Europe India Chamber of Commerce

Newsletter

Issue: 7 Volume: 1 September 2008

Preparation for EICC-IMC Roundtable on 21-22 September in full swing

Preparations for the EICC-IMC Roundtable on Pharmaceutical industry to be held on 21-22 September 2008 are in full swing. The Indian Pharmaceutical industry will be represented by several pharma majors including representatives of pharmexcil, Confederation of Indian Industry and Indian Pharmaceuticals Alliance. The Roundtable Inauguration and Networking Dinner will be held at the exclusive 30th Floor (Horizon Room) in the Hotel Sheraton and Towers on 21st September 2008. Participants include pharma giants from India and Europe, senior officials from the government of India, representatives of the pharma organizations in Europe and also representatives of chambers of commerce from some European countries. The EICC has invited the members of the India-EU Joint Working Group on Pharmaceuticals and Biotechnology to participate in the Roundtable. The Business Session on 22nd September in the European Parliament will be the most important aspect as several issues related to bilateral trade will be discussed. The event is being organized in association with the Embassy of India.

India all set to attract $40b in FDI in 2008-09

India's dream to compete with China seems to be catching up as India is all set to attract foreign direct investment of $40 billion in fiscal 2008-09 with overseas investors betting big on the manufacturing sector in world's second fastest growing economy. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has – in a lot of ways – enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that may have needed economic attention, and address the various problems that continue to challenge the country. FDI in India has increased over the years due to the efforts made by the Indian government and the increased flow of FDI in India has given a major boost to the country's economy. The Indian government made several reforms in the economic policy of the country in the early 1990s. This helped in the liberalization and deregulation of the Indian economy and also opened the country's markets to foreign direct investment. The country received $20 billion foreign direct investment (FDI) between January and June in the calendar 2008 and $10 billion in the first quarter of the current fiscal. Going by this, achieving $40 billion in 2008-09 does not seem unrealistic. The target for the fiscal is set at $35 billion. The inflows in 2007-08 were $25 billion. Though seeing slight moderation in production growth, India has emerged among the preferred destinations for the overseas investors. Automobiles and construction equipment segments are attracting increased interest among the various investors. It is hoped that that the growth outlook in the manufacturing sector would be "more positive" in the next few months.

India and Asean to ink free trade deal

After five years of protracted negotiations, India has concluded negotiations on a free trade agreement (FTA) with the Asean bloc countries which will ensure lowering of duties and free flow of trade in goods. Prime Minister of India Dr. Manmohan Singh will sign this agreement at the East Asia Summit in Bangkok in December, which is much more strategic in scope. The FTA is the centerpiece of India's diplomatic footprint in the region which New Delhi intends to be a heady cocktail of trade, political contacts, social and cultural linkages, connectivity and military ties. The agreement is expected to create a market of over 1.5 billion people in the region. The main countries that will be included in the new trade bloc are India, Thailand, Indonesia, Malaysia, Myanmar, Vietnam, the Philippines and Indonesia. India and Asean countries have a trade volume of $38 billion in 2007 and expect it to touch to $50 billion by 2010. India had signed the framework agreement with Asean in 2003, which outlined guidelines for the possible trade deal. Under the pact, India and Asean will bring down the duty to zero on 71% of products by December 31, 2012 and another 9% by 2015. Duties on another 8% to 10% of the products will also be brought down to 5%. A limited number of products will be excluded from tariff concessions based on the domestic sensitiveness of the respective countries.

UK rises to become India's largest investor

United Kingdom has surpassed all countries to become the biggest foreign investor in India. This was revealed recently in a report on investment flows by the Commonwealth Business Council, which promotes private sector opportunities in the developing world. The Director General of the CBC Dr. Mohan Kaul is a Member of the Board of the EICC. According to the report, UK's foreign direct investment in India last year – £560m ($1.1bn, €706m) – made it the third biggest, but when investments made by UK companies through Mauritius, the British Virgin Islands and Cyprus were included it outstripped the US as the leading investor with more than £8bn. However, many industrialists and politicians believe that the investment by British companies in India is far below India's potentials to receive British investment. According to the study, a large part of investments made by UK companies is routed through Mauritius or other tax-friendly jurisdictions such as Cyprus. Including these indirect investments will make the UK the top investor in India. More than 90 per cent of the UK's investment last year came from large companies. Vodafone made India's biggest foreign direct investment when the telecommunications group paid Hong Kong's Hutchison $11bn (€7bn, £5.5bn) for a 67 per cent stake in Hutchison Essar, India's third-largest mobile operator. During the past two years, the drive of Indian investments into the UK has been more eye-catching. Deals include the $14bn acquisition of Corus by Tata Steel, Tata's $2.3bn takeover of carmakers Jaguar and Land Rover, and United Breweries' purchase of whisky distiller Whyte & Mackay. However, the report was pessimistic about the trading relationship between India and the UK. India's growing demand for natural resources has seen the UK displaced by Saudi Arabia, Iran, Nigeria and Iraq in terms of exports. Last year, when the UK exported goods valued at £2.9bn to India, it slipped from 11th to 17th largest exporter.

No stopping India's IT industry - Infosys buys UK-based Axon in £400m deal

India's IT industry and more specially its IT services industry, is expected to continue to grow at a faster clip relative to others, notwithstanding the prospects of a global economic recession. In the largest acquisition by an Indian technology services Indian IT outsourcing Infosys is poised to buy UK-based consultancy Axon in a £407m cash deal. The takeover comes amid growing competition from overseas companies which outsource and support more than just SAP solutions, presenting a threat to niche companies such as Axon. After Tata's takeover of Corus, this deal is India's largest cash tech buy. The Infosys cash offer also provides Axon shareholders with a certainty they lacked because of the cyclical nature of the IT services industry company Axon, a partner of German software giant SAP, sells ERP implementation and consultancy services to multinational organizations. It has a strong presence in the United Kingdom, North America, Malaysia and Australia, and turned over an impressive £204m in 2007. According to Infosys, the acquisition will accelerate the achievement of some of the company's objectives, including the continued expansion of its consulting capabilities, which it sees as being key to growing its presence in western markets. Infosys is only one of many Indian companies that have recently been looking at Europe as a big investment opportunity. This acquisition will help the company to beat US slowdown. A lot of Indian companies are looking at Western Europe and this is Infosys's first acquisition and right now its focus is to make sure that this process goes through, before the company talks about where we go next. Axon which has 2,000 employees, reported revenue of £205 million and a profit after taxation of £20 million in the year ended December 31, 2007. The company's revenue is estimated to be growing at 42.7% year-on-year.

London wooing immigrants to offset effects of economic slowdown

Despite the rise of protectionism elsewhere, UK is aggressively wooing immigrants and inward investors to offset the effects of any impending slowdown. There's a feeling that many investors get in some other countries that the attitude is we want your investment, but we don't want your people. However, what makes London a success is its global mix of professional talent and the huge network that broadens skills and experience. We don't see ourselves ever reaching a situation of quotas and limits on work visas. According to Think London's research, FDI into London contributes GBP 52 billion to London's economy each year, represents 13% of all jobs, and employees of foreign-owned companies are more productive than local companies. India is right up there at the top of the list among investors that London's bosses want. Indian companies are ahead of their Chinese counterparts when it comes to the pace of globalization. According to the Think Tank, UK is seeing a surge of large and small businesses in a range of industries life sciences, pharma, manufacturing, restaurants, textiles, engineering and design, backed up by technology companies from India.

FDI flows from India are expected to reach $5 billion by 2010. And the British capital has its sights set on a big slice of that cake. Already, there is considerable Indian investment in London with more than 10,000 Indian-owned businesses generating a combined annual turnover of $14.4 billion. According to official data, London attracts more foreign direct investment from India than any other European city making India the second biggest source of FDI into London, after America. Think London, which coordinates foreign investment in the British capital, says that over the past three years it has provided support to more than 50 Indian companies, including big players like Wipro, HDFC, ICICI Bank, and Punjab National Bank. The creation of Touchdown London was prompted by the view that a “bespoke” service that would provide all investment-related ``solutions” under one roof was needed to attract more Indian investors before they were hijacked by London’s European competitors. The reason why London is going flat out to woo Indian businesses is obvious: the scent of the “new” Indian money. The forecast is that as more Indian companies prepare to internationalize their operations the FDI flows from India are expected to jump from the current $2.6 billion to $5 billion by 2010. And London has its sights set on a big slice of that cake. Indians retain their position as the second highest investor in London for 2007-08: 16 Indian companies created 842 new jobs, 13% of the total number of 6,152 new jobs created in 07-08, according to the annual review figures from Think London.

International investment court on the anvil?

In a move aimed at replacing the role of private arbitrators, the Society of International Law has proposed setting up of an international investment court to resolve sensitive disputes between governments and global investors related to foreign direct investment. Arbitrators have the power under international treaties to award very large amount of public money to foreign companies, money that could be spent on education, health, or other development programmes. The court would replace the role of private arbitrators under existing investment treaties which harms interests of developing countries. Many developing countries, including India, have been hit so far -- remember the Dhabol Power Company plant controversy, perhaps the largest FDI in India, a deal with US energy giant ENRON to buy power from the DPC plant in Maharashtra, that led to heavy losses of Maharashtra State Electricity Board. Arbitration is simply not appropriate for the resolution of these disputes in the public realm. The arbitrations are in some cases kept secret, so the people of the country are kept in the dark about how their governments have been disciplined by arbitrators. Arbitration under investment treaties is also structured to favour the investor interest. It does not satisfy basic principles of independence in public law. Only investors bring the claims under the treaties, so arbitrators may be suspected of deciding the law in favour of investors so as to encourage more claims, and make business for themselves.

For developing countries in particular, the liabilities can be serious. By 2006, for example, more than 30 claims were pending against Argentina for an estimated (US) $17 billion, amounting to nearly the entire annual budget of the national government. In 19 publicly-available decisions to 2006, investors were awarded an average of $90 million. All but three of these awards were against developing or transition countries. In 2003, the Czech Republic was ordered by an arbitration panel to pay $353 million to US cosmetics billionaire Ralph Lauder. This amount was equivalent to the country’s annual health care budget. Remarkably, Mr Lauder had lost an earlier claim heard by a separate panel, established under a US treaty with the Czech Republic, but still managed to recover compensation by winning a parallel claim (in relation to the same dispute) which he brought through a Dutch holding company, under a Dutch treaty. Consensual arbitration is broadly suitable as a means to settle disputes between companies or between states, but it is simply inadequate as a substitute for the public courts in the regulatory domain. The courts and only the courts should have the final authority to interpret the law that binds sovereign power and to stipulate the appropriate remedies for regulatory measures that lead to business loss. The creation of an international investment court of tenured judges to provide an open and accountable, and above all genuinely independent, system to resolve investment disputes in a global economy is a welcome step.

Tesco teeing with Tata to enter Indian market

Following the Wal-Mart-Bharti joint venture, UK's supermarket giant Tesco has announced its plan to enter into the retail sector of India. It has also announced its joint venture with Tata. Tesco plans to invest up to 60 million pounds in the first two years of the cash-and-carry venture. It is learnt that the new wholesale outlets, designed for the Indian market following local research, will carry the Tesco name and offer a range of fresh food, grocery and non-food products to small retailers, restaurants, kirana stores and other business owners. The outlets will also provide Indian farmers and other suppliers with a route to market. The first outlet is expected to open in Mumbai at the end of next year. Tesco is also entering into an exclusive franchise agreement with Trent, the retail arm of the Tata Group.

Under the terms of this deal, for which Tesco will receive an unquantified fee, Trent will draw on the group's expertise to support the development of its Star Bazaar hypermarket business. Tesco's wholesale business will also supply merchandise to Star Bazaar. Trent currently has four hypermarkets, with plans to grow to 50 stores over the next five years. Tesco already sources over 170 million pounds of Indian products each year, with sourcing offices in Delhi, Bangalore and Tirupur.

India's current laws on foreign investment prevent overseas players opening retail businesses. However, Tesco remains "very keen" on opening a retail business. If and when the law changes, Tesco's wholesale business and the agreement with the Tata Group is likely to give the supermarket giant a taste of Indian shopping habits, experience of the Indian market place and consumers. Tesco's entry into India follows its entry into the United States last November with its Fresh & Easy venture and a 958 million pounds acquisition in South Korea in May. Last month Tesco announced a major push into banking and other services with a 950 million pounds deal to buy out Royal Bank of Scotland Plc from their finance joint venture. Tesco currently operates 3,729 stores employing more than 440,000 people in 13 countries across the globe, including Hungary, Slovakia, Malaysia and Thailand.

India to acquire more foreign companies abroad

Indian entrepreneurs are set to acquire more companies abroad than foreign firms taking over companies in India, according to a study carried by the Emerging Markets International Acquisition Tracker. The study report by KPMG consultants released as part of EMIAT, shows that acquisitions by Indian firms will soon outnumber those inbound deals involving foreign firms snapping up Indian targets. The EMIAT, which tracks trade-buyer deals between emerging and developed economies on a six-monthly basis from the start of 2003, now shows 322 completed deals where Indian trade buyers have acquired companies in the major developed economies. With outbound deals now having outnumbered inbound deals for each of the last three six-month periods, India seemed well set to become a net “deal exporter” in the next EMIAT in 2009. It further says that this is testament to the growing power of the Indian corporate base at a time when everyone is talking about the global credit crunch, Indian trade buyers have simply continued doing what they've been doing for several years now. As acquirers, they are now serious players on the world scene. In sporting terms, there is strength in depth here too; this is not just about the headline acquisition by Indian titans such as Tata. This is about an ability to strike overseas deals filtering down throughout the Indian corporate scene.

Eight industry chambers in India delisted

The government of India has delisted eight industry chambers from issuing certificates that authenticate origin of goods to be exported as they failed to meet the eligibility criteria of Directorate General of Foreign Trade. DGFT is the nodal agency that authorises chambers of commerce and industry associations across the country to issue the Certificate of Origin (non-preferential), which evidences the origin of goods from a particular country. The agencies delisted are Indo Myanmar Chamber of Commerce and Industries, Mumbai, Morbi Chamber of Commerce and Industries, Gujarat, Indo Overseas Chamber of Commerce and Industry, Indore, Krishna Valley Chamber of Industries and Commerce, Maharashtra, Meghalaya Exim Chamber of Commerce and Meghalaya International Exporters Chamber of Commerce, Federation of Rajasthan Exporters Jaipur and Avadh Chamber of Commerce and Industry, Lucknow, a DGFT notice said. According to the guidelines laid down by DGFT, a chamber of commerce must fulfil a host of eligibility criteria, including conducting at least three export promotion activities in one licensing year. In a notice issued last year, the DGFT had said all agencies enlisted for issuing a Certificate of Origin (Non Preferential) must fulfil the criteria with documentary proof latest by March 31, 2008 or else their recognition as authorised agencies would be cancelled and they would be delisted.
