EUROPEAN COMPANIES IN INDIA

Reigniting Economic Growth

Foreign Direct Investment

Adith Charlie

EICC

Europe India Chamber of Commerce

ebtc

European Business and Technology Centre

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AIM OF THE STUDY

Bilateral relations between the European Union and India have evolved from aid to trade in the last two decades. We would go a step further and say that the EU and India are on course to become strategic partners. The proposed Bilateral Trade and Investment Agreement (BTIA), which has been in the works for several years, will further strengthen the relationship by entrenching it in sound institutional framework.

Research on the subject of European investments in India is important for policy-makers and social scientists given the present economic realities. Both the EU and India face strong economic headwinds. While investors in India are wading through what has been a tantalising period for doing business, the European Union has not fully recovered from the aftermath of the sovereign debt crisis. The current business environment in India has raised some difficult questions for policymakers and industry observers. Is India losing its place of prominence in the global order for Foreign Direct Investments (FDI)? Should European investors look beyond India due to the country's recent tryst with slow growth rates and policy uncertainty? This study aims to answer some of these questions while highlighting Europe Inc's economic contribution to India between 2004 and 2013.

Our study finds that European firms encounter myriad complexities in India but the smarter ones learn to stay focused on the mushrooming opportunities. Tactical Greenfield investments, landmark acquisitions and steadfast dedication through uncertain economic cycles have been the key ingredients to success. The Indian economy has greatly benefited in the process. FDI from the EU has boosted India's export competitiveness, generated employment, strengthened the skills base, enhanced technological capabilities and increased financial resources for development.

Official data from neither side is sufficient for comprehending the drivers and motives of this new investment boom. Our study, therefore, fills a major gap in EU-India FDI literature. We have measured the economic gains of European investments on India's commercial landscape within a 10-year timeframe.

The report contains concrete measures on how EU companies can make India a growth centre and avoid the common pitfalls of doing business in the country. We have also highlighted recommendations for Indian policymakers to encourage large dollops of FDI from the continent. Our booklet would serve as a comprehensive guide for information, statistics, analysis and trends pertaining to European investments.

The study required us to dip into an extensive body of relevant literature such as EU-India policy documents, structured databases and third-party research reports. Plus, we have developed our own dataset by deploying a two-step methodology that analyzes both the reality and perception of FDI from the major EU economies. The strength of our hypothesis was tested against the experiences of a cross-section of Country Managers who deal with the opportunities and challenges that this market presents every day.

To our knowledge, this is the first work of its kind at the pan-European level. We are confident that this report would provide usable perspectives, real-world anecdotes, and practical takeaways for companies and policymakers.

FOREWORD

It gives me great pleasure to present "European companies in India: Reigniting economic growth," a study report that underlines the role played by European multinational enterprises in India's economic development. The report is not a mere research paper, but a valuable resource on how companies can succeed in what is arguably one of the most exciting destinations to do business. I congratulate the teams at the Europe India Chamber of Commerce and the European Business & Technology Centre for putting together a comprehensive body of work that will serve as a solid knowledge tool for all stakeholders.

The EU has a strong and deep relationship with India. This is not only based on our shared historic association but also through shared core values of democracy, enterprise and collaboration. Over the years, we have always managed to effectively adapt our cooperation to the emerging challenges and changing demands of our times.

This report provides the right economic framework by highlighting the participation of European enterprises in fresh capital generation and employment creation. While striving to create a better understanding of European enterprises in the Indian context, the report provides an overview of some of the key trends and challenges that companies ought to be prepared for.

The sheer scale, diversity, and regulatory and tax complexity of India can be overwhelming for a foreign company. Companies have to be patient and committed to experience sustainable growth in the country over the longer term. In any new market, sound ground knowledge is important for success and this is predominantly true for companies venturing into India. Getting to grips with a continent-sized market, even approaching it one state or city at a time calls for meticulous planning. The suggestions and recommendations contained in this report will help the first time investor to understand the nuances of doing business in India.

The European Union is committed to strengthen EU/India trade relations and we are confident that the conclusion of the EU/India Broad-based Bilateral Trade and Investment agreement is possible in the near future. This free trade 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.

I am sure that both the EU and India can together achieve higher levels of excellence and sustain and expand the spirit of cooperation and partnership. I hope that the report will prove useful to a wide range of investors, businessmen and policy makers.

João Cravinho
Ambassador
European Union Delegation to India

TABLE OF CONTENTS

EXECUTIVE SUMMARY

European companies have invested $198 billion in India during the last ten years. This gives Europe Inc the distinction of being the largest inbound investor group in India. In the same period, companies from the US and Japan (two of the historically large FDI providers in India), put in $138 billion and $50.7 billion respectively. Thus, Europe Inc's investments during the review period are higher than the combined spend of Japanese and US firms.

Unlike their Indian counterparts, European companies have a higher proclivity for internationalising through Greenfield initiatives. Our study shows that about 60% of European FDI was channelised for setting up branch offices, units, subsidiaries and manufacturing plants. Despite the recent economic turmoil, these companies spent $118 billion on 2566 Greenfield projects.

European companies have spent $80 billion to acquire interests in 1442 companies. In comparison, Indian companies had spent $38 billion on mergers and acquisitions and $18 billion on Greenfield projects between 2003 and 2012.

FDI from Major EU Economies (2004-2013)

	Greenfield ($ billion)	Brownfield ($ billion)	Total ($ billion)	% of total
UK	37.3	33	70.3	35.5
Germany	22	12.47	34.47	17.4
France	17.95	3.69	21.64	10.92
Switzerland	7.04	5.2	12.24	6.18
Italy	5	1.54	6.54	3.3
Denmark	1.82	0.42	2.24	1.13
The Netherlands	4.99	2.82	7.81	3.94
Sweden	4.96	1.55	6.51	3.2
Belgium	1.7	1.7	3.4	1.7

Germany, UK & France

Investors from the European Union's (EU) largest economies- Germany, UK and France-collectively account for 64% of the continent's overall investments in India. The UK is the largest investor from the continent. British companies account for $70 billion or about 35.5% of the overall EU-India FDI piece. Strong cultural affinity, colonial links, the presence of a vibrant Indian Diaspora in the UK and overall comfort in dealing with English speaking executives give UK businesses an edge.

At $34.47 billion, Germany is the second largest EU investor. Over 15% of all European acquisitions and 18.5% of all European Greenfield spends have originated from Germany. France is the third largest and the fastest growing European investor in India.

French companies spent $21.64 billion, which is 10.92 per cent of overall EU investments, during the review period. French companies also have the distinction of funding the largest Greenfield projects in India. With an average project size of $59.3 million, projects originating in France are approximately 1.3 times larger than the average across all EU source countries.

Sectors / Mergers & Acquisitions

About 26 per cent of all inorganic transactions (volume wise) and 11 per cent of Greenfield FDI projects were seen in India's Business Services Sector. They include Professional services, Transportation, Real Estate, Healthcare, Pharmaceuticals and others. Many of these services are delivered from centres / units in India. European firms prefer to acquire or organically setup these centres and integrate them with their global network. This allows them to provide high volume services at low costs.

Around 15 per cent M&A transactions were observed in the Industrial Products segment (volume wise), thanks to the abundant supply of skilled workers and a strong domestic market. Within Industrial products, 40 per cent of the deals were observed in Automotives and Chemicals space. After China, India has become the second largest emerging country for Light Vehicle assembly. All the major original equipment manufacturers have production facilities in the country. The Auto and Auto Ancillaries industry is on track to receive more investments from European majors.

Value wise, the Technology, Media and Telecommunications segment (TMT) and the Energy, Utility, Mining and Infrastructure (EUMI) attracted $52 billion of capital, the equivalent of 65% in value terms of all M&A deals. Approximately 85% of all Europe to India M&A deals are less than $100 million and the average deal value was about $69 million for the 2004 -2013 period. While deal activity is undergoing a temporary slowdown, partly due to uncertainty over Parliamentary elections, it is expected to pick up going forward.

Employment Generation

Our study shows that EU companies collectively provide direct employment to 1.5 million and indirect employment to 6.3 million personnel. Of this, about 562,335 new jobs were created in the last 10 years alone through the Greenfield route. In comparison, US companies created 575,711 new jobs and Japanese companies created 225,184 new jobs through their respective Greenfield initiatives.

Germany, UK and France collectively account for 765,000 or 51 per cent of overall European direct employment creation in India. Swedish companies have created more jobs on a per Greenfield project basis. They have added 287 jobs with every project as against the European average of 219. While M&A deals do not necessarily result in the addition of new jobs, European companies are well know to preserve existing jobs in companies that are not doing well, post the acquisition.

Motives

The preferences of European companies are similar to that of any commercially motivated investor. The three most important reasons for investing in India are: Domestic market growth potential, proximity to markets or customers and skilled workforce availability.

A large slice of the Indian population is seeing a rapid shift from the low-middle classes to the upper middle class category. The ambition, passion and drive of India's youthful population is one of the main reasons for this demographic shift. Other factors such as healthy savings rate, rising rural incomes driven, pricing support for crops, improvements in literacy and quality of education, a culture of entrepreneurship and improvisation (Jugaad in local parlance), a proficient managerial class, a reasonably robust banking system and capital market, and an activist supreme court have aided this change. Even if a GDP growth rate of 6-7% were to be estimated, by 2030, the country will have the largest middle class population and consumption in the world.

European investors are also propelled by India's reputation as a low-cost but resourceful destination for technical services. The annual salary for an entry level engineer is $5,500 (at current exchange rates) and over 500,000 new engineers come into the job market every year. India has established itself as the world's backyard for business services.

Recommendations for EU Companies

India maybe a difficult place to conduct business, but there are umpteen success stories. The challenges seen in India are not unique to India alone. All developing countries exhibit similar demand characteristics and constraints. Successful companies learn from their India operations and treat the country as a laboratory for developing products, business models, talent, capabilities, and operating paradigms that could be replicated in other growth markets. If a company is able to manifest itself successfully in India, it can win everywhere else. We issue the following recommendations for European firms:

1) Adapt your product and services to the mass market and take a long term view of India
2) Commitment from the topmost level and empowerment of local management
3) Brace for lumpy cash flows
4) Build relationships
5) Forge a strong emotional connect with employees
6) Focus on India's potential, not the problems
7) Have a flexible notion of time
8) The best time to invest in India is during a slowdown--- NOW

Recommendations for Indian Policy Makers

Indian Policymakers are doing a remarkable job within stiff constraints. Like any form of international trade, European investments create winners and losers, thereby causing apprehension in certain quarters. Policymakers have to play a delicate balancing role to enhance India's FDI attractiveness while ensuring minimum disruption to the affected groups. Since, stable inflows are seen as an international affirmation of an economy's health, we issue the following recommendations:

1) Better co-ordination between the Centre and State ahead of crucial policy changes
2) Swift implementation of policy changes
3) Promote non-metro cities as pockets of excellence
4) Sort out contours of India's Intellectual Property Rights regime
5) Ensure efficacy of the rule of law by giving autonomy to vigilance agencies
6) Create an institutional mechanism for dispute resolution in infrastructure projects
7) Initiate reforms in trade facilitation and export promotion

1) INDIA'S EMERGENCE AS A FAVOURED DESTINATION FOR FDI

1.1) Introduction

A striking feature of 21st Century trade is that capital has become increasingly mobile, cutting across the boundaries of countries and continents. Economic globalisation has led to the surge in Foreign Direct Investment (FDI) flows especially to the developing world. This also coincides with the broader phenomenon of liberalisation. Several emerging countries have moved to market-oriented economies and aligned themselves with global economic standards.

FDI is a key element in international integration for it creates direct, stable and long-lasting links between the countries[2]. FDI is defined as cross-border investment by an entity from one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. FDI binds the two parties for the long term. In many cases, the investment is made to acquire lasting interest and control of the entity, with an implied influence on the management of the enterprise. A high percentage of equity ownership is considered to be associated with an effective voice.

Exhibit 1: Progressive Liberalisation of FDI in India

Pre- 1991	FDI was allowed selectively up to 40% under the Foreign Exchange Regulation Act (FERA)
1991	35 high priority industry groups were placed on the Automatic Route for FDI up to 51%
1997	Automatic Route expanded to 111 high priority industry groups up to 100%/ 74%/ 51%/50%
2000	All sectors placed on the Automatic Route for FDI except for a small negative list
Post 2000-12	Many new sectors opened to FDI; viz., Insurance (26%), Integrated townships (100%), mass Rapid transit systems (100%), Defence industry (26%), Tea plantations (100%), Print media (26%), Multi brand retail (x %) and Aviation (x %) Sector caps in many other sectors such as energy, biotechnology, water and ICT relaxed;
	Sector caps in many other sectors relaxed;
2013	Relaxations in 12 more sectors (see Exhibit 6)

Source: Department of Industrial Policy & Promotion, Government of India and news reports

Inward FDI complements local development efforts. It generates export competitiveness, creates employment, strengthens the skills base, enhances technological capabilities and increases financial resources for development[3]. It contributes to the welfare of both producers and consumers by incentivising the search for new markets and business models. It pushes firms to operate more efficiently across borders. FDI reduces prices of goods and services, lends itself to economies of scale and promotes specialisation.

The two growth poles of the world economy, China and India, have become centres for large sums of inward FDI. The Asian giants have effectively used foreign capital to push economic development and stimulate growth. Interestingly, a recent survey by Ernst & Young reveals that India has displaced China to become the most favoured market for cross border investments. About 72 countries prefer India ahead of China despite the former's grim economic situation.

India continues to be an attractive proposition as it offers growth through its rising young middle class, increasingly educated workforce, and is open to foreign investors. On the flip side, though more reforms have been announced recently, there are concerns about the implementation of reforms.[4]

FDI is undertaken in accordance with the Government's FDI policy and is governed by the provisions of the Foreign Exchange Management Act, 1999 (FEMA).

Many foreign investments can now be made via an automatic route without prior permission from the Foreign Investment Promotion Board (FIPB). However, there are exceptions for investments in specified sectors, such as Defence, Mining and Broadcasting among others. Prior approval is necessary for investments beyond permitted sector specific caps. A careful assessment of the regulatory framework is therefore important.

1.2) History of FDI in India

The advent of inward FDI can be traced back to the establishment of the East India Company by the British in 1600. While the Company was the first foreign investor to tread on Indian shores, the quantum of their investments cannot be ascertained because of the lack of authentic data. Thus, British companies were one of the earliest investors in India.

After the Second World War, Japanese companies began entering the domestic market and enhanced their connect with India. However, UK businesses continued to remain strongly entrenched.

Between 1947 and1991, India's FDI policy can be described as 'cautious' and 'selective'. Despite the first Prime Minister Jawaharlal Nehru's views that foreign investment is "necessary to supplement domestic capital and secure scientific, technical, and industrial knowledge", India was more inward looking[5].

Exhibit 2: FDI Inflows since 1991

FDI Inflows	In Rs Crore	In US Dollars
between 1991 and March 2013	60,605	1267 billion
Between 2000 April to June 2013	1,43,057	2993 billion
Total	2,03,662	4260 billion

Source: Department of Industrial Promotion & Policy, Government of India

Back then, global firms, who are the main carriers for FDI, were viewed with suspicion. Given the country's colonial history of over 200 years, the mandarins in New Delhi did not want to give a free run to those seen as Western agents with the ability of undermining the sovereignty of the nation state[6]. The dominant approach therefore was to 'monitor, restrict and regulate the activities of TNCs'[7], while protecting and promoting ingenious Indian industry. Foreign capital was perceived essentially as a means of acquiring scarce industrial technology through licensing agreements and capital goods import. The focus was more on technology imports with a clear lack of appetite for financial imports[8]. Even when there were external funding requirements, India preferred to rely more on bilateral and multilateral loans with long maturities.

Exhibit 3: FDI Share of Top Investing Countries (as of Dec 31, 2013)

S.No	Name of the Country	Amount of Foreign Direct Investment Inflows		%age with total FDI Inflows (+)
		(In Rs crore)	(In $ million)	
1	Mauritius	353,500.77	75,795.59	37.57
2	Singapore	103,592.32	21,833.80	10.82
3	United Kingdom	80,978.37	17,638.14	8.74
4	Japan	71,869.67	14,853.79	7.36
5	U.S.A	53,673.03	11,596.51	5.75
6	Netherlands	48,248.51	9,944.70	4.93
7	Cyprus	33,836.29	7,141.14	3.54
8	Germany	28,446.56	6,009.75	2.98
9	France	17,718.31	3,719.41	1.84
10	UAE	12,299.07	2,585.69	1.28
11	Switzerland	11,429.70	2,430.21	1.20
12	Spain	7,609.52	1,579.65	0.78
13	South Korea	6,025.76	1,267.24	0.63
14	Italy	5,507.66	1,229.09	0.61
15	Hong Kong	5,503.22	1,159.90	0.57

Source: Department of Industrial Promotion & Policy, Government of India

Thus, FDI was discouraged by (a) imposing severe limits and restricting equity holdings by foreigners and (b) restricting FDI to the production of only a few researched items[9].

Even for technology licensing agreements, restrictions on the rates of royalty payment and technical fees were put in place. The external financial needs for importing capital equipment were largely met by development banks[10].

However, the 1980s saw a phased relaxation of the foreign investment rules. At the forefront was Maruti, which joined hands with Japan's Suzuki Motors in 1982, for a small car joint venture. In the second half of the same decade, beverage giant Pepsi entered India to compete in the country's fast growing beverage market. This was in addition to exporting processed food products from Punjab.

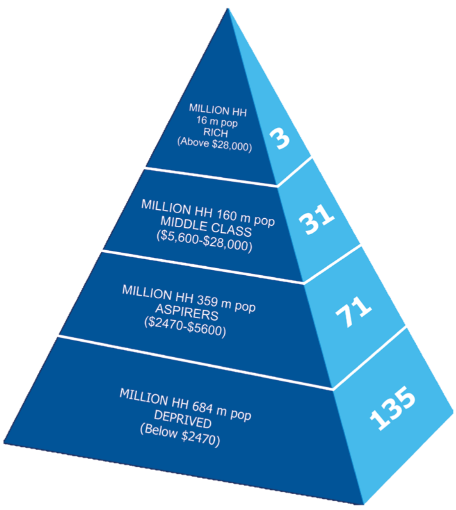
In the early 1990's, India was faced with a Balance of Payment (BoP) crisis. The Indian Government initiated a process of liberalization and structural adjustments to comply with the terms of a bailout deal from the International Monetary Fund (IMF). The reforms, namely industrial deregulation, trade liberalization, and relaxation of regulations governing FDI and foreign technology marked a clear departure from the planned economic structure that India had in place since 1947.

Thus 1991 onwards, a paradigm shift in the policy regime made sure that foreign investment regulations in India were adjusted. From July 1991 onwards, the Government introduced a couple of changes in the country's regulatory policies under policy package known as the Structural Adjustment Programme (SAP). The policy encompassed doing away with the registration requirements under the Monopolistic and Restrictive Trade Practises Act (MRTPA), lifting of the restrictions on the use of foreign brand names in the local market and removal of the general ceiling of 40% on foreign-held equity under Foreign Exchange Regulation Act (FERA)[11].

Other changes included: abandonment of the phased manufacturing programme; removal of the restrictions on FDI entry into low technology consumer goods, dilution of the dividend balancing condition and export obligations, liberalization of the terms for import of technology and royalty payments, permission to invest up to 24% in the equity of small scale units, reduction in tax rates and so on. Foreign investment need not necessarily be accompanied by foreign technology agreements under the new policy regime.

The results have been staggering. FDI inflows in India during mid-1948 stood at Rs 256 crore. Between mid-1948 to March 1990, India attracted FDI inflows worth Rs 5,384 crore. Post 1991, FII inflows have shown a gigantic pace of growth, first between 1991 and 2000 and then between 2000 and 2013. Since liberalization, India has managed to attract foreign capital worth Rs 926,942 crore or $1988 billion in the last 13 years.

Exhibit 4: Income Pyramid in India



HH: HOUSEHOLDS; POP: POPULATION; FIGURES: IN MILLION EXCEPT ANNUAL INCOME STRATA (IN US$); TOTAL HOUSEHOLDS: 240 MILLION

1.3) Why India?

In 1970, the GDP of India was only $63.5 billion. In 2013, the GDP of India stood at $2.13 trillion. India is now the third largest economy in the world as per the World Bank data for 2011. India averaged 8% annual GDP growth in the three years before the global financial crisis of 2008-09. "India Shining" has been the unofficial slogan for India since the turn of the 21st Century.

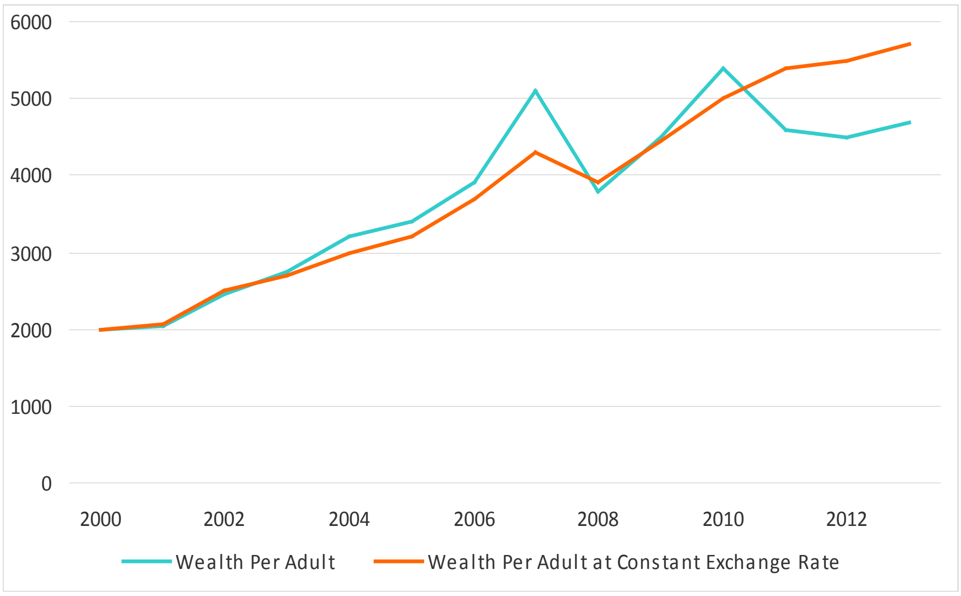
Increase in inward FDI is driven by several factors such as national policy changes, domestic and international macroeconomic and institutional factors as well as corporate business strategies. Census data for 2011 shows that India's youth bulge is now sharpest at the key 15-24 age group, even as its youngest and oldest age groups begin to narrow. Overall, India has 472 million people under the age of 18, and 49.91% of its population is under the age of 24. A quarter of India's 1.2 billion people constitute its rapidly expanding middle class. According to the McKinsey Global Institute, India's total household consumption is expected to multiply four times between 2005 and 2025. By its estimates, the country's middle class will be 583 million strong by 2025, making India the world's fifth-largest consumer market. Global brands and companies wish to woo this section of the Indian society as they are the ideal consumers for their products and services. The middle class is young, educated and savvy, making them potential employees for foreign companies.

1.4) Top Centres for Inward FDI

As seen in Exhibit 3, the tax havens of Mauritius and Singapore are preferred by most foreign companies to invest in India. Mauritius is used as a conduit for investing in India because of a 3% corporate tax on companies incorporated there. India has a Double Taxation Avoidance Treaty (DTAA) with Mauritius, under which capital gains can only be taxed in Mauritius. In addition to being a tax haven, Singapore invests its funds in Telecommunications, Services (usually offshoring), Power, Oil refinery, Food processing, Electrical equipment and Transportation.

As per certain estimates, 60% of inward Indian FDI deals are routed through tax havens---Mauritius, Singapore, Cyprus, Netherlands, Cayman Islands and others. There is a fear in government circles that some of these centres are being used to conceal identities of real investors, several of whom could actually be Indian residents.

Exhibit 5: Wealth per Adult in India



Source: Department of Industrial Promotion & Policy, Government of India

An analysis of FDI patterns shows 19% of FDI inflows came into the country's Service sector between 2000 and 2013. Service sector includes Finance, Banking, Insurance, Non-Financial Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. This was followed by Construction & Infrastructure development and Telecommunications at 11.2% and 6.48% respectively.

1.5) Role Played by the Diaspora

Indians have been travelling the world for centuries for reasons of mercantilism, colonialism and globalisation. Be it the Gujarati merchants who settled in East Africa, the Tamil Chettiars who lived in south-east Asia or indentured labourers picked from Bihar to work on plantations in the West Indies, Indians have been migrating to other countries for centuries. During the two World Wars, soldiers from colonial India fought for the British army.

This explains several early settlements in the United Kingdom, the United States and Canada. The Non-Resident Indians or NRI's were a post-independence addition to this long list of migrants.

The Indian Diaspora is the second largest in the world after China. Approximately 27 million Indians expatriates and People of Indian Origin (PIO) can be found across most countries. Over the last two decades, they have come to represent highly-skilled doctors, scientists, engineers, technocrats, finance professionals and entrepreneurs.

The Indian Diaspora is a materially prosperous community. For example, the median income of an Indian-American family income is $60,093 as against the US' national median income of $38,885. Diasporas and ethnic networks play a pivotal role in attracting FDI into the host economy. They help in deal making and match making by providing a cushion of trustworthiness to parties huddled in business for the first time.

The contribution of Indians to the 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). Several Indians, such as Kanwal Rehki (for smart Ethernet cards), Narinder Kapany (for research on fiber optic) and Vinod Dham (known as the father of the Pentium microprocessor) are known for their path-breaking contribution to technology innovation. From 1995 through 2005, 15 % of Silicon Valley startups were launched by Indians – the largest number for any immigrant group.

The contribution of the Indian Diaspora to FDI is between 10 and 15 per cent. One of the challenges for the Ministry of Overseas Indian Affairs is to raise FDI from the Diaspora to 30 per cent of the overall pie. New and creative mechanisms need to be found so that Diaspora entrepreneurship in India is boosted. Not only do they help in deal making and match making, but they also save time and money by providing a cushion of trustworthiness to parties locked in business for the first time.

1.6) Recent Challenges

In the last few years, the Indian economy has been in a huff. Growth went down to less than 5% in several quarters, as against 8-9% recorded in the previous decade. A 27% growth in industrial output was recorded compared with 40-47% in other big developing Asian economies. High inflation has prompted households to stash away more of their savings in physical assets rather than the financial system. India persistently faces a BoP problem because of low manufacturing exports. Currently India's borrowing has soared to uneasy levels and welfare spending in under pressure. India's food situation is dismal and its

Exhibit 6: Major liberalisation proposals of 2013[12]

Sector/Activity	Before the proposal	After the proposal

	% of FDI / Equity	Entry Route	% of FDI / Equity	Entry Route
Defense Sector	26%	Government Route	No Change	Higher limits of foreign investment in "state of-the-art" manufacturing would be considered by the CCS
Insurance Sector	26%	Automatic Route	49%	Automatic Route
Telecom Services	74%	Automatic up to 49% Government route beyond 49% and up to 74%	100%	Automatic up to 49% Government route beyond 49% and up to 100%
Tea Plantation	100%	Government Route	100%	Automatic up to 49% Government route beyond 49% and up to 100%
Asset Reconstruction Company	74% of paid-up capital of ARC (FDI+FII)	Government Route	100%	Automatic up to 49% Government route beyond 49% and up to 100%
Petroleum & Natural Gas	49%	Government Route	49%	Automatic Route
Commodity Exchanges	49% (FDI & FII) + [Investment by Registered FII under Portfolio Investment Scheme (PIS) will be limited to 23% and Investment under FDI Scheme limited to 26%]	Government Route (For FDI)	49%	Automatic Route
Power Exchanges	49% (FDI &FII) FDI limit of 26% and an FII limit of 23% of the paid up capital	Government Route (For FDI)	49%	Automatic Route

Stock Exchanges/ Clearing Corporations	49% (FDI &FII) FDI limit of 26% and an FII limit of 23% of the paid-up capital	Government Route (For FDI)	49%	Automatic Route
Credit Information Companies	49% (FDI & FII)	Government Route	74%	Automatic Route
Courier Services	100%	Government Route	100%	Automatic Route
Single Brand product retail trading	100%	Government Route	100%	Automatic up to 49% Government route beyond 49% and up to 100%

Source: www.mondaq.com

crumbling infrastructure calls for immediate action. Macro-economic challenges such as India's unsustainable Current Account Deficit (CAD) have compelled the Government to encourage FDI into prohibited sectors.

How did the growth process come undone? Several factors were at play. First, the growth process between 2003 and 2008 was not broad-based; it was based on the consumption expenditure of a small section of the population[13]. Second, a moderate supply shock earlier this decade (in the form of rapidly rising crude oil prices) had an adverse impact on growth and sent inflation climbing. The investment boom that followed, led to the creation of excess capacity in key sectors, thereby dragging growth. Fourth, many of those promised projects did not materialize due to the resistance of the people land acquisition related problems.

Lastly, the world's largest democracy is associated with corruption risks, high transaction costs and red tape. Existing legislation have failed to keep the country's endemic corruption in check. Eight high profile corruption scandals such as the 2G Spectrum scam, Coal block allocation scam, Chopper Scam, Railgate, Tatra Truck Scandal, Antrix Devas deal, Commonwealth Games scam, Adarsh Housing Society Scam came to light during the second tenure of the United Progressive Alliance (UPA) Government (2009-2014). These scandals have supposedly caused a loss of about $9500 billion to the exchequer.

Recent data on disposal of court cases are not available. But in 2008, more than 50,000 cases in the Supreme Court; more than four million in the high courts, and over 27.5 million cases in subordinate courts were awaiting disposal[14].

1.7) The way forward

The policy level lacunae can be attributed to a long regime. There is palpable optimism in business and economic circles that the next government would take swift actions to fast track the economy's engine.

Last year, the UPA administration unveiled a series of measures last year. In 2013, the government relaxed FDI norms in several sectors, including Telecom, Defence, PSU oil refineries, Power exchanges and Stock exchanges, among others. In retail, UK-based Tesco submitted its application to initially invest $110 million to start a supermarket chain in collaboration with Tata

Group's Trent. In civil aviation, Malaysia-based AirAsia and Singapore Airlines teamed up with Tata Group to launch two new airline services. Also, Abu Dhabi-based Etihad picked up a 24 per cent stake in Jet Airways that was worth over Rs 2,000 crore ($319.39 million). According to a United Nations report, FDI flows into India grew 17 per cent in 2013 to $28 billion despite unexpected capital outflows in the middle of the year.

In the last 12-18 months, India has regained some of its lost sheen, both socially and economically. The strength of the common man has once again been reinforced courtesy some of the recent events, such as the formation of a political party (Aam Admi Party) with the stated agenda of eliminating corruption and rep-tapism. The voice of the people will ultimately manifest in reforms. Stronger laws after a spate of crime against women are setting the context for an equitable society, thought it may take decades to realise that dream. The citizenry is taking its democratic responsibilities more seriously than ever. In the ongoing general elections, voting percentages were at an all-time high in almost all constituencies.

2) THE EUROPEAN UNION AND INDIA

India's tryst with Europe goes back a long way. Strong ties of a shared history, culture, trade and investment have shaped the Europe-India equation. India's tryst with Europe in the Middle Ages began on May 20, 1498, when Portuguese explorer Vasco Da Gama landed in Calicut (Kozhikode) through an all sea route. By 1502, the colonial era had begun in India with the Portuguese establishing the first European trading centre at Kollam, Kerala. In the next few decades, parts of India were colonised by the Dutch and French. In 1756, the 'British East India Company', a company chartered for trade with Asia, ventured into the country and went on to institute the Queen of Britain's rule for over two centuries. India's dense railway network, several historical buildings, its legal and educational systems are reminders of the colonial era. After becoming an independent nation state in 1947, India continued to maintain warm relations with London, Paris, Lisbon and more recently, Brussels.

India had its reservations with the formation of the European Economic Community (EEC) in the post-World War II era. It was seen by New Delhi as a 'convention between European countries with the sole aim of agreeing on preferential tariffs.'

Exhibit 7: EU-India "trade in goods" statistics

Trade in goods 2010-2012, € billion			
Year	EU imports	EU exports	Balance
2010	33.3	34.9	1.6
2011	39.6	40.6	0.9
2012	37.3	38.5	1.1

Source: Eurostat

Exhibit 7A: EU-India "trade in services" statistics

Trade in services 2010-2012, € billion			
Year	EU imports	EU exports	Balance
2010	9.1	10.8	1.7
2011	10.8	11.3	0.5
2012	11.0	11.5	0.5

Source: Eurostat

India was unable to comprehend the construction of Europe within a new institutional framework after World War 2. The European construction and its willingness to integrate 'from below' were alien to the first Government of the Indian Republic considering that India was constructed 'from above'. However, the initial suspicion gave way to egalitarian relations. Jawaharlal Nehru, the first Indian Prime Minister established a diplomatic mission in 1962 at Brussels[15].

In fact, India was among the first few countries to establish diplomatic relations with the erstwhile European Economic Community (EEC). Trade and commerce were the bedrock of India-EU relations up to the fall of the Soviet Union as evident by the first arrangement between India and the European Community signed in 1973[16]. By 1981, this was further developed to take the shape of the Agreement for Commercial and Economic Cooperation. The EU delegation to India was established in 1982. After the Maastricht Treaty, the EU entered into a broader political dialogue with India on the basis of the 1993 Joint Political Statement and the 1994 Co-operation Agreement.

Thus, the India-EU political partnership is embedded in a strong institutional architecture. The annual Summits (starting from 2000) and ministerial meetings are the most visible feature of the ongoing dialogues on trade, investments and political issues. Various Government officials meet regularly to discuss foreign policy issues such as security, counter-terrorism, human rights, migration and mobility, trade and development, science and technology and energy matters[17]. Hence, New Delhi has been on the same page with most European countries on several trade, investments and development issues.

The year 2004-05 was a landmark year 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, separate window was established under the Erasmus Mundus programme to provide scholarships to Master level students from India.

Yet, it must be articulated that India's engagement with the EU is determined on a case-by-case basis and there is a clear absence of a streamlined policy. India sees a clear dichotomy between the economic and political relationship with Europe. As some experts point out, the failure of several individual country leaders to project a pan-European identity at the best of times serves as a major deterrent. There is also a school of thought that EU does not consider India to be a strategic enough partner, a view that is vehemently rejected by its office bearers. The two economies do not agree on several global issues, such as climate change, future of Afghanistan post NATO withdrawal and the expansion of the United Nations Security Council.

The EU as a bloc of 28 countries is India's largest trading partner. Bilateral trade between India and the EU was valued at €75.8 billion during 2012 as compared to € 80.2 billion in 2011, representing a decline of 5.49%. India's overall exports (comprising of both goods and services) to the EU declined by 5.1% in 2012 to €37.3 billion as compared to € 39.3 billion in 2011. India's imports from the EU stood at €38.5 billion in 2012 as compared to € 40.4 billion in 2011, showing a decline of 4.7%. EU-India bilateral trade has the potential to clock $200 billion in the next 4-5 years, according to Joao Cravinho, Ambassador, Delegation of the EU to India[18]. Two-way trade is expected to touch €93 billion in 2014.

In a bid to further boost trade and investments, the EU and India have been negotiating a broad-based Free Trade Agreement (FTA) for several years now. The seeds of a High Level Trade Group (HLTG) were sown during the 2005 India-EU Summit. Different platforms were thought over during the brainstorming discussions by the HLTG. Following the deliberations, it was commonly agreed upon that stronger ties can become a reality only if tariff and non-tariff barriers are removed. It was finally recommended that a wider platform for expanded trade ties be inculcated through the negotiations of a Broad-based Trade and Investment Agreement (BTIA). The EU-India BTIA talks have since then discussed issues related to trade in goods and services, sanitary measures, intellectual property rights, technical barriers to trade, dispute settlement, customs and trade facilitation and procurement among others[19].

However, talks have been stuck as the EU is not satisfied with India's offers in opening up insurance, government procurement and market access for automobiles and wines and spirits. New Delhi, on the other hand, is insisting on more professional work visas and recognition as a data secure country to attract more off-shore business from Europe[20]. Although the EU had offered 40,000 additional professional visas for entry into the EU every year, a recently introduced caveat introduced empowers member countries to impose curbs once 20% of the number committed by an individual EU country is breached. Though 95% of the proposed BTIA has been agreed upon by both sides, all indications are that the trade pact may become a reality only by 2015 due to impending general elections in India and the change of Guard at the European Parliament.

3) EUROPE INC IN INDIA

EU enterprises account for half of all multinational corporations in India. Many companies see India as a key enabler for their long-term global growth and competitive advantage. Though several European MNC's have been functioning in India since the 1990's, they do not generate more than five per cent revenues from India. Hence, there is scope for companies scale up. Companies that have succeeded to make a mark in India focus on the "potential" and not the "problems". They make category re-shaping investments and entrench themselves deeper into India by sustaining their commitment through the ups and downs of the economy. In the process, they create new markets and novel product/services categories.

3.1) Motives

Traditional literature suggests that FDI decisions are taken for three main reasons:

Resource seeking, where the main aim of the enterprise is to acquire particular types of resources that are either unavailable at home (like natural resources or raw materials) or that are available at a lower price points[21] (such as skilled labour)

Market-seeking, is when an enterprise seeks to expand the buyer base for its products and services. Markets with high purchasing power and/or markets with enormous potential of driving sales volumes are identified for this purpose

Non-marketable asset seeking refers to assets that can be exploited only inside the country or in the "local" context. Enterprises benefit from better linkages with suppliers, technological spill-over effects and the ability to apply learning's from a foreign market to other foreign markets.

In the case of European investments in India, three distinct can be highlighted.

1. Domestic opportunity (Market Seeking)

India is seeing a rapid shift in the number of people migrating from the low-middle class to the upper middle class, and an even faster increase in the size of the upper middle class. The expansion of the niche 'super-rich' class, which is estimated to cover over 100,000 households with net worth of up to $1 million, is even more pronounced.[22] Even if a GDP growth of 6-7% were to be estimated, by 2030, the country will have the largest middle class population and consumption in the world. Realizing the scale and volume opportunity, since 1991, MNC's have been making a beeline to appease the Indian middle class. .

India is the jewel in the crown for several European corporations. Some of the best known European brands such as Unilever (Anglo-Dutch), Mercedes-Benz (German), Danone (France), Ferrero (Italian) are household names in India too. However, success in India is greater with earlier entry, greater control of entry mode and local leadership.

Exhibit 8: European Acquisitions in India

	Number of deals	% of Europe-India deals	Value ($)	% of Europe-India deals
UK	489	34	33	41.2
Germany	193	13.4	12.47	15.5
France	171	11.8	3.69	4.6
The Netherlands	124	8.6	2.82	3.5
Spain	61	4.2	2.09	2.6
Switzerland	97	6.7	5.2	6.5
Sweden	25	1.7	1.55	1.9
Others	282	19.5	19.18	24
Total	**1442**	100	**80 billion**	100

Source: Authors dataset constructed from multiple secondary sources of M&A databases such as Zephyr, Dealogic & KPMG

2. Offshoring and R&D sourcing (Resource Seeking)

Most multinational companies see India as a talent pool for offshoring knowledge work and a market that will boom somewhere down the road. The confidence is mainly derived from India's largest asset – its 1.2 billion people. Around 3.1 million graduates are added to the workforce each year. India is the largest English speaking market thanks to its colonial past. About 65 per cent of the worlds' offshoring work comes to India every year. Apart from the availability of talent, outsourcing to India has significant benefits of cost arbitrage.

For example, a good software developer in mainland Europe will charge anywhere between $50 to $80 an hour for full time work depending on skills and experience. In comparison, the hourly cost of a developer in India can be negotiated down to as low as $20 per hour, yet operating profit margins of over 20% could be gained. This translates into an important competitive advantage[23] for the client companies. Several Indian IT services companies such as Tata Consultancy Services, Infosys, Wipro and Cognizant grew exponentially at the turn of the century because of their focus on low-cost IT services delivered out of India. Inspired by this, several European IT vendors such as Capgemini (France), Atos (France), Steria (French), SQS (German) and others today employ anywhere between 4,000 and 45,000 staffers in India. Several engineering companies have setup offshore R&D centres due to some of the same reasons. In 2013 alone, Zurich Insurance, French carmaker Peugeot, German sealing technology provider EagleBurgmann, Numeca of Belgium and Dutch conglomerate Royal DSM established R&D centres in cities such as Bangalore and Pune.

3. A testing ground for other developing markets (non-marketable assets seeking)

The military term VUCA, which stands for Volatility, Uncertainty, Complexity and Ambiguity is very apt in the Indian context. As Ravi Venkatesan, Former Chairman of Microsoft India says in his book[24], another C for corruption could be added to the term, making it VUCCA. As the old saying goes, adversity breeds innovation and new capabilities. Both in its potential and challenges, India is an archetype of what emerging markets offer. The dynamics of doing business in fast growing democracies such as Russia, Indonesia, Brazil and India are very similar. A good example is Vodafone, which has perfected the art of making money in India despite e taxation tussles, regulatory burdens and the cut-throat competition in the mobile telephony market. The company is contesting two separate notices issued by the tax department — a Rs 20,000 crore case related to capital gains tax on its acquisition of Hutchison Whampoa's stake in Hutchison Essar and a Rs 3,700 crore transfer pricing dispute related to Vodafone India Services. In-spite of the headwinds, the company posted a 13% growth in so-called organic revenue for the December quarter as it added customers and gained from increased pricing for its voice service and strong data growth This was achieved in a market where a phone call costs $0.02 a minute and the average revenue per customer is $3. The company has successfully replicated this low cost model in several African and Asian markets[25].

Norwegian operator Telenor, too has had a bumpy ride in India. The Supreme Court in 2012 ordered the cancellation of the permits owned by its joint venture company Uninor following the 2G licensing scandal. To add to its woes, Telenor was also embroiled in a legal battle with its former partner, real estate firm Unitech, over partnership issues. The company then bought spectrum in six circles in the November 2012 auction. Telenor's troubles and tentative recovery have been a valuable learning experience for the company's operations in other Asian markets. For example, it had implemented a unique distribution-management system in India, one which tracks distribution, networks and consumer usage, given the infrastructure situation in the country. It has also developed a model to develop the profitability of each telecom tower, given that many of these towers are powered by diesel generator sets. This peculiar model, along with the distribution management system mentioned below is being exported to other Asian market.[26]

Unilever and Novartis have created new models of distribution to reach less affluent consumers in smaller cities, a template which is now being used in other emerging markets as well. As Venkatesan[27] says, India is a laboratory or petri dish for developing products, business models, talent, capabilities, and operating paradigms that help companies succeed in host of challenging markets.[1] This means a shift from the old paradigm where success MNC's would think global and act local. The new adage is quite the opposite; think local and take the model global.

Several European MNC's use India as a training ground for their future leaders. Success in India would enhance the credentials of any Country Manager. Companies such as Finish-handset maker Nokia use their manufacturing facilities in India to develop and exports products to other developing markets. In 2006, Nokia began exporting handsets from its plant near Chennai in South India to Singapore, Malaysia, Indonesia, Thailand and Vietnam.

Exhibit 10: Official FDI Flows between EU And India (2000-2012)

Year	Outflows from the EU to India (€ billion)	Outflows from India into the EU (€ billion)
2000	0.7	0.2
2001	0.4	0.1
2002	1.1	0.1
2003	0.8	0.6
2004	1.6	0
2005	2.5	0.5
2006	2.5	0.5
2007	4.6	1.2
2008	3.3	3.5

2009	3.5	1.2
2010	7.5	0.5
2011	14.2	1
2012	6	-0.7
Total	48.7	8.7

Source: Eurostat

3.2) Official Data & Our Dataset

Official data, culled out from Eurostat and the Reserve Bank of India, shows that Europe's total outward FDI stock is much higher compared to Indian direct investments into Europe.

RBI data shows that seven European states are present in the top-15 list of FDI players in India between April 2000 and August 2013. They are United Kingdom, Netherlands, Cyprus, Germany, France, Switzerland, Spain and Italy.

The Eurostat dataset pertaining to EU's overseas investments illustrate that outflows to India grew almost 10 times between 2000 and 2012. It touched an all-time high of €14.2 billion in 2011. In 2008, for the first time India's FDI outflows to the EU were higher than inflows. In 2012, FDI inflows to India almost halved due to the slow economic growth, policy paralysis and the spate of government scams that dented India's reputation globally. Yet, the average annual level of European FDI into India over the last 5 years (2007-12) has been €6.6 billion. The EU has been the biggest investor in India with a cumulative volume of about €48.7 billion since 2000.

Data from Eurostat and the RBI are important sources of primary information as it clearly articulates the progressive trend. However, this data has structural limitations and hence may not be entirely reliable. Firstly, there is significant divergence between the RBI and Eurostat data since both agencies use different methodologies for FDI calculations. For instance, India does not include earnings data of indirectly held FDI enterprises, while Eurostat data takes these numbers into consideration.[28] RBI feeds on data obtained from exchange control records. Data on non-cash inflows and retained earnings is taken from Survey of Foreign Assets and Liabilities. Other researchers suggest that differences between their aggregate FDI statistics arise due to the timing of revisions.

Secondly, the data collected by government agencies come with a significant time gap. At the time of writing this report (March 2014), comprehensive FDI data was available only till 2012, a lag of almost two years. Thirdly, 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. Many of these subsidiaries are based in international financial centres such as Mauritius, Netherlands, Singapore, Cyprus Cayman Islands and others. These tax havens allow the following benefits: no capital gains tax, no withholding tax, no capital duty on issued capital, confidentiality of information, no exchange controls and free repatriation of profits and capital. As per informal estimates, over half of the FDI flows into India come through this route. State agencies seldom track this data under EU-India FDI. For Eg: The island of Mauritius is confirmed, with a share of 38% of the total, the largest investor country in India, followed by Singapore and the UK (with shares close to the 10%).

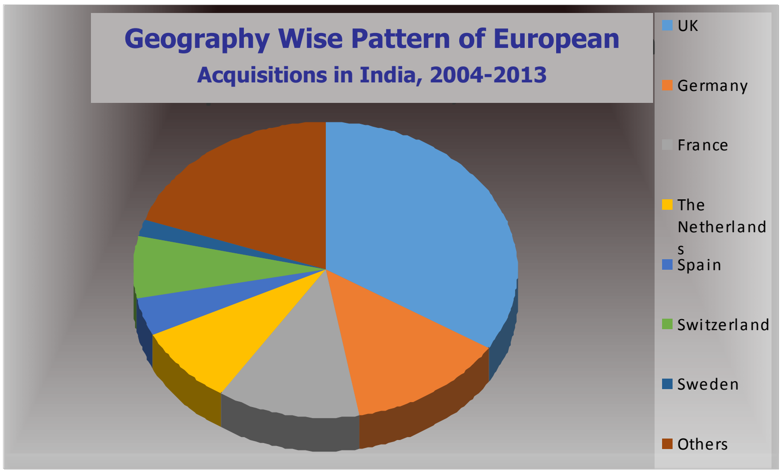
Exhibit 11: Country / region wise corporate investments in India (2004-2013)

Year	Greenfield	Brownfield	Total
US	$87 billion	$54.83 billion	$142 billion
Japan	$39.18 billion	$11.69 billion	$50.87 billion
Europe	$118 billion	$80 billion	$98 billion

Source: fDi Intelligence from The Financial Times / Authors calculation

For example, the Republic of Cyprus has invested about $7.14 billion in India over a 13 year period, quite remarkable for an economy with GDP of $25 billion. Cyprus, a well regulated EU member state which is also on the OECD white list, is a tax haven that conforms to the EU law and the EU code of conduct[29]. In addition, its existing double tax treaty with India provides comfort to foreign investors to set up their business in Cyprus and carry out their investments into India from Cyprus.

Exhibit 11:



Source: Authors dataset

Hence, we have compiled an archival database which is exhaustive, up-to-date and paints the real picture. This exhaustive dataset looks at the last 10 years (2004-2013) alone and has been constructed by dwelling into multiple sources such as Thomson Reuter's database, Zephyr Database, KPMG Emerging Markets Acquisition Tracker, FDI Intelligence and other. We have also taken the help of investment promotion agencies, High-Commissions, Chambers of trade and newspaper reports to verify our numbers.

There are two common routes for firms to internationalize- Greenfield and Brownfield. When a company sets up its de-novo subsidiaries, affiliates, factories or delivery centres in the target market, the phenomena is termed as Greenfield investment. The alternative is Brownfield investments in which the company enters the market through an acquisition, joint venture or majority-participation in the local firm.

3.3) Overall Spend

Our dataset shows that European companies have invested $198 billion in India between 2004 and 2013. During this period, European investors financed 2566 Greenfield projects and acquired interests in 1442 companies. Of this, $118 billion was spent on Greenfield investments while $80 billion was spent on acquisitions and joint ventures. Three of the EU's largest economies Germany, UK and France collectively make up for 64% or $126.4 billion of the continent's investments in India. UK continues to be the largest investor in India with companies from the region accounting for $70 billion or over 35% of overall EU-India corporate investments. A host of factors, ranging from cultural affinities, colonial links, strong Indian diaspora and the overall comfort factor in conducting business in an Anglophone setting gives UK an edge over its rivals in India. Germany is the second as 16.7% of all European acquisitions and 18.5% of all European Greenfield spends coming from the country. German investors play true to their strengths as seen by their explicit preference for sectors such as automobiles, services and chemicals in India. With a 10-year spend of $21.7 billion, France is the third largest and probably the fastest growing European investor in the country.

Exhibit 12: Headline FDI trends by Year

Year	Number of projects	% growth per annum	Jobs created		Capital investment	
			Total	Average	Total (USD m)	Average (USD m)
2013	148	n/a	24,102	162	5,356.20	36.20
2012	239	n/a	39,375	164	8,518.80	35.60
2011	317	21	58,420	184	10,424.30	32.90
2010	262	n/a	55,818	213	13,749.50	52.50
2009	292	n/a	46,867	160	17,008.90	58.20
2008	358	33.6	85,713	239	17,419.80	48.70
2007	268	n/a	71,630	267	15,293.40	57.10
2006	339	127.5	103,400	305	17,094.60	50.40
2005	149	n/a	39,649	266	8,067.70	54.10
2004	194	n/a	37,251	192	5,855.00	30.20
Total	**2,566**	**n/a**	**562,225**	**219**	**118,788.10**	**46.30**

Source: fDi Intelligence from The Financial Times Ltd

There are four dominant ways in which overseas acquisitions can affect the competitive strength of a European company. 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, European 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.

Approximately 85% of all Europe to India deals are less than $100 million and the average deal value was about $69 million for the period of 2004 to 2013. Multibillion deals such as Vodafone's acquisition of successive stakes in Hutchison Essar, for $11 billion in 2007 and $5 billion in 2007, and BP's $7.2 billion investment into Reliance Industries, Vedanta's purchase of Cairn's Indian assets for $6 billion in 2010, all testify to India's reputation in the M&A arena.

In comparison, European acquisitions of stakes in mainland Chinese companies totaled just over $54 billion during the same period. While both countries offer the advantages of large, lower cost labour pools, India has an illustrious history of entrepreneurship and its private sector is more developed in almost all sectors except manufacturing. English is also more widely spoken in India than in China, making it easier for European investors to approach and develop relationships with Indian targets. Moreover, Indian regulations are less cumbersome to deal with especially for large deals.

UK leads the pack with M&A deals worth $33 billion and 489 transactions. UK-India deals constitute 34% of overall EU-India deal volumes and 41% of overall EU-India deal values.

When it comes to stake sizes, European companies do not have a marked preference. Around 32% of all deals since 2006 have been for stakes of more than 75% but another 31% of deals were for stakes of less than 50%. The latter statistic portrays the emotional attachment that India's entrepreneurial private sector players have to their business and their reluctance to completely sell out.

Since the country's growth has slowed down, some entrepreneurs may prefer to wait before selling a majority stake.

There were just 41 deals between EU and India in 2013 compared with 63 deals in 2012, according to data compiled by investment banking firm Avendus. Inbound deals into India account for about 75 per cent of the transactions. The total deal value was lower as well last year at $1.6 billion compared with $4.5 billion in the previous year. While Indian deal activity is undergoing a temporary slowdown, partly due to uncertainty over forthcoming political elections, India remains an important international destination for M&A.

Exhibit 13: FDI trends by sector (2004-2013)

Sector	No of projects	Jobs Created		Capital investment	
		Total	Average	Total (USD m)	Average (USD m)
Business Services	289	46,661	161	3,450.40	11.90
Industrial Machinery, Equipment & Tools	258	36,774	142	4,202.70	16.30
Software & IT services	209	39,200	187	2,577.10	12.30
Transportation	154	10,614	68	6,853.00	44.50
Financial Services	153	30,767	201	6,493.90	42.40
Textiles	152	51,087	336	2,296.60	15.10
Automotive Components	132	28,617	216	3,773.70	28.60
Consumer Products	106	33,840	319	6,979.10	65.80
Electronic Components	105	20,252	192	3,268.00	31.10
Communications	98	21,733	221	7,488.90	76.40
Other sectors	910	242,680	266	71,404.70	78.50
Total	**2,566**	**562,225**	**219**	**118,788.10**	**46.30**

Source: fDi Intelligence from The Financial Times Ltd

For the purpose of this study, even a minor stake sale in an Indian company is included under the acquisitions / joint venture category.

The study shows that Greenfield operations / own office is the preferred mode of market entry for over half of the investors. European investors prefer to first test the market through small Greenfield ventures before spreading themselves through expansion and M&A activity. This shows their commitment to scale up and grow with the market.

Our evaluation of the reality of Greenfield FDI from Europe is based on the fDi Markets database. The fDi Markets database tracks new Greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical operation. M&A and other equity investments are not tracked. There is no minimum size that a project must reach in order to be included. However, every project has to create new jobs directly. The fDi Markets database is probably the only online database that covers cross-border Greenfield projects covering all sectors and countries.

Exhibit 14: FDI Trends by Source Country (2004-2013)

Source country	No of projects	No of companies	Jobs Created		Capital investment	
			Total	Average	Total (USD m)	Average (USD m)
UK	683	431	150,467	220	37,311.10	54.60
Germany	564	327	135,600	240	22,026.00	39.10
France	303	164	83,950	277	17,957.80	59.30
Switzerland	165	112	38,799	235	7,048.80	42.70
Italy	144	102	27,159	188	5,017.30	34.80
Netherlands	127	81	20,436	160	4,996.20	39.30
Spain	123	100	18,209	148	3,762.60	30.60
Sweden	98	56	28,198	287	4,963.10	50.60
Finland	80	43	19,977	249	2,914.00	36.40
Denmark	68	44	7,770	114	1,820.90	26.80
Other source countries	211	121	31,660	150	10,970.50	52.00
Total	**2,566**	**1,573**	**562,225**	**219**	**118,788.10**	**46.30**

Source: fDi Intelligence from The Financial Times Ltd

The database shows that European FDI projects peaked in 2008, a year where a total of 14% projects were reviewed. During this period, a total of 85,713 jobs were created and $17.42 billion capital was channelized for this projects.

The attractiveness of selling to the domestic market was the top motive cited by companies for 66.8% of projects. This was followed by proximity to markets or customers and skilled workforce availability at 23.1% and 15.4%, respectively.

The top 10% of investors have created a total of 1,003 projects which amounts to 39% of all total projects. These investors have created a combined total of 270,114 jobs, which equates to almost half of the overall total.

Out of a total of 39 sectors, Business Services (software writing, back office, R&D services) accounted for 11.3% of projects. Project volume in this sector peaked during 2011 as 50 projects tracked. About 46,661 new jobs were created in this sector even as $3.45 billion was spent by European investors.

With an average project size of $59.3 million, projects originating in France are approximately 1.3 times larger than the average across all source countries. French companies invested $18 billion and created a total of 83,950 jobs.

Out of 189 destination cities, the top five account for almost half of projects. Mumbai is the most preferred destination city and it accounts for more than one-eighth of projects tracked. Total investment of $8.8 billion into Mumbai resulted in the creation of 42,913 jobs.

3.4) Benefits of European Investments in India

Given India's fiscal situation, external capital infusion is the need of the hour. To that extent, the rising footprint of European FDI is a positive indicator. Higher spend on greenfield augurs well for India's FDI scenario which is otherwise dominated by the M&A scene. While M&A's are an important component of FDI, it does not necessarily imply infusion of fresh capital in the country, especially if the transaction is structured using re-invested earnings and intra company loans. M&A is an adjustment to the market's present firms in an industry, while Greenfield Investments add the new supply to the market. Positive externalities derived from Greenfield FDI inflows such as technology development and skill transfer to local workforce may be absent in the case of M&A activity.

Our study shows that the major EU countries today provide direct employment to 1.5 million Indians against a few hundred thousands in the late 90's. We believe that there is a huge multiplier affect as a result of which about 6.3 million indirect jobs are created through European corporate participation.

UK, Germany and France take the lead, collectively accounting for 765,000 or 51 per cent of overall European direct employment creation in India. UK itself accounts for about 325,000 jobs. Swedish companies have created more jobs on a per Greenfield project basis. They have added 287 jobs with every project as against the European average of 219. Swedish companies today employ around 100,000 staffers. Companies from Belgium, Spain and Switzerland have created 16,000, 45,000 and 80,500 jobs (approximate) respectively. Companies from Denmark & Italy have created 45,000 and 58,000 (approximate) jobs respectively.

A private study by FDI Markets shows that 562,335 new jobs were created by EU companies in the last 10 years alone through the greenfield route. In comparison, US companies created 575,711 new jobs and Japanese companies created 225,184 new jobs through the greenfield route.

With M&A activities, it is difficult to determine whether M&A activity can create new employment opportunities. New jobs may be created through up selling, cross-selling and new product development opportunities if the acquired company has a complimentary business model. In the absence of complementarities, the employee base can shrink. Such a scenario may happen if the acquirer embarks on a restructuring exercise or decides to merge the acquired entity with itself. However, our dataset shows that EU companies can preserve jobs in firms that are on the brink of shutdown, and add new jobs once the troubled firm has been stabilised. One of the strong drivers for acquiring Indian companies is the people capital that comes with it. Very few countries in the world can give companies access to quality talent at price points offered in India. This is especially true in sectors such as information technology, back office and R&D. Hence, lay-offs are generally uncommon.

There is a positive co-relation between FDI and an economy's competitiveness. From a macro-economic perspective, the entry of a foreign firm increases average productivity in an industry as it stirs up competition. Price points come down for the customer who then has more offerings to choose from. Inefficient firms are either forced to exit, sell out or become more spirited themselves. The pressures thus exerted compel domestic producers and service providers to become more efficient as manifested by the increased availability of lower-priced and higher-quality products. This in turn has a positive bearing on the economy, making it more agile and export oriented. In contrast, domestic firms tend to be less productive if they are operating in a regulated sector with little or no foreign presence.

Technology flows from the advanced to the developing countries, through the reverse has also been happening. One of the main rationales for the special treatment given to foreign investors stems from the belief that FDI generates externalities in the form of technology transfer.

Greater investment interest from European companies increases the notional value for assets and thus raises prices for Indian sellers. European 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 a European party enters the bidding fray for acquiring a company.

3.5) PREFERRED/POTENTIAL SECTORS

About 26 per cent of all inorganic transactions (volume wise) and 11 per cent of FDI projects have happened in India's business services sector. This includes Professional services, Transportation, Real Estate, Healthcare, Pharmaceuticals and others. Most of these services are delivered from centres/factories in India. European firms prefer to acquire or organically setup these centres so that they integrate them with their global network and share best practises. This allows them to provide high volume services at low costs.

Around 15 per cent M&A transactions happened in the Industrial Products segment (volume wise), thanks to the abundant supply of skilled workers and a strong domestic market. Within Industrial products, 40 per cent of all deals have happened in Automotives and Chemicals space. After China, India has become the second largest emerging country for Light Vehicle assembly. All the major original equipment manufacturers have production facilities in the subcontinent. The Auto and Auto Ancillaries industry is on track to receive more investments from European majors.

Value wise, the Technology, Media and Telecommunications segment (TMT) and the Energy, Utility, Mining and Infrastructure (EUMI) attracted $52 billion of capital, the equivalent of 65% of all M&A deals. Approximately 85% of all Europe to India M&A deals are less than $100 million and the average deal value was about $69 million for the 2004 -2013 period. While deal activity is undergoing a temporary slowdown, partly due to uncertainty over forthcoming political elections, India remains an important international destination for M&A.

The recent round of relaxations in FDI norms have opened up untapped opportunities in hitherto untapped sectors. There are significant value creation possibilities across sectors such as education, energy, food processing, life sciences, advanced engineering and infrastructure. We have picked up three sectors for deeper analysis:

1) EDUCATION:

Background: The education space in the country is evolving and has led to the emergence of new niche sectors such as vocational training, finishing schools, child-skill enhancement and e-learning, among others. The Indian higher education system is the one of the largest in the world with over 600 universities and university-level institutions and more than 33,000 institutes. The sector can be divided into two broad parts, namely the regulated and the unregulated ones. The regulatory framework is provided by multiple agencies, namely, the University Grants Commission (governs universities), All India Council for Technical Education (governs technical education) and specialised agencies such as Medical Council of India, Dental Council of India, Bar Council of India and others.

Demand: Education in the country is perceived as a long-term investment and finances are planned years in advance. Parents pull out all stops to ensure that their wards do not compromise on education. There is particular impetus on securing a seat in top-rated institutions.

With an estimated 150 million people in the age group of 18-23 years, the sector offers one of the most attractive yet highly complex market for the private/foreign players. A potential growth rate of 16% is expected over the next 5 years as the government has set an ambitious target of doubling the gross enrolment ratio (GER) in higher education to 30% by 2020 from 15% in 2012.

At 15 million, India has the distinction of the third highest number of students behind the US and China in higher education. However, the demand is higher than the supply, prompting several bright students to venture overseas. According to a 2012 study conducted by researchers at the Indian Institute of Management, students going overseas to study rose by 256% – from 53,266 to 189,629 – in the nine years leading up to 2009. Another study conducted by the Associated Chamber of Commerce and Industry of India (ASSOCHAM) estimates that the Indian economy annual losses $13 billion annually because of students that study overseas.

India needs another 800 universities by 2020 to address the educational needs of 45 million students. This demand simply cannot be met by indigenous varsities alone. In the years leading up-to 2013, the total FDI in education was Rs 2,051 crore. The yearly average of Rs 186 crore is just one-tenth of what centre and state governments annually spend in this sector.

Several foreign universities have been keen to tap India's Rs.46,200 crore higher education market but have been constrained by the need to do so through partnership with local institutions .

FDI: In order to address this bottleneck, the UPA government had mooted the Foreign Educational Institutions (Regulation of Entry and Operations) Bill, 2010. The Bill proposes to allow foreign education providers to set up campuses in India and offer degrees and diploma programmes. However, it has been pending in Parliament for about four years due to stiff opposition from educationists and political parties. However, recent developments have been welcome. In September 2013, the government decided to allow foreign universities to function in the country as companies under Section 25 of the Companies Act. This means they can operate with independence, set up campuses and offer degrees without having a local partner. This provides a perfect back door entry for foreign universities since the approval is not needed.

Our suggestion: It's a good time for European universities to setup shop in India. As the Indian rupee has lost significant ground vis-à-vis the US Dollars/Pound Sterling/Euro in the last 12 months, studying abroad has become more expensive. Hence, the EU University should identify a major Indian city for its campus. The course should be designed in such a way that at-least one term be completed at the parent university's campus in London, Paris, Brussels or any European city. Entry of foreign universities would not only intensify the competition, but also provide an international platform to the Indian students. According to 'Indian Higher Education - Real Estate's New Emerging Sector', a study by DTZ, the Indian higher education sector needs 5,550 million sq ft of additional educational space (excluding support services like hostel, cafeteria, recreational facilities) to meet the Government of India's 30 per cent Gross Enrolment Ratio (GER) in higher education target by 2020. Thus, even European real estate companies will have a significant play in India.

2) ENERGY

Background: As India's economy flourished, the demand for energy has risen by more than 70 percent. India is set to become the world's third largest energy consumer by 2020. It has set an ambitious capacity addition target of 118.5 gigawatt (GW). The Asian Development Bank forecasts that $2.3 trillion investment is needed to close the power deficit in the energy sector. Given the growth in automobiles, power, and fertilizers, about 45 per cent of the country's energy consumption is met by the oil & gas industry.

However, the surge in demand for hydrocarbons has not proportionately translated to growth of domestic exploration and production (E&P) in the oil and gas industry. India, the world's fourth-biggest importer of fuel fuel, is beset by energy shortages that fetter industrial growth.

A case-in-point is the 11th five-year plan, in which India committed to produce 206.8 million tonnes (MT) of crude oil. However, the actual production was 176.9 MT, equating to an incremental import burden of over $20 billion at current international prices.

Demand: Opportunities exist across different areas such as coal based thermal power, oil & gas, nuclear and renewable energy. About $45 billion is expected to be spent in India's oil & gas sector in the next few years. Only half of the country's potential basins have been explored, and large blocks offshore remain untested, especially in deep water. India's total hydrocarbon reserves are estimated to be around 2 BMTOE (Billion Metric tonne of Oil Equivalent). With the current oil production level of around 815,000 barrels per day, on estimated reserves of 1.2 BMT (Billion Metric Tonne), the reserves-to-production ratio is 25 years. The potential for gas seems brighter. The current production level of around 40 BCM (billion cubic meters) per year on an estimated reserves base of around 1,500 BCM translates to a reserves-to-production ratio of more than 30 years. Under the government's new exploration policy of 1997-98, 247 blocks have been awarded so far but only 16 of those have been developed.

FDI: In the last decade, India took important steps toward ensuring energy security. For instance, the New Exploration Licensing Policy (NELP) was designed to attract new activity in oil and gas exploration. The government has allowed 100 percent foreign direct investment (FDI) in the upstream sector.

Our suggestion: Under the 10th round of the New Exploration Licensing Policy (NELP), 56 new oil and gas blocks will be put on block. European energy majors can leverage these opportunities even though there are bureaucratic hurdles and a perceived lack of clarity in policy. It's a good time to invest in India's renewable energy sector. The government has set up a cross country green corridor for renewable energy with a proposed investment of Rs 42,000 crore over a 5 year period. The investment is aimed at achieving 40 GW of renewable energy capacity by 2030

3) FOOD PROCESSING

Background: India is the world's second largest producer of food after China. The food processing industry is one of the largest industries in the country and is ranked fifth in terms of production, consumption, exports and expected growth. The sector has been fueled by the expanding middle class and large disposable incomes. Two nodal agencies, Agricultural & Processed food products Export Development Authority (APEDA) and Marine Products Export Development Authority (MPEDA), promote exports from India. MPEDA is responsible for overseeing all fish and fishery product exports. APEDA, on the other hand, holds responsibility for the exports of other processed food products.

Demand: The Confederation of Indian Industry (CII) has estimated that the food processing sector has the potential of attracting $33 billion in investments over a 10 year period. The sector is expected to generate employment of 9 million person days in this period. According to a study by industry body Assocham, farmers in the Northern state of Uttar Pradesh incur losses of almost Rs 10,000 crore annually due to the lack of proper post-harvest farm technologies. The situation is not very different in the rural pockets of other states. Food processing by-products are sources of valuable ingredients that could be exploited for producing new food products and feeds. Ultimately, new market opportunities could be created for the food sector in both the EU and India. This would also satisfy growing consumer demand for 'simple and ready-to-eat' foods that have improved nutritive value, novel shapes and flavours, colour and texture.

FDI: FDI of up to 100 per cent equity is permitted under the automatic route in food and infrastructure like food parks and cold chains. Untapped avenues for investments include mega food parks, agri-infrastructure, supply chain aggregation, logistics and cold chain infrastructure, fruit and vegetable products, animal products, meat and dairy, fisheries and seafood cereals, consumer foods/ready to eat foods, wine and beer and machinery/packaging. For manufacturing items reserved for SMEs, up to 24 per cent FDI is permitted under the automatic route. If the foreign investment is more than 24 per cent, the government route has to be taken. FDI of around $1 billion has already been approved in India's food processing industry since 1991. The Government of India has set a target of achieving FDI inflows of $25.07 billion by 2015 in this sector. If it is achieved, India's global food trade will rise to 3 percent from 1.6 per cent. Multinational food processing companies invested $2.14 billion in India between April and October of 2013, the highest in over a decade, accounting for about 17% of the overall foreign direct investment (FDI) during that period in the country. Foreign investment in food processing companies was $401 million in 2012-13.

In 2013, Hindustan Unilever, PepsiCo, Cadbury (Mondelez International) and Nestlé announced substantial investments for this sector. PepsiCo said it would invest $5.5 billion in India by 2020, while Cadbury would spend almost $160 million in the next few years.

Our Suggestion: Despite the lack of sufficient infrastructure such as cold chains, packaging centres and modern abattoirs, the Indian food sector is undergoing a major transformation-all the way from the 'plough to the plate'. Demand for convenience food is on the rise. The country's low-cost workforce can be effectively utilised for setting up large, economical production bases for domestic and export markets. A plethora of opportunities exist for companies in developing dairy farms, setting up private veterinary clinics and livestock marketing and management.

4) KEY COUNTRIES AND INDIA

4.1) THE UNITED KINGDOM

The United Kingdom (UK) has a strong and deep relationship with India. The continuing close links have resulted in shared values, a common business language and inherited legal and accounting principles. Some British companies are among the earliest investors in India from the colonial era. Lubricants maker Castrol is the oldest surviving British company in the country. Its founder Charles Cheers Wakefield decided to launch the company's first offshore operation in India barely a year after incorporating the firm.

After India's independence in 1947, British companies continued operating and expanding in India. Today the UK is the 3rd largest inward investor in India, after Mauritius and Singapore. For UK companies – big and small – a host of features enhance India's appeal: an Anglophone market that is familiar with UK's products and services, a rapidly emerging middle class, and strong demand in a number of key industries. Some of the most successful European companies in India are from the UK. Telecommunications major Vodafone, oil & gas company BP and construction equipment provider JCB are the largest British investors in India.

In the reverse direction, Indians constitute the largest ethnic group in UK with around two million people of Indian origin living in the country. About 40,000 Indian students are studying in the UK and the British Council has trained nearly one million English language teachers here[30]. India and the UK are members of the Commonwealth of Nations and their relationship has been largely friendly since 1974.

The UK-India: A Snapshot

UK-India bilateral trade	$20 billion (2012)
No of British companies in India	About 1400
Direct jobs created	Over 325,000 (estimated)

Source: Official statistics / Authors' research

UK is India's largest trading partner in the European Union. Bilateral trade is growing at 30-40 per cent a year, and investment, in both directions, is on an upward swing. In 2012, two-way trade between the countries stood at $20 billion. While UK's exports to India grew by 18% in 2012, Indian exports to UK increased by about 10%. The target is to double trade volumes by 2015.

Trade and investment is one of the most important underpinnings of UK-India bilateral relations. It received a fillip after the establishment of Joint Economic and Trade Committee (JETCO) in 2005 to tackle trade and investment barriers on both sides. Economic relations were under stress for some time last year. The UK Government was planning to launch a trial programme in which visitors to Britain from India and six other countries that were deemed at high risk of overstaying would have to pay a £3,000 ($4,783) bond. This bond amount was to be returned only if the visitors left before their visas ran out. Taking strong objection to the proposal, India Inc called the visa bonds plan "highly discriminatory" and warned they would hit small firms, students and tourists[31]. New Delhi was especially peeved since UK offered a more liberal visa regime for Chinese visitors at around the same time. The issue could have blown out of proportion and threatened the strong foundations of UK-India relations. It did not help that the UK public's perception of India has been distorted by the media's focus on migration and the perceived threat to employment from the outsourcing of jobs. Five months after the proposal was first mooted, it was finally scrapped, much to the relief of trade and businesses on either side.

Our study shows that British companies have invested $70.3 billion in India between 2004 and 2013. Greenfield investments amounted to a total of $37 billion while $33 billion came from mergers and acquisitions. During this period, UK-based companies picked up interests in 489 companies and took 683 new Greenfield positions. The tally of M&A deals makes India the fourth largest destination for inorganic investment for UK companies. In contrast, Brazil and China take the 10th and 14th position respectively.

Exhibit 15: The UK's investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	683 (431)	$37.3 billion
No of acquisitions / joint ventures	489	$33 billion
Total Investment projects	1172	$70.3 billion

The UK is the single biggest European investor in India, with British companies responsible for approximately 41% of all deals (Greenfield & M&A) since 2004. The UK has a strong track record of investing in the country's business services sector which contributes about 29% to the UK-India FDI pool. It is followed by the Financial Services sector, which attracted 28% of the UK's corporate investment. However, most of the financial services related investments were made before the 2008–09 downturn. Since 2009, less than 20 M&A deals have happened in this space. The sector was significantly affected by the recession and some elements are still recovering. The telecommunications, media & technology and energy, utilities, mining and infrastructure sectors have been the recipients of several mega deals, greater than $1 billion, and drew the most British investment value-wise. Recent reform measures should improve M&A prospects, particularly in retail & consumer and aerospace & defence, which are both big sectors for the UK.

Around 1600 British companies already operate in India, in sectors as diverse as retail, infrastructure, construction, ICT, creative industries and healthcare. They collectively employ over 300,000. Over 150,000 new jobs were created in the last 10 years alone through the Greenfield route, with maximum job creation happening in the business services segment. Top UK consultants like Mott McDonald and Halcrow have played pivotal roles in complex infrastructure projects, such as airports and metro rail.

It's not just the large British enterprises that have a keen interest in India. Latest figures from the UK's Federation of Small Businesses (FSB) show that 14% of its members currently export to India. About 23% of businesses are looking to follow suit in the near future.[32].

British businesses have been systematically promoted in India through agencies such as UK Trade & Invest (UKTI), UK-India Business Council (UKIBC), British South India Chamber of Commerce and the Europe India Chamber of Commerce. In March, UKIBC setup a unique start-up zone at its new business centre in Bangalore to help early stage British enterprises there. It is designed to be a 'home away from home' for young British firms and entrepreneurs

Major UK-Headquartered Companies in India

Company Name	Sector
Aviva	Insurance Group
Barclays	Banking and Financial Services
BP	Energy & Petrochemicals
Cable & Wireless	Telecommunications
Cadbury	Confectionary
Cairn Energy	Oil & Gas Exploration
GSK	Pharmaceuticals & Drugs
JCB	Construction & Farming equipment
Standard Chartered Bank	Banking & Financial Services
Rolls Royce Holdings	Power systems company
Tesco	Grocery & General merchandise retailer
Virgin Atlantic	Aviation

Latest news around British investments in India

Tesco, the British supermarket giant, is to form a joint venture with a company owned by Tata Group to invest in a chain of grocery and household goods stores. The company would invest $140 million to take a 50 percent share of Tata-owned Trent Hypermarket Ltd., which operates the Star Bazaar chain

Construction and equipment company **JCB** has setup a new tools and fabrication facility in Bhopal, Madhya Pradesh. The facility has six bays and it will provide repair services from its area of 29,000 sq ft. The company also intends to relocate production of compaction equipment to factories in the Britain and India and close the Gatersleben site in Germany.

British beauty brand **Lush**, known for fresh handmade cosmetics such as the fizzing bath bomb and solid shampoo bars, is looking to enter into the Indian market. The brand applied to the DIPP last week under the single brand retail umbrella is awaiting clearance from the agency.

4.2) GERMANY

Germany-India bilateral trade	$18 billion (2012)
No of German companies in India	about 1500
Direct jobs created	over 2,00,000

Source: Data from Indo German Chamber of Commerce and Department of Industrial Policy and Promotions, Government of India

Indo-German economic relations are a statistician's delight. Germany is India's fifth largest trading partner globally. The country is India's eighth largest source of Foreign Direct Investments. When it comes to technical collaboration, Germany is India's second largest partner.

Indo-German economic relations date as far back as the 16th century. Jakob Fugger, a merchant and banker from Augsburg, had 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, Siemens built the first telegraph connection between Kolkata and London, via Berlin.

Exhibit 16: German Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	564 (327)	$22 billion
No of acquisitions / joint ventures	193	$12.47
Total Investment projects	757	$34.4 billion

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

In 1896, the first wholly - owned subsidiary of German chemical and pharmaceutical company in Asia, "Farbenfabriken Bayer and Co. Ltd," was set-up in Mumbai.

On the political front too, India and Germany have enjoyed close relations. India was one of the first countries to end the state of war with Germany in 1951. It was also amongst the first countries to grant recognition to Federal Republic of Germany. India's bid for a permanent seat at the United Nations Security Council has been backed by Germany.

German companies provide direct employment to about 200,000 people across India through the 1500 units they have in India, as per data provided by the Indo-German Chamber of Commerce (IGCC). German investors have a marked preference for sectors such as Automobiles, Services and Chemicals. In the last five years, all major German automobile giants, BMW, Daimler, MAN AG, Audi, Volkswagen and Porsche, have either erected manufacturing facilities or assembly plants in India.

Nearly 1600 Indo-German collaboration agreements and around 600 Indo-German joint ventures are presently in operation.

German companies have been actively engaging in M&A activity in India. Since 2004, 193 German companies have acquired interests in Indian enterprises. In the process they have spent $12.47 billion in India. German companies have accounted for over 17% of all European FDI in the last 10 years.

In terms of Greenfield investments, four German companies figure in the top 10 list for FDI projects undertaken in the last 10 years. These firms are: Deutsche Post (41 projects), Volkswagen (28 projects), Robert Bosch (20), Siemens (20) and Metro (17). Overall spend on Greenfield projects, for both new and existing ones, was $22 billion. In the process, German companies created 135,600 fresh jobs over the 10 year period between 2004 and 2013.

German companies have held their own despite India's current growth slump. Last year, IGCC had conducted a study to understand the perception of German businesses in India. While markedly lowering their medium term growth expectations, most companies said that they expect the economy to pick up moderately over the next three years.

The survey indicates cost management as a key tool for robust profitability. While 42% respondents are no longer hiring, about 7% had reduced their workforce last year. "Cost cutting allows companies to thrive in a tougher business environment. For India's benefit, we hope that more proactive growth policies will soon encourage German managers to further step up investment and to expand staff levels faster again," Bernhard Steinruecke, IGCC's Director

General, was quoted as saying in the press. However, these companies continue to remain willing investors and are upbeat about long term business prospects.

Major German Companies in India

Company Name	Sector
Siemens	Engineering & Electronics
Adidas	Sports clothing and accessories
Bayerische Motoren Werke (BMW)	Automobile and engine manufacturer
Audi	Automobile manufacturer
Volkswagen	Automobile manufacturer
SAP	Enterprise software
Deutsche Telecom	Banking & Financial Services
Bosch	Engineering & Electronics
Bayer	Chemicals & Pharmaceuticals
Lufthansa	Air Travel
Carl Zeiss	Opto-electronics

Moreover, demographics in Germany would compel these companies to hire more in India over the next 10 years. Going forward, half the German population would be aged more than 60.

Thus, the country would face a shortfall of 40,000 skilled employees for various sectors, especially engineering. German companies would have to initially scout for local talent through their Indian subsidiaries. Subsequently, skill shortages would ensure that the top talent from India gets the chance to relocate to Germany. Several German firms have used a similar policy for markets such as Poland and Brazil.

Latest news around German investments in India

1. **Bosch**, the auto parts maker, plans to invest Rs. 1,200 crore in India in 2014. Majority of the sum will go into building new facilities and augmenting existing ones. A portion of this capital expenditure will also be directed towards capacity expansion at Bosch Automotive Electronics, India, to enable an increase in the production of electronic control units

2. **Porsche,** the luxury car maker from the Volkswagen Group, is on a sales network expansion drive in India as part of a strategy to increase foothold in the country.

3. **Daimler** India Commercial Vehicles (DICV) launched four new models of 'Bharat Benz' in India. This includes three tractors and one construction-mining truck

4.3) FRANCE

France-India: A Snapshot

France-India bilateral trade	$10.2 billion* (2012)
No of French companies in India	750 (approximately)
Direct Jobs created	2,40,000

Source: High Commission of France, New Delhi
** Data from Export Import Bank of India*

India is the flavour du jour for French companies that are confronted with sagging sales in the home market. They say that France has been one of the biggest European winners of globalisation. French companies do 14 times more business abroad than foreign firms do in France[33].

France is perceived to be a slow-moving economy with a conservative industry. However, French companies have been charging ahead in India. French investments in India have grown by more than a $1 billion every year for the last three years[34].

The French-India bonhomie goes back almost 500 years when the first traders from Europe came to this country in the early 17th century[35]. Indo-French cooperation has been prevalent in the field of defence since India's independence in 1948. France has traditionally been selling military hardware to India. With the establishment of strategic partnership in 1998, there has been a significant progress in all areas of bilateral cooperation. There have been regular high-level exchanges and growing cooperation in strategic areas such as defence, counter-terrorism, nuclear energy and space[36]. In 2008, France became the first country to enter into an agreement on civil nuclear cooperation following the waiver given by the Nuclear Suppliers' Group (NSG). This augured well for India's plans to resume full civil nuclear cooperation with the international community.

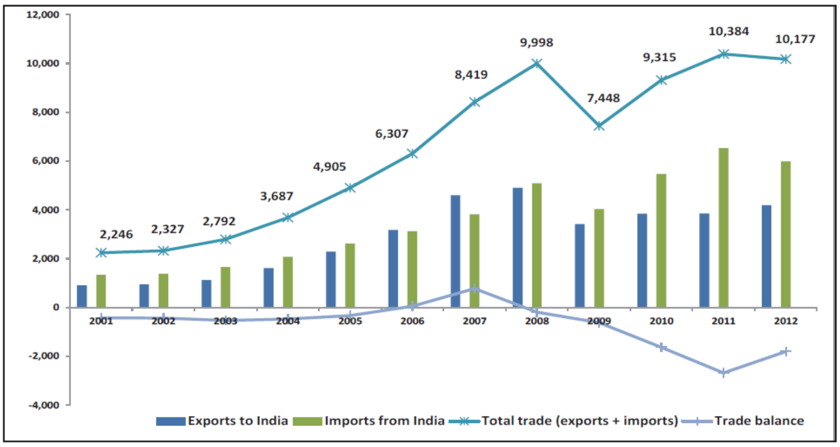
The relationship reached a new pinnacle when French-built Rafale emerged as preferred bidder in a $15 billion contest to supply India with 126 warplanes[37]. The decision to choose Rafale follows a 2011 agreement with France to upgrade India's Mirage fighter planes and purchase French manufactured air-to-air missiles. India had also placed an order for six Scorpene submarines in 2005.[38] These agreements have made France the second-largest supplier of defence equipment to India.

India and France have also entered into pacts on social security for the Indians living in France. Joint cooperation on **S**pace research and **T**echnology is another hallmark of their bilateral relations.[39] This resulted in the Megha-Tropiques mission wherein a meteorological research satellite jointly developed by the Indian Speech Research Organization (ISRO) and France's Centre National d'Etudes Spatiales (CNES) was placed in orbit on October 12, 2011. In 2012, India launched a French satellite Spot-6. Similarly, on February 25, 2013, ISRO launched SARAL, a jointly developed Indo-French satellite.[40]

Total trade between both countries grew by almost five times to $10.2 billion in 2012 from $2.2 billion in 2001[41]. Yet, there is enough elbowroom for expanding bilateral trade between the two economies, which is far from being balanced. Since 2000, France's trade balance vis-à-vis India has always been negative (except in 2006 and 2007 when France made substantial exports to the Indian aviation sector).

There have been several successful rounds of French investments in India. Three waves can be clearly discerned. The first wave happened around 30 years back when the likes of infrastructure major Alstom and financial services player BNP set foot on Indian soul. A second group of investors came calling around the year 2000, perhaps triggered by a tangible improvement in relations between the two countries. France was among the few countries that didn't criticise India's nuclear tests in 1998. Moreover, Paris has been supporting India's quest for a permanent membership on the United Nations Security Council (UNSC). Buoyed by the robust growth shown by the Indian economy, leading French companies started entering India around the second half of the previous decade.

Exhibit 17: France's Trade Relations with India, 2001-2012 ($ million)



Source: ITC Geneva, based on UN COMTRADE database

Official data suggests that about 25 French companies currently have a stock capital of over $130 million here. Of this, four firms have a stock capital of over $1.3 billion.

In other words, the stock of French investments in India is rapidly closing in on that of two of the largest inbound investors: the US ($21 billion) and Japan ($17 billion). It further suggests that French FDI in India over $17 billion, almost in-line with what has been funneled by French enterprises into China. Given that the Chinese economy is four times that of India, in pure ratio terms, the French have invested more in India.

Our dataset shows that French companies have invested over $21 billion in India through 474 investment projects. With an average project size of $59.3 million, Greenfield projects originating in France are approximately 1.3 times larger than the average across all European source countries[42]. Greenfield projects originating in the Ile-de-France administrative region have the largest average project size ($59.4 million) for the whole of Europe. Paris is the second larger source city for Greenfield FDI into India from Europe[43].

Though French companies are located throughout India, there is a marked preference for the large metropolitan cities/ belts such as Delhi-NCR, Mumbai-Pune, Bangalore, Chennai, Ahmedabad, Kolkata and Hyderabad.

The consolidated domestic turnover of these companies hovers around $18.5 billion, data from the French High Commission shows. The Indian operations of more than 25 French companies have recorded a turnover of over $130 million, the data suggests.

Hospitality major Accor is the ninth largest European investor in India in terms of number of projects in the last 10 years. About 16 such projects account for 6.7% of the company's global investment endeavours during this period.

French enterprises see maximum interest in the following sectors:

- Aeronautics, electrical equipment and energy
- Defence equipment,
- Construction and construction materials
- Automobiles
- Telecommunications
- Pharmaceuticals & Para-pharmaceuticals
- Agriculture & Food Processing
- Information, Communication & Technology

The biggest advantage of many companies such as Schneider and Saint-Gobain, is that they have access to local manufacturing capacities, thanks to their long history of M&A in India. Such manufacturing capacities are important ingredients of success in this market as they greatly contribute in building the 'Made in India' label albeit with French technology.

Exhibit 18: French Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	303 (164)	$17.95 billion
No of acquisitions / joint ventures	171	$3.69 billion
Total Investment projects	474	$21.64 billion

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

Most French companies in India have grown inorganically, buying their way into markets. Interestingly, though, they have stayed away from big-bang buyouts. No French company has broken into the billion-dollar acquisition club in India and till date, the largest inbound French transaction remains the 2009 acquisition of Shantha Biotechnics by Sanofi-Aventis for $665 million. Though several alliances have ended in splits, our data shows that the French have a clear preference for Greenfield projects and small ticket acquisitions.

The French industry is one of the largest private sector job creators in India. They employ more people in India as compared to the Japanese firms, a comparison of data from both embassies shows. While Japanese firms provide direct employment to 150,000 skilled staffers, French enterprises have created over 2,40,000 direct jobs in the country. In the last ten years alone, 83,950 new vacancies were filled by French majors in India.[44]

A dozen French firms employ more than 5,000 staffers. The Information Technology and Communication sector creates maximum jobs in India owing to India's reputation of churning out quality engineers. Moreover, low capital investments and supportive government policies have encouraged French software services firms to scale up in India.

Capgemini, the Paris-based software giant is the largest French employer, with a headcount of about 45,000 across centres in NCR, Pune, Bangalore, Chennai and other cities. It is followed by food services company Sodexo, which has around 40,000 employees.

BNP Paribas has over 14,000 employees in India. The company has been operating in India since 1860 when its first branch was opened in Kolkata[45]. It tells a lot about France's business culture; the ability to bide time and be patient with investments in a foreign market. In the industry sector, major employment providers are Schneider Electric (over 17,000), Alcatel Lucent (over 12,000), Alstom (over 9,000). Over 95% of the jobs created benefits the local communities given the tiny number of French expatriates here.

Major French Companies in India

Company Name	Sector
Alstom	Power generation, transmission & transportation
BNP Paribas	Banking & Financial Services
Capgemini	IT Services
Schneider Electric	Electrical Equipment
Alcatel Lucent	Telecommunication equipment
Faurecia	Automotive parts manufacturer
Saint-Gobain	Building materials
L'Oreal	Personal care
Accor	Hospitality & tourism
Carrefour	Retailing
Renault	Automotive
Atos Origin	IT Services

Latest News Around French Investments in India

1. World's largest dairy player **Groupe Lactalis SA** has agreed to acquire a controlling stake in South India-headquartered Tirumala Milk Products for $275 million from private equity company Carlyle Group. The transaction marks Lactalis' entry into India

2. **Novasep Holdings,** a supplier of manufacturing solutions for the life sciences industry has setup a new sales, marketing and support office in Bangalore. The company has committed fresh investment of $4.7 million as part of the project that is expected to create 20 new jobs.

3. **Louis Vuitton,** a subsidiary of the Paris-based LVMH Group, its expanding its luxury footprint in India by erecting larger stores. The initiative will cost $12 million and result in about 140 new vacancies

4. **GDF Suez SA**, the electric utility company has bought a 74% stake in a coal-fired power plant in south India owned by Meenakshi Energy & Infrastructure Holdings for $400 million. GDF Suez said the deal was part of its strategy of investing in fast-growing markets.

4.4) BELGIUM

Belgium-India: A snapshot

Belgium-India bilateral trade	$16 billion* (2013)
No of Belgian companies in India	140 (approximately)
Direct jobs created	16,000**

**Embassy of the Kingdom of Belgium, New Delhi*
***Authors calculation*

Belgium is a Federal state composed of three Regions: Flanders, Wallonia, and the Brussels Capital Region. The Federal State retains important powers, in the area of Foreign affairs, Defence, Justice, Finance and Social security, while the three Regions have powers relating to, among others things, Economy, Employment, Agriculture, Energy, Transport, Environment, Scientific research and foreign trade.

Belgium has three diplomatic representations in India. Besides its Embassy in New Delhi, it has two General Consulates in Mumbai and Chennai. The trade and investment Agencies of the Regions (Flanders Investment and Trade (FIT), Walloon Trade and Investment Office (AWEX) and Brussels Invest and Export (BIE) have offices in Delhi, Mumbai, Chennai and Bangalore.

Belgium is a constitutional Monarchy. Modern diplomatic relations with India go back to 1948. The Belgian Royalty has always had a special connect with India. The previous royal couple, King Albert II and Queen Paola, paid a 10 days visit to India in 2008. President Pranab Mukherjee, who was on a three-day State visit to Belgium, inaugurated the Europalia-India festival in October 2013. Following the Indian President's visit to Belgium, Princess Astrid of Belgium was in India between November 23 and 29, leading a business delegation of around 350 participants in three cities (Delhi, Mumbai and Chennai). The new Consulate General in Chennai was inaugurated at this occasion. Twenty six contracts and MoUs were signed in the fields of logistics, energy, environment, pharmaceuticals, education, science and technology.

Foreign trade is the lifeblood of the Belgian economy. Exports and imports account for more than 80 per cent of its GDP. Belgium remains for two years in a row the most globalized country in the world. The importance of Brussels as the European Union's capital and seat of power also plays a decisive role in investment decisions by companies. The total two-way trade with India, dominated by diamonds, stands at $16 billion in 2013. The total value of exports to India was $11 billion and the total value of imports from India was $5.65 billion.

Trade and investments in diamonds is a natural fit given that India's share of the world's polished diamond market is 60% in terms of value, 85% in terms of volume and 92% in terms of pieces. Eleven out of 12 diamond sets in jewellery worldwide are processed in India. Antwerp in Belgium on the other hand is the key destination for rough diamonds.

Aside from diamond trade centred in Gujarat, Belgium has a strong presence in the regions of Delhi, Mumbai, Pune, Hyderabad, Bangalore and Chennai. The next phase of big engagement could be potentially in the services sector such as Infrastructure and logistics, Shipping, Health, Education, Railways and Nuclear waste management. The Belgian shipping cluster is characterised by a relatively small number of major players occupying good positions internationally as niche players, or even as top players in hydraulic engineering.

Exhibit 19: Belgian Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	63 (34)	$1.7 billion
No of acquisitions / joint ventures	48	$1.7 billion
Total Investment projects	111	$3.4 billion

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

At present, about 160 Belgian companies have invested in India. Today, Belgium is the 24th largest investor in India. However, the total FDI from Belgium is still relatively small, being less than 0.3% of the total. Official FDI inflows from Belgium into India amounted are recorded as $557.36 million from April 2000 to February 2014.

Overall, our research finds that Belgian companies have invested $3.4 billion in India over the last ten years. Interestingly, exactly half of the investments have come from Greenfield projects and the remaining from M&A activity. In terms of FDI projects, 2004 was the year when maximum activity was recorded. About 13 projects or 20.6% of overall projects from Belgium were recorded that year.

Latest News around Belgian Investments in India

In September 2013, **Tractebel Engineering** acquired Chennai-based engineering consulting outfit Cethar Consulting Engineers Ltd (CCE). Incorporated in 2005, CCE provides engineering consultancy services for power, oil and gas sectors.

Celio International Belgium increased its participation from 51% to 100% in an Indian company engaged in the business of single brand retail trading of products (clothing) worth € 4.6 million. The deal was approved by FIPB (Foreign Investment Promotion Board) on 10th May 2013.

In 2013 as well, **Aliaxis Group S.A.**, a global manufacturer and distributor of plastic fluid from Belgium and Bangalore-based Ashirvad Pipes announced a joint venture The joint venture aims at expanding the product offering of Ashirvad in the building and sanitary segments in India through a combination of Ashirvad's strong manufacturing setup and market presence

4.5) ITALY

There are myriad similarities between Italy in India in every sphere. Both are ancient civilizations but young states. Italy was unified in 1861, while India gained here independence from the British in 1947. Geographically, both states have a large peninsula, with a relatively young mountain range in the North. The two societies are strongly driven by the consciousness of their antiquity and traditions. Both are known for a strong bureaucracy, circles of power that are not always transparent, and a tradition of cautious coalition governments. While Italy was the birthplace of the Renaissance, the thoughts from this period find a remarkable echo in Indian writing and traditions across many centuries. Though language is a major barrier in conducting business between the economies, especially at the grass-root level, there have been several success stories.

Italy-India: A Snapshot

Italy-India bilateral trade	$9.6 billion (2013)*
No of Italian companies in India	400** (approximately)
Direct Jobs created	58,000***

** Eurostat*
*** Data from Indo-Italian Chamber of Commerce*
**** Authors calculation*

Italy-born Sonia Gandhi, the President of the ruling Congress party in India, is considered to be one of the most powerful politicians globally. The Indian community in Italy is the second largest community in Europe after the UK. As per official estimates, Italy has around 120,000 legal Indian residents, majority of whom are Punjabis working in the countryside.

Politically and economically, the relationship has been largely stable, but for an incident involving the Italian mariners on board the 'MV Enrica Lexie.'[54]. An unfortunate accident at sea, involving Italian marines' Massimiliano Latorre and Salvatore Girone, has snowballed into a diplomatic mess, threatening to impact trade ties. The Italian marines' issue is affecting bilateral trade though both sides refrain from confirming so. Bilateral trade fell by two per cent to $9.6 billion in 2013 from $9.59 billion in 2012. Despite both sides exuding confidence, the Indian and Italian governments may not be able to achieve their target of doubling bilateral trade by 2015.

Exhibit 20: Italian Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	144 (102)	$5 billion
No of acquisitions	82	$1.54 billion
Total Investment projects	226	$6.54 Billion

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

The episode threatens to jeopardise not only the two-way trade and investments efforts, but also the much delayed India-EU Free Trade agreement. In February, the EU industry commissioner Antonio Tijani tweeted, "Can we keep negotiating FTA India when death penalty is considered against EU citizens fighting sea piracy? I think not."[55]

With the balance of trade strongly in India's favour since the 1980's, Italy is among India's top trading partners in the EU. The country has the distinction of being the 12th largest investor in India. Bilateral trade grew robustly till 2007, before the EU debt crisis led to a marked slowdown in the Italian economy. As a result, the total quantum of trade recorded a negative annual growth rate of 13% in 2009. Overall, bilateral trade between the two countries has grown to the current levels from $977 million in the early 90's.

As per estimates from the Commercial Section of the Embassy of Italy, around 400 Italian firms are present through their legal entities in India.

A $6.54 billion, the Italian investments over the last 10 years are 3.3 % of overall EU investments into India. Wholly owned subsidiaries and joint ventures account for around 60% of the Italian business entities in India, according to the Indo-Italian Chamber of Commerce (IICC). Over half of these are actually wholly owned subsidiaries.

Joint ventures are generally preferred by the small and medium enterprises. They bank on the Indian partner to provide market understanding, local knowledge of doing business and the ability to navigate through administrative and bureaucratic set-ups, IICC says.

Major Italian Companies in India

Company Name	Sector
Fiat (including New Holland and Magneti Marelli)	Automotives
Pirelli	Auto Components
Ferrero	Food & Confectionary
Armani	Fashion & Leisure
Piaggio	Automotive & Engines
Lavazza	Retail Coffee
Eni	Oil & Gas
Danieli	Metal & Manufacturing
Assicurazioni Generali	Financial Services
Luxottica	Eyewear
Bisazza	Glass mosaics

Moreover, the JV mode is mandatory in sectors with a compulsory cap on foreign direct investments. This includes sectors such as multi-brand retail, telecommunication services, financial services and others.

Italian banks prefer to operate in India by setting up representative offices. Around 15 to 20% of the Italian entities have a representative office here while sales agents account for 5% of the Italian ecosystem in India. Deploying a sales agent is usually the first step of the entry strategy for several firms in India.

The National Capital Region (Delhi-Noida-Gurgaon) and the Mumbai-Pune corridor are home to over 200 Italian companies. Chennai (25-30 establishments) and Bengaluru (around 20 companies) are the other preferred cities, IICC said.

In terms of sectors, the automotive (16%) and the services sector (20%) dominate the scene. Italian services companies are active in the transport, consulting, and financial services domains. Machinery (14%) and textiles & clothing (12%) [56] are the other preferred areas of investments.

In the last 10 years alone, Italian companies have created over 27,000 jobs in India, through the Greenfield route[57]

The city of Milan ranks 18^{th} in the list of top source destinations for inward European investments. About 15 companies have invested through Milan as the source city in 24 new investment ventures in the last 10 years.

Latest News around Italian Investments in India

1. **Natuzzi,** the upholstery and accessories maker is upping its investments in India. The company, which already has 22 stores in the country, is set to add 15 new ones in 2014. In the process, about 180 new jobs would be created

2. **New Holland Fiat,** the farm equipment maker, has entered into a memorandum of understanding with the Government of Maharashtra. Buoyed by the demand for sugar cane harvesters, the company would be setting up a Rs 550 crore unit at Chakan. The unit will employ 600 people.

3. **Endura,** a Bologna-based company has invested $8 million in Solex Chemicals, its wholly-owned Indian subsidiary, to set up a plant for manufacturing insecticides. The plant is being erected in Singur, West Bengal.

4.6) DENMARK

Denmark-India: A Snapshot

Denmark-India bilateral trade	$1.2 billion (2013)*
No of Danish companies in India	120
Direct Jobs created	1,00,000

**Statistics Denmark/National Bank of Denmark*
***Denmark in India, Ministry of Foreign Affairs of Denmark*
**** Authors calculation*

The beginning of Indo-Danish encounters could be traced to the arrival of a Danish shipping fleet in 1620 off the southern coast of India.

While Denmark's brief engagement with 'Danish India' was limited to trading outposts in Tranquebar (Tamil Nadu), Serampore (West Bengal) and Nicobars (Andaman & Nicobar Islands), full bilateral relations began taking shape after India's independence in 1947.

Till 1998, bilateral relations were to a large extent defined by Danish development aid. Over $6 billion came to India annually in sectors such as agriculture, health, drinking water and sanitation. In 1998, the aid stopped after India's second range of nuclear tests in Pokhran, earning it sanctions from many Western nations.

In Indian accounts, 1998 is defined as a turning point for bilateral relations between the two states. Since then, Indo-Danish relations are based on reciprocity, equality and mutual respect, demonstrating synergies in the fields of economy, trade, investment and technology cooperation[58]. In 2008, a Joint India-Danish Commission was established as a partnership framework.[59] The full potential of the relationship has not been leveraged yet as India's import needs are largely linked to sectors in which Danish companies are not competitive [60]. These include petroleum products, capital goods, pearls and precious stones and edible oils. However, the expanding Indian middleclass is expected to prop up demand for Danish exports, especially in areas such as retail, advanced industrial technologies and environmental solutions.[61] Danish chains may venture into retail once the Government of India opens the sector. In other words, the relationship has been a classical story of a transition from Aid to Trade.

Exhibit 21: Danish Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	68 (44)	$1.82 billion
No of acquisitions / joint ventures	29	$0.42 billion
Total Investment projects	97	$2.24 billion

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

The Niels Holck case (known as the Purulia arms-drop case in India) is a critical event that led to a moment of discrepancy in Indo-Danish bilateral relations in an unanticipated way[62]. However, the diplomatic stalemate could soon be resolved as India is set to take a second shot at Davy's extradition. Denmark has asked India to send a new proposal explaining why Kim Davy should be extradited[63].

In 2013, two-way trade was down by 1.3% to $1.2 billion. India's exports to Denmark increased by 5.7% to $814 million in 2013 while imports from Denmark were down by 13.3% to $393.3 million.

Major Danish Companies in India

Company Name	Sector
Carlsberg	Beverages
Trelleborg Sealing Solutions	Industrial Seals and bearings
Tumlare	Tour Operator
Vestas	Wind Energy
Hydratech Industries	Wind power components & hydraulic cylinders
Carl F	Handrail and balustrade
Coloplast	Urology and skin care
Triax	Construction & networking systems
Welltec	Robotic well solutions
Labotek	Plastic ancillary equipment
7N	Technology consulting
Maersk	Diversified shipping conglomerate

Around 120 Danish companies are currently operating in India. The list of Danish companies in India is quite long and impressive, covering sectors such as logistics, energy (including renewable) and services. They function as either wholly owned subsidiaries of Danish enterprises or as joint ventures with an Indian partner. In 2012 the Danish Government launched a special focus strategy for India.

To encourage Danish companies to do business in India, Copenhagen runs a number of subsidy programs. The major focus sector for Danish companies here is green technology and environmental solutions, with a specific impetus on water. Other important sectors are health-care, shipping, infrastructure, agriculture and food products. Danish companies are scouting for opportunities in the states of Maharashtra, Karnataka, Assam, and Tamil Nadu.

Our data shows that Danish companies have invested $2.24 billion in India over the last 10 years. Its investment patterns are similar to several other European countries with a higher spend ($1.82 billion) going into Greenfield projects as compared to acquisitions ($.042 billion). During this period, Danish investors created 7,700 new vacancies.

Latest News around Danish Investments in India

1. **Bestseller,** the Danish clothing company, is set to apply for entering into India's multi-brand retail segment. Bestseller owns the brand Jack & Jones, Vero Moda and Only, which it sells in India through franchisee partner Bombay Rayon Fashion.

2. Mechanical and electronic components maker **Danfoss Industries** is setting up a Greenfield manufacturing and R&D hub near Chennai. The new setup, to be ready by 2014-end, will create 1,200 new jobs. The company has already committed to invest Rs 500 crore in India by 2015

4.7) Spain

Spain-India: A Snapshot

Spain-India bilateral trade	$5.7* billion (2012)
No of Spanish companies in India	138**
Direct Jobs created	45,000

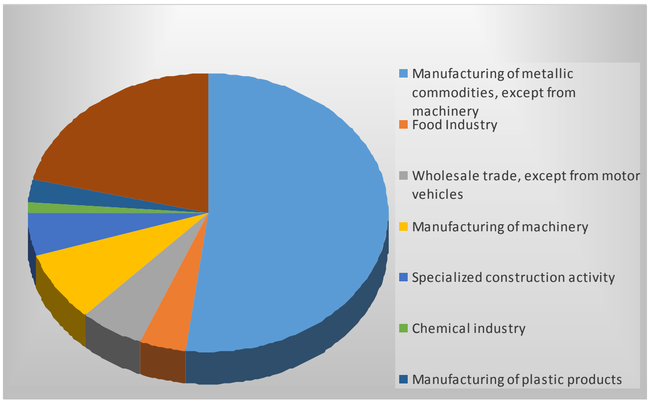
**Ministry of External Affairs, Government of India*
*** Data from Spanish Institute of Foreign Trade*
***Authors calculation*

The Spanish economy was subject to deep changes after it was opened up in the 1960's. Bracing for competition from distant shores, several large family businesses began the process of professionalizing their boards and scouting for other growth markets. The process of modernization received a new boost after Spain joined the European Economic Community in 1986. Consequently, inward FDI flows and outward FDI to other countries got a major fillip[64], especially in the areas of education, health, R&D and infrastructure.

The first round of internationalization meant investing in Spanish speaking countries in Latin America. Countries like India benefited in the next round when multinational Spanish enterprises starting spreading their wings to developing markets. Akin to Spain, India too had started the process of opening up its economy to foreign industry in the later part of the 20th century.

India feels culturally close to Spain, through its art, literature and architecture. Spanish fashion labels are big market pullers in India. Last year, fast fashion brand Zara's average sales per store in India came on par with the country's largest jewellery chain Tanishq. With annual sales of Rs 405 crore, each of Zara's nine stores in the country on an average made Rs 45 crore in fiscal 2013[65]. It plans to add 18 more stores over the next two years.

Exhibit 22: Spanish FDI into India- 2012



Source: Based on data from the Spanish Institute of Foreign Trade

Bilateral trade between the two countries between January and September of 2012 stood at $3.9 billion. Indian exports during this period amounted to USD 2751 million, and imports stood at USD 1161 million[66]. Agreement on Avoidance of Double Taxation between the two countries was signed in February 1993 followed by a Bilateral Investment Protection Agreement in 1997.

According to data available with ASOLIVA, last year the olive oil category crossed 11,000 ton in terms of total exports to India. Spain contributed 62% to the 11,000 tonnes[67]. Overall, Spain and Italy corner 90% exports to India. Spain is the world's largest producer of olive oil and contributes about 50% of the world's production.

Spain is especially good in infrastructure- the country has one of the biggest networks of freeways in Europe and the biggest network of high-speed trains in Europe. As India seeks to modernize its infrastructure and extend economic development to its hinterland, it has sought Spanish investments in the proposed National Manufacturing and Investment Zones (NMIZs) and other infrastructure projects. In many quarters, Spanish companies are seen as global benchmarks in infrastructure creation. Seven of the top ten infrastructure companies in the world are said to be Spanish[68]. New Delhi also wants greater co-operation with Madrid in sectors such as IT, renewable energy and agro-processing[69].

Exhibit 23: Spanish Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	123 (100)	$3.76 billion
No of acquisitions / joint ventures	61	$2.09 billion
Total Investment projects	184	$5.85 billion

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

Spain's painful recession, that has ripped 7% out of its GDP over five years, has been easing for the last few quarters on the back of higher domestic demand and a surge in exports.[70] If anything, the recession has made the surviving companies more competitive and productive. They are hungrier to sell more in markets which are growing at faster pace

Spanish companies realise that a lot of the value that makes up the profits comes with greater consumer engagement. While exports are the first step, companies are able to better understand customer tastes and tailor their offerings accordingly only when they are present in the target market. A successful experience with exports leads to the formation of trading subsidiaries in the target market. During the height of the sovereign debt crisis in 2008, investments in India by Spanish companies have increased five-fold to $158 million.

In the last 10 years alone, Spanish companies have created 18,209 new jobs through the Greenfield investment route.

Exhibit 24: Major Spanish Companies in India

Company Name	Sector
Befesa Infrastructure	Water Treatment
Banco Sadabell	Financial Services
Borges	Olive Oils
Gamesa	Renewable Energy
Gestamp	Engineering & Renewable Energy
Navantia	Navy Construction
Inditex Group (Zara)	Clothing & accessories
Isolux Corsán	Infrastructure and construction
Acciona	Engineering, construction & infrastructure
Coinma	Office furniture
Grupo Cobra	Engineering

Latest News around Spanish Investments in India

1. **Gamesa,** has opened a new service centre in Chennai. The centre will perform wind farm operations and maintenance services for customers in India and Sri Lanka. The project, which entails an initial investment of about $3 million, will create 40 new jobs in the city

2. **Inditex Trent** has opened a new 'Zara store' in Surat, Gujarat. The 209 sq m store will create 140 new jobs at an estimated investment of $12 million

3. **Isolux Corsán** has been awarded 6 new infrastructure development projects for an overall consideration of €175 million. The company has bagged the mandate to enlarge 88 kilometeres of roads in Odisha for a likely budget of $50.4 million.

4.8) Sweden

Sweden has a long history of trade and investments in India particularly within the manufacturing and telecom domains. Telecom gear maker Ericsson had supplied its first manual switchboard to India in 1903. It continues to be a major player in India's fixed and mobile telephony market. In 1920, Swedish Match, the Stockholm-based household goods company, set up its first factory here. Today, several Swedish multinational companies have manufacturing facilities in India. Companies such as ABB, Volvo Trucks, Astra Zeneca, Ericsson, Atlas Copco, Sandvik and Ikea are well known in trade and industry circles.

Sweden-India snapshot: A snapshot

Sweden-India bilateral trade	$2.4* billion (2012-13)
No of Swedish companies in India	170**
Jobs created	About 100,000**

**Sourced from the Embassy of India in Sweden & Latvia*
*** Data from The Swedish Trade & Invest Council, Bangalore*

Several of these firms have established R&D and sourcing operations in India so that they can tap in the 500,000 graduates they pass out every year. ICT and engineering companies collectively account for up to 50% of Sweden's total play here[71]. At present, there are about 170 legal entities in which over 50% equity is held by Swedish parents. The vast majority are wholly-owned foreign subsidiaries with a few instances of joint ventures. Most Swedish companies are headquartered in the metros- Delhi, Mumbai or Bangalore. The Swedish Trade & Invest Council estimates that around 600,000-700,000 employment opportunities (both direct and indirect) have been created by Swedish companies. About 100,000 direct jobs have been created. It would be fair to assume that at least half of this would have been added over that last 10 years.

In fact, Sweden has the highest number of jobs created in India on a per project basis. Swedish companies have created 287 jobs on an average per FDI project as against the European average of 219.[72] Swedish companies have created about 28,200 jobs through 98 Greenfield projects in a span of 10 years. They have spent about $5 billion at an average per project spend of $51 million. The amount of Swedish companies has almost doubled in India over the last five years, even though there was a steady inflow during the period from 1996–2005[73]. Other statistics show that one to two Swedish companies have been setting up subsidiaries every month in India for the past couple of years. This trend is expected to continue thanks to the progressive liberalization policies announced in 2013 by the Government of India, covering sectors such as defence, telecom, petroleum & natural gas, retail and others

Exhibit 25: Swedish Investments in India (2004- 2013)

	Number	Value
Greenfield investment projects (Companies)	98 (56)	$4.96 billion
No of acquisitions / joint ventures	25	$1.55 billion
Total Investment projects	123	$5.31 billion

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

Volvo, the Swedish auto giant, features in the top 10 list of European companies with maximum FDI projects in India between 2004 and 2013. About 9% of the company's global FDI projects were undertaken in India. In the reverse direction, about 40 Indian IT companies have their representative offices in Sweden. Their cumulative exports are estimated be upwards of $600 million.

High level contacts between the two states goes back to 1957 when Prime Minister Jawaharlal Nehru visited Sweden. Sweden's Saab was also in the reckoning to supply its Gripen jets as part of Indian Air Force's modernisation programme, a deal which finally went to France's Dassault Rafale. Saab has various levels of partnerships with several large Indian companies, i.e. Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL), The Mahindra Group, Wipro, Samtel, FFV Services and S.M Creative Electronics[74]. Swedish companies are seen as serious contenders to cater to India's long term defence and strategic requirements.

However, Swedish companies, including home products giant IKEA believe that business climate in India is 'non-favourable' and that bureaucracy remains a big challenge for their growth, a business climate survey conducted by the Swedish Chamber of Commerce in India says. IKEA's views assume significance since the company is set to make the largest foreign investment in India's retail sector, pledging in 2012 to invest $1.75 billion. IKEA's investment proposal was cleared by the government last May.

Though the willingness of Swedish companies to invest in India remains high, 40% of the 157 companies operating in India feel that "the current Indian business climate is non-favourable, a big jump from last year's 28% stating the same"[75]. On the positive side, eight out of 10 companies that participated in the survey have said that they are planning to increase their operational activities in the country. Half of the participants are bullish on India's medium term prospects as they expect the investment climate to turn more favourable in the next three years. In anticipation, these companies may boost their local headcounts by over 5% in 2014, the survey suggests.

Major Swedish Companies in India

Company Name	Sector
Nepa	Brand tracking services
Seco Tools	Cutting tools & equipment
Handelsbanken	Financial Services
Ericsson	Telecom equipment
Saab	Defence & aerospace
Eletta	Measurements & Under-water cleaning
Atlas Copco	Industrial tooling & equipment
Ikea	Furniture & home accessories
Volvo	Automotives & construction equipment
Tetra Pak	Food packaging & processing
Gunnebo	Security solutions
KappAhl	Clothing chain

Our research suggests that Swedish companies have an overall investment position of $5.31 billion in India, built over the last 10 years. At $4.96 billion, Greenfield investments account for a lion's share of the overall pie. However, on the bilateral trade front, there has been a strong disconnect. Though the two states have been involved in two-way trade for over a century, Swedish exports to India constitute barely 1% of its international trade[76]. In the last few years, Stockholm has been compelled to press the accelerator and increase exports to developing countries after it was stung by the sovereign debt crisis. While Sweden managed to tide over the global financial crisis, it was entangled in a secondary crisis as low demand across Europe choked its exports.

Today, India is Sweden's 19th largest export market and third largest trade partner after China and Japan in Asia. The main Swedish exports to India are in the areas of pharmaceuticals, paper & pulp products, chemicals, engineering products and telecom equipment. The main items of Indian exports are chemical products, food products, and semi-manufactured and manufactured goods. India and Spain have complementarities in the areas of cutting edge technologies. There is further scope for bilateral collaboration in key segments such as green technology, health and defence[77].

On the other hand, India wants more market access for its products in Sweden. The issue has been repeated been raised by India's Commerce and Industry ministry as India's exports to Sweden are much larger than her imports[78]. India also wants Swedish firms to set national manufacturing and investment zones. NMIZs are integrated industrial townships and manufacturing enclaves which aim to boost the manufacturing ecosystem in India.

Latest News around Swedish investments in India

1. **Svenska Cellulosa Aktiebolaget (SCA)**, the hygiene and forest products company will invest about Rs 145 crore to setup a manufacturing facility in India. The worlds second-largest baby diaper maker has launched its 'Libero' brand in the country

2. Retail giant **Hennes & Mauritz** has received final approval from the Foreign Investment Promotion Board (FIPB) to invest Rs 720 crore in the country. The worlds second biggest fashion retailer had said in April last year that it plans to open 50 stores in India

3. Gunnebo India, a subsidiary of **Gunnebo Security Group,** will invest about ₹30 crore to set up a global R&D centre at its Halol plant in Gujarat to provide security solutions to the banking industry. The company plans to provide 30,000 to 40,000 ATM safes across the country's banking space in 2014

5) PROPOSED FREE TRADE AGREEMENT BETWEEN INDIA AND THE EUROPEAN UNION

International trade is a framework for global prosperity. Free trade policies have created a level of competition that engenders continual innovation and leads to better products, well-paying jobs, new markets, and increased savings and investment.[79]

Yet, due to technical and logistical reasons, a country cannot have free trade pacts with all its counterparts. One of the biggest criticisms of multilateral trade agreements is that it can take several years to negotiate basic texts. Decision making is slow and results are not guaranteed as evident from the Doha Development Agenda of the WTO[80]. On the other hand, preferential trade agreements are easier to negotiate given the few number of players involved in the discussions. Mainstream economic discourse suggests that free trade agreements lead to economic inefficiencies through the process of trade diversion. Yet, their benefits far outweigh the risks.

At a time when global partnerships and cooperation takes precedence, a wide-ranging alliance between India and the Europe Union is a natural step forward. The proposed free trade agreement between Indian and the European Union is expected to take bilateral relations between the blocks to a new zenith altogether. Since 2007, India and EU have been negotiating what is officially known as Bilateral Trade & Investment Agreement (BTIA). Though both sides are keen to finalise the BTIA for altogether different reasons, there is a binding strand of commonality- Growth. India's multinationals that are keen on expanding trade with EU member states will greatly benefit from the BTIA. Likewise, large European firms that have tapped into the booming Indian market will reap huge dividends from trade liberalisation with India.

"India needs long-term investment, trade, vocational training, and more. India's biggest trading partner, Europe, has all this on offer. Right now, a Free Trade and Investment Agreement between the EU and India is being negotiated. Its conclusion would be the necessary outer equivalent to the inner reforms that the Indian government is currently pursuing. It would be an economic booster."

Michael Steiner
German Ambassador to India[81]

The timing of the FTIA has become even more crucial as India's GDP growth rate has been hovering below 6% and the EU continues to remain embroiled in a debt crisis. A preferential trade agreement would be win-win for both sides. However, India and the EU have missed at least five deadlines to complete negotiations since both sides were not able to achieve a consensus on several issues. There are serious differences over issues such as tariffs cuts in automobiles, opening up of government procurement, movement of professionals and taxation structure for imported goods. Though 95% of the proposed BTIA has been agreed upon by both sides, all indications are that the trade pact may become a reality only by 2015 due to impending general elections in India and the change of Guard at the European Parliament.

Apart from the reform measures already announced, the EU wants India to open up its postal and legal sectors, and further liberalize the pension, insurance and banking sectors.[82] New Delhi's stance has been that it cannot promise anything that requires consent from India's parliament[83]. The EU also wants a condition for greater transparency in state purchases. Meanwhile, India has been pressing for concessions in its main area of interest—services. Another wish is to have increased number of work permits given to Indians to address concerns over free movement of professionals in the EU. Some of India's demands on this front have been factored in by the EU's Blue Card scheme, which is a union-wide work permit that allows high-skilled non-EU citizens to work and live in any country, excluding Denmark, United Kingdom and Ireland, which are not subject to the proposal. Although the EU had offered 40,000 additional professional visas for entry into the EU every year, a recently introduced caveat introduced empowers member countries to impose curbs once 20% of the number committed by an individual EU country is breached.

The EU is pushing for higher levels of commitments in trading of industrial goods (automobiles, wines & spirits) and agricultural products, services and investment liberalisation, geographical indications and government procurement[84].

India has also been demanding a 'data safe' status for itself, a move that will help information technology and back-office services companies garner more business from the continent. Another area of concern is artificially imposed minimum wage requirements on foreign skilled professionals that do not reflect market principles. This is a serious challenge for Indian IT companies' onsite-offshore model.

The EU wants stronger safeguards for its patents in India. MNC pharmaceutical companies have been frustrated by a series of decisions on patents and pricing, as part of New Delhi's push to increase access to treatments in a country where only 15 percent of the 1.2 billion people have health insurance[85]. India stunned the pharmaceutical industry in 2012 by overriding a valid patent on cancer drug Nexavar from Bayer AG and issuing a 'compulsory license' to Natco Pharma, allowing the local firm to sell a generic drug for a fraction of the price. Compulsory licenses are intended for use in extraordinary situations of extreme urgency or other national emergency.

Indian pharmaceutical companies are apprehensive that BTIA may empower agencies to seize the company's bank accounts and immovable property on mere suspicion of patent infringement. Injunctions could also be issued against intermediaries and third parties such as suppliers, drug distributors and medical procurement agencies for infringement of intellectual property rights, the Indian drugmakers say[86].

It is clear that there is lot of misconceptions on both sides with regards to the BTIA. It does not help that most of the negotiations between India and the EU have been conducted in secrecy. In fact, the progress made in successive rounds has not being officially divulged on the Indian side. The international media and the European parliament have emerged to be the only two reliable sources of information for the Indian consumers. The non-transparency has raised suspicion among social groups that the interests of the millions of poor people are endangered as they believe that access to affordable life-saving medicines will be denied if the BTIA becomes a reality

6) Challenges for EU Companies in India

Doing business in India, as both domestic and international investors know, is as exciting as it is complex. As the country chugs on the path of growth and development, it offers opportunities across all sectors. But as with any fast growing market one cannot discount the challenges. Each of the 28 states often resembles a separate country with its own language, cultural practices and preferences. Moreover, there has been slow progress in India's alignment with international trade practises. The inability to finalise the BTIA adds to the slack. All these factors affect investor appetite. Sound local advice and assistance is often needed to succeed and it is imperative that European companies engage wise consultants and hire the right set of employees. Our study shows that maximum EU companies encounter the following challenges while transacting in India:

6.1) Trade / Barriers to Business

Despite being a full member of the World Trade Organization since 1995, India is not fully immersed into the multilateral trading system. It continues to use protectionist logic in industrial policy formulations for a wide range of fields. The introduction of barriers to import is often justified on grounds of national security. There is a frequent tendency to apply "local content" requirements," especially for procurement in high tech sectors such as renewable energy, railway signaling systems and telecommunications. These norms regulate the extent to which certain projects must use local products. Another oft-cited justification is the need to create local employment and private sector development[87]. In renewable energy projects, it is common to see request for proposals that have a requirement of 30% local content and call for the "use of cells and / or photovoltaic modules produced in India". In the procurement of railway signaling systems, the 'obligation to obtain supplies up to 100% at the local industry or manufacturing presence,' is often cited.

On the processed food side, India requires countries that export processed pork to attest that the meat is free from diseases such as Porcine Reproductive Respiratory Syndrome (PRRS), Enterovirus encephalomyelitis, Swine erysipelas and Atrophic rhinitis[88]. This is not in line with international standards set by the World Organization for Animal Health. New Delhi justifies this measure by saying that it wants its livestock to be protected from these diseases which are uncommon in India. Even India's import conditions for dairy products are seen as overly restrictive. It requires imported milk and milk products to be heat treated in deviation from standard international norms. Further, packaged products are required to be labeled with a 'maximum retail price' before they are shipped to India. This is extremely difficult to estimate for foreign distributors.

Despite improved market access in certain states, the import of spirits still appear to remain affected by either discriminatory taxation measures or by requirements that hinder their internal distribution and offering for sale. High tariffs, subject to a complicated mechanism of duty calculations, remain a thorny issue. India's refusal to EU's offers in opening up insurance, government procurement and market access for automobiles and wines and spirits have been one of the major reasons why talks have been stuck on the BTIA.

When it comes to getting products through Customs, Indian inspectors are known to request for certificates of conformity to specifications that are different from those recognized at the international level. This leads to additional checks resulting in higher costs for the operator.

Unfortunately, the official rules and regulations are often left to the customs officer's interpretation. Every officer will have his own specifications. The key is to allow no room for finding any fault in the shipment. Prevention is a lot better, faster and cheaper, than trying to convince an officer of what is written in an agreement.

In October 2000, the country lifted its de facto export ban on leather but simultaneously increased the export duty on raw hides and skins to 60% from 25%. This is the highest in the world.

6.2) A Delicate Economy and Uncertainties around the Progress of Reforms

A nine-year long drought of economic reforms and multiple policy-level missteps have derailed the Indian economy[89]. With major imbalances and a sharp decline in growth, the challenges facing it are daunting. The high rate of inflation (8.1%), despite a slight improvement in recent months, continues to be deterrent for the India growth story large scale investment initiatives. The weakening of rupee coupled with persistent fiscal deficit will continue to fuel inflationary pressure in the country. High inflation leads to a jump in labour, raw material costs and logistic expenses. Household financial savings remain low as higher prices of goods eat into savings. That's not all. Economic growth has collapsed, industrial output has stagnated for two years, jobs are being shed, consumer inflation is close to 10% and the current account deficit (CAD) in the balance of payments is nearly 5% of GDP. The cost of borrowing is high. Thus, corporates are tightening spends and discretionary projects are being put on hold.

Some investors are more concerned by political uncertainty and the risk of policy reversals or protests against reforms. The economic reforms for the retail sector, passed in September 2012 are a case in point. These reforms, long awaited by the investor community, were met with great resistance from opposition parties when they were first introduced at the end of 2011. Political opposition was so strong at the time that the Prime Minister was forced to make a U-turn on his announced policy.

6.3) High Price Sensitivity

While growth overall has been impressive, more than 300 million Indians still live on less than $1.25 a day.[90] Therefore, global price points seldom work in India. A quintessential trait of India consumers is that they are value seekers. They will search hard for the best deals to make sure they get good value for their money. They expect 75% product value for 30% as compared to international standards. The right package sizes and prices are a must for success in India. Within the last two decades, Indian consumers have been bombarded with overwhelming choices of brands– all within a short period of time. Brand loyalty is not very common-they tend to hop from one brand to another to try out different things.

India has had a unique low cost-business model in the newspaper industry. While the average cover price of a print daily in Europe (The Wall Street Journal, The Guardian, Süddeutsche Zeitung, La Repubblica) is anywhere between $1- 2. Newspapers in India (The Hindu, Business Line, The Economic Times, Hindustan Times, DNA, The Telegraph, The Times of India) price themselves at less than 10 cents. Revenue from circulation is almost close to irrelevant – and it is the advertising revenue that all newspapers depend on. Hence, Indian newspapers have the cheapest cover price in the world. Several publications have kept their cover price unchanged for over two decades.

6.4) Corruption

As some observers would point out, corruption has permeated the basic fabric of Indian society. The eight high profile corruption scandals- the 2G Spectrum scam- Coal block allocation scam, Chopper Scam, Railgate, Tatra Truck Scandal, Antrix Devas deal, Commonwealth Games scam, Adarsh Housing Society Scam- that came to light during the second tenure of the UPA Government (2009-2014) have supposedly caused a loss of about $9500 billion to the exchequer. Even companies with robust corporate governance practices find it difficult to build a compliance culture within their Indian organizations[91]. For instance back in 2002, Xerox declared that its Indian subsidiary Xerox ModiCorp had paid $700,000 bribes to its Indian government customers for the supply of equipment. Similarly, Diageo, the British alcoholic beverages firm paid more than $16 million to settle charges leveled by the SEC for making illicit payments to foreign government officials in India, Thailand and South Korea. According to a recent survey done by KPMG, top-level executives in India are reluctant to discuss the topics of bribery and corruption[92]. Of those surveyed by the global professional services firm, 71% felt fraud was an inevitable cost of doing business.

Exhibit 26: Corruption Perception of Developing Countries

Developing Countries	Corruption Ranking (Lower the better)
Brazil	72
China	80
India	**94**
Philippines	94
Thailand	102
Argentina	106
Indonesia	114
Vietnam	116
Russia	127

Source: Transparency International's Corruption Perceptions Index 2013

According to a report by Transparency International, 50-74.9% of respondents in India to its latest survey, which forms the basis of its 2013 Global Corruption Barometer, have paid a bribe for common public services. About 54% respondents have a paid a bribe in India while 51% respondents say that political parties are the most corrupt institutions in India. Further, corruption in India has increased on a year-on-year basis. Though other growth markets such as Argentina, Russia, Vietnam, Indonesia and Thailand are behind India in this aspect, investors are not enthused.

6.5) Infrastructure bottlenecks

After visiting India in 2011, Thomas Friedman, the author of The World is flat, averred: "As much as I'm impressed by the innovative prowess of India's young technologists, without a government to enable them with the roads, ports, bandwidth, electricity, airports and smart regulations they need to thrive, they will never realize their full potential." Decades of underinvestment have left the country with dire deficits in such critical areas as railways, roads, ports, airports, telecommunications and electricity generation. In the World Economic Forum's Global Competitiveness Report for 2011-2012, India ranked 89th out of 142 countries for its infrastructure. The report criticized the country's transport, ICT and energy infrastructure as "largely insufficient and ill-adapted to the needs of business." It further said: "The Indian business community continues to cite infrastructure as the single biggest hindrance to doing business in the country."

European companies have to take additional safety precautions to avoid breakdown of machinery due to blackouts and voltage changes. Firms with shared services units and IT support centres have to heavily rely on diesel handsets to maintain 24x7 operation in tier 2 cities. For every 1% increase in Gross Domestic Product (GDP) in India, energy demand goes up by 1.5%. However, the power sector has continuously underperformed in the past two decades, with capacity additions less than 40% of the planned targets[93]. In 2012, the country faced one of the world's biggest blackouts when over 600 million people were without electricity for two days. This was largely due to paucity of coal, crippling thermal power stations across India from Delhi, West Bengal, Andhra Pradesh, Karnataka to Maharashtra and many other regions. Widespread mismanagement, economic rackets and the coal mafia in the state of Jharkhand in eastern India, home to some of the nation's biggest mines, are responsible for the country's coal shortage[94]. Over 50 crore Indians live without electricity every day. Unless serious reforms are made in the energy sector, India could risk derailing its rapid economic growth.

The bad condition of roads inflicts damage on commodities and finished goods during transportation. It takes almost a week to move goods from Delhi and Thiruvananthapuram in South India by road due to the lack of express highways. Economic losses are incurred because of the long transportation time and high diesel costs caused by traffic jams in major urban pockets. Traffic is so severe that maximum highway speed for trucks and buses is only 30-40 mph.

Global trade is acutely pressurizing India's inefficient ports. The lengthy duration of time taken for customs clearance is a serious deterrent. The average time for clearance at Indian ports is several days, whereas it's several hours in many Western European countries. Another challenge confronting Indian ports is how they increase connectivity with inland transport networks to cater to the massive swells in the amount of goods transported.

6.6) Taxation

Arun Jaitley, Leader of the opposition in India's upper house of parliament, says that the current UPA Government's decision to bring retrospective taxation was an 'important defining moment' which harmed the investment climate in the country. Scripting a change on this front would be the first big challenge for the Bharatiya Janata Party if it were to come to power. The UPA government, in its keenness to rein in budget deficits caused by unsustainable welfare programs, has been aggressively pursuing tax claims against multinational firms, irrespective of their country of origin. In the last 24 months, the taxman has targeted several enterprises for tax audits on transfer pricing. Transfer pricing is the value at which companies trade products, services or assets between units across borders. South Korea's LG Electronics, Singapore property group Ascendas, French IT services firm Capgemini, chocolate maker Cadbury, technology major IBM, Anglo-Dutch oil major Royal Dutch Shell and UK's Vodafone are among the global firms battling transfer pricing disputes in India. The department is increasingly clamping down on under-priced share deals on the premise that it is losing out on taxing the interest that the adjusted amount would have earned.

Some of the revenue department's decisions on valuations are very arbitrary and may not be sustainable at higher appellate levels, industry watchers feel. The proposed General Anti-Avoidance Rules (GAAR), which could lead to a retrospective tax on cross-border transactions, is also a cause for concern for foreign investors. These rules would add to the complexity of investing in India and, if passed, would force all investors to examine their Indian shareholdings and investments. However, since being introduced in March 2012, the proposals have somewhat been watered down, allaying the fears of investors.

State level variations in sales tax and other duty structures variations pose significant challenges for medium and small companies. Other key concern areas are roundabout procedures for company registration and VAT registration, complexities in import duty structures etc[95].

6.7) Protection of Intellectual Property Rights

Of late, MNC pharmaceutical companies have been frustrated by a series of decisions on patents and pricing, as part of New Delhi's push to increase access to treatments in a country where only 15 percent of the 1.2 billion people have health insurance[96]. India stunned the pharmaceutical industry in 2012 by overriding a valid patent on cancer drug Nexavar from Bayer AG and issuing a 'compulsory license' to Natco Pharma, allowing the local firm to sell a generic drug for a fraction of the price. The United States has been vehemently voicing its concerns of this front. In February, the US Chamber of commerce called for measures to reprimand India over IPR, in an effort to prevent Indian drug companies from producing cheap generic versions of medicines still under patent protection[97]. While organizations such as Doctors Without Borders have supported India in its effort to produce cheap medicines through modest improvements in its IPR mechanism, the big pharmaceutical players are unimpressed.

The country has been ranked at the bottom of a list compiled by the US Chamber of Commerce's Global Intellectual Property Centre, which looks at the IPR protection environment in each country. India's percentage score has fallen from 25% in 2012 to 23% in 2013. "The continued use of compulsory licenses, patent revocations, and weak legislative and enforcement mechanisms raise serious concerns about India's commitment to promote innovation and protect creators," the report said.

6.8) Valuations

The lack of publicly available information about several companies makes it difficult for investors to find benchmarks when determining values. This scarcity of comparable valuation multiples makes it challenging for an acquirer to get comfortable with an asking price. Weak corporate governance codes within some companies may require internally generated information to be further scrutinised. There may not be a business plan available, or if there is, it may not be rigorous enough or based on readily certifiable information. This makes any type of detailed valuation work difficult.

7) SUCCESS IN INDIA: LEARNING FROM THE LEADERS

Possibly the most unfathomable aspect is that there are two 'Indias' within the same country. The old India is slow, corrupt, colourful and much written about by prize-winning authors. Then there is the modern entrepreneurial India – professional, demanding, materialistic and able to "adjust" with the old. Hence, winning in India is different from winning in most developed economies. As pointed out in earlier chapters, companies that have mastered the art of doing business in India can replicate the same model with exponential success in other emerging markets of Latin America, Africa and Asia. Recent studies show that multinational corporations are more victorious in China than in India. Further, success is greater for smaller firms than larger firms.[98] However, there are more than a handful EU companies (Schneider, JCB, Capgemini, Atos Origin, Nestle, SAP, GlaxoSmithKline, Fiat, and Vodafone), Korean companies (Samsung, LG, Hyundai) and American firms (Coca Cola, PepsiCo, Deere & Co, McDonalds) who have managed to build India as a major profit centre. Interactions with officials from some of these companies, analysts and industry watchers shows that success in India comes with deep-rooted understanding of people, regulations and market needs. Multinationals must show a visible commitment to the country, empower their local operations, and invest in local talent.[99] The following recommendations should be helpful:

1) Adapt to the Market

India is large and multi-faceted. It should not be seen as one market but a series of interconnected regional markets where the legislative and investment climate changes from one state to another. The standardised model of globalization, where you think global and act local is not valid here. Instead, the mantra is to think local and then expand. The one-size fits all approach is irrelevant because of low average disposable income, a highly dispersed population and distinct tastes within the same country. Adaptation in required in three main areas, namely:

A Strong Product Value Proposition: Korean companies have been remarkably successful in India because of their commitment in modifying products for Indian requirements. It may be recalled that Hyundai changed its market entry vehicle from the Accent to the Santro when it realised that a sizable chunk of the market wanted an alternative to the Maruti 800 small car[100]. Korean majors Samsung and LG were the first ones to provide washing machines with the ability to re-start from the same point after a power failure. Given the precarious power situation in the country, these alterations set the tone for their explosive growth in India. At the same time, they showed their respect for the Indian consumer by not dumping aging products into the market. Though Ford and Hyundai started in India almost the same time, it took Ford years to recover from the mistake of an obsolete Escort model as its launch vehicle in India. With competition nibbling at the feet, a mis-calculation here could send the company back by several years.

In 1999, PepsiCo successfully re-shaped the snack market by creating a new India-specific product called Kurkure, for younger consumers. The product feels entirely local, though it is packaged and distributed by Frito-Lay. The result: After 15 years, Kurkure became the first snack brand from PepsiCo India's stable to cross the Rs 1,000-crore-per-year-in-sales milestone. In doing so, it has left behind other PepsiCo global brands Lays and Cheetos[101]

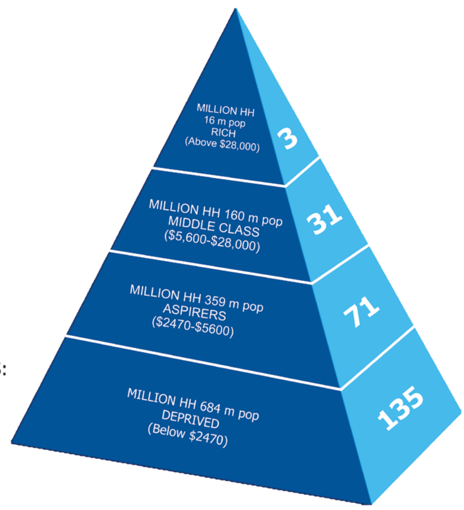
Hindustan Unilever has had a history of launching new products that make a business case out of Indian consumers' core needs. In 2012, it launched "Magic Water Saver", a liquid that reduces the amount of water required to wash clothes by three buckets. The product, which was first launched in a test market in Andhra Pradesh, reduces the amount of water required to rinse the clothes after cleaning with detergent. This is a powerful message in a country where many consumers still don't have running water.

Crack the Middle Market Through Attractive Price Points: Depending on the propensity to spend and buying habits, the Indian consumer base can be stratified into four silos. Demand for products and services in India can be understood by envisaging a flattish pyramid with a fat base (See Exhibit 26). To succeed, a company has to spread itself across the pyramid by addressing customers within each band. Smart firms start by selling global products at global prices points at the top but quickly find a way to crack the middle market, which consists of the middle class and the aspiring middle class ('Aspirers'). Such companies engage the base of the pyramid through corporate social responsibility and inclusive growth models. The unsuccessful firms are the ones who prefer to sell to only those at the high-end of the pyramid- the elites - at high prices. Such companies will undermine the rest of the pyramid and take investment decisions based on their skewed outlook of the country. They end up ignoring the country's burgeoning middle class, which consists of people who wih to use some of the best products and services and aspire to work with top employers. The Indian consumer has come to expect 70% of the value of the global product at 30% of the global price.

A good case study is Nokia's experience in India and how it journeyed from being leader to laggard in just five years. While Apple redefined smartphones with touch-screen and Blackberry with email, Android proved that software matters more than hardware[102]. Nokia was slow to respond to these trends. It lost the battle in India during the second half of the previous decade because of the emergence of local brands such as Micromax, Lava, Zen, Karbonn and Spice.

Exhibit 27: Income Pyramid in India

HH: HOUSEHOLDS; POP: POPULATION; FIGURES: IN MILLION EXCEPT ANNUAL INCOME STRATA (IN US$); TOTAL HOUSEHOLDS: 240 MILLION



Source: Aresh Shirali, 'The Wealth Report', Open Magazine, March 12, 2011

These young companies stormed the market with dual SIMs, low-end Qwerty and long-battery-life phones thanks to the Chinese-Mediatek chipset which allowed them to drastically bring down the cost factor. The explosion in the devices ecosystem was aided by the advent of new telecom operators through the allocation of 2G spectrum. The new operators (MTS, Telenor, Videocon, STel) started a price war in order to ensure more demand for their connections. As a result, a good chunk of customers from the middle market switched to dual Sim handsets so that they could use one SIM for the incumbent connection and the second SIM for the new low cost service providers. Nokia did not respond to the market's need till 2011 when it launched two dual Sim models. The result: Nokia's market share in India plummeted from 60% in 2006 to under 30% in 2013. A more nimble company would have recognised the early feelers from the market and readied a low-cost dual SIM phone as early as 2008.

Smart Localisation of Manufacturing: The middle market is very cost sensitive and driven by value. In other words, there is a huge market for sub $100 smart phones, $2500 cars and ex-ray machines at $400. At these price points, profits can be made though high volumes, alternate business models and tailored management processes. The products must be frugally designed for Indian tastes, which may differ from states to state. They must then reach the corners of the country on the back of an agile distribution network. However, implementation is more difficult than it seems – it requires deep customer understanding and the willingness to build scale while managing complexity[103].

UK-based JCB, which started its Indian operations in 1973, realised the need to localise manufacturing in 2003. Back then, the Indian construction and heavy equipment industry was moderately sized. A cross–country trip gave company chairman Anthony Bamford positive vibes about the push for infrastructure growth in the country. His optimism was shared by colleagues in industry. In 2005, JCB launched a new model which was tailored for Indian needs- the 3DX. JCB optimised the 3DX for fuel efficiency and threw in more than 75 innovations based on its understanding of the Indian operator. Realising that many equipment operators are paid by the hour in India, the company created two switchable modes of operation- Economy and Power. Its filtration was modified for dusty conditions and for the use of diesel adulterated with Petrol. Its engine, transmission and cab were manufactured in India. The company today has the world's largest manufacturing facility for backhoes with the capacity of producing 100 machines a day. Today, JCB has an over 50% market share in India, elbowing global competitors such as Caterpillar, Komatsu and Volvo.

2) Take a Long Term View of India

India has always leapfrogged ahead in innovation, skipping layered growth[104]. Successful companies take a long term view of the market, trading short term profits for growth and leadership. India should not be seen as geography but as a business which is prone to cyclical swings. Building a business takes time and patience is a defining attribute. India is not the place where you will see return on investments coming in from the second year of operations. All successful EU companies have been in India for at least previous 10 years; they have sewn up plans for the next 20 years. Companies that take a short term view of the market will end up providing for only those at the top of the pyramid and miss out on the expanding middle class opportunity. Unfortunately, company boards are impatient for results. They wish to see results even though they do not allocate sufficient resource to first understand the market deeply, construct the value proposition and build relationships.

A cursory look at some of the long-standing MNC's in India shows how European companies have benefited by staying invested in the country even in the face of regulatory bottlenecks. British lubricant giant Castrol had to reduce its stake in the Indian unit in the 1970s after the government made it mandatory for all foreign companies to dilute their majority stake in Indian units[105]. Castrol had to reduce its control to 40% and also re-brand itself under a new name, Indrol. Mobil and Shell, Castrol's competitors, decided to fold up their Indian operations, but Castrol stayed put. The new guidelines also prevented Castrol lubricants from being sold at traditional retail points - the fuel stations which were owned by the national oil companies. Since consumers could not come to Castrol, the company unveiled a new distribution strategy by partnering with car and bike workshops across the country to sell its lubricants. Today, there are over 6,000 Castrol-branded bike workshops and 1,000 car workshops in India. In 1991, the government opened up the market and Castrol had to compete with the national oil companies and other MNCs, such as Mobil and Shell, who re-launched their India operations. Staying put in India in difficult times gave Castrol a clear advantage over MNC competitors who continue to be fringe players here. On the other hand, Castrol has a 25% share of the Rs 12,000-crore lubricant industry.

3) Commitment at the Top Level and Empowerment of Local Management

Smart multinational companies run India as a geographic profit centre, where the local organization is empowered to grow the business by taking judicious decisions. There is no point in delegating responsibility to managers who seldom take the long flight to India from the region headquarters in Singapore. If the country manager is just a titular head and has to refer most decisions- hiring seven people, investing $4,000, offering 10% rate cuts – to someone not in India, the company will be weak force to competition. Down the line, your business in India will come from 200 cities and not just the top 20 cities. Faster execution and the ability to mobilise resources through the supply chain will be key differentiators in an environment of intense competition. Many situations that arise during day-to-day operations would require immediate response through a hands-on-approach. The global leadership must have faith and trust in Country's Manager's abilities to handling problems in the 'Indian' way. At least 75% of the decisions pertaining to the Indian unit should be made locally and the remaining should be made in consultation with the headquarters. The reporting structure in India must be simple and accountable. Dual reporting often leads to confusions, turf battles, unclear accountability and colossal amounts of time spent in negotiating simple decisions.

Some global diktat's, such as cutting 10% of staff when the India unit is already understaffed, make little sense. The Country Manager must be empowered to override decision that could erode the goodwill that the brand enjoys with its customers, employees, vendors and partners.

Thus, doing business is India is very different from doing business in many countries. It is highly unlikely that many senior officials within the company's European headquarters will be comfortable with the kind of freedom their counterparts in India would require for a long term strategic play. There will be a strong resistance to change, especially in top-heavy and headquarter centric organizations. Hence, it is imperative that the commitment towards the India office comes from the global CEO himself/herself.

Cisco, for example, has created a second world headquarters, in India, to spearhead its push into the country[106]. This would not have been possible unless the global CEO identified and attested to India's potential.

4) Brace for Lumpy Cash Flows

Some experts say that you need to have deep pockets to sustain the business in India. For business generation and revenue accumulation seldom follows a linear progression. There would be some quarters where you will see a sudden flush in client budgets or a spike in consumers buying a particular brand. During other times demand may come to a standstill and you will be grappling with inventory. The key here is to milk the cow when the going is good so that you develop a healthy cash reserve position which would then be deployed in the form of discounts and innovative financing endeavours during the lean period. India business is cyclical in nature and hence it is unfair to expect the local leadership to report sparkling numbers every quarter. That's another reason why the global CEO must put his weight behind the Indian unit.

Employees working in a typical 'cubical' office in Noida, National Capital Region. Photo Courtesy: IBN Live, http://ibnlive.in.com/photogallery/2664-8.html

5) Build Relationships

They say that the strength of a relationship is more important in Europe than the business case itself while transacting with vendors and suppliers. Though India is a more complicated and chaotic place to conduct business, the notion holds true here. India operates like Europe, a monetary union, with several operating nuances between the states. Things move fast if you have the right relationships. Country managers of European firms recount experiences of suppliers going out of their way to deliver inventory on time. While workflows, organizational charts and processes have their place, things get done on the basis of trust, goodwill and the strength of the relationship. Cultivating relationships with the right set of vendors, government officials, industry associations, customers and media is an integral ingredient of succeeding in India. Networking is very important; the country manager should never let go of any opportunity to meet the movers and shakers of the country, especially at informal dos. SMB's must find enablers to help their businesses. An enabler could be an influential business person or local leader who understands your business and has the local contacts to help your company jump to the next level.

Indians are by nature curious. Europeans should not feel offended and should see this as a way of building trust and relationships. Indians tend to ask a lot of personal questions and they may want to know personal details at the first meeting. For B2B enterprises, it is vital to meet with clients face-to-face, to demonstrate your presence and commitment to the local market. This also provides the team with a clear understanding of what the client envisions and what the vendor can accommodate.

6) Emotional Connect with Employees

A senior scribe was at the India-headquarters of a EU software major when the untimely death of the Country Manager was announced. From the office boy to the Vice President, everybody was in tears. Though the country manager had his share of detractors at work, he was well respected. While many employees in India may not particularly like their immediate bosses, there is a strong 'family' mindset at work. Employees need to be a part of the company's DNA and seen as contributing to its success. Leaders of family-run businesses understand this need well, but professionally run firms turn out to be impersonal places, leaving employees hungry for a bonding factor. Employees can work with missionary zeal if they are cognizant of their place in the system. A cold transactional approach-be it with support staff or the Sales Manager-will not work in India. It is all about people: find people who can bridge the cultural gap, find people who are reliable and trustworthy, and hire people with the right experience

7) Send your Rising Stars to India

India is similar to the European continent thanks to its linguistic and cultural diversities. Each one of India's states used to be princely kingdoms in the medieval ages. So, each state has a different set of culture, values and systems. The country speaks 22 official local languages and the dialect changes every 35 kilometers. Customer preferences in North India could be completely different from that in the east or the south of the country.

Very few places in the world can match the diversity and dichotomies of India. A 3-5 year stint in India could prove to be the ideal finishing school for executives with upper management ambitions. As adversity breeds innovation and new capabilities, India could be their ticket to the big job. The stint will give the person an end-to-end view of the company and the opportunities that come calling in a developing market context. The complexities and challenges of running a business in India would bring out qualities such as courage, entrepreneurship, agility and people skills. S/he will become a successful general manager and a problem solver. It is said that somebody who can drive safely on Indian roads can drive anywhere in the world. The same logic applies to success in business. The new generation of CEO's will need to have either or China on the CV. In fact, the legacy of a CEO would come to be defined by his/her leadership in emerging markets such as India and China.

However, a perpetual dependence on expats for running the show is not advisable. The ideal leaders should be somebody with cross-country and cross-cultural exposure. S/he will then have a holistic sense of the market and its challenges.

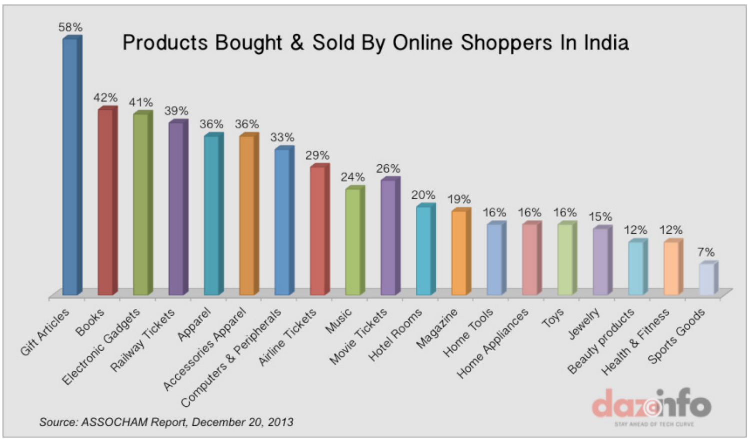
8) Focus on the Potential not Problems

India may still be regarded as a functioning anarchy in some quarters[107]. It is easy to get bogged down by the unending chaos, regulatory uncertainties, stifling bureaucracy, policy inaction, rampant corruption and infrastructure bottlenecks. However, scratch beyond the obvious and you will see that the scale and size of the opportunity is unparalleled. The world's largest democracy is in the process of finalising the next Government. A change in personnel at the Centre could be the booster shot for investor confidence. If India gets a stable Government, there would be a significant pickup in FDI.

India has always skipped layered growth and leapfrogged several generations of technology adoption, a trend which will be further accelerated with the advent of newer technologies. A few examples would illustrate the potential. The **wireless (mobile phone)** revolution in India started taking roots even before the country had 50% fixed line telephony connections. Today, wireless is the norm and internet usage on mobiles is higher than internet usage on fixed devices. India is expected to have 185 million mobile internet users by June 2014 from 130 million in December 2013[108]. Out of the 1.2 billion population, about 875 million people have a mobile connection, data from the Telecom Regulatory Authority of India shows. Few countries in the world can boast of such numbers. Just imagine the size of the untapped opportunity for handset makers, telecom gear makers, software providers and digital marketers.

The penetration of internet and 3G technology has propelled the **e-commerce** sector to take giant strides in a short period of time. Indian retail buyers traditionally have had the 'can't touch, won't buy' mindset. However, this is fast changing because of the increase in online shopping.

Exhibit 28: Products Brought and Sold by Online Shoppers in India



Source: ASSOCHAM Report, December 20, 2013

Some say that the 'big jump', from surfing the internet to becoming keen online shoppers, will take time and retailers should have at least a five-year horizon in mind[109]. E-commerce in India, currently at $2 billion, constitutes just 0.25 percent of the overall retail industry. In comparison, e-commerce as a percentage of retail is 6 percent in China, 9 percent in the U.S. and 4 percent in Latin America. However, the market is on an overdrive mode--India's e-commerce business jumped by more than 80 percent in 2013 and the momentum is likely to continue for at least the next five-six years, the founders of the country's largest e-commerce firm, Flipkart, say[110]. Founded in 2007, Flipkart has already clocked $1 billion in a market that research firm Forrester estimates to touch $8.8 billion by 2016. Recently, eBay led a $134 million (Rs 830 crore) investment in the New Delhi-based Snapdeal, which is Flipkart's closest competitor and Sweden's Kinnevik led a $90 million funding in mobile classifieds venture Quikr. Others say that market could touch $16 billion by 2016. Last year, the world's largest retail company Amazon ventured into India with its country specific website. Since laws don't allow international online retailers to sell multiple brands, Amazon only has a marketplace - its tenth such venture.

India's prowess in the **Pharmaceutical** space is a prime example of an industry going global with local expertise. Today, India exports 50% of its annual generic medicine produce of $12 billion, making it the 'pharmacy of the world'. Till 1995, Indian pharmaceutical companies grew by producing drugs that were reverse engineered 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 for aligning itself with TRIPS (The Agreement on Trade Related Aspects of Intellectual Property Rights) and honour product patents[111]. Although India shifted to the product patent regime, the capabilities developed during the past two decades became a competitive advantage for the Pharmaceutical industry. In the past few years, the industry has grown at nearly 12 to 15% which is a tremendous pace of growth if we compare it to that of the US or European companies[112]. By 2030, India may rank among the top five global pharmaceutical markets. Indian generic drugs are made at a fraction of the cost of a patented drug and are cheaper than the generics manufactured in other countries. The rising healthcare costs are forcing many European economies to adopt the cheaper generic drug option. They are investing in India, as they find it a cheap place to manufacture, as well as to gain the fringe benefit of the potential huge local-growth opportunity[113].

India's expanding pharmaceutical sector continues to be attractive for European investors despite patent rows, price cuts, quality issues

Of late, MNC pharmaceutical companies have been frustrated by a series of decisions on patents and pricing, as part of New Delhi's push to increase access to treatments in a country where only 15 percent of the 1.2 billion people have health insurance[114]. India stunned the pharmaceutical industry in 2012 by overriding a valid patent on cancer drug Nexavar from Bayer AG and issuing a 'compulsory license' to Natco Pharma, allowing the local firm to sell a generic drug for a fraction of the price. The United States has been vehemently voicing its concerns of this front. But with 1.2 billion people increasingly seeking both prescription and regular drugs, the market is too big for firms to simply throw in the towel[115]. FDI in India's pharmaceutical sector jumped by 86.5% to $1.08 billion during April-October period of the previous fiscal, data from the Department of Industrial Policy and Promotion shows. The government played its part by continuing to allow 100% Foreign Direct Investment (FDI) in existing pharmaceutical companies, overriding concerns over continued availability of affordable life-saving drugs raised by some government ministries and departments[116].

All concerns about European pharmaceutical companies loosing interest in India were put to rest late last year when British major GlaxoSmithKline (GSK) come out with a buyback offer and spent Rs 4,804.64 crore in upping stake in its India unit to 75% from 50.7%. Separately, it had announced an investment of Rs 864 crore investment to setup a new medicine manufacturing unit in India. This would be GSK's latest commitment to the manufacturing ecosystem in India building on its overall investment of Rs 1,017 crore during the last decade[117]. Around 8,500 people work for the company's India unit. Other drug makers are also set to raise stake in their local units. The 12% fall in rupee value over the past year vis-à-vis the greenback has helped the cause. British-Swedish medicines company AstraZeneca hopes to take full control of AstraZeneca Pharma India Ltd, at a cost of more than $100 million, to give it greater flexibility in India. Even Novartis AG, whose cancer drug Glivec was refused a patent by the Supreme Court last April, is launching new drugs. These are all instance of companies taking big bets on India notwithstanding the present ground realities. They realise that there are few alternative destinations to India. So, they prepare for a long innings by putting more resources on the ground despite their dissatisfaction with the regulatory situation. The important message is to focus on the opportunities and not the problems. Similar case studies can be found in sectors such as biotechnology, IT and IT Enabled Services, power & infrastructure, minerals & natural resources.

Though the rural–urban divide is still acute in India, it is narrowing and public investment in **infrastructure**, from roads and sanitation, to education and health, is making doing business easier throughout the country. India is expected to spend $1 trillion in infrastructure creation in the next few years. This also creates opportunities for companies operating in those sectors. While Delhi and Mumbai give companies a good view of urban India, the focus should be extended to the 53 cities in India which already have over population of over 1 million. These are cities where businesses can thrive on up to 30% lower operating costs. Businesses should cash in on the aspirations of 'Bharat' (tier 2 and tier 3 cities) to become like 'India' (metro cities).

9) More Details, the Better:

This is especially true while importing goods into India. Official rules and regulations are subject to interpretation by the customs officers. The key is to leave no room for finding any fault in the shipment. In this case, preventing is a lot better, faster and cheaper, than trying to convince an officer of what is written in an agreement[118]. A small mistake in documents or misplacement of certain details on the package can result in major delays and extra costs. It is prudent to print as many product details as possible on the label of the imported product. When sending shipments to India, make sure that you have an experienced local partner to clear the products at the customs. The local partner should have all the licenses required for importing the products that have been dispatched. The Indian market potential is definitely worth the bit of extra time that you would spend to carefully prepare your import shipments.

10) 'Ceremonial' business:

Do not be surprised if a business deal is finalised in a party's home while having dinner with his wife and parents. It is customary to give final touches to a deal in a private setting. The fact that you have been invited shows that you on track to seal the deal. You should accept such an invitation and show your appreciation.

Religious business ceremonies are a common occurrence in India. Two of the most frequent business events that include religious ceremonies are the opening of new offices and the breaking of ground for new facilities. Indians attach a lot of importance to functions which mark the beginning of something fresh and hence these functions can be quite lengthy. Indians appreciate your participation, but don't expect you to be present for the whole show. The key is to be present during the 'mahurat' or the finale of the function

11) Political leanings:

The communications, media and business worlds are relatively open in criticising politics, religion and other aspects of the country. They will take it in their stride if a German executive were to comment on the country's weak infrastructure or if a French manager wants to discuss inequality in society. Criticism is viewed as something normal and common. However, it is not advisable to make one's political orientations or religious dislikes clear to the public at large. The Indian society is highly heterogeneous and any commentary seen as offending to a class or group could be detrimental to the company's brand building efforts.

12) Have a flexible notion of time

In India, meetings are usually fixed at a short notice and often get rescheduled at the last minute. A dinner meeting at 6 pm will never start on time because that's when most people are having their evening tea. Indians begin their day late and finish late. Bureaucracy can be painfully slow, especially while dealing with an Indian Government department or a public sector organisation. If you expect something to be done in a week, it will probably take a month to close. IST or Indian Standard Time is also known as Indian Stretchable Time. You must be ready to face the reality of people being late for their meetings or work[119].

13) The Best Time to Invest in India is During a Slowdown; NOW

With all the negative commentary about India, it is easy to be a fence sitter. The thinking that a company can jump back in when the market is ready to take off is an illusion. The payback time in India is longer, but once you get the model right, it is easy to replicate elsewhere.

Yes, 2013 would go down as probably one of the worst years for India since the floodgates were opened in 1991. The year was characterized by a slowing economy, diminishing corporate profitability and half-finished infrastructure projects. Indian companies are reluctant investors at the moment as the cost of money is too high. In its latest policy announcement, the Reserve Bank of India (RBI) maintained the rate at which it lends to banks at 8%. Other factors such as a spike in inflation, unsustainable economic policies, high current account deficits and a series of government corruption scandals have prompted investors to conserve cash. The Indian rupee has been steadily loosing ground to the US dollar. Opinion makers are bearish on India—or at least they have expressed concerns and are suggesting that investors step back[120].

Great military generals know that how they fight a war often decides whether they will win the peace. Research suggests that companies who master the delicate balance between cutting costs to survive today and investing to grow tomorrow generally do well in a downturn. [121] These companies reduce costs selectively by focusing more on operational efficiency than their rivals do, even as they invest relatively comprehensively in the future by spending on marketing, R&D, and new assets. This multi-pronged strategy is the not only the best antidote to a recession but also the best way to approach a market like India. The last few years were not the ideal years for doing business in India but several companies have succeeded in riding the downturn through frugal innovation and by making selective market-facing investments. The slowdown is a good opportunity to get on board good assets- companies, infrastructure and people- at discounted rates. Wage expectations of the people at large have tempered due to the economic climate. In every sector, there are niche companies willing to sell out for much less than what they were valued earlier. In a nutshell, smart companies know how to make profits even in a downturn. Thus, companies that missed out on the first wave of investing in India during the late 90's can now make a course correction.

Rahm Emanuel, the mayor of Chicago and former White House Chief of Staff, once said that you should never let a serious crisis go waste. It explains why several MNC's remain bullish on India and have not shied away from committing fresh investments. Bigwigs like Hindustan Unilever, Amazon, Coca-Cola, GSK and PepsiCo were among the prominent players who committed big money in the country last year. These savvy investors realise that the economy's growth engine may have slowed down, but it has not taken away the glow from India's demand and consumption story. The long-term fundamentals of the Indian economy continue to be robust.

8) SUGGESTIONS FOR POLICY MAKERS

Policymakers in India have to deal with several challenges. Like any form of international trade, European investments in India create winners and losers and hence cause apprehension in certain quarters. Policymakers have to formulate policies that retain India's FDI attractiveness while ensuring that it causes minimum disturbances to domestic groups and communities. Stable inflows are seen as an affirmation of an economy's health and a stamp of international approval.

After several years of leading the charge, India's magnetism as an FDI destination has been on the wane. In order to revive investor interest from the continent, we would like to highlight a slew of suggestions.

We observe that many EU companies' experiences in India are distinctly different from their original understanding. In order to address the knowledge mismatch, a network of facilitation centres should be established in each target market. The centres should provide end-to-end advice on setting up and sustaining operations in India much before companies commit significant Euros to the market.

Unfortunately, India's bureaucratic set-up maintains several investment and trade promotion agencies that work at cross purposes. There are too many 'single' windows and investment development arms working at the same time without much co-ordination. There is also a lack of policy consistency. For example, the 'Development India' Initiative to showcase India as a manufacturing hub was discontinued without being thoroughly tested and implemented

We suggest that 'Invest India', the New Delhi-based official investment facilitation agency, must be expanded on a priority basis. To start with, it should have offices in UK, Germany and France. Invest India should become a 'one stop shop' and not a 'one more stop' for luring inward FDI from the continent. It should work closely with trade and investment agencies across the spectrum. India Invest should take cues India Tourism which champions the 'Incredible India' campaign through its 14 offices globally. A similar market positioning and branding exercise is required to convey the India story and address the myths. India Invest should have deeper integration with India Tourism so that the latter's regional offices in Amsterdam, Paris, Milan and Frankfurt can be leveraged for trade and investment purposes.

With its infrastructural capacity and technical expertise, the EBTC is well positioned to serve the interest of European companies for the numerous business opportunities in India. EBTC together with other government agencies in India as joint collaborator is a powerful tool, and with further support can become even more so. It can play an important supplementary and commentary role for the objectives with which the agencies were established. Working together and combining their synergies will help the agencies to meet their objectives.

The Government of India must promote non-metro cities as pockets of excellence in specific sectors. SME clusters located in and around Tier-II cities of Jalandhar (for sports goods), Nagpur (for power loom and fabrication), Indore (pharmaceuticals), Rajkot (engineering), Jamshedpur (Tata group of companies & automotive cluster), Bhubaneswar (software/metal/energy), Raipur (renewable energy) and Coimbatore (machine tools) would be attractive investment targets for European small and medium enterprises. Investment promotion agencies of various EU countries should be incentivised to set up shop in these emerging cities. New cities must be identified along India's industrial corridor where SME clusters can be developed on a public private partnership (PPP) model with willing European investors.

Over the last two years, the Government has taken decisive steps to remove FDI barriers in a range of sectors. In September 2012, it passed reforms allowing 100% FDI in aviation, 74% in Broadcasting, up to 100% in single brand retail and up to 51% in multi-brand retail. In July 2013, it eased FDI rules for several sectors, allowing 100% FDI in Telecom, Asset reconstruction companies and Courier services; and 49% in Insurance, Power Exchanges, Stock exchanges and Depositories. These policy changes need to be implemented swiftly. Investors do not like uncertainty and they dread reversal in policy changes. Results have been disappointing at times due to administrative inefficiencies. A persistent concern is lack of coordination between the central and state Governments. A formal mechanism should be developed for facilitating consultation between the centre and individual states on key aspects of FDI. Modalities such as land acquisition, revenue sharing and others must be discussed and debated by the states and the Centre before a formal policy decision is taken. This will ensure that once a decision is taken, its implementation does not get stuck in bureaucracy.

India must sort out some contours of its Intellectual Property Rights regime. The legal system must be fast-tracked and the use of compulsory licensing (CL) for essential pharmaceutical drugs must be the exception and not the norm. Before issuing compulsory licenses, there must be regulatory scrutiny to ensure that the due processes prescribed under WTO's TRIPS (the World Trade Organization-administered agreement on trade related aspects of intellectual property rights) has been followed in form and spirit. Price control should be the ideal policy response to rising drug costs. If India moves to a stronger IP regime, with rights and protections comparable to China or even the United States, it will generate very large benefits for the Indian economy and people. FDI flows to India's pharmaceutical sector would increase sharply, as would its research and development activities. A strong IP rights regime encourages innovative companies to transfer new technologies and business methods.

India must improve the effectiveness of the rule of law. Administrative procedures need to be upgraded and accountability ensured through use of information technology at all the public institutions so that corruption can be controlled. Vigilance departments such as the Central Bureau of Investigation, Central Vigilance Commission and the Enforcement Directorate should be freed from the control of the Government and given autonomous status. The proposed creation of an anti-graft watchdog though the recent Jan Lokpal Bill is a strong move as even the country's Prime Minister would come under its purview, albeit with some safeguards.

Market regulator Securities Exchange Board of India (SEBI) must ensure that all listed companies must have a whistle blower mechanism to checks for cracks in corporate governance. A timeline should be decided for smooth implementation. Offenders should be banned from participating in capital market transactions and taking board positions for a reasonable period of time.

For large scale infrastructure projects such as national highways and ports, Public Private Partnerships (PPP) has been the preferred model. The success rate of many PPP arrangements has been average because of flawed business models, unfair risk-sharing terms and short-sighted planning. The existing body of specifications for PPP projects should be reviewed periodically to increase efficacy. In roads projects, for example, the number of lanes should be linked to expected traffic growth in 10 years. European and Indian companies that have experience in large scale infrastructure projects should be a part of the pre-RFP (request for proposal) consultation process.

India should create an institutional mechanism, to monitor implementation and for resolution of disputes arising during the project implementation and renegotiations stages of engineering procurement and construction (EPC) contracts. A dedicated tribunal, similar to the Telecom Disputes Settlement & Appellate Tribunal (TDSAT), should be set up. The jury should include qualified judges and industry experts.

Further, it is important that India reduces transaction costs in manufacturing and agriculture, undertakes radical reforms in trade facilitation and export promotion to become an international production hub, and address key infrastructure issues such as energy and transportation costs. This would further propel a variety of FDI into the country, originating from both the Diaspora, SME's and MNC's alike.

EBTC would also like to report sector specific issues. In case of developing offshore marine generation platform, it faces the basic challenges of getting a proper bankable wind resource map. The electricity regulatory commissions have determined tariff for onshore wind turbines, but tariff for offshore wind turbines or for any marine technologies per se, is yet to be determined. The absence of tariff will not provide comfort to the private investor. Policy advocacy, opening dialogues with different stakeholders and constant follow up is the key to remove such barriers.

ACKNOWLEDGEMENTS

This study report would not have been possible without the help and support of several individuals and organizations, to only some of whom it is possible to give particular mention here.

Specifically, EICC and EBTC would like to thank the following:

Charlie Thomas & Tessy Charlie, the authors' parents, for supporting him through thick and thin

Flanders Investment and Trade, for providing statistical data and information

Ishaq Rawuther, for taking on the role of supporting analyst, in-charge of statistics and data

Mahendra Wadkar, Director, D Vista Enterprises, for designing the study report

Neha Raghunath and **Mohini D'Souza**, for editing the work and making it more reader friendly

H.E. Freddy Svane, Ambassador of Denmark to India

Mukund Padmanabhan, Editor, Hindu Business Line

Anna Westenberger, Director, Germany Trade & Invest

Aruna Jayanthi, CEO, Capgemini India

Abhinav Kumar, Chief Communications & Marketing Officer, Tata Consultancy Services Europe.

Jorge Martí Moreno, Managing Partner, Uría Menéndez (Valencia)

Guido Christ, Deputy Director General, Indo-German Chamber of Commerce

Gleeson Cashel and the entire team at UK Trade & Invest

Asha-Maria Sharma, Germany Trade & Invest

Ilika Khanna-Mann and the entire team at Embassy of France in India

Letizia De Martino and the entire team at Indo-Italian Chamber of Commerce & Industry

Anna Liberg and the entire team at The Swedish Trade & Investment Council

Cees Bansema and the entire team at Netherlands Embassy in India

Antoine Delcourt and the entire team at Embassy of the Kingdom of Belgium, New Delhi

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ABOUT EUROPE INDIA CHAMBER OF COMMERCE (EICC)

The Europe India Chamber of Commerce (EICC) is recognized as the Apex Chamber of Europe which promotes bilateral trade between European Union and India. The EICC speaks for the multilateral rule based trading system and stands for improvement in European and Indian competitiveness. The Chamber is realising its mission through high level strategic dialogue and debate on trade and economic issues are intensively discussed.

Founded on 4 October 2004, the Europe India Chamber of Commerce (EICC) is the premier non-profit, privately funded non-governmental organization that serves as the key liaising body representing the views of both European and Indian business. These include professional communities, companies, enterprises and semi-business groups having common business interest. Its members are leading entrepreneurs and professionals who have contributed a great deal to the development of India and Europe. It is a platform for profitable interaction between the European and Indian business communities. The vision statement of the EICC states "the EICC represents and serves the interests of member businesses while cooperatively working to create an environment and economic climate for success in the business community in EU and India". The chamber strives to provide a unified voice for European and Indian industries and disseminates business information including intelligence on new business opportunities, geo-political movements and important legal developments pertaining to trade and business. Since its foundation, the Chamber has redefined 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" Its primary mission is to foster a bilateral dialogue between key business units and important decision makers, thus encouraging progressive economic policies in both Europe and India. In serving as the platform for profitable interaction between the European and Indian business communities to enhance trade and commerce in their respective countries, the EICC directs its energies in assisting Indian inbound investments into Europe, and concentrate on outward investments into India to a lesser degree.

The EICC is an action oriented organization. Individuals and businesses work through the Chamber to advance economic growth. It takes a leadership mantle in the areas of business retention, development of increased business opportunities through series of activities. The EICC, with the support of its satellite offices liaises with local/bilateral chamber of commerce to promote our member's interest. By bringing "Pan-European" perspective to its activities and policies EICC ensures serving the larger interest for its members. From its headquarters in Brussels, the capital of Europe the Chamber maintains a team of experts to help drive and to meet emerging challenges, its pro-business agenda and the mission with which it was established. The chamber works to achieve these objectives by means of activities, services and lobbying, such as networking events, trade and investment information, business development opportunities, etc. Chamber's goal is to work diligently to ensure complete satisfaction of its stakeholders and to provide them opportunities for their business development.

ABOUT EUROPEAN BUSINESS AND TECHNOLOGY CENTRE (EBTC)

The EBTC or the European Business and Technology Centre is an initiative co-funded by the European Union (EU), and coordinated by EUROCHAMBRES. Its embraces important aspects of research, innovation and business, in addition to facilitation. Its activities cut across the domains of sunrise sectors such as biotechnology, energy, environment and transportation. EBTC is a prime toolbox for EU and Indian businesses, researchers, clusters, and policy makers.

EBTC's capabilities portfolio is evolving with time. It is important to note at this point the success of organisations like EBTC does not depend on developing fixed capabilities, but constantly understanding the trends and shaping its capabilities according to the need of the market. For an SME to enter Indian market, entry mode is the first issue that poses significant challenge. In most of the cases, EBTC has supported the development of local partners. As an SME has scarcity of resources, it becomes crucial to identify the right partner for the entry. EBTC uses its local networks to identify and verify the capability of the companies.

The Centre serves as a provider of technical assistance in building institutional capacity by catering to the SMEs which are the backbone of the EU economy. Though SMEs have excellent business models back in EU, they lack capabilities to enter into the Indian market. Owing to the diversity, large scale and scope of business in India, SME's in India have their hands full. EBTC provides the EU SME with comfort through its service delivery model.

Established in 2008, EBTC is headquartered in New Delhi and has regional offices in Bengaluru, Kolkata and Mumbai. The matrix structure of regions and sectors gives it an edge in comprehensive covering structure wise. Its service delivery model relies on partnership with EU institutions, Chambers of Commerce, Universities, Innovation Networks, Industrial associations, etc. EBTC complements the activities of Member state organizations in India. This unique combination of geographical presence, matrix structure and partnerships with important entities endows EBTC with unique capabilities.

Combining its resources, routines and processes, EBTC has developed within a short tenure, value added services for the EU SMEs and research institutions to enable internationalization to the Indian Market. The value added service includes Three phase Technology Incubator (Market exploration trips) , RIB (research to innovation to business), Technology Localization Models (TLM), MPH (Making Pilot Happens) and IPR Helpdesk.

EBTC plays an important role in EU India collaborations. In the recent EU India clean coal technology workshop in Brussels in June 2013 as well as in EU India Clean Coal workshop in Chennai in November 2014, it was mentioned that EBTC together with European Commission will enhance business co-operation in clean coal technology. EBTC has developed multiple collaborations at different levels that will further contribute to the mobility of the cleantechnology solutions in India.

Media India Group

Paris-based Media India Group is creating awareness about India as a business, tourism and cultural destination in Europe through its signature magazines in French, Spanish, German and English. It also promotes Europe as a tourism and business destination in India through its magazines, Biz@India and India Outbound. Media India Group is the media partner of the EICC and has collaborated with EICC for almost 10 years now. Media India Group also organises several key events across Europe and India, where it has offices in New Delhi, Chennai, Kolkata, Bangalore and Pondicherry.

Foundation for Excellence in Policy Research and Entrepreneurship (FEPRE)

The Foundation for Excellence in Policy Research and Entrepreneurship (FEPRE) is a think tank and innovation incubator with objective of highlighting and promoting Indo-EU relations, especially in domain of innovation, entrepreneurship, education, media and diaspora. The founder of the Foundation, Count Christophe de Breza, is a long-standing patron of the EICC and is also its Mentor for Life. The Foundation has the objective of assisting, promoting and undertaking research and other activities in these domains and also to promote the networking of the Indian diaspora around the world as well as connecting the diaspora to India. The Foundation also promotes other organisations, companies or events in the domain of diaspora, innovation and excellence.

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This publication has been jointly produced by EICC and EBTC with the financial assistance of the European Union. The views expressed in this publication are those of the authors and do not necessarily reflect the views of EBTC, EICC or the European Union.

EBTC is a programme co-funded by the European Union and coordinated by EUROCHAMBRES the Association of European Chambers of Commerce and Industry

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