



**Survey on “Is the Worst Phase over for Indian Companies Doing
Business in Europe”**

A FICCI Survey

August 2013

Introduction

Post 2008, Indian companies doing business in Europe are redefining their operational philosophy to cope up with number of challenges these economies are springing for them. From rising public debt, increased unemployment to reduced consumption and drop in disposable incomes, number of factors has directly impacted the bottom lines of Indian companies.

Despite a gradual slowdown in India-Europe trade and economic relations, the region still remains India's largest trading partner. Hence, FICCI has been regularly evaluating the unfolding economic scenario in the Europe and its expected impact on business prospects of Indian industry in the region.

For the last number of years, FICCI has been undertaking the exercise to gauge the business sentiments of Indian industry doing business with or investing in European countries.

Most encouragingly, for first time in three years, Indian companies have begun to express optimism. This is indicative of the fact that they have successfully been able to re-position and or re-align their operational capabilities in one of the most demanding and organized markets in the world. Number of companies surveyed, not only indicated that despite the slowdown, they have been able to grow and create a niche for their products there. More so, there has been a marked rise in number of companies who have successfully been able to reduce their losses while doing business in the region.

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, is still providing needed returns on the investments made.

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 global markets. In recent years, Corporate India has steadily moved towards building globally competitive enterprises. Healthy performance at home, the desire to venture abroad coupled with liberal policies on outward investments, served as a catalyst to establish a footprint globally and expedited the process of Indian companies entering foreign markets through the acquisition route.

Despite the slowdown, Indian entrepreneurial zeal is looking towards transforming adverse economic situation to its advantage. 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.

The ongoing negotiations to sign an equitable and balanced FTA between India and the EU are also closely monitored by Indian industry. The issue of visas and movement of professionals in the EU still remains one of the most contentious concern areas for Indian companies. The survey has sought to effectively gauge the Indian industry's sentiments on all the pertinent issues mentioned.

EU as a preferred business partner:

EU clearly represents a large consumer base (close to 500 million potential consumers) if the entire bloc of 28 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 include well developed capital markets, political and social stability, established and transparent legal systems to name a few.

Till the first half of 2008, i.e. 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 availability of high quality manpower.

Summary of Survey Findings

- Despite the ongoing gloomy economic scenario in Greece, Spain, Italy and more recently, recessions setting in major economies like France, Indian companies have overwhelmingly expressed optimism that the worst is over for them while engaging the region commercially.
- From the last year when over 75% of the companies had responded that the ongoing crisis had resulted in their business prospects in the region being adversely impacted, over 50% companies surveyed noted that even when the markets were going into a slowdown mode, they, have been able to register growth in their product(s) category.
- The concern point is that over 60% of the surveyed companies who reported decline in their business prospects, have quoted a loss of 20% or more in terms of business generation from the European region. 18% respondents reported a decline of 5-10% in their businesses.
- Half of the surveyed companies expected the current economic situation would improve in the coming 1-2 years time.
- Encouragingly, 30% respondents expressed optimism that the economic situation in the European Union would begin to look up in a year's time.
- To keep their balance sheets stable, over 50% of the Indian companies surveyed have already begun to diversify their markets within Europe. This is in stark contrast to last year's survey as over 40% of these companies have initiated efforts to make inroads into Central and East European markets. 60% of these companies are primarily focusing on greener pastures in African countries, Middle East, South Asia and even in North America.
- Over 20% 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. Of these, there was unanimity that getting a business visa remained the most worrying issue for them to effectively engage the European economies.
- 10% of the respondents suggested that Indian government could favorably look at providing subsidies and lower duties for promoting India-EU trade.

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.
- The light at the end of the tunnel is not far away, according to Indian companies. Number of surveyed companies has indicated that they have been able to strengthen their European operations and would like to build upon the gains in coming years.

- 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. Numbers 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.
- As the economic fundamentals for Indian companies to stay invested in the country(s) of their business interest are sound, they are willing to stay put and not leave their European businesses for better avenues in other parts of the globe just as yet.

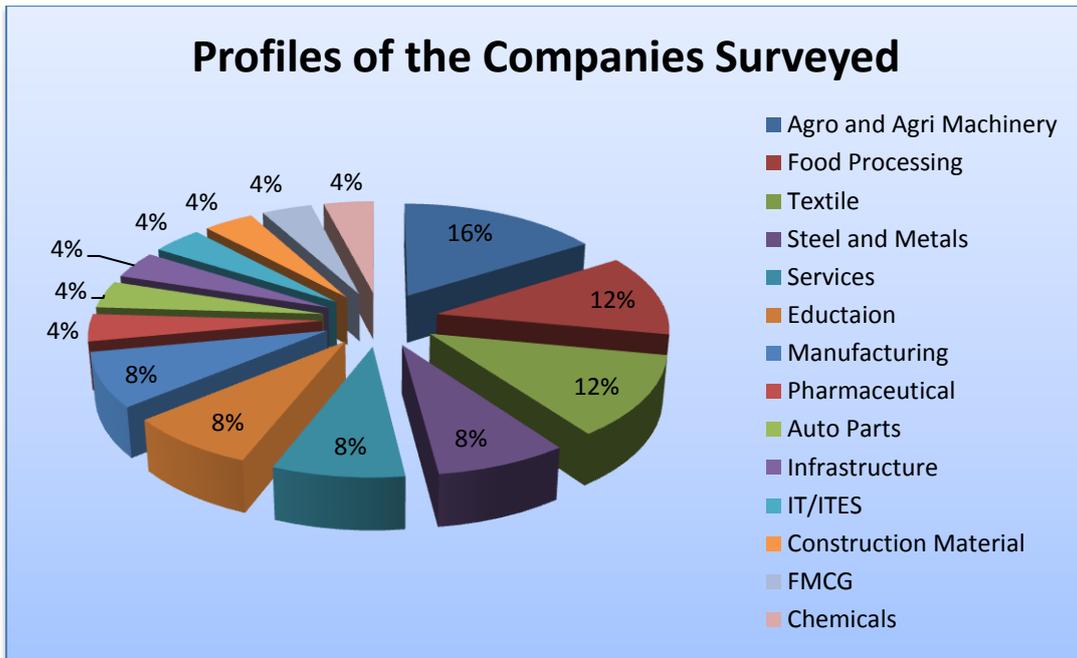
FICCI's Survey:

Indian companies doing business in Europe have continually reporting significant reductions in their business prospects in the last two years. FICCI has been regularly monitoring the situation by gauging the business sentiments and the future direction(s) of Indian companies business plans to offset the impact.

As part of its ongoing efforts, FICCI conducted a survey amongst Indian companies doing business and or have invested in Europe in the past to assess whether the worst in terms of gloomy European economic scenario having direct bearings on Indian companies' bottom lines was over or not. The survey questionnaire covered the following:

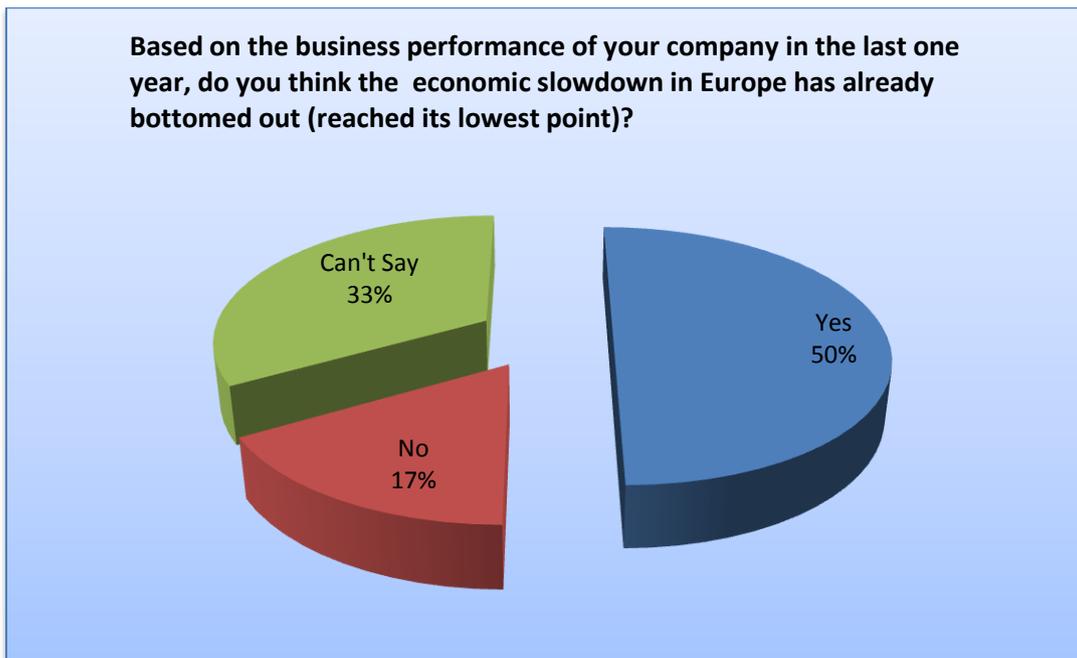
- Based on the business performance of Indian companies surveyed in the last one year, did they think the economic slowdown in Europe had already bottomed out (reached its lowest point)?
- If the answer was "No", then according to them, how long would it take for Euro Zone to "Turn Positive" and emerge out of the current economic slowdown
- Has the current economic slowdown affected Indian companies business prospects in the country of their interest?
- If "Yes", what has been the percentage decline in terms of business generated/prospects
- Are Indian companies actively looking for newer markets within Europe, say in Central and Eastern European region
- In the backdrop of evolving economic and business dynamics, what did Indian companies think whether the ongoing negotiations for signing India-EU Free Trade Agreement would be finalized in immediate future.
- According to them, will a comprehensive FTA be beneficial for their business prospects in the EU?
- In the current crisis ridden Europe, respondents were asked to rate the issues related to obtaining and renewing Long term Visa, Work Permits, Family and Dependents Visa, Registration, and ease and speed of obtaining Short-term Business Visa for Indian companies employees for doing business in major economies in the region on a scale of 1 to 4, where 1 is the lowest and 4 is the highest?

a. Profiles of the companies surveyed



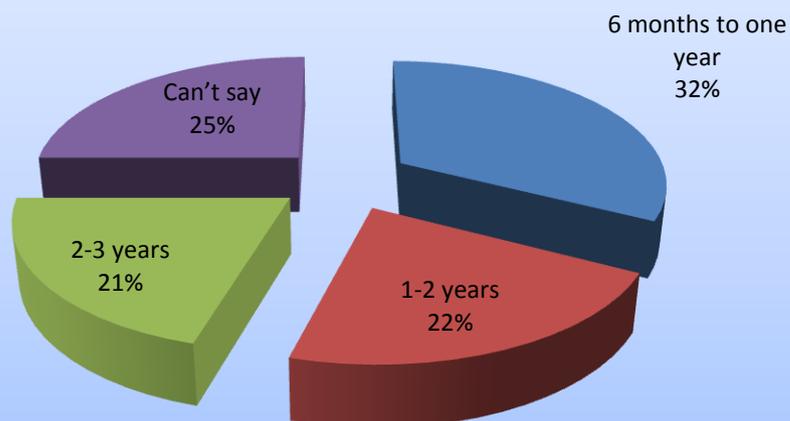
The survey was targeted at companies from different sectors which have already invested or doing business in Europe. This was being done to receive responses from cross-section of sectors that hold maximum potential to up India's business engagements with Europe.

b. Responses from Indian industry to queries raised



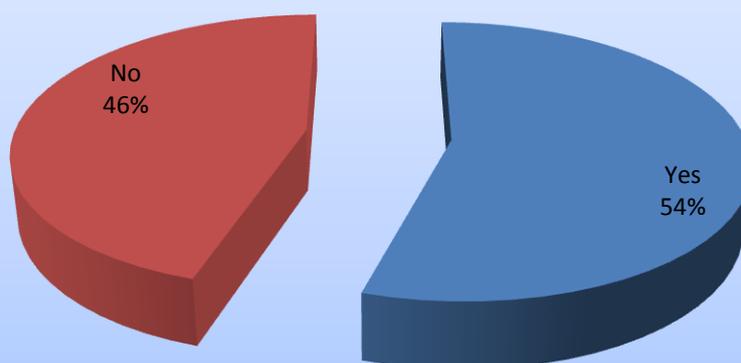
Around 50% of the companies surveyed believed that the economic slowdown in Europe has already bottomed out. This is in sharp contrast to last year's responses when there was near unanimity in respondents that it would take over two years before European economic scenario could witness a turnaround

If the answer is “No”, then according to you, how long would it take for Euro Zone to “Turn Positive” and emerge out of the current economic slowdown



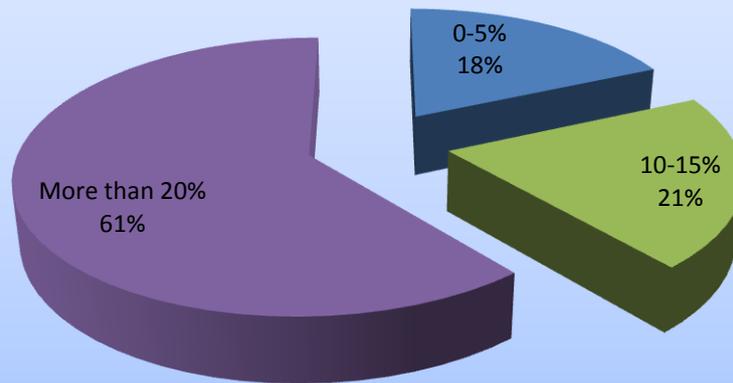
Around 21% of the surveyed companies expected that Europe won't be out of woods before 2015-16. Encouragingly, more than 30% respondents have expressed optimism based on their business performance and the gradual improvement shown by number of European economies.

Has the current economic slowdown affected your business prospects in the country of your interest?



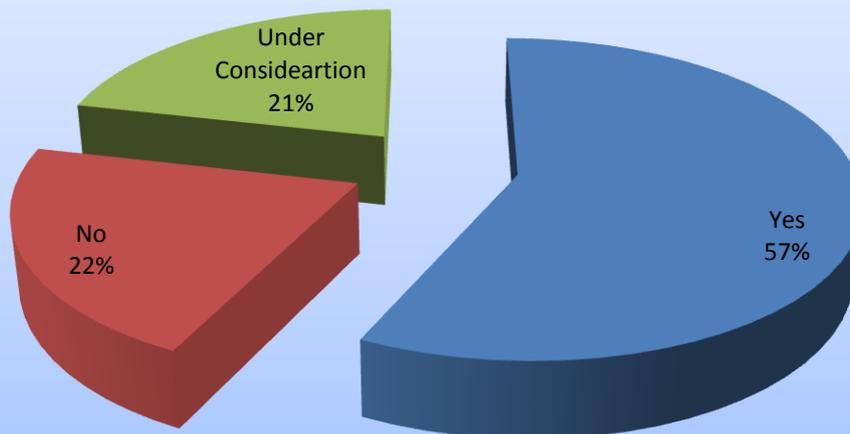
Around 46% of the companies surveyed noted that even when the markets were going into a slowdown mode, in the backdrop of rising unemployment and stagnating demands, they have been able to register growth in their product(s) category.

If “Yes”, what has been the percentage decline in terms of business generated/prospects



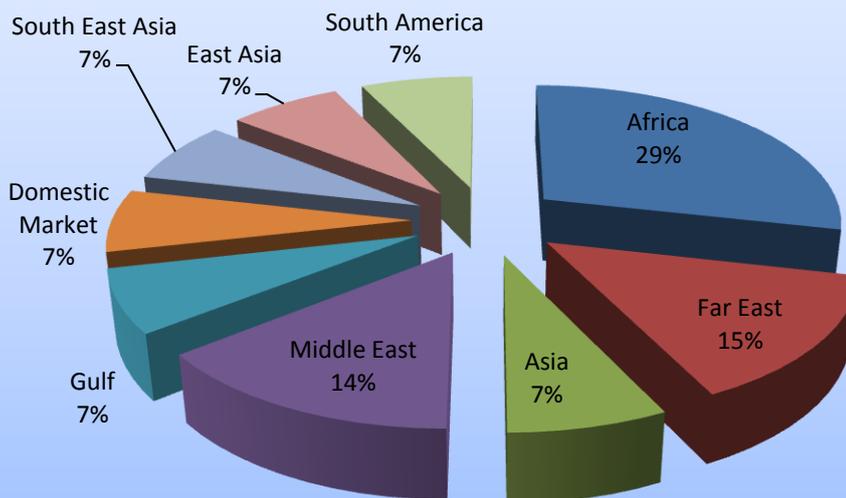
Over 60% of the surveyed companies who reported decline in their business prospects, have quoted a loss of 20% or more in terms of business generation from the European region.

Is your organization actively looking for newer markets within Europe, say in Central and Eastern European region



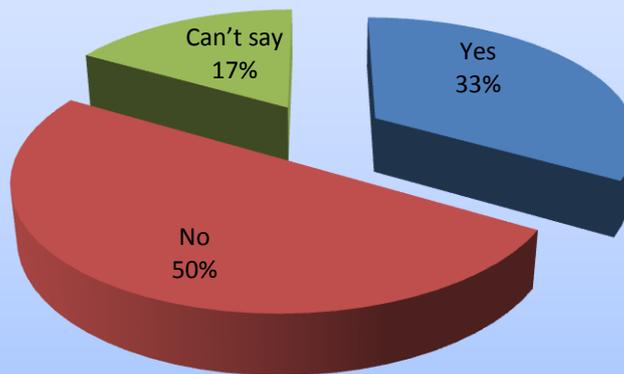
Over 50% of the Indian companies surveyed have already begun to diversify their markets within Europe. Central and Eastern European economies, being supported by conducive business, legal and taxation structures, is attracting increasing number of Indian companies to set-up their businesses there.

Which market(s) other than Europe are being focused on



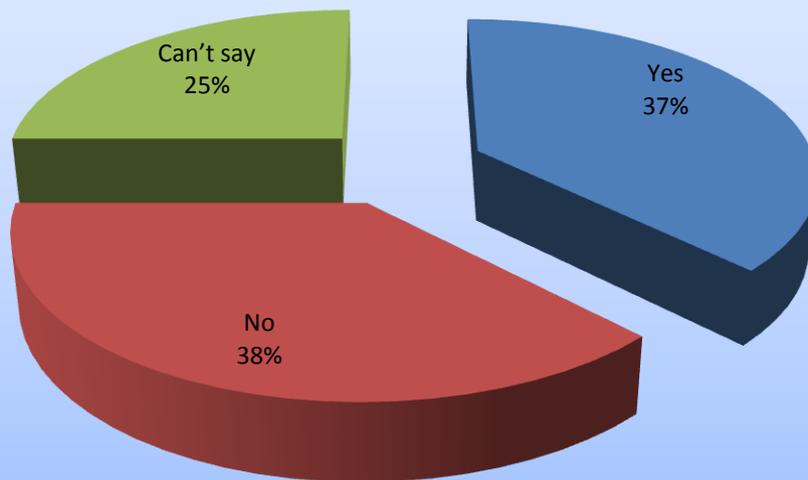
Companies have initiated efforts to make inroads into greener pastures in African countries, Middle East, South Asia and even in North America

In the backdrop of evolving economic and business dynamics, do you think the ongoing negotiations for signing India-EU Free Trade Agreement would be finalized in immediate future



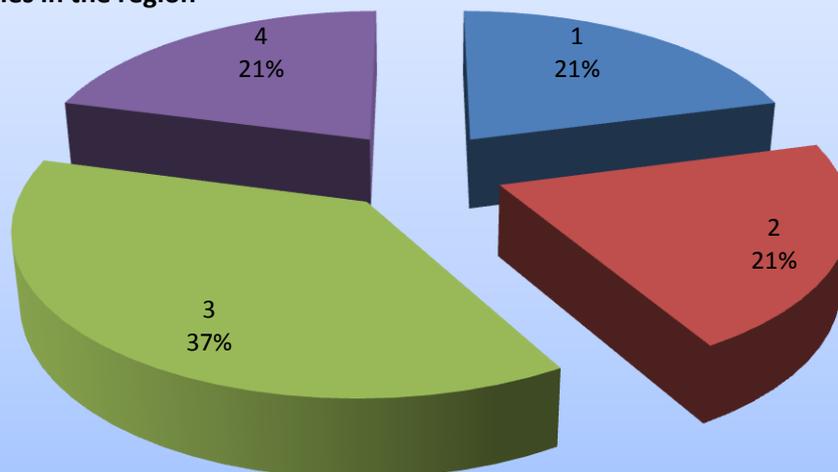
With number of contentious issues still to be addressed by both India and EU while finalizing the FTA and with general elections due in next 10 months, 50% of the companies surveyed indicated that signing of the agreement would take longer than expected.

According to you, will a comprehensive FTA be beneficial for your business prospects in the EU?



Since number of Indian companies has been able to overcome operational and business challenges to realize improved business prospects for themselves without an FTA in place, only 37% of respondents indicated that such an agreement would indeed support the cause of bi-directional trade and economic relations between India and the EU.

Kindly rate the issues related to obtaining and renewing Long term Visa, Work Permits, Family and Dependents Visa, Registration, and ease and speed of obtaining Short-term Business Visa for your employees for doing business in major economies in the region



Over 20% 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.