Investment Agency annual results for 2011

[29]'Indian students need not pay for higher studies in German universities'. India Today. Online Edition, Available at http://indiatoday.intoday.in/story/indian-students-higher-studies-german-universities/1/225651.html

[30]'Data shared in an interview by the acting German Ambassador to India, available at "Every Fourth acquisition in Germany is from India". Financial Chronicle. Online edition. (2012) Available at http://www.mydigitalfc.com/news/every-fourth-acquisition-germany-india-429

[31]'Rajnish Tiwari is a Research Associate at Institute of Technology and Innovation Management at Hamburg University of Technology, Germany. His work is available at http://www.global-innovation.net/team/tiwari/PDF/Tiwari_BusinessGuide_2011.pdf

Netherlands is gradually becoming an attractive destination for investments from India. It has emerged as the third largest destination for Indian FDI in Europe after the UK and Germany. Between 2009 and 2010, the Indian Government cleared proposals worth US$11.5 billion for investments by Indian organizations in the Netherlands. Some of India Inc.'s biggest names such as TCS, HCL, Wipro, Infosys, Mahindra, Satyam, Moser Baer, Suzlon, ONGC Videsh have impressive business portfolios in the Netherlands.

### Exhibit 17: Indian Investments In Netherlands (January 2003- July 2012)

| | Number | Value |
|---|---|---|
| Greenfield investment project (Indian companies) | 33 (28) | $2.45 billion |
| Acquisitions by Indian companies (January 2000-December 2011) | 28 | $2.61 |
| Total | 61 | $5.06 Billion |

Source: FDI Intelligence by Financial Times, Author's database constructed from multiple sources

Inward M&A activity also has been significant-the US$7.6 billion acquisition of Corus by Tatas, acquisition of Dutch tyre maker Vredestein by Apollo Tyres (deal size undisclosed) and the US$23 million acquisition of Nederlandse Radiateuren Fabriek (NRF) by the Indian auto components company Banco Products. There are around 140 Indian companies in Netherlands that operate through 161 establishments in the country.

### Exhibit 18: Major Indian companies in The Netherlands

| Company Name | Sector |
|---|---|
| Dishman Pharmaceuticals & Chemicals | Pharmaceuticals |
| Nucleus Software | Software Products and Services |
| Tata Consultancy Services | ICT and Back Office services |
| Infosys Technologies | ICT and Back Office services |
| Tech Mahindra-Mahindra Satyam | ICT and Back Office services |
| United Phosphorous | Chemicals |
| India Infrastructure Finance Company | Infrastructure financing |
| Tata Steel (Corus) | Steel |
| State Bank of India | Banks-Public Sector |
| Sun Pharmaceuticals | Pharmaceuticals |

In a single month of March 2012, three Indian companies- KPIT Cummins (ICT), Value Labs (ICT) and Tata Asset Management announced plans to open new offices in Amsterdam. Infosys, one of India's largest ICT companies, has also been discussing the possibility of establishing a European education and training centre in Amsterdam. The University of Amsterdam would be closely involved with the Infosys project. These four companies could together create another 100 jobs in the country this year. Since 2006, Amsterdam has worked hard to attract Indian businesses to the region.

In an example of growing Indo-Dutch community relations beyond business, the keynote sporting event of the City of Amsterdam – the TCS Amsterdam Marathon is sponsored by Tata Consultancy Services, which also helps build the mobile applications technology around the event. The company had chosen Amsterdam as its European Headquarters in the early 90s and used it as a base to grow it operations across continental Europe.





## REASONS FOR INDIAN INTEREST IN NETHERLANDS

### 1) Robust infrastructure and logistics network

The country has a robust transport infrastructure with sound logistics and is within a 400-mile radius of half of Europe's major markets. Even within Europe, Netherlands has been acting as the front door for Indian companies providing them with access to markets across Northern, Central, Southern and Eastern Europe. Many Indian companies have pan European operations in the country. While it is a European headquarters for some, it is a shared services centre, a customer care centre, a distribution and logistics operation, or an R&D facility for others.

### 2) Low tax rates

The environment for corporate taxation has become investment-friendly in recent years after the introduction of incentives such as the innovation box. The corporate tax rate has been lowered to 25%, which is well below the EU national average. For small firms, the tax rates stand at 20% for the first €200,000 of taxable profits. Dividend tax has been reduced from 25% to 15%. A patent box, with a 5% tax rate on income from innovations, was also introduced1.

### 3) English speaking workforce

Indian companies have a penchant for countries where the workforce can speak English. Netherlands boasts of one of the most highly educated, flexible and motivated workforces in Europe. Dutch professionals are seen as one of the most multilingual in the world. The literacy rate in the country is 99% and 87% of the population speaks English.

## LATEST NEWS OF INDIAN COMPANIES IN THE NETHERLANDS

Tata Steel will invest €12 million in new manufacturing facilities in Ijmuiden, in a bid to enhance production of specialised corrosion resistant steel. "The company is building a new finishing line for hot-dipped galvanised steel, which is used in car body panels. The new facilities will open in 2014," it said, in a statement. (October 15, 2012)

The overseas arm of United Phosphorus has acquired Netherlands-based SD Agchem Europe, a 100 % subsidiary of Punjab Chemicals and Crop Protection for an undisclosed amount. (July 16, 2012)

India Infrastructure Finance Company Ltd (IIFCL) plans to move its overseas base from London to Amsterdam to take advantage of the favourable tax regime. Resources can be raised as efficiently in the financial and business capital of Netherlands as in London. Moreover, the outgo on account of taxation on resources raised and income earned will be less, Mr S. K. Goel, Chairman and Managing Director, IIFCL, was quoted as saying in the Indian media. (July 10, 2012)

## 3) UNITED KINGDOM

For several decades, UK has been the most favoured investment destination for Indian companies after the US. The reasons are several: colonial connection, a common business language, increasing number of Indian expatriates in UK, multicultural environment of London, two-way tourism. India gets the second highest number of tourists from the UK. The UK's largest visa operation worldwide is in India. In 2011, half a million-visa applications were processed. Indians constitute the largest ethnic group in UK with around two million people of Indian origin living in the country. Both countries are members of the Commonwealth of Nations and their relationship has been largely friendly since 1974.

[32]Data from Netherlands Foreign Investment Agency, Data available at http://www.nfia-india.com/why_favourable_tax_climate.html

## Exhibit 19: UK-India: A snapshot

| | |
|---|---|
| India-United Kingdom bilateral trade | €20.17 billion (2011-12)* |
| Number of Indian companies in United Kingdom | Around 700 (2011)** |
| Employment generated | Estimated 1,00,000 *** (2012) |

*Ministry of External Affairs website (www.mea.gov.in), Government of India
**Data provided by the British High Commission in India
*** Authors estimate

The UK and India are among the top investors in each other's economies bringing significant long-term benefits and economies of scale. In 2011, UK-India Bilateral trade grew by 26 % to €20.17 billion from €16 billion in 2010. In the last 12 months, bilateral trade has gone up by 30 % as per official estimates. (Exact figures have not been released). The UK aims to double its bilateral trade with India by 2015.

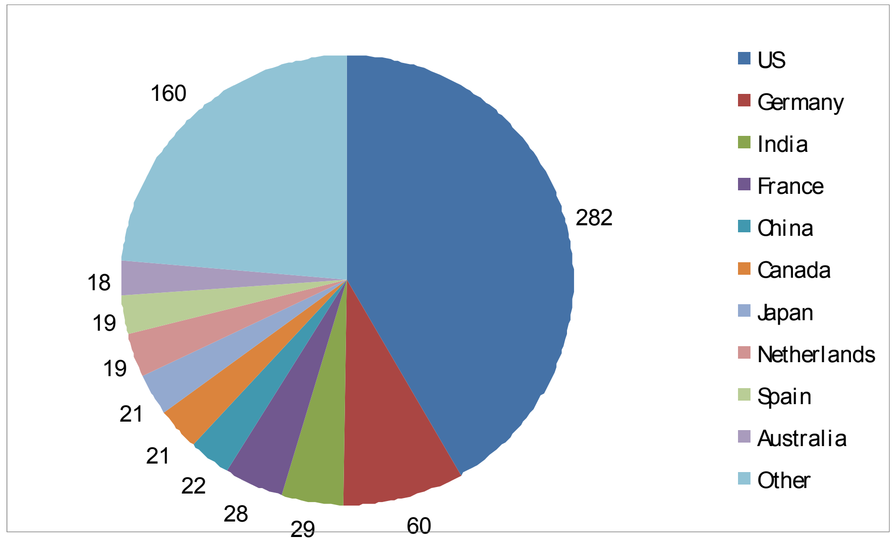
## Exhibit 20: Indian Investments in UK ( January 2003 to June 2012)

| | Number | Value |
|---|---|---|
| Greenfield investment projects by Indian companies (companies) | 244 (161) | $8.14 billion |
| Acquisitions by Indian companies (January 2000-December 2011) | 177 | $16.61 |
| Total | 421 | $24.75 billion |

Source: Authors' database, FDI Market (Indian companies in Western Europe)

The UNCTAD World Investment Report shows that that the UK remains number one in Europe for FDI. The current standing investment stock in UK is at US$1,198 billion, the second highest in the world1. Overall investment into the UK from the BRIC countries has remained relatively flat in recent years. In 2011 India represented the UK's third-largest source of FDI projects, but the UK's market share of European projects from India fell from 47% in 2010 to 38% in 20112. This can be attributed to the growing interest among Indian business to explore other high growth markets such as France and Germany.

## Exhibit 21: Origin of Investment Projects into the UK




Source: Ernst & Young, European Investment Monitor 2012

[33]'DUNCTAD (2012), World Investment Report, United Nations Conference on Trade and Development, New York and Geneva.
[34]'Ernst & Young 2012 Attractiveness Survey, UK
[35]"India-UK relations', British High Comission Delhi, available at http://ukinindia.fco.gov.uk/en/about-us/working-with-india/

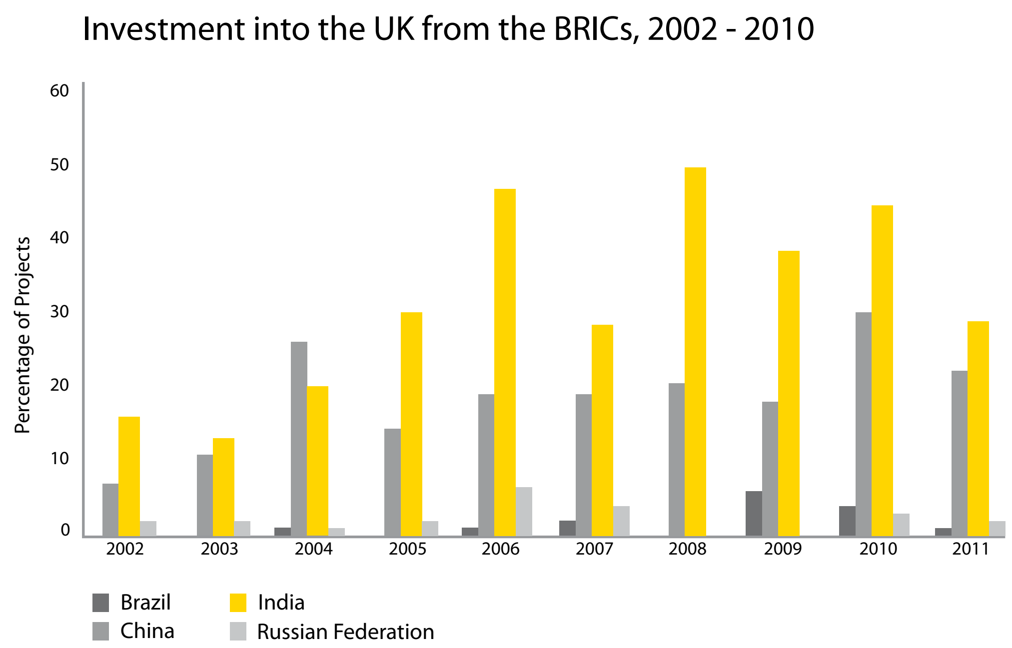


In 2011, the UK attracted 81 new projects from India that resulted in the creation of 5,454 jobs. India is now the 5th largest investor in the UK. India also happens to be UK's largest non-EU market1. As per statistics from the Indian Government, 50% of India Inc.'s European investments are directed towards UK2. While these investments are canalised into different sectors, the ICT space accounts for a lion's share. Increasingly Indian companies are seeing traction in domains such as Chemicals, Engineering, Financial services, Life sciences, Logistics, Manufacturing, Media and Entertainment, Retailing and so on.

Indian investments in UK account for more 43 per cent of the Indian investment position in Europe. Our research finds that Indian companies have invested €24.75 billion in UK since 2003 through 421 investment projects. While the number of Greenfield projects (244) are higher than acquisitions (177), a major chunk of the spend (67 per cent) was directed towards inorganic growth.

Today, Indian companies employ around 1,00,000 workers, a majority of them locals in the UK. Of this, 50,000 are staffers of the multiple businesses of a single Indian conglomerate, the Tata Group, thanks to its 2007 takeover of Anglo-Dutch steelmaker Corus and the 2008 acquisition of Jaguar & Land Rover. This is a far cry from the 892 jobs that all Indian companies put together were responsible for in 2003- 20043. Job creations have come through both, big-ticket acquisitions and local Greenfield operations. Other marquee brands owned by Indian entrepreneurs include Tetley Tea, Grosvenor House Hotel and several others. Jaguar Land Rover is set to create 4,500 new manufacturing jobs in the UK over the next five years. In 2011, Tata Consultancy Services was certified by the CRF Institute as the UK's top employer based on its performance over 11 parameters of human resources.

## Exhibit 22




Many British blue chip companies (about 30) and some smaller companies have off-shored work to India creating over 60,000 jobs. Conservative industry estimates show that British businesses now save upwards of £1 billion every year due to offshoring, the bulk of which is accounted for by India[38].

[36]Data from the Ministry of External Affairs website, Government of India
[37]Indian companies still investing in UK in droves, available at http://articles.economictimes.indiatimes.com/2009-06-23/news/27645847_1_uk-trade-and-investment-new-jobs-new-projects
[38]Indian High Commission in London, http://hcilondon.in/economicreview.pdf

Indian businesses own some of the most iconic British brands. Car companies like Jaguar Land Rover that are selling cars all over the world. What a great combination between Indian capital and British labour that's actually producing a world-beating car. I want to see more Indian investment into Britain and I want to see more investment from Britain into India.

- David Cameron
British Prime Minister 1

## REASONS FOR INDIAN INTEREST IN UK

1) Major domestic market and Gateway to the EU: The UK's open and internationally focused economy is one of the most sophisticated globally. It is a proven gateway for those interested in capturing the US$17 trillion European Union market (IMF, 2012) and the local English-speaking market

2) Multicultural labour pool: Over half a million full-time and part-time students graduate each year from the 170 universities and higher education institutes of the UK. Ten per cent of all students who opt to study abroad select the UK.1 Migrant workers from over 200 countries have made UK their home. it is easier for Indian companies who are looking for specific language or cultural skills to find them in abundance.

3) Strong business environment: The UK is the best location (among the larger ones) for 'Ease Of Doing Business' in Europe according to an independent assessment by the World Bank. The World Bank considered a host of commercial operating factors such as setting up and running a business, labour regulations and obtaining finance.

## RECENT NEWS INVOLVING INDIAN COMPANIES IN UK

Delhi-based Dion Global Solutions, a software solutions provider for financial markets, has acquired the entire issued share capital of UK's Investmaster Group Limited for an undisclosed sum. Investmaster is a specialist provider of wealth management and stock broking software (November 29, 2012).

Tata Consultancy Services was selected by the UK Government's Home Office for a multi-million pound engagement to modernize their systems. The company is setting up a new delivery center in Liverpool to cater to this. (November 28, 2012)

The FMCG arm of Indian conglomerate Wipro Limited has acquired the UK and Europe business of popular personal care brand Yardley for an undisclosed sum (July 25, 2012).

Security company Topsgrup has acquired 100 % stake in its British counterpart The Shield Guarding Company Limited for Rs 167 crore (£19.5 million) (July 16, 2012)

## BELGIUM

### Exhibit 23: Belgium-India: A Snapshot

| India-Belgium bilateral trade | €13 billion (2011)* |
|---|---|
| Number of Indian companies in Belgium | 65 (2012)** |
| Employment generated by Indian companies | Estimated 3,500 ** (2012) |

*Media Reports
** Data from the Europe India Chamber of Commerce

[39]Interview by Karan Thapar on "Devil's Advocate" CNN-IBN TV channel, 11 March 2012.
[40]Data from UK Council for International Student Affairs



Belgium is one of India's most important trading partners in the EU. Trade in Gems and Jewellery constitutes around 70% of the bilateral trade[41]. India's top Information Technology companies are present in Belgium. Several Indian companies in the Chemical and pharmaceutical sector have also established offices, warehousing and production facilities in Belgium. In 2011 JBF decided to set up a production plant for PET in Geel (Flanders). This new plant, which will be largest in Europe in its kind, represented an investment of over 160 million.

Belgium has emerged as the gateway for Indian businesses seeking to enter Continental Europe. Known as the cradle of logistics, a beachhead in Belgium enables Indian companies to further penetrate into Europe. Indian companies active in the automotive sector, food processing and metal industry have taken advantage of this and established distribution centers, particularly near the port cities of Antwerp and Zeebrugge. Belgium's superior position in transportation and logistics is exemplified by the recent memorandum of understanding signed with the Indian Railways to modernize the latter's rail network.

The importance of Brussels as the European Union's seat of power also plays a decisive role in a investment decision. All major Indian Banks, State Bank of Indian ICICI Bank, Bank of India, Bank of Baroda are having offices in Antwerp or Brussels..

For a country of Belgium's size, Indian M&A activity has been substantial.

### Major Indian companies in Belgium:

TATA CONSULTANCY SERVICES | HCL | WIPRO | JINDAL POLYMERS | STATE BANK OF INDIA | ICICI | JBF CROMPTON GREAVES
DY PATIL GROUP | JET AIRWAYS | INTERGARDEN | BINANI GROUP

Taking advantage of the logistics and attractive investment environment that Belgium offers, during last ten years many Indian companies have entered into joint venture/M&A in Belgium. The most important of these are Crompton Greaves and Binani Group. In May 2005, the Crompton Greaves in a $32.1 million deal acquired the Belgium based transformer group Pauwels, which has activities in 7 locations worldwide. Part of the US$ 4 billion Avantha Group, CG is a leader in the management and application of electrical energy.

Since then, more than €50 million has been invested in capacity extension and for creation of centers of excellence and other acquisitions. The company is active in the domain of transmission and distribution in Hungary, Ireland, France, Sweden, and recently in Spain. It has created hundreds of jobs across Europe. CG is active in the global power transmission & distribution (T&D) arena, and is amongst the world's top ten transformer manufacturers.

Last year, Binani Industries acquired Belgium's fibreglass products and technologies company 3B from US-based private equity firm Platinum Equity for €275 million. The acquisition gives Binani Industries full ownership of 3B's global operating capacity of 1,50,000 tonnes per annum and provided access to its established customers, technologies, marketing network and manpower. In 2012, the Binani Group had also acquired Luxembourg-based Project Bird Holding SARL.

3B's portfolio of products includes chopped strands, direct rovings and continuous filament mats. It is a leading manufacturer of fibre glass for reinforcement of thermoplastics and thermoset polymer applications. The acquisition is part of Braj Binani group's strategy to expand presence in the global fibreglass market.

Although the acquisition came during the heigh of the economic crisis in Europe,the group has not retrenched a single staffmember.

[41]Embassy of India to Belgium, Luxembourg and the European Union,http://www.indembassy.be/india_relations_with_belgium.html

## REASONS FOR INDIAN INTEREST IN BELGIUM

1) Strategic Location: All the major European hubs such as Paris, Strasbourg, London, Amsterdam, The Hague, Luxembourg, Cologne, Frankfurt, Munich or Geneva, are accessible in only a few hours by road, train or plane. Brussels has direct connections with all of Europe's decision-making centres. With 60 per cent of EU's purchasing power within a mere 500 km radius of Brussels, Belgium is at the political and physical heart of Europe.

2) A cost efficient test market: One third of Brussel's inhabitants are foreigners. A successful test of any product or service in Belgium is a good indicator of similar successes in other European markets. Belgium imbibes Latin as well as German cultural habits. Indian companies should take cues from their global counterparts and look at Belgium as the test base for soft-launches of products and services. The country's infrastructure, skilled workforce and the IT opportunities it affords make it an ideal location from which to conquer the European market.

3) Multicultural Setting: Brussels is home to some 1,700 companies. The vibrant mutli-cultural setting of Brussels makes it easier for expatriates to relocate. Brussels offers 21 international schools delivering an education to several children of international managers, executives and civil servants.

4) Ease of doing business: According to the 2010 European Cities Monitor Survey, conducted by Cushman & Wakefield, Brussels remains one of the leading cities to do business. The survey lists qualified staff, easy access to key markets, telecommunication quality and excellent transport links as the city's strengths. It amounts to - including social security -57.3 percent for a single earner[41]. Changes in corporate taxation are making Belgium an increasingly interesting place from an investment point. Belgium offers a wide range of tax benefits and fiscal grants, from tax exemption and rulings to beneficial tax regimes for R&D. Other recent appealing measures include notional interest deduction, VAT grouping and patent income relief[42].

Belgium disposes also of a social security with India. The Belgium-India Social Security Treaty, signed in 2006 is considered to be a landmark agreement as it was the first to be negotiated by the Indian authorities. Under this treaty an Indian employee can remain subject to the Indian system and be exempt from paying Belgian social security contributions.

### Exhibit 24: Indian Investments in Belgium (January 2003-July 2012)

| | Number | Value |
|---|---|---|
| Greenfield investment project (Indian companies) | 23 (19) | $861 million |
| Acquisitions by Indian companies (January 2000-December 2011) | 14 | $1.3 billion |
| Total | 37 | $2.16 billion |

## RECENT NEWS INVOLVING INDIAN COMPANIES IN BELGIUM

1) Tata Consultancy Services and HCL Technologies are said to be in discussions with KBC Group to buy the offshore information technology arm of the Belgian banking firm (November 2012)

2)Hyderabad-based Rain Commodities Ltd has bought Belgian chemicals maker Rutgers NV from investment firm Triton Partners for around $915 million crore in the biggest overseas acquisition by an Indian private company this year. (October 2012)

3) JBF invests 160 million euro in a new PET plant in Geel.

[42]Amcham Connect, April 2011 Issue

[43]Doing Business Guide in Belgium, PWC, Available athttp://www.pwc.be/en/doing-business-guide/index.jhtml



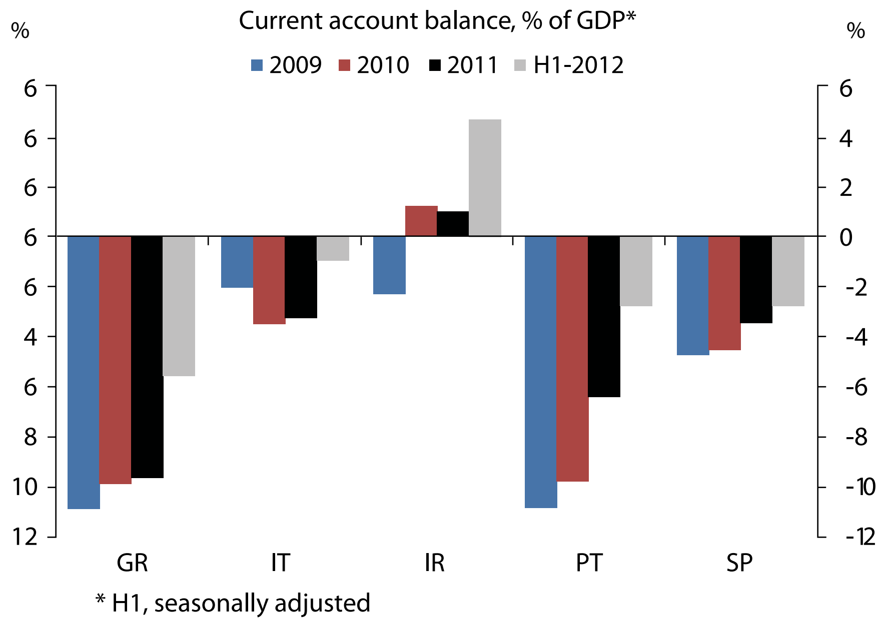
## 5. THE SOVEREIGN DEBT CRISIS AND ITS IMPLICATIONS ON INDIAN FIRMS

Major Western economies are still under the cloud of the 2008 credit crisis. What turned into out to be a sovereign debt crisis in 2011 has snowballed into a bigger liquidity crisis, engulfing the region's banking systems. Little or no new job creation, public spending cuts and increase in taxation has further ebbed down confidence. Increased pressure on households means less spending and more savings, thereby drying up consumption, and consequently imports, in the economies.

At the heart of the crisis was prolonged overspending by the Governments, inertia in reaching out to new and emerging markets, stagnant Manufacturing sector, declining populations-especially of the productive category and so on1.

The sovereign debt problem started off in the peripheral economies (Portugal, Ireland, and Greece) of the Eurozone, but today it has become a region-wide problem, threatening the future of the Euro currency. Such a situation is a far cry from the optimism that had marked the launch of the Euro in 1999.

### Exhibit 25: Current Account Balance, % of GDP (Select EU countries)




Source: Adjustment in Euroland: A progress report, Deutsche Bank Research

The Eurozone crisis has also had an impact on Indian businesses, especially those that service European markets either through direct presence or exports. The Eurozone slowdown has played a major role in cooling India's exports which contribute 22 per cent to the Gross Domestic Product. In June 2012, the Indian Government reported growth in the first three months of the year at the slowest pace in the past nine years, up 5.3 % from the year-earlier quarter, but well below the 8% rate of previous years. While the Eurozone crisis did pan out to the detriment of India's export sector, other structural issues with the Indian economy have also had a part in slowing growth

Earlier this year, the Federation of Indian Chambers for Commerce and Industry (FICCI) conducted a survey among Indian companies with business operations in Europe to assess the impact of the current economic turmoil on them. The survey showed the following results

• 53% of the surveyed companies believe that the ongoing crisis has adversely impacted their businesses prospects in the region

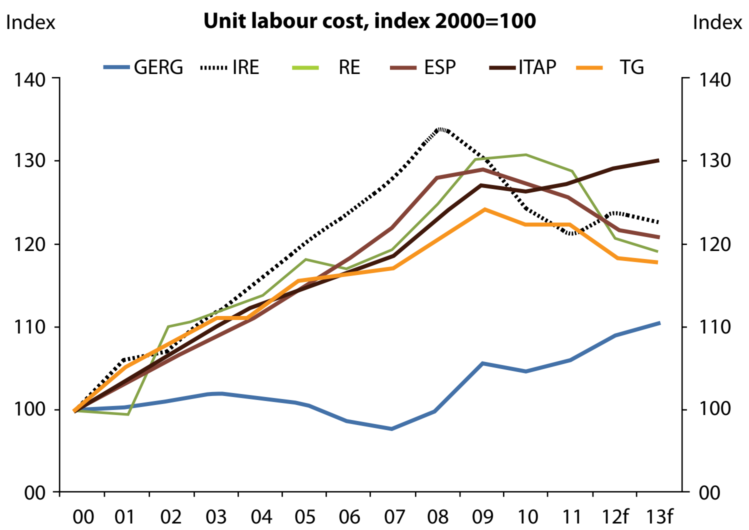
[44]"Current Economic scenario in Europe and its impact on Indian industry', A survey by the Federation of the Indian Chamber of Commerce (FICCI), August 2011, available at http://ficci.com/SEDocument/20150/ficci-Survey-Report-Europe.pdf

• In terms of business generation, over 75% of the surveyed companies have quoted a loss of 10-15%

• Over 30% of the respondents have started looking beyond Europe. Greener pastures are being sought in North Africa, West Asia, South Asia and North America

Over 25% respondents have pointed out that during the current economic turmoil respective Western European Governments have themselves become deterrents to facilitating foreign investments and trade. The biggest roadblocks are the increase in scrutiny for obtaining and renewing long-term visas, work permits, family and employment visas. The overall ease of doing business in the region has come down.

### Exhibit 26: The Unit Labour Cost gap




Sources: *Haver Analytics and DB Global Market Research*

## 5.2 CAN THE CRISIS BE AN OPPORTUNITY?

Crisis stricken countries (Portugal, Ireland, Italy, Greece and Spain) have managed to make considerable progress in reducing external and internal imbalance. In terms of external adjustment, countries have been able to reduce their Current Account Deficits substantially. With the exception of Italy and Greece, this has been achieved by both a reduction of imports and increase in exports1. In terms of internal imbalances significant progress has been made. According to a projection by the International Monetary Fund, the Current Account balances of Greece, Portugal and Spain will turn into surplus between 2013 and 2017. Only Italy is expected to retain a deficit at the end of the surplus period.

Given these recent country specific adjustments, we think that doing business in the Eurozone has become more economical. Barring Italy and Greece, unit labour costs have fallen in all countries that are the heart of the crisis. Apart from wage rates, the recent downturn also resulted in a significant fall in commercial and residential property prices making EU economies more attractive for cost-sensitive foreign companies. Germany's labour markets continue to be as tight as ever.

The key is to treat Europe not as one giant block but as a collection of nations and companies.

As we have explained in the next section, we are bullish on the future prospects of Europe and we value the united effort that is going into sustaining the region. Firms could take cues from several Indian and global TNC's that are goading on this path.

US-headquartered Dow has expanded its presence in Europe by allocating €10 million, or about $13.2 million, for a new water-desalination research centre on Spain's eastern seaboard, about 50 miles southwest of Barcelona. Over 100 engineers hope to develop new ways to produce cheap, clean water.

[45]Adjustment in Euroland: A progress report, Deutsche Bank Research,



Luxembourg-based ArcelorMittal, promoted by India-born billionaire Lakshmi Mittal, will invest €180 million at its steel plant in Florange, France. The announcement came after a long stand-off with French government and labour unions. France had threatened to nationalise the company's facilities in Florange, following Mittal's decision to shut down a blast furnace at the site. Amidst calls by the UK inviting Mittal to invest in London and investment loss fears, a compromise deal was thrashed out. ArcelorMittal employs 20,000 workers in France and 3,600 in Germany.

Tata Steel has cranked up the pace of investment in Europe. Tata Steel will invest in excess of £1.5 billion (nearly Rs 13,000 crore) in its European operations till 2015-16 to spruce up its existing equipment and bring out new products, among others[46].

Investing in Europe is a long-term game plan. Companies need to have strong cash flow positions in order to wade through periods of uncertainties. Companies that seek external funding must be ready to look at non-EU sources. Once a decision is taken to invest in a particular country or region, focus should be on generating employment opportunities to make it a win-win for all. Engaging with the local communities, through corporate social responsibility projects or training opportunities, will help in gaining the goodwill of the local workforce.

[46]"Tata Steel to invest Rs 13,000 crore in Europe till 2015-16," Available at http://www.moneycontrol.com/news/business/tata-steel-europe-to-invest-15-bn-pound-till-2015-16_770125.html

## 6. CASE STUDY: THE TATA GROUP

In a span of 12 years, the US $100 billion worth Tata Group has become the most recognizable face of Corporate India abroad.

The group today is present in 80 countries worldwide with major operations in European states such as UK, Germany, Italy, France, Spain, Netherlands and several others. It has seven major lines of businesses; Information systems and Communications, Engineering, Materials, Services, Energy, Chemicals and Consumer products.

The Tata Group is a typical Indian-bred corporate, but with global ambitions. Jamsetji Nusserwanji Tata, the founder, began his business career in China and England. The Tata Group's first brush with the overseas markets was in 1907 when an outpost was opened in London for its Indian operations. The Tata's first UK focused venture was a one-man operation for Tata Consultancy Services (TCS), a leader in the concept of outsourcing to India. Since those early days, TCS has expanded into a global and European IT powerhouse, accounting for over 26% of its global revenues from Europe. Since 2001, it has invested in creating several IT delivery centers in the UK, Hungary, Netherlands, Luxembourg and Germany. Currently the firm has 50,000 software engineers catering to its 350 European clients worldwide and employs 14,000 professionals across the continent.

The Tata Group has been the largest Indian FDI investor in Europe. 63 of its 220 global projects have been in the continent. 21 of its 70 global acquisitions have been on the European soil. In UK alone, the group employees 50,000 employees, from a few thousands in the early part of the decade. The group has embarked on a conscious drive to localize its employee base.

The group's first aggressive move overseas was in Europe. In 2000, Tata Tea bought Tetley, a well-known beverages brand. This was just the first of its 70-odd acquisitions till date. The Tata's preferred acquisitions to taking up Greenfield operations during the first five years of its overseas quest, primarily because of the advantage to 'scale up 'or 'scale down' quickly.

The buyout of British luxury car brands, Jaguar and Land Rover for US$2.3 billion was instrumental in establishing the Tata brand internationally. Many felt the Indian company was biting more than what it could chew. The deal was billed 'suicidal' by several analysts because of the high premium paid by the Tata's for a company that was on the verge of bankruptcy. The takeover by an Indian company would dampen the prestige of the British brands, according to popular perception. Mr Ken Gorin, Chairman of the Jaguar Business Operations Council (which represents Jaguar car dealers in the US), told the Wall Street Journal in December 2007, "I don't believe the US public is ready for ownership out of India of a luxury car maker. And I believe it would severely throw a tremendous cast of doubt over the viability of the brand."

The buyout happened amidst a slowdown in the European Manufacturing industry. The European division of Tata Steel, dating from its US$13.1bn purchase of Corus in 2008, has also been under severe stress. Outgoing group Chairman Mr Ratan Tata alluded to this in the group's annual report. "[Tata Steel's] operations in Europe will continue to be under enormous stress for the next year or two until the Western European economy recovers." A depressed Europe is Corus' biggest market. Realizations have been wobbly given the unpredictable demand from user industries such as Automobiles, Consumer Durables and others. The steelmaker is facing the brunt of the high costs of iron ore and coal, which go into making steel. As with many steelmakers, gross operating margins were dire last quarter; a small loss was booked. Yet, the group has cranked up the pace of investment in Europe. Tata Steel will invest in excess of £1.5 billion (nearly Rs 13,000 crore) in its European operations till 2015-16 to spruce up its existing equipment and bring out new products, among others1. On the flipside, the company had earlier announced that it would retrench 1,500 workers in Europe, mainly in Northern England. In 2012, it announced one more round of layoffs leading to a net loss of 900 jobs in the UK.

Today, Tata's global beverage business is driven out of its headquarters in a London suburb. In other parts of UK, the workforce of the plants where the 'Evoque' is made has doubled to 3,000. JLR is building an engine plant in Wolverhampton. Tetley is now sold as a premium brand in India and other emerging markets. Tata's Indian hotel chain has teamed up with Charme II Fund, an Italian fund managed by Montezemolo and Partners SpA to buy over Orient-Express Hotels. However, its $1.86 billion bid was reected by the Orient-Express board.



## Corporate Social Responsibility

The Tata Group has a unique shareholding structure. 66% of Tata Sons shares, the holding company of the Tata group, are owned by charitable trusts. Hence the Tata Group scions do not figure in the list of global billionaires. The group is actively driving several Corporate Responsibility projects in the continent. For several decades, the group has been operating two trusts in London- Lady Tata Memorial Trust (supports cancer research) and Lady Meherbai D. Tata Education Trust (for the education and development of women). Every year, the trust disperses funds of around £300,000 for blood cancer research every year. In order to further aid cancer research, Tata Consultancy Services (TCS) has become the title sponsor for the TCS Amsterdam Marathon with VUmc Cancer center Amsterdam.

[47]"Tata Steel to invest Rs 13,000 crore in Europe till 2015-16," Available at http://www.moneycontrol.com/news/business/tata-steel-europe-to-invest-15-bn-pound-till-2015-16_770125.html

## 7. INDIAN CORPORATE INVESTMENTS: FACTORS THAT MAY INFLUENCE THE FUTURE

Balance sheets of Indian companies are as strong as ever. India Inc. is said to be sitting on almost Rs 150,000 crore (US$33 billion) in cash and bank balances[48]. Many top companies, especially those providing services in the ICT space, have been debt free since their inception. Our study shows that the following factors could have a positive or negative impact on Indian investor sentiments over the next 10 years.

### 1) The future of the Eurozone (-/+, depending on the outcome)

Economists concur that the Eurozone crisis could have four possible outcomes on the union itself. Greece moves out of the Eurozone, a substantial break up of the Eurozone (Portugal, Spain, Ireland leave the Eurozone and launch their separate currencies), complete break up of the Eurozone (each country reverts back to its earlier currency) or greater integration. The whole of Europe will plunge into a chaos if Greece were to exit the Eurozone. Media reports have pegged the cost of a Greece exit at $1 trillion[49]. If all countries were to go their separate ways, the Eurozone will be splintered. Governments will start defaulting on their debts, leading to a total collapse of the banking system.

The cost of unwinding is more than the cost of going forward for all EU members. We believe that the sovereign debt crisis will cause Europe to integrate even further. For the first 60 years, Europe's integration was a 'top-down' approach; the next 60 years will see a 'bottom-up' approach. We believe that the larger stakeholders of the European project-Germany, France and the UK-are committed to keep the union. The crisis has already compelled European nations to create a common bailout fund and agree on ways to impose more fiscal discipline on each other. In September, a proposal for common bank supervision in Europe was mooted. This would be the first step towards a banking union[50]. The idea of a banking union would not have been contemplated had it not been for the crisis. One of the lessons learnt by political leaders is that it is hard for a common currency to work in a fragmented economic and financial system. The costs of unwinding the Euro and the benefits of doing so are probably impossible to quantify, but the risks are massive and it is not in the nature of policymakers to embark on grand experiments.

### 2) The rise of protectionism (-ve)

For the last decade, the EU and its individual member states have been among the strongest advocates for free trade, claiming that it would boost economic growth and welfare for all concerned. Even when protectionism would raise its head, it would be in the form of pre-election rhetoric every four years. However, in a post-2008 world, this is no longer the case. The shift in European stance on international trade was evident last summer, when struggling German solar panel manufacturers and the Socialist French government of François Hollande urged the EU to launch protectionist measures against Chinese competitors and suspend a recent FTA with South Korea.

A new study by the Overseas Development Institute has confirmed the fears of the Indian industry by warning that the European Union is increasingly choosing a more protectionist stance in trade policy. The first reform of the EU's Generalised System of Preferences (GSP) in 30 years will see richer developing countries, such as India and Vietnam, lose trade concessions of up to €257 million.[51]

[48]"Tata Steel to invest Rs 13,000 crore in Europe till 2015-16," Available at http://www.moneycontrol.com/news/business/tata-steel-europe-to-invest-15-bn-pound-till-2015-16_770125.html

[49]"Banking Union explained, European parliament news, http://www.europarl.europa.eu/news/en/headlines/content/20120921STO51985/html/Banking-union-explained

[50]"The Future of the Euro: Jack Ewing Answers Readers' Questions, International Herald Tribune



This is further corroborated by another study which says that the EU has been using protectionist policies 'that fly below the World Trade Organization's radar', ever since the financial crisis began. The study was conduced on the basis of seven major economies and 869 non-macroeconomic trade policies adopted by the EU since 2008[51]. Not only did the EU try to protect its economies against foreign competition but often "picked winners" among their own firms, leaving the rest to bear the brunt of the crisis, the study says[52]. The economies that resorted most to discrimination tended to rely most on policies where the WTO rules were weakest, such as bailouts, trade finance and investment incentives - in 84 % of cases in the EU.

No major economy is without a blemish when it comes to this 'New Protectionism'. Recently, EU accused Indian authorities of protectionist moves such as a higher duty on imported vehicles, ban on cotton export and stipulating a local sourcing norm for telecom equipment.

An increasingly popular method these days is to strangle traders with insidious moves, such as red tape and increased bureaucracy, which cannot be easily identified by a watchdog. These steps are justified as short-term corrective actions in response to the global downturn.

A case in point is the new set of norms stipulated for Indian pharmaceutical exports to the EU. A clause says that the Indian drug regulatory authority must certify products exported by companies in order to maintain quality and follow manufacturing practices laid down by the EU drug regulators[53]. Domestic drug makers say the Drugs Controller General of India is neither authorised under the law nor conversant enough with the EUGMP Standards to issue such a certification. Though the directive is promoted with the stated aim of protecting people from falsified medicines, Indian players see it as a protectionist measure to save the EU bulk drug industry[54].

In 2009, Brazil and India had initiated proceedings against EU for confiscating Indian generic drugs transiting through European ports on their way to other developing countries. India and Brazil have been seeing these instances as attempts by developed countries to club counterfeits or copies of patented drugs with fake or spurious ones.

In the case of Services, protectionism takes a more subtle form. The Indian Services industry, especially IT, ITES, and Professional services, have been facing challenges in the EU with respect to visa regulations and procedures. Problems include the proposed caps on skilled worker visas, and increasingly complicated visa procedures that require significant investment in time and cost. Another area of concern is artificially imposed minimum wage requirements on foreign skilled professionals that do not reflect market principles. This makes exports and investment in IT and other professional services untenable.

Some of the statements emanating from the European Council have not been accommodating. One of the defining moments came In June when the Commission said it was in favour of discriminating against firms based in countries where European companies are excluded from the public procurement market. EU has been pushing India to approve the Government Procurement Bill pending before its parliament so that foreign parties can pitch for state contracts. AS part of the EU-India BTIA, it also wants a condition for greater transparency in state purchases.

[51]"Available at http://www.odi.org.uk/news/details.asp?id=604&title=eu-trade-policy-international-development-global-challenges

[52]'EU seeks protection from emerging economies', Inter Press Services news agency, September 28 Study conducted by Vinod Aggarwal, professor of political science at Berkeley and Simon Evenett, professor of international trade and economic development at the University of St. Gallen, available at http://www.ipsnews.net/2012/09/eu-seeks-protection-from-emerging-economies/

[53]A news report, based on the study, available at http://af.reuters.com/article/commoditiesNews/idAFL5E8LMKQL20121022

[54]Business Standard 2012, http://www.business-standard.com/india/news/drug-makers-criticaleu-non-tariff-barrier/471368/

## 3) Manufacturing sector based partnerships (+ve)

Indian Manufacturing has contributed only about 15% to the GDP compared to services (about 57%[55]). No major economy has become a world power without going through long periods of manufacturing dominance. This is true of the US, Western Europe, Japan and now China. India cannot be an exception. The Indian Government is pushing its corporates to get into value based and capital based manufacturing.

Europe may have suffered a decline in its industrial base in recent years, but continues to be a world leader in several industrial sectors. India has ambitious plans to expand its Manufacturing base, as evident in the 2011 National Manufacturing Policy[56]. India can become a formidable force in Manufacturing only with access to improved technology, to serve its domestic market &compete in the export markets[57]. There is a major win-win opportunity here for both Indian and European companies that could be explored with more support on the policy front.

## 4) A supportive ecosystem for new ideas (+ve)

One of the reasons why the US still holds a dominant position in international affairs despite the fragile economic situation is its ability to spot and finance next-generation ideas. The contribution of Indians to creating and sustaining Silicon Valley in the US is well known. Students and immigrants from India have founded iconic firms such as Sun Microsystems (Vinod Khosla), Brocade (Kumar Malavalli), Cirrus Logic (Suhas Patil) and Hotmail (Sabeer Bhatia). Pivotal contributions to technology innovation, include Ehernet (Kanwal Rehki), Fiber Optic (Narinder Kapany) and the Pentium chip (Vinod Dham) From 1995 through 2005, 15 % of Silicon Valley startups were launched by Indians – the largest number for any immigrant group. All of them were attracted by two common messages, easy access to venture funding and external economies of scale.

## 5) Attracting small and medium enterprises in Europe (+ve)

Small and Medium Sized companies are the backbone of India's industrial sector. Many SME's are taking rapid strides towards corporatization. One third of investments in Europe are made by small and medium businesses. Many of these SME's are family- owned export businesses keen to charter the next level of growth, by setting up onshore presence. Given the significant cost advantages of producing in India, significant synergies can be explored by SME's in Italy and Germany. Opportunities could be explored in sectors such as Auto-components, Food processing industry, IT/ITES and Plastics. The changing profile of Indian investors calls for local partnerships and improved facilitation services. Indian SME's are less familiar with European business practices and culture. Many of them have little experience operating in an overseas climate and so mistakes, especially in the first few years, are common. If young firms are to survive near-terminal mistakes and wade through macro-economic vagaries, they require the flexibility of scaling up and scaling down. The complexities of hiring and firing people in Europe are a big concern for these firms. The cost of paying out large severance packages (six months of severance pay is typical even for very recent hires) can be a huge drain for a small company[58]. The inflexible labour markets create a tendency of shipping jobs to the home economy for protecting margins. This tendency is challenging, given the powerful labour unions that foreign investors have to deal with. Also, peripheral countries need to make it easier for SME's to do business. In Greece, it takes 77 days just to get electricity hooked up, according to the World Bank.

## 6) EU-India Free Trade Agreement (+ve)

India's burgeoning relationship with the EU is set to be institutionalised by a comprehensive investment agreement that will establish a legal framework to encourage mutually beneficial investment flows. Since 2007, India and EU have been negotiating a free trade pact, officially known as Bilateral Trade and Investment Agreement (BTIA) Though mainstream economic theory believes that Free Trade Agreements lead to economic inefficiencies through the process of trade diversion, a broader view is that FTAs bring about a net gain to the countries involved and promotes free trade between the contracted parties. Moreover, FTAs are easier to negotiate given the few number of players involved in the discussions. One of the biggest criticisms of multilateral trade agreements is that it takes sometimes several years to negotiate, as evident from the Doha Development Agenda of the WTO.

[55]"Indian manufacturing: Making it work, A report by Indian School of Business, available at http://www.isb.edu/isb/File/ISBInsight_Volume9Issue3.pdf

[56]"Wall Street Journal, http://online.wsj.com/article/SB10001424052970204777904576652474175973718.html

[57]"Investing in France, An untapped opportunity: A report by PWC

[58]"Les Miserables, The Economist, http://www.economist.com/node/21559618





Both EU and India are keen to finalise the BTIA for altogether different reasons but there is a binding strand of commonality; growth. India's GDP growth rate recently fell to 4.1% (the lowest in a decade) and the EU continues to be embroiled in a debt crisis.The proposed BTIA is expected to reduce duties on over 90 per cent of the trade between the two blocks. According to a report by the Federation of Indian Chambers of Commerce and Industry (FICCI), the BTIA could result in 92 per cent spike in bilateral trade between India and the EU to $207 billion by 2015 from $108 billion in 2011. It will also help in restoring high levels of FDI flows into India. FDI flows to the country (from around the world) fell from US$18 billion to US$10 billion, partly as a result of shrinking market-seeking FDI to the country[59]

India and the EU have missed at least four deadlines to complete negotiations largely because both parties were not able to achieve a consensus on several issues. The conclusion of the agreement has been delayed as serious differences still remain over issues like tariffs cut in automobiles and luxury goods, public procurement, market opening and movement of skilled professionals. However, recent developments have confirmed the seriousness of both sides to bring the agreement to its logical conclusion. Recently, Indian Heavy Industries Minister Praful Patel Monday said his Ministry is agreeable to cutting duty on luxury cars imported from Europe as part of BTIA2. On the other hand, India is expecting that the EU would safeguard India's interest of small car exports to Europe[60].

It does not help that the negotiations between India and the EU have been conducted in secrecy. In fact, the progress made in successive rounds is not being officially divulged on the Indian side. Selective news leaks in the international media have been damaging. The non-transparency has raised suspicion among Non-Governmental Organizations that the interests of the millions of poor people are endangered because, for example, access to affordable life-saving medicines will be denied.

[59]'Global Investment Trends Monitor,' UNCTAD Report released on October 23, 2012, No.10, pp 2 , Available at http://unctad.org/en/PublicationsLibrary/webdiaeia2012d20_en.pdf

[60]'Praful Patel for import duty cuts on luxury cars from the EU, DNA, November 26, http://www.dnaindia.com/money/report_praful-patel-for-import-duty-cuts-on-luxury-cars-from-eu_1769856

## 7. POLICY RECOMMENDATIONS

The future scope of Indian investments in Europe is positive. However, there is still some degree of scepticism among companies. So, policy attention is crucial for Europe to attract and benefit from these new avenues of capital. After two years of grinding austerity measures, the good news is that European officials and politicians have shifted their rhetoric toward reviving growth and luring private investment. A lot more needs to be done. Individual countries should try and incorporate learning's from UK and Germany, two of the largest playgrounds for Indian investors.

1) There should be a pan-European economic policy that is free from economic nationalism. Europe must sustain its reputation of openness by having an open door policy. Common, clear and transparent guidelines should be adopted at the individual country level and the EU level to promote investments. There should be a zero tolerance policy towards any kind of indiscrimination. Protectionism, which could come in myriad forms ranging from higher tariffs, costly import licences and customs controls, to increased bureaucracy, should be nipped in the bud. At the same time monitoring of investing companies should be stepped up to ensure that investment aid given is not misused and that the investment norms and terms agreed upon are not circumvented. Steps should be taken to ensure that expensive operating costs, rigid labour markets and heavy regulation do not disenfranchise potential investors. The EU should address India's request for preferential treatment so that the number of work permits given to Indian professionals is increased. Visa and work permit regulations should be simplified for bonafide commercial investors. Individual countries should push for the speedy adoption of the Single Permit directive as it would allow the EU "to deal to a degree with the shortage of European labour[51]" and facilitate checks and balances in migratory flows.

The Directive, which enables foreign workers to obtain work and residence permits in identical procedures, will also ease the numerous layers of bureaucracy that Indian companies have to deal with while sending their employees on long-term European assignments. EU States have time till December 13, 2013 to align their national laws with this directive. Taking cues from France and Germany, other EU countries should join hands to form a single "aligned" tax rate for corporates throughout Europe. The move would act as a major boost for businesses since they want to limit regulatory costs and red tape.

2) The European Commission should create 'Shenzhen'- like special economic zones that offer lower taxes, less red tape and other favourable investment conditions to attract overseas manufacturers. These new factories would set the tone for higher manufacturing-based economic growth, create more jobs and propel overall GDP of the EU. The move will especially benefit crisis-plagued countries such as Greece, Spain and Portugal in stirring up their economies. Tax discounts and investment sops should be offered to potential investors in return for long-term investment commitments.

3) Indian product companies still have limited capabilities to develop the next big technology or product at home. Europe is still preferred by Indian Pharmaceutical companies for conducting clinical trials of drugs. Software engineers are paid 70 per cent lesser in Europe than in California (US). An-EU wide initiative should be envisaged for creating a new home for the electronics, technology and life sciences industry in order to foster the spirit of research and attract the best talent in the industry. European countries need to implement policies that accelerate R&D and innovation. Special impetus must be placed on creating new finance channels for riskier ventures.

4) European banks must be more supportive while lending to Indian SME's trying to find their feet in Europe. Several Indian companies feel that relationships with European banks are only 'fair-weather' and not 'all season' relationships.

[61]"Common Rights and single work and residency permit for non-EU workers', European Parliament press release dated 13th December 2011, available at http://www.europarl.europa.eu/news/en/pressroom/content/20111213IPR33946/html/Common-rights-and-single-work-and-residence-permit-for-non-EU-workers





5) Lot of ground has been covered in the pursuit of creating inclusive and flexible labour markets in Europe. Yet, much has to be done. We support the adoption of pro-growth measures over grinding austerity. The weak growth prospects and the time lag between economic and employment recovery means that there is no prospect of immediate or automatic improvement in the labour market situation1. However, developing flexible working arrangements, aligning wages with productivity, and stepping up "active labour market policies" such as support for job seekers and entrepreneurs and quality traineeships should help to improve the situation. We advocate longer working hours at the same wages rather than a cut in the salary package of workers. Peripheral countries will attract Indian investments only if they go through the overall economic overhauling process.

6) At the beginning of the new millennium, Indian investments in Europe were being largely driven by IT, professional services, Manufacturing and Automotive companies. In the last five years Indian companies have been venturing into newer sectors such as Renewable energy, Value-based manufacturing, Financial services, and creative industries. Individual countries should scout for investors in sectors of their competitive advantage.

7) The EU-India BTIA will accelerate Indian investments in Europe. It will also open up hitherto shackled sectors of the Indian economy such as luxury cars, wines, multi-brand retail and so on. The EU should push for speedy adoption of the BTIA; both trading partners should stick to the timeline of finalizing the agreement by the spring of 2013, before the India-EU Summit in Brussels. All negotiating texts and positions with regards to the FTA should be made public on both sides. Comprehensive impact assessments and meaningful consultations should take place with the most affected groups in Europe and India.

[62]'Labour Market Development in Europe 2012, European Commission, http://ec.europa.eu/economy_finance/publications/european_economy/2012/2012-labour-market_en.htm

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