



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

**A FICCI Survey**

**August 2012**

## Summary of Survey Findings

- On the current economic crisis in Greece, Spain and in Italy apart from other peripheral economies, 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.
- 75% of the companies have said that the ongoing crisis has already resulted in their business prospects in the region adversely impacted.
- The concern point is that over 73% 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.
- 60% of the surveyed companies expected the current economic situation would linger on for the next 2-3 years.
- Only 20% respondents expressed optimism that the economic situation in the European Union would begin to look up in an year's time.
- To keep their balance sheets stable, over 50% 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 13% 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 favourably 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.
- 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.

## **Introduction**

Being the largest trading partner for India, we at FICCI are regularly evaluating the unfolding economic scenario in the European Union and its expected impact on business prospects of Indian industry in the region.

Since last one year when FICCI had undertaken the exercise to gauge the business sentiments of Indian industry doing business with or investing in European countries, there has been a marked rise in number of companies who have experienced a decrease in business/business prospects from 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 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 in recent years at the back of good performance by its private sector, and despite the current slowdown in growth, has kept the entrepreneurial zeal of India's enterprises on track. 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 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 have been well developed capital markets, political and social stability, established and transparent legal systems to name a few.

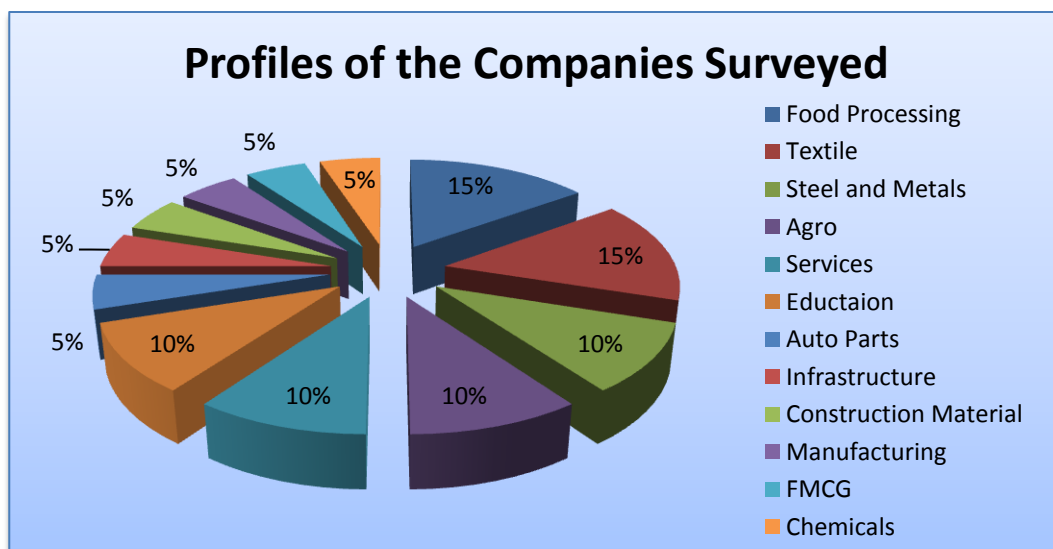
Till the first half of 2008, i.e. before the onset of the global economic slowdown, investments in the EU has been largely a result of companies in high growth markets like India to combine their competitive advantages with the latest technological strengths of companies in the EU and the availability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

## FICCI's Survey:

Against the backdrop of the current economic slowdown, FICCI 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:

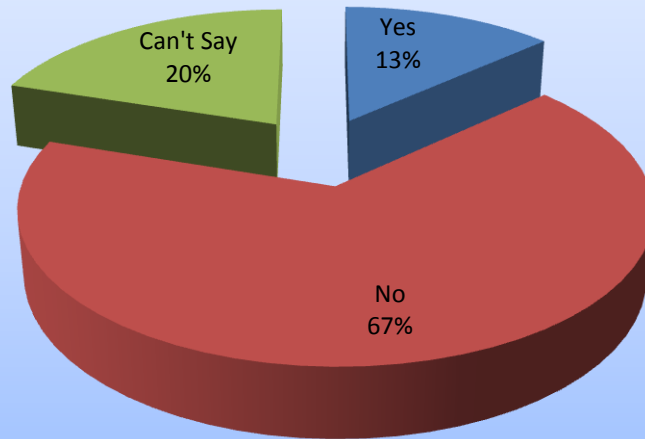
- In the face of the economic slowdown, have the Indian companies experienced any barriers (tariff/non-tariff, subsidies to domestic European companies) relating to protectionism of domestic industry in Europe.
- With the contagion spreading and engulfing number of major economies, has the response from the European policy makers timely and appropriate to contain the spread?
- What could be the expected time-frame for European economies to emerge from the ongoing economic turmoil
- 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.
- Has the contagion that began with Greece, Ireland and Portugal, affected the Indian companies' business prospects in these countries and beyond.
- Whether the current situation was affording the Indian companies new opportunities to increase their investments/ business engagements across sectors in Europe
- 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



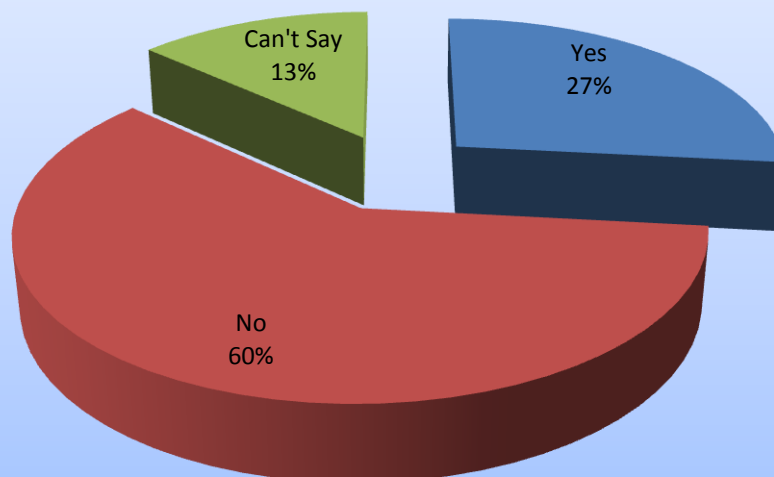
The survey was targeted at companies from different sectors which have already invested or doing business in Europe

**In the face of the economic slowdown, have you experienced any barriers (tariff/non-tariff, subsidies to domestic European companies) relating to protectionism of domestic industry in Europe?**



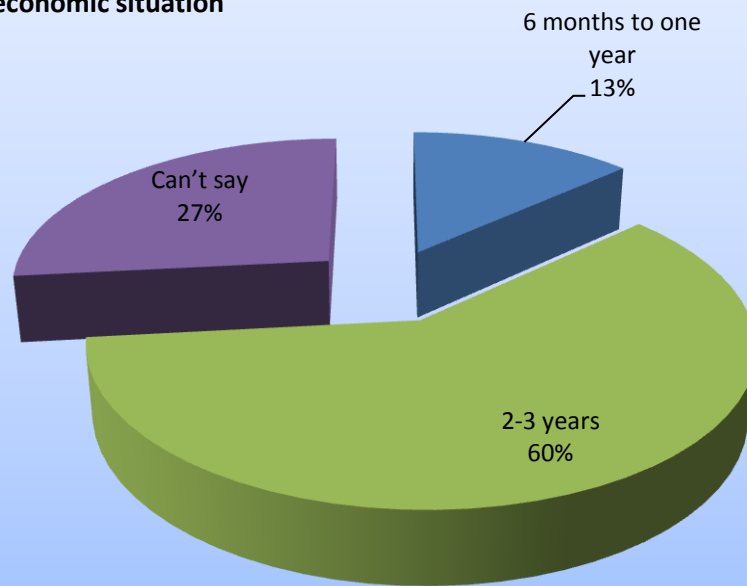
Over 67% of the companies surveyed have indicated that as of now they have not encountered any barriers related to tariff/non-tariff, subsidies to domestic European companies. However, if the situation does not improve in the coming six months to one year, the situation might take a turn for the worst.

**With the contagion spreading and engulfing number of major economies, has the response from the European policy makers timely and appropriate to contain the spread?**



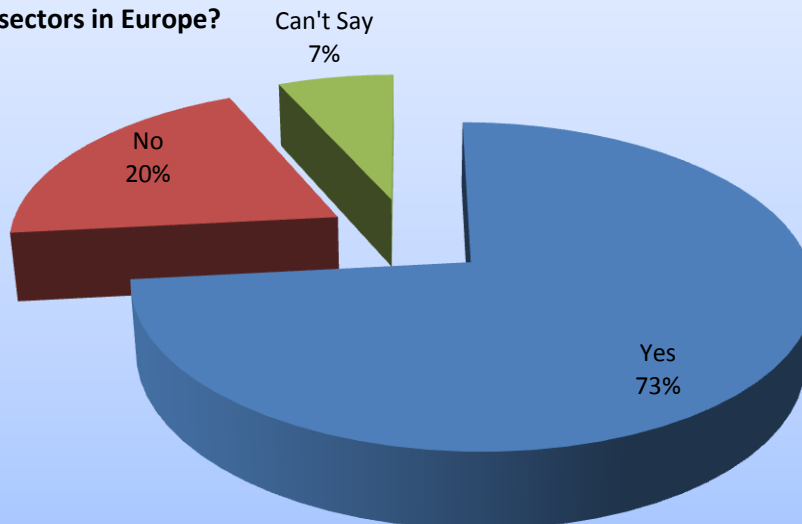
Around 60% of the respondents were of the opinion that the European policy makers have not been able to appropriately respond in time to the situation which has resulted in the contagion spreading and engulfing number of major economies in Europe.

**According to you, how long would it take for Euro Zone to emerge out of the current economic situation**



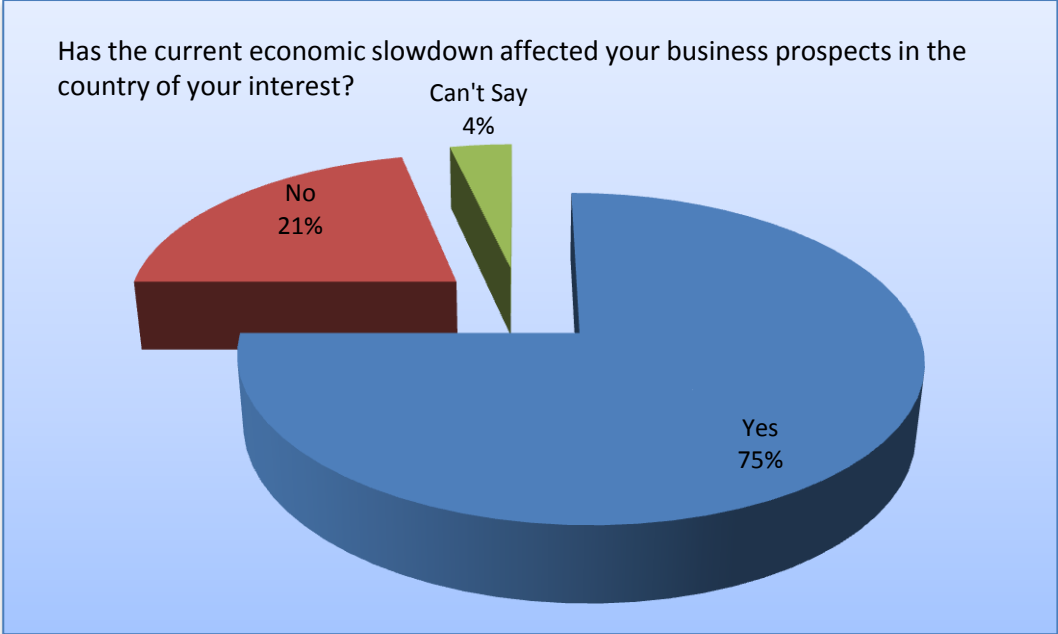
Around 60% of the respondents were of the opinion that it would take at least 2 to 3 years for Euro Zone to emerge out of the current economic situation.

**In the long-term, is the current economic scenario affording opportunities to Indian companies to increase their investments and or business engagements across sectors in Europe?**

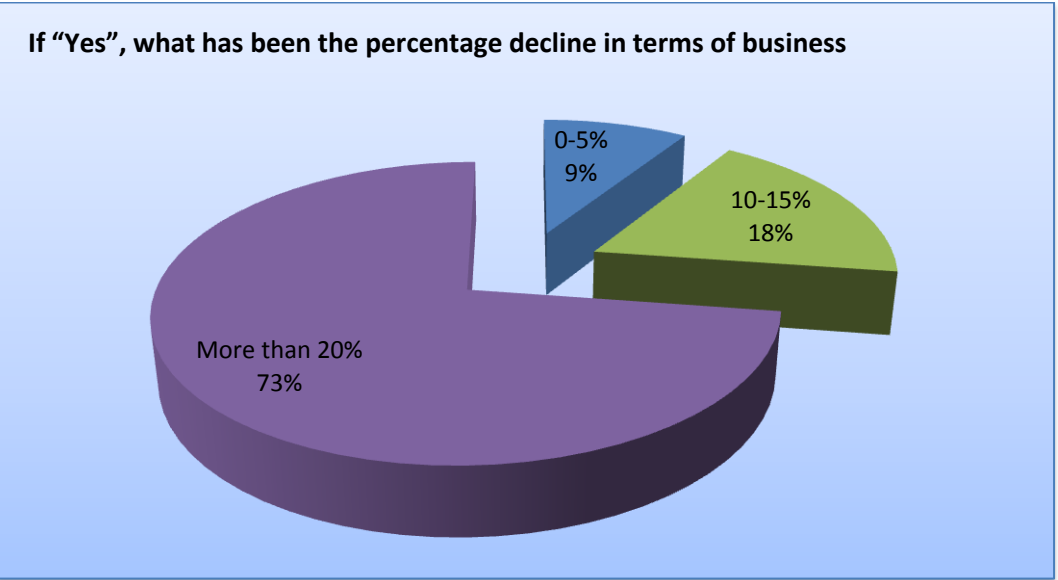


More than 70% of respondent feel that the current economic scenario presents great opportunities to Indian companies to increase their investment and/or business engagements across sectors in Europe.



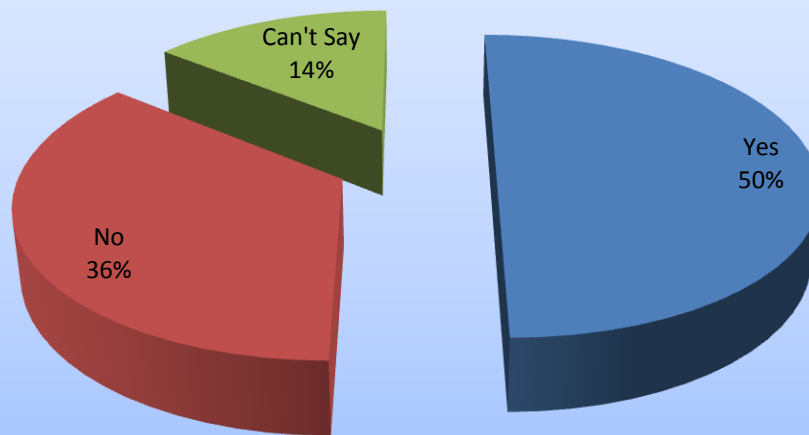


More than 75% of the respondent agreed that the current economic slowdown affected their current business engagements in European countries of their interest.



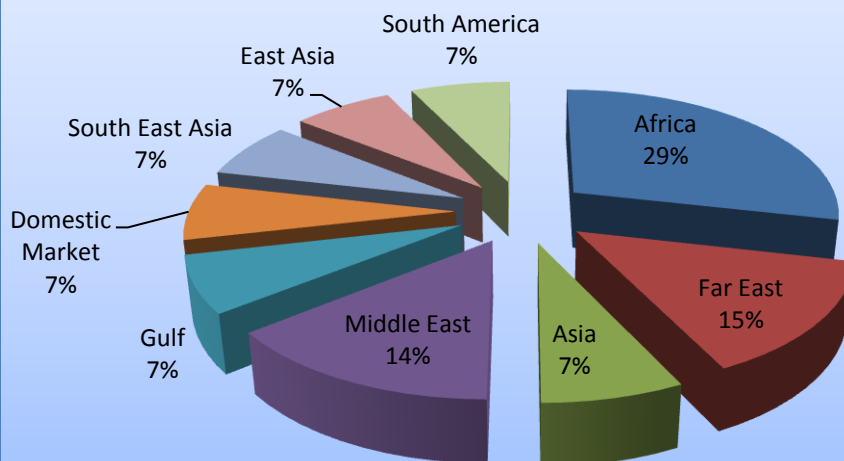
Out of the respondents who agreed to have been affected by the current slowdown in EU, more than 70% said to have seen a decline of more than 20% in terms of their business in Europe.

**Has the current economic scenario in Europe resulted in a market shift for your organisation to focus on other regions and economies?**



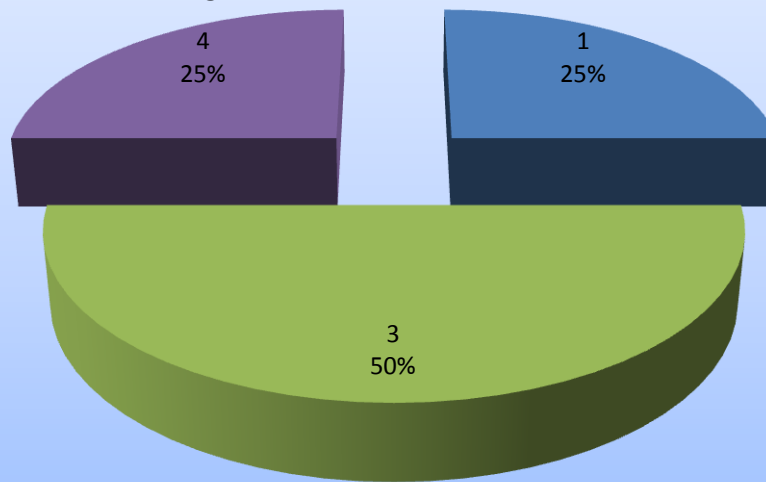
Despite the fact that around 50% of the companies surveyed indicated that they are looking beyond Europe to expand their business interests. But many companies still view Europe as an attractive business partner because of the various advantages it offers. To top it all, the fundamental reasons to remain invested there are still strong.

**If "Yes", which market 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.

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



Around 50% of the respondent rated 3, on a scale of 1 to 4, for 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, where 1 is the lowest and 4 is the highest.