



**Current Economic Scenario in Europe and its Impact on Indian  
Industry**

**A FICCI Survey**

**August 2011**

## Summary of Survey Findings

- On the current economic crisis in Greece, Spain, Ireland, Portugal and now in Italy, there has been absolute unanimity in the surveyed companies that the ongoing crisis is the manifestation of larger issues and economic ills plaguing the European economies today.
- 53% of the companies have said that the ongoing crisis has already resulted in their businesses prospects in the region adversely impacted.
- The concern point is that over 75% of the surveyed companies have quoted a loss of 10-15% in terms of business generation from the European region.
- To keep their balance sheets stable, over 30% of the Indian companies surveyed have already begun to look beyond Europe. They have begun to gradually look for greener pastures in African countries, Middle East, South Asia and even in North America.
- To further compound the situation, over 25% respondents have pointed out that during the current economic turmoil, rather than facilitating foreign investments and businesses, the respective European Governments have made its processes more stringent in obtaining and renewing long-term visas, work permits, family and dependent visas and overall ease of doing business in the region.

## Conclusion :

- In the short to medium term, the European economic crisis is bound to impact the business prospects and the investment plans of Indian companies doing business in the region.
- As the survey indicates, despite the number of policy and regulatory impediments, India's outbound investments in the EU may see smaller deals but the activity will continue. Number of Indian companies are viewing the current economic crisis as an opportunity to enhance their investments.
- To maximize their benefits and to alleviate their business losses in terms of reduced demands in European markets, Indian manufacturers are aggressively pursuing new business plans. This includes increased imports of high-end machinery and technology from Europe due to highly competitive prices being offered by European exporters. This could have long-term spin-offs for Indian industry in terms of added capacities and reduced capital expenditures.
- Indian companies will always be on the lookout for good buys with a strategic fit as the fundamental reasons to invest in the EU have not changed .

## **Introduction :**

The bilateral trade figures that stand at over USD 67 billion, makes Europe, India's largest and most important trading partner globally.

The current economic situation, though resulting in number of procedural and regulatory obstacles for Indian companies to expand and or do business in the continent, still provides for needed returns on the investments made and business relationships forged in the years to come.

In the initial years of liberalization, Indian companies focused on increasing exports, getting into joint ventures or technology transfer agreements with foreign companies to make their presence felt in the global markets. In recent years, Corporate India has steadily moved towards building globally competitive enterprises. Healthy performance at home , the desire to venture abroad not only through offerings from the domestic market and liberal policies on outward investment served as a catalyst to establish a footprint in the global market and expedited the process of Indian companies entering foreign markets through the acquisition route.

The consistently performing economy clocking impressive growth rates in excess of 8% in recent years at the back of good performance by its private sector, has further fuelled the entrepreneurial zeal of India's enterprises. This has resulted in ever increasing interactions and joint ventures with the European companies. SMEs sector in India has also played a pivotal role in forging new business alliances with European companies. It has been done to get needed technologies and operational expertise to become globally competitive.

The skill upgrades and development has only added due momentum to the growing synergies between Indian and European enterprises.

In this backdrop, the current economic crisis has far deeper ramifications on the business interests of Indian companies. This includes, holding on to their current level of businesses, furthering their footprint across the region, seeking a more pliant policy framework from respective European economies to ease the process of doing business there and seeking easy movement of human resources to finish the existing projects and or undertaking the new ones in the coming times.

## **EU as a preferred business partner:**

EU clearly represents a large consumer base ( close to 500 million potential consumers) if the entire bloc of 27 countries is considered to be a single market. It's economic , trade and investment policies generally welcome foreign investment traditionally viewing it as a means to promote employment and capital formation

Other attractions of EU have been well developed capital markets, political and social stability , established and transparent legal systems to name a few.

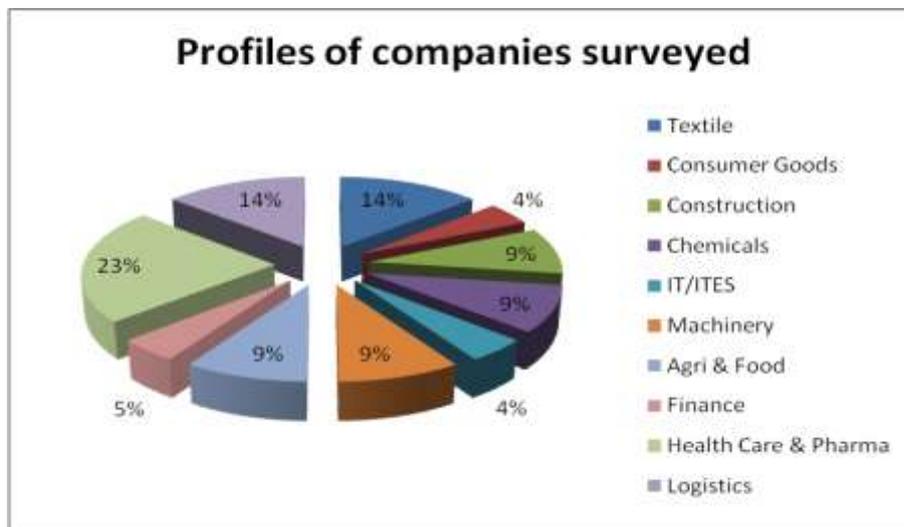
Till the first half of 2008 , ie before the onset of the global economic slowdown, investments in the EU has been largely a result of companies in high growth markets like India to combine their competitive advantages with the latest technological strengths of companies in the EU and the high quality availability of manpower.

## FICCI's Survey :

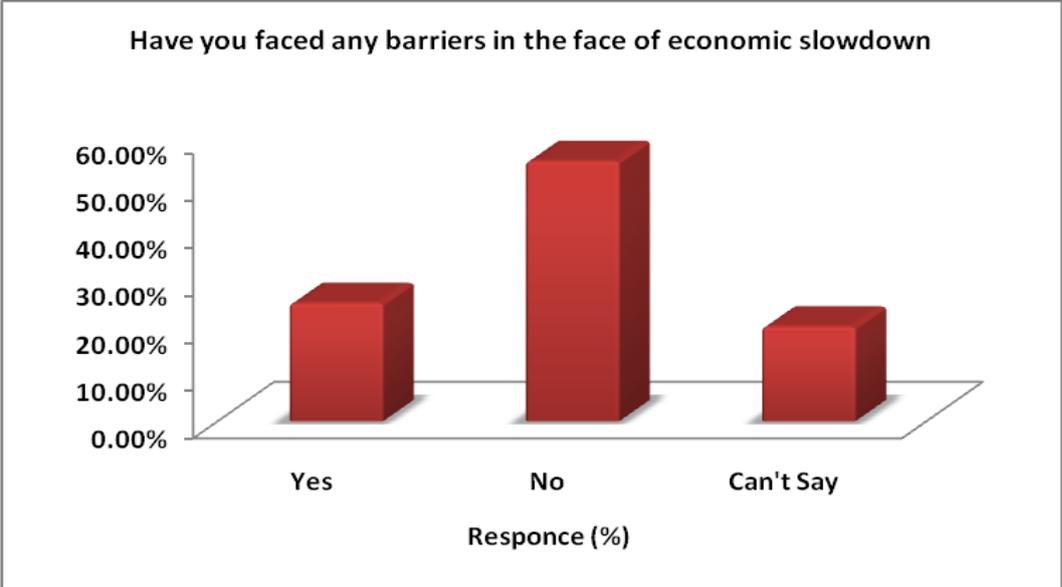
Against the backdrop of the current economic slowdown, FICCI had conducted a survey among Indian companies doing business and or have invested in Europe in the past to assess the impact of the current economic turmoil on Indian companies with reference to their business interests and investments made there. The survey questionnaire covered the following:

- In the face of the economic slowdown, have the Indian companies experienced any barriers (tariff/non-tariff, subsidies to domestic European companies) relating to protectionism of domestic industry in Europe
- Whether the current scenario has made it more difficult for Indian companies to do seek new business and other related visas. And whether there has been a perceptible decline in the ease to do business in the region.
- Is the current economic turmoil in some of the European countries a manifestation of deeper economic ills plaguing other European economies
- Has the contagion that began with Greece, Ireland and Portugal, affected the Indian companies' business prospects in these countries and beyond.
- What has been percentage –wise decline in the business generated from the region by the Indian companies
- Is the current economic scenario in Europe has led to a marked shift in focus to reach out to newer markets and regions across the globe.

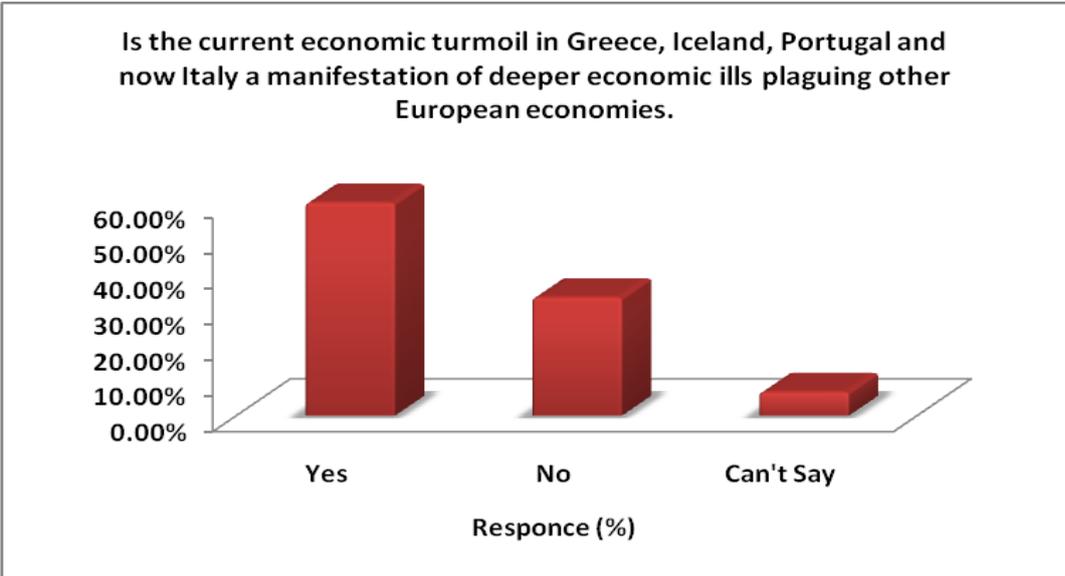
### a. Profiles of the companies surveyed



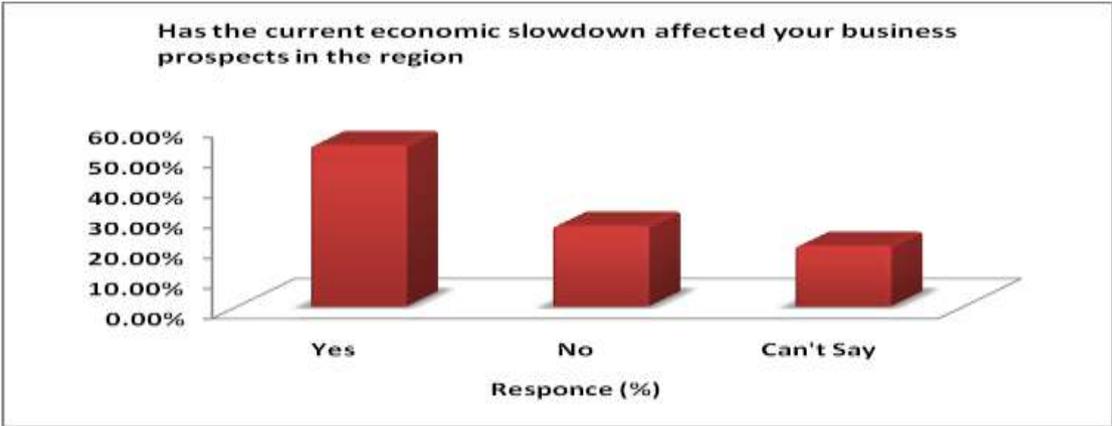
The survey was targeted at companies from different sectors which have already invested or doing business in Europe



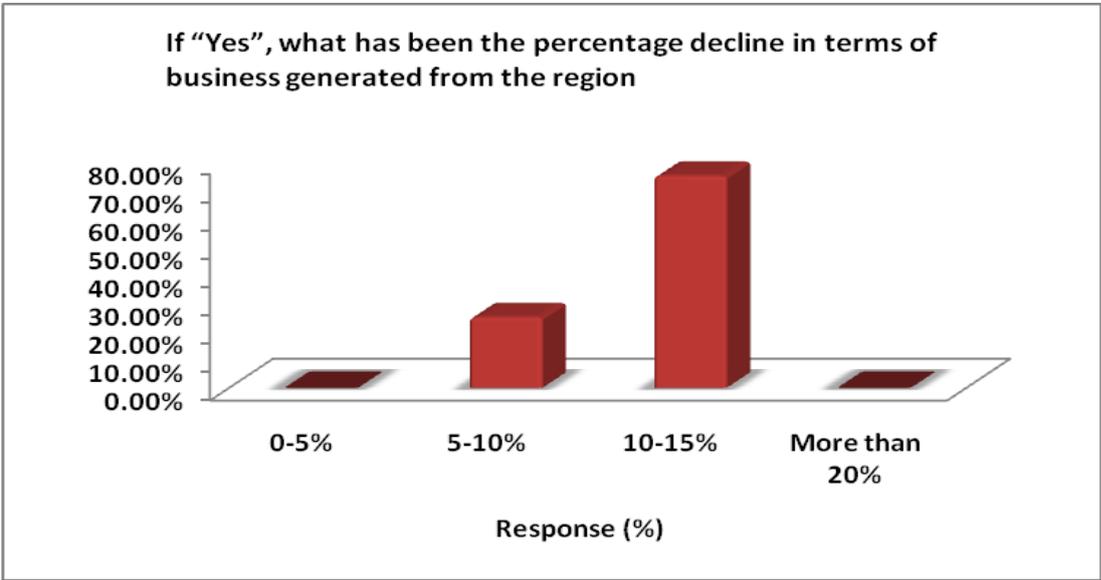
Over 60% of the companies surveyed have indicated that though as of now they have not encountered any barriers related to tariff/non-tariff, subsidies to domestic European companies. However, if the situation does not improve in the coming six months to one year, the situation might take a turn for the worst



Over 63% of the respondents were of the opinion that prolonged over-spending by the Governments, inertia in reaching out to new and emerging markets, stagnant manufacturing sector, declining populations, especially of productive category, are some of the reasons for current situation in these countries and beyond in Europe.

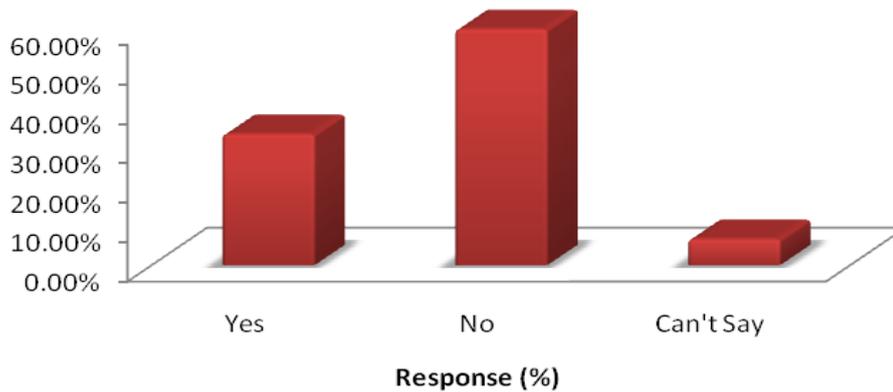


Over 60% respondents responded in affirmative on the issue of their business prospects being impacted due to the ongoing economic slowdown in European markets..



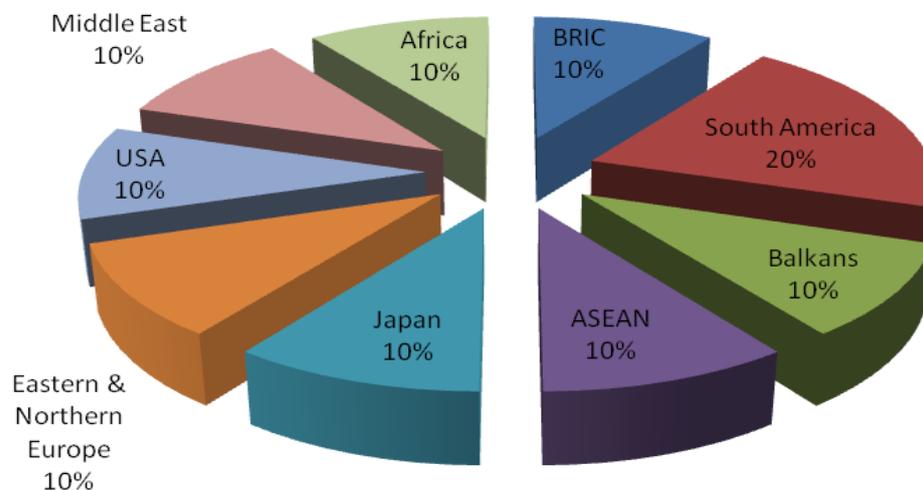
The decline in the overall business prospects primarily shows the outcomes post 2009. The current economic scenario and the ongoing crisis is bound to further impact the Indian businesses in the coming months. Despite the grim situation, the long-term economic viability and the potential to offer good returns has made Indian companies invested in the region.

### Has the current economic scenario in Europe resulted in a market shift for your organisation



Despite the fact that over 30% of the companies surveyed indicated that they are looking beyond Europe to expand their business interests. But majority of the companies still view Europe as an attractive business partner because of the various advantages it offers. To top it all, the fundamental reasons to remain invested there are still strong.

### If "Yes", which markets are being focused on



While number of surveyed Indian companies have begun to chalk out their international business plans with due focus on looking beyond Europe, however there are many other companies which are trying to turn the situating to their advantage as the overall slowdown in EU has made valuations of companies there attractive. This will certainly be a positive factor as and when they consider/further enhance their investments in Europe.