Europe India Chamber of Commerce

Newsletter

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EICC AGM asks the chamber to address emerging challenges of business and trade

The Europe India Chamber of Commerce held its Board of Directors and the Annual General Meeting on 29 May in Brussels. The board members discussed the importance of creating entrepreneurship and EICC providing the required assistance. The board's assignment for next meeting was for each board member to bring at least a new member which was seen as potentially attainable. The Board meeting took place in the background of the EU-India Summit 2010 to take place in Brussels on the 21st October. Other issues that dominated the board discussions were the current financial and debt crisis in the Eurozone countries, issues related to trade and investment and economic relations between EU and India including the free trade negotiation. The board also discussed the future plan of activities of the EICC and the challenges it faces in the coming years. It was suggested that EICC must prepare itself to offer the services that no other chamber offers and in that context it was felt that its must redefine its objectives in order to become the focal point for the European companies operating in India and Indian companies in Europe. Following the discussion, it was felt that the Chamber needs to redefine its mission statement in order to address the emerging challenges and issues that confront EU-India business and how the chamber can offer its assistance. It was agreed that the chamber will redefine its policies and programmes under the vision: "EICC will be the preferred entity representing the general interests of business and industry in Europe and India to expand trade and direct investment in both directions" and initiate policy and measures within its mission: "EICC shall provide services to business and industry that will facilitate trade and investment flows between Europe and India". The meeting endorsed the activities of the EICC and re-enforced its commitment to realize the objectives with which it was formed. It was felt that EICC become the focal point for the European companies operating in India and Indian companies in Europe. The board meeting also reviewed the Financial Statement and set goals for the coming years. The meeting was chaired by Co-Chairman Mr. Ravi Mehrotra CBE. The Board decided to co-opt the Flanders Investment and Trade in the EICC Board as an institutional member and Mr. Filippe De Potter was inducted into the board. Others who were inducted are Mr. Bob Lewis, CEO of INTEREL, Mr. Rafael de la Cuadra of FEVEC, Spain and Mr. Joge Marti of Uría Menéndez from Spain. The Board decided that the EICC should play an effective role in the Business Forum during the Summit and work with all stake holders like BICC&I, Federation of Belgium Enterprises, Flanders Investment and Trade, Agoria and others to increase its visibility in Europe and India.

The Board approved the opening of its Office in Paris and appoint Mr. Prasad Sudhakar Deshpande as its Resident Director in France. The Office of the EICC in Paris will be located in the premises of Shere Punjab Complex and will be supported by EICC's Associate Corporate Member and French entrepreneur Mr. Gurdial Singh. The Meeting also decided to work closely with Global Organization of People of Indian Origin (GOPIO) and tap the talent, resources and expertise of the Indian Diaspora in Europe to enhance EICC objectives.

2,200 Indian Multinationals by 2025, says PwC

India Inc. is flying high, not only over the Indian sky but many Indian firms are slowly but surely embarking on the global path leading to the emergence of the Indian multinational companies. With each passing day, Indian businesses are acquiring companies abroad, becoming world-popular suppliers and are recruiting staff cutting across nationalities. No surprise therefore when the PwC in a recent report titled `Emerging Multinationals predicted that more than 2,200 Indian companies are expected to open overseas operations over the next 15 years, helping the country overtake China as the largest source of emerging market MNCs. PwC has forecast a major transformation in the global competitive scenario over the next decade with more and more Indian and Chinese multinationals seeking new markets overseas.

According to PwC, India is expected to produce the most new multinational companies, overtaking China as the emerging world's largest source of new multinationals. Over 2,200 domestic companies are projected to open operations outside over the next 15 years (between 2010 and 2024). The report also

observes that the competitive landscape will get crowded with an array of companies from Singapore, Russia, Malaysia and South Korea joining the Indian and Chinese companies over the next decade. Citing that the number of companies from emerging markets choosing to set up operations abroad has increased in the last five years, the report said the trend is likely to continue over the next 15 years, as new multinationals from emerging economies gain prominence. PwC attributes this to the rapid pace of globalization and the revolution in information and communications technologies. The projections have been made using econometric techniques based on a representative sample of 15 emerging economies over the next 15 years. The countries analyzed included Argentina, Brazil, Chile, China, Hungary, India, Malaysia, Mexico, Poland, Romania, Russia, Singapore, South Korea, Ukraine and Vietnam. The research also provides an insight into the evolution of new multinationals from emerging economies. By the way these new multinationals raise resources from all over the world to emerge future powerhouses. The EICC observes that although the global economic crisis and recent debt crisis in the EU countries is affecting India's economy, it has however not curbed the potential of its strongest home grown companies. Many of India's largest companies are poised to expand into international markets and become true multinationals. Although concerns have been raised about India's accounting standards following the scandal at one of India's major software companies, it is going to benefit ambitious Indian companies as they seek to improve corporate governance. In general, the global strategies of many Indian companies are based on liquidity which allows them to make acquisitions. Companies that have been hurt by the crisis will slow down their efforts to expand through acquisition, but companies with strong balance sheets and cash positions will continue to go global.

Indian government lays ground for $11 billion push to infrastructure

The government of India has ambitious plan to create a $11 billion dedicated fund to set right the country's creaking infrastructure and could raise 40% of the corpus from overseas investors, launching yet another assault on a problem that has defied solution for long and has cramped India's growth potential. The government plans to $4.4 billion from foreign pension, insurance and sovereign wealth funds, and the remainder from domestic institutions. The government further plans to constitute a committee to chalk out modalities in the next two weeks for the fund-raising exercise to start at the Indo-US CEO forum sometime in June. Despite strong economic growth, factories across the country face power shortages, ports experience high turnaround time and travel time in urban centres can take hours even for covering short distances. Construction of physical infrastructure has been lagging in India, unlike China. The absence of a strong bond market and worries about project delays and returns has been holding back private investment in this sector. Power generation, road building, port construction and airport modernization have fallen behind targets for years. According to a report prepared by McKinsey, India needs to spend $2.2 trillion by 2030 to build city infrastructure alone where three-fourths of the country's population is expected to live. The decision to lay ground to push dedicated fund in fact is the second attempt by the government in about four years to raise a global infrastructure fund. With the western business community looking to invest more in emerging markets such as India after a slowdown in demand in the home markets, this could be the right opportunity for the fund. A key selling point for this fund could be that India Infrastructure Finance Company Limited (IIFCL) may provide a safety net to investors who choose to exit the fund before its maturity with a haircut of 5% of the residual nominal value. For global investors who have been losing money in the EU countries as a result of the debt crisis, India may be a golden opportunity with sovereign backing for the fund. IIFCL renders long term financial assistance to infrastructure projects including roads, railways, seaports, airports, inland waterways, power, urban infrastructure, gas pipelines, SEZs and Tourism.

India not to relax government procurement

The government of India is in no mood to consider demands of the European Union to open its procurement. In a strong signal to the EU with which it hopes to conclude free trade agreements (FTAs) this year by October when the EU-India Summit takes place in Brussels, it has decided not to entertain requests for opening government procurement. India has successfully kept the issue out its FTA negotiations with Australia, making it clear to others as well that it does not plan to open these sectors. In June 2007, the European Union (EU)'s European Commission and the Government of India started negotiating a Free Trade Agreement (FTA). This new generation FTA covers many areas other than trade in goods viz. trade in services, investment, intellectual property rights, competition policy, government procurement etc. Hence, these negotiations are going to have far reaching consequences

both for the policy space of the Indian state and on the lives and livelihoods of Indian citizens. In addition to the EU, India is currently negotiating with 20 other countries and regions including Japan and the European Free Trade Association (EFTA). FTAs negotiations with more developed economies are likely to have similar agenda with minor variations in the design and architecture of the agreement.

India is also not part of the voluntary government procurement agreement (GPA) being negotiated between countries like US, Japan, EU and South Korea at the WTO. It has, however, recently sought observer status which will allow it to monitor the negotiations without being a part of the talks. The country has not just succeeded in keeping government supplies out of the ambit of the FTA, there is also no mention of any non-trade issues like labour and environment in the JSG report. The EU is aggressively insisting that government procurement which accounts for nearly 13% of India's GDP be opened up to EU companies. EICC views that India's procurement policy helps revive under-developed economic regions, boosts domestic production and thus helps fight against economic recession in the country. Government contracts can also help support Small and Medium Enterprises, marginalized constituencies and poorer states by channelling money through local firms for goods and services. Opening this sector to powerful European companies takes away these necessary tools for dealing with economic recession and fostering development of marginalized constituencies and regions. EICC views that MNCs from EU countries will heavily gain by allowing competition. It should be noticed that competition law and policy is also part of the negotiations with the EU. The EU is reportedly demanding that India's competition policy should provide 'effective opportunity for competition' in the local market thus helping big EU-based multinational corporations. The EU may further attempt to harmonise India's competition law with EU competition law thus reducing the flexibility required for India to design a competition law and policy suitable for its economic development.

India's commerce ministry proposes 100% FDI in defence

In a potential policy shift of enormous significance, the government of India may consider a proposal to open up the defence manufacturing sector for 100 per cent Foreign Direct Investment (FDI) by allowing big global players to set up production facilities in the country. Recently, the commerce ministry, in a note to the cabinet secretariat, suggested that global defence firms be permitted to set up manufacturing units in India with 100 per cent FDI. The note proposes that "established players" in the armament industry should be encouraged to set up their manufacturing facilities and integration of systems in the country by permitting 100 per cent equity through the FDI route. The move, the ministry feels, would reduce the role of illegal arms agents. The note also states that for future Request for Proposals (RFPs), the country could impose a condition that the successful bidder set up system integration in India. Referring to the advantages of easing the FDI cap, the note says that this would provide significant incentive for transfer of know-how or technology, leading to higher levels of technological expertise. In fact, there is bound to be spinoffs in terms of absorption of technology in other areas of civilian use. Worldwide, military technology is considered as a source of mother technology.

According to the ministry's note, only 15 per cent of India's defence equipment could be described as state-of-art and nearly 50 per cent was suffering from obsolescence. Therefore there was an urgent need to enhance the deterrent and the operational capabilities of the armed forces, it added. India imports nearly 70% of its defence requirements. Ordnance factories and public sector units provide the rest. The opening of this sector would help ensure technology transfer and funds to effectively replace imports, estimated at over $8 billion. Indian economy is expected to grow at 8-10 per cent for the next two decades. India's defence expenditure, which is 2.5 percent of its Gross Domestic Product (GDP), is going to increase in proportion with the overall growth of the economy. India is also fast developing into a Defence Industry manufacturing hub for world corporations eager to leverage this sector's proven skills in product design, configuration and customization with creativity, assured quality and value addition. India, therefore, offers excellent opportunities, both for domestic as well as foreign companies, to forge new alliances and partnerships in the form of joint venture, co-production and co-development arrangements in the Defence sector. The total defence spending from 2010-2016 in India is likely to be to the tune of $280 billion. Major countries such as the US, the UK, France and others have evolved with efficient and transparent defence procurement procedures. Indian industry also expects Government to provide a defence industrialisation strategy and appropriate planning, procurement, legal, regulatory and tax

environments. The industry, if the policy evolves through as desired would win with expansion of new technology and their export portfolio.

India opposes move to link international trade with CSR

India is all set to block moves to use an international standard on corporate social responsibility (CSR) as a basis for refusing exports from emerging nations. The implementation of such a rule will inevitably increase business costs for companies from developing countries as well as affect global competitiveness. India is also trying to mobilize opinion against the proposed international standard on corporate social responsibility that could give legal sanction to developed countries to reject exports from developing countries like India. ISO 26000 sets out the basic minimum goals corporates should achieve in areas such as labour, environment and human rights. Complying with this could increase costs for companies from developing countries, eroding export competitiveness of the products produced by them. The International Standards Organisation (ISO), the world's largest developer and publisher of international standards, is unilaterally developing this standard in response to a growing recognition that corporates need to be socially responsible. In a submission to the ISO last May, India had argued that for the purposes of the multilateral trading system governed by the World Trade Organisation (WTO), ISO-26000 should not be interpreted as an international standard, guideline or recommendation. The US and Canada had supported India's submission.

The CSR is not a new concept in India. Corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community ever since their inception. Many other organizations have been doing their part for the society through donations and charity events. Today, CSR in India has gone beyond merely charity and donations, and is approached in a more organized fashion. It has become an integral part of the corporate strategy. Companies have CSR teams that devise specific policies, strategies and goals for their CSR programs and set aside budgets to support them. In fact, CSR has been on the agenda in India for a considerable period. Most big Indian corporations are engaged in some CSR activities. As is the case in many countries, the private sector is generally more active in this area than the governmental/public sector.

In the Asia's Asian Sustainability Ranking, India has been named among the top five Asian countries which lay heavy emphasis on CSR disclosure norms. There are high levels of disclosure, particularly from large companies with recognised brands such as Tata and Infosys. The top 10 companies in India's CSR rankings include Tata Consultancy Services, ITC, Infosys Technologies, Larsen & Toubro, Reliance Industries, Oil and Natural Gas Corporation, Indian Oil Corporation, Bharti Airtel, Steel Authority of India Ltd, and NMDC Ltd. Indian firms are most transparent in terms of governance, policies and code of conduct, and they provide more information than most companies on issues relating to community impact and development. Disclosure on environmental issues is also relatively high, the report stated.

EU calls on trading partners to remove protectionist barriers

Almost 280 trade restrictive measures have been put in place by the European Union's major trade partners during the economic crisis over the last 18 months according to a new report published by the European Commission. Contrary to the G20 commitment, hardly any measures have been removed despite signs of economic recovery in most countries. The European Commission has called on trading partners to remove these restrictions in order to give a much needed boost to the recovery. According to EU Trade Commissioner Karel De Gucht: "There is a risk that trade restrictive measures introduced by our partners during the crisis will become part of the trade regime even when the economy picks up speed. What we need now is an exit strategy from protectionism." The European Commission has been issuing reports on the trade restrictive measures adopted by major trade partners since the beginning of the economic crisis. This monitoring mechanism has been important to prevent an escalation of trade protectionism during the downturn. The recent report covers the EU's thirty main trading partners over the period from October 2008 to April 2010. The protectionist measures range from classical trade barriers such as import bans or tariff increases to "buy national" and other behind-the-border policies. The report finds that many of the new barriers are rapidly becoming permanent features of the world trading system. At the Washington Summit in November 2008, the G20 committed to a self-imposed standstill in terms of new barriers to investment or to trade in goods and services, new export restrictions or WTO inconsistent measures to stimulate exports. The London and Pittsburgh G20 summits in April 2009 and September

2009 reinforced this commitment and provided an explicit mandate to the WTO to monitor and to report publicly on the evolution of the situation on a quarterly basis. The EU is firmly committed to this pledge. Its own monitoring report complements the monitoring exercise done by the WTO.

The main conclusions of the new report are as follows:

- Despite an overall gradual improvement of the world economy, growth remains uneven, marking a clear difference between the situation of industrialised and emerging economies. There still exists a risk that increasing unemployment could fuel a second wave of protectionist policies in the course of 2010.
- Between November 2009 and April 2010, 73 further trade restrictive measures have been introduced, thus bringing the total figure of measures in force to 278. The tendency towards new protectionist measures noted in past reports remains unabated.
- Fewer than 20 measures taken in the context of the crisis have been withdrawn or have expired between November 2009 and April 2010. This figure is clearly disappointing and contrary to the commitment made by G20 leaders to "rectify" such measures. Continuing to add to the stock of protectionist measures without rectifying them puts the economic recovery at risk.
- The creation of the Customs Union of Russia, Kazakhstan and Belarus, effective from 1 January 2010, saw the consolidation of most of Russia's duty increases introduced during the economic crisis. This remains by far the most striking example of entrenching the crisis-related measures in the permanent trade environment, with long-term implications for the resumption of trade flows with Russia.
- The recourse to 'Buy National' policy remains of concern. Moreover, in the field of government procurement there is still a tendency to adopt discriminatory measures.
- G20 members need to reaffirm their commitment to the removal of the measures in place. Vigilance and monitoring are no longer sufficient. Trade flows need to rebound in a balanced way across the globe to help the recovery gain ground.

The report covers measures from the following countries/customs territories: Algeria, Argentina, Australia, Belarus, Brazil, Canada, China, Ecuador, Egypt, Hong Kong, India, Indonesia, Japan, Kazakhstan, Malaysia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, Russia, Saudi Arabia, South Africa, South Korea, Switzerland Taiwan, Turkey, Ukraine, USA and Vietnam.

Hindujas acquires European private bank for Euro 1.35 billion

Belgian banking and insurance group KBC sold its private banking arm KBL to investment firm Hinduja for 1.35 billion euros ($1.68 billion). KBL European Private Bankers was put up for sale in the aftermath of the financial crisis, when KBC pledged the sale of private banking and a string of divestments in return for 7 billion euros it received in state aid. The CEO of the KBC stated that with this divestment, they are releasing a significant amount of capital and further strengthening the KBC group, with its focus on its core bancassurance expertise and markets, and with its reduced risk-profile. The acquisition of KBL by the Hindujas is unlikely to have any immediate impact in India, where the group is the largest shareholder in IndusInd Bank. Incidentally, IndusInd Bank has been on the lookout for expertise in manufacturing private banking products and is even willing to offer strategic stake. KBC has recently tied up with Union Bank of India to set up an asset management company in the country. The Belgian financial services company decided to sell KBL European Private Bankers, which has operations in 10 countries of Europe, following the global financial crisis. KBC is the second largest bancassurer in Belgium. It is also one of the largest banks in Europe and a major financial player in central and Eastern Europe, serving 11 million customers worldwide. In November, the Belgian government and the Flemish regional government had pumped Euro 7 billion into KBC. In return, the financial services company agreed to scale down its merchant banking business, sell its private banking and also disinvest other businesses. It, however, wants to keep its core bancassurer model intact.KBL epb, a subsidiary of Belgium-based KBC Group, is one of the largest onshore private banking groups with affiliated local banks in 55 locations across ten European countries. The Group's banking business includes Hinduja Bank Switzerland, and wealth management in India, trade finance and corporate advisory services.

Bankers to discuss Eurozone crisis and opportunities offered by Indian banks

Three top bankers in Belgium will share their experience and expertise on the European financial and Eurozone debt crisis and also about the current state of Indian economy. They will also share their insight of tapping investment potential and services offered by these banks. This business discussion is being organized by the PricewaterouseCooper in Brussels in association with the Europe India Chamber of Commerce on 8 June 2010. The bankers who will participate as resource speakers discussionants are Mr. P N Prasad, Chief Executive of the State Bank of India, Mr. Yugandhar Prasad, Branch Head of the ICICI Bank and Mr. Erik Versavel, Head of Asian/Indian Clients, ING Bank. Mr. Lawrence Narraina, Partner of the PwC and a Board Member of the EICC will open the Seminar. The discussion will set out some of the current issues faced by the banking industry in Europe and how India could become a safe heaven for investment. According to a report by PricewaterhouseCoopers, India is likely to emerge as third largest banking hub by 2040 and the domestic credit in India would grow to $23 trillion in 2050. Banking sector growth in the major emerging economies of the world would outstrip that in the developed nations before 2050 and India is pegged to take the third place as a banking hub after China and the US by 2040, the report says. It adds that India can rise from relatively low levels today to emerge as the third largest domestic banking market in the world by 2040 and in the long run it could grow faster than China. In the context the seminar will offer opportunities for those who want to do business with India to take advantage of the opportunities the Indian banks offer. Those who are interested to attend the event starting at 1600 hrs in the PwC office on 8 June can confirm their registration through electronic communication to Ms. Cindy Cammaerts on E-mail: cindy.cammaerts.rbr@pwc.be

Indian engineering, R&D market to top $45 billion by 2020

India's engineering and R&D (ER&D) services market is projected to reach $40-45 billion by 2020, with export revenue of $35-40 billion and domestic revenues of $4-6 billion, and will be the next growth engine for the IT-BPO industry, according to a study. Report released by National Association of Software and Services Companies (NASSCOM) in association with management consulting firm Booz & Company states that infrastructure, aerospace and energy are expected to constitute more than 80 per cent of the domestic revenue, said the study, "Global ER&D: Accelerating Innovation with Indian Engineering. The Indian ER&D services market registered revenue growth of over 40 per cent in the last three years, with 2009 revenues amounting to $8.3 billion and an increase in the employee base from 54,000 in 2006 to 150,000 in 2009. "India is now an epicentre for global ER&D services with a compelling value proposition based upon the growing depth and breadth of services, flexible business models, large engineering base and global footprint with greater proximity to customers," NASSCOM reported. The major growth triggers have been identified as continued ER&D investment critical for innovation and penetrating new markets, increased use of electronics, fuel efficiency or alternate fuels, convergence of technologies driving future ER&D spend and greater focus on emerging markets as a result of the rise of a new consumer segment with varied requirements. The study said global ER&D spend surpassed $1 trillion in 2009 and is expected to touch $1.4 trillion by 2020. The automotive, consumer electronics and telecom sectors are the top spenders on ER&D. Currently there are more than 80 engineering off shoring companies in the country with North America as the primary source of revenue. Though it continues to remain the largest market, in terms of its contribution to total revenues is expected to decline from 62 percent in 2009 to 45 percent in 2020. But the European market is opening up and is expected to add 30 percent of the revenue. New opportunities from the Japanese market and other parts of the world are also expected to contribute 30 percent of the revenue. Over the past few years, global ER&D has been growing steadily. Organizations consider ER&D investments as essential for margin enhancements. Emerging markets have evolved to being prominent players in recent years and they will become leading player in the near future. Organizations are now providing services from basic process support to high value added services such as full product development. India is now a major destination for ER&D services with a compelling value proposition, based upon the growing depth and breadth of services, flexible business models, large engineering base and global footprint with greater proximity to customers.