

TRANSFORMATION IN EUROPE & INDIA FOR THEIR ECONOMIC GROWTH: KEY PROSPECTS AND THE UNTAPPED OPPORTUNITIES

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Focus on:

- How India (as EU's strategic partner) and her SME-s¹ are looking into this opportunity to expand into European (including the fast growing Eastern regional) markets of **Industrial Technology & Engineering**
- The prime indicators from HannoverMesse² 2006 - "The case of Germany": Doorstep to Europe' for expanding the base of industrial manufacturing and technology collaborations rapidly.



The Case of Germany: Doorstep to EU

“Germany is India's fourth largest trading partner (after US, UK and Japan) accounting for about 5% of our global trade. India accounts for just about 0.45% of total German trade and ranks 7th among Asian countries exporting to Germany” as stated by Indischebotschaft (Embassy of India, BERLIN) vindicates the potential yet to be realized between the 2 leading economies from Europe and South Asia respectively. In the economist's language on

¹ SME: Small & Medium Enterprises

² Regarded as the significant Summit and the largest Industrial Technology Fair globally

strategic thinking, in a positive-sum game, one party can become better off without another being made worse off.

The following KPMG/ IBEF Survey also indicate the overall success of some Indo-German JVs that are already producing results:

Germany has the highest GNP and the largest population of all of the countries

Industry position of Indo-German JVs

Company	Industry	Market share (%)	Industry position
MICO	Fuel Injection Pump, Nozzle, Nozzle Holder	76.19	1
BASF India Ltd.	Leather & Textile Auxiliaries	56.98	1
Bayer Cropscience	Pesticides	11.12	1
Siemens Ltd.	Medical Equipments	7.71	1
Siemens Ltd.	Private Automatic Branch Exchange	35.66	2
Bayer Cropscience	Rubber Chemicals	15.87	2

of the European Union, and is thus its most important marketplace. The GDP per capita at market exchange rates was US\$32,757, placing Germany 14th in the world (2004 report). Germany was ranked 18th on the basis of purchasing power parity (PPP), with income per head on this count at

US\$27,136 in 2004. The Economist Intelligence Unit's projections for 2005-09 suggest that Germany's relative position will deteriorate over the forecast period. The decline in the ranking will stem from fairly weak growth, although some recovery is still expected after the stagnation during 2001-03.



Why entry from Germany?

Germany has the highest GNP and the largest population of all of the countries of the European Union, and is thus its most important marketplace. What's more, the markets of the former state-controlled countries of eastern and central Europe are right on the doorstep, offering

immense market potential for the future. Germany represents the geographical and historical **bridging point** to these **markets of East Europe**

(**Bulgaria** taken as example with its industrial growth rate on the rise. Appendix 1 (b, c)

Economic Scenario: Industry scenario in Germany -

Besides automotive industry which has been key driver of the economy there are various emerging areas of strength such as Information technology, communications, biotechnology, pharmaceuticals and energy. These would represent the new global growth markets. Germany is already among the world leaders in these sectors. German industry combines innovative business methods and technological advances with a tradition of extremely high-quality workmanship. Products labelled "Made in Germany" are in demand everywhere in the world. Some important sectors (industrial) are:

Automotive industry: A key driver of the German economy

Germany was the second-largest vehicle manufacturer in the world (after Japan and ahead of the US) and the largest in Europe in 2003. Around 5.181m units were produced in Germany in 2003, compared with 3.25 m units in France, the second-largest European manufacturer, and initial data suggest that there was a further increase by 0.7% in 2004. The automotive industry is one of the prime drivers of the German economy. **We expect the scrapping rate (including sales of used cars to buyers in other countries, particularly in Eastern Europe) to recover gradually.** Nevertheless, the rate of growth in passenger-car registrations will remain low, which clearly reflects the fact that Germany is a mature market. However, a shift to higher-quality cars will continue, with implications for the value of the car market.

German manufacturers shift production abroad

German carmakers will continue to shift their production abroad. This partly reflects the need to reduce payroll expenditure and compliance costs regarding environmental and other standards, but also the need to move closer to export markets. The trend towards production of car parts in other countries will be even stronger, particularly in the Eastern Europe, although

work councils in Germany have become more willing to accommodate management demands for cost cuts. The introduction of a road tax for trucks at the beginning of 2005, following a series of delays as a result of technical problems, will slightly dampen demand growth.

Global Economy & Germany: *Foreign Trade as an instrument of Economic Growth*

Germany is one of the world's premier trading nations, with a powerful export sector and a vigorous appetite for imports. It tends to run a substantial surplus in trade in goods, which is only partly counterbalanced by a persistent deficit in trade in services. German exports increased by 1.6% in local-currency terms to € 661.6bn in 2003, according to the Federal Statistical Office. But this was not enough to prevent the German economy from lapsing into a recession in that year. Because of the importance of access to foreign markets, the German government has traditionally advocated free trade. The EU sets the levels of common tariffs and detailed rules on other import restrictions. It also handles negotiations for its members within the World Trade Organisation and other multilateral bodies. The German government closely supervises trade in sensitive goods (nuclear material, armaments and dual-use products) with certain countries. It maintains well-developed systems to supply official export credit and insurance.

Germany's annual trade of commodities . The import and export of commodities are given below. Out of this the import of engineering goods into Germany represents a sizeable amount as evident from it.

India and Germany- A trade potential under-utilized:

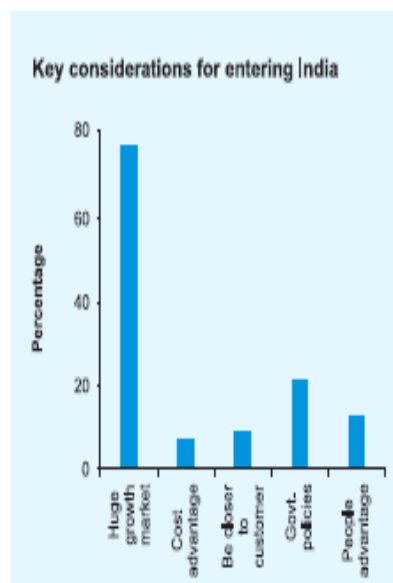
India's trading strength is not reflected by the volume of trade it has achieved though the potential is enormous. In the year 2003 - 04 (April to March) according to the Department of Commerce, GOI, the total trade between India and Germany stood at USD 5433.66 millions which does not represent the true trading potential of India with Germany. Having said this

we have to add that the trade between the two countries is increasing exponentially and in the coming years the true potential would be realised.

Entering Indian market:

The key considerations for entering India for European companies could be short-listed as such-

- 1. Huge growth market**
- 2. Government policies**
- 3. Be closer to customer**
- 4. Cost advantage**
- 5. People advantage**



The Right-hand side graph depicts the advantages in a comparative way: >>

Following is the example of India's growing automobile industry, a sector in which Germany is the European leader and not yet much prominent with presence in the market in comparison to Japanese, American or Korean manufacturers. To briefly illustrate the scope of the market, the following snap-shot can be cited:

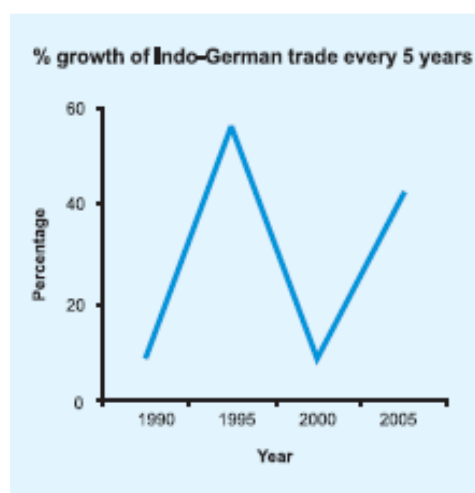
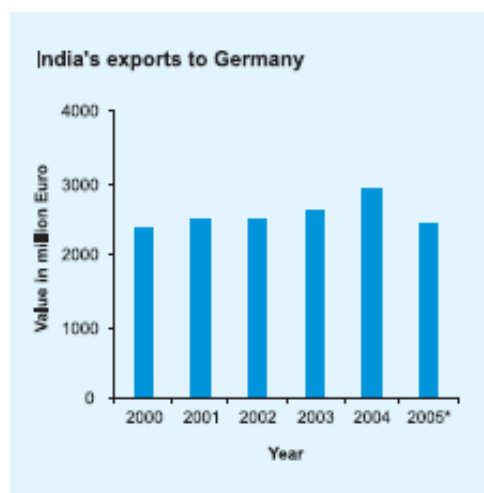
- **Indian Automobile Industry as per market size (2005-06):**

- Largest three wheeler market in the world
- 2nd largest two wheeler market in the world
- 4th largest passenger vehicle market in Asia
- 4th largest tractor market in the world
- 5th largest commercial vehicle market in the world

In the four-wheeler automobile segment (from luxury sedan to mid-sized vehicles), only Mercedes Benz (Daimler Chrysler) has its models running on the Indian road. Other German automobile majors like Volkswagen, AUDI and BMW are yet to have their presence felt on the Indian turf. Manufacturing exports (including automobile engineering) from India to Germany are proving out to be highly prospective among companies from each side and growing with major success rate as well. Although the Indian

exports of principal commodities to Germany was to the tune of USD 3,387.826 million in the year 2004 (Jan to Dec) thus representing just about 0.47 percent of Germany's total import trade making it the 33rd largest trading partner with respect to imports. In 2004-05 and currently during 2005-06, there has been a substantial rise with both Indian and German governments coming forward to boost the industry (SME and large companies). The following market *survey for Indian companies* of different sizes entering into the EU market (mostly using their experience of successfully working with German partners) has been summarized in APPENDIX 2. The details of chapters (1-13) mentioned in the table below are available in the CBI report of 2005.

Some of these Indian companies who are seriously venturing out in EU (including the new Eastern European countries) are completely first time entrants, or have been in collaboration

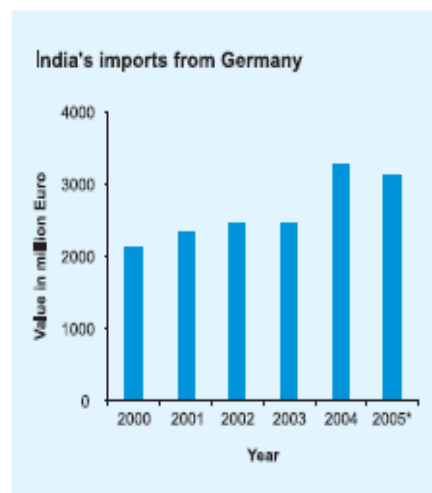


with their partners in Germany/ Italy/ France. The following graphs depict the room for growth in exports and imports:

Engineering Exports to Germany

With special reference to the engineering exports from India, an analysis has been undertaken to trace the major product to Germany. The major products

that find their way into the German market are outlined before in the Export-Import chart. As evident from the Ex-Im chart provided earlier, the machinery category of electrical and mechanical items seems to dominate Germany's imports from India. Together it accounts for USD 549.72 million thereby reflecting a trend toward sourcing of sophisticated, technologically advanced product from India. **This category of export basket would continue to rise as witnessed by the tremendous percentage change occurring in the year 2004 when compared to 2003.**



Trade Rules, Regulations in Germany:

It has been widely believed that the uniform product safety requirements and related product safety measures for industrial products would harmonise the standards in the EU countries and this would enlarge the market size of the European Union. However this has complicated the matter as we understand that the national standards are implemented in each of the individual countries in the transition period until the common standard would be applicable for the EU as a whole. After the transition period the CE mark would supersede all other compliance certificates in the EU provided the product is covered by the EU standardization policy. As the EU standardization policies are being developed there are certain elements of possibilities that the German Standard would be eventually the guiding forces behind the EU standardization policy. In the wider context Germany would provide the leadership in implementing the EU Standard. There are fears that Germany would implement these measures before the due date as it happened in the implementation of Electromagnetic compatibility standard (EMC) despite the initial five year lock in period.

Sometime the quality conscious buyer in Germany implements some of the measures which are not part of the standard procedure. They insist that certain additional performance or quality mark are incorporated in the product for better chance of success in the European market.

On Product Certification, organizations responsible for testing and certification are, for example, Underwriters Laboratories or the "**Technischer Überwachungsverein e.V. - TÜV**" (**Technical Inspection Association**). For the VDE (Association for Electrical, Electronic & Information Technologies) mark, which is applicable for electrical products only, companies have to obtain information directly from the VDE.

Conclusion with a brief on HANNOVER MESSE 2006: Hannover Messe is widely regarded as the largest global fair and exhibition arena on Industrial technology. ('Messe' in German indicates Fair/ Salon). The German industry strongly supported by their government promotes and markets their new innovations in Hannovermesse during this week-long event alongside thousands of foreign companies and government agencies of all continents. Each year as per significance, one foreign country is invited to become the partner and attract the maximum focus from the local European companies and industry. In 2006, some **155,000 trade visitors** came to Hannover to marvel at the latest innovations unveiled the capital goods industry. Exhibitors indicated that the high expectations they had placed in the show had indeed been fulfilled, rating the economic outlook for their sectors as being better than at any other time in the past three years.

As summed up by Jürgen R. Thumann, President of the Federation of German Industries (BDI): "The climate for reform in our country has seldom been so favourable, so now is the time to act if this budding economic recovery is to be turned into a bona fide, sustainable upswing." The role of MESSE as a prime engine for global dialogue between the worlds of industry and politics was further underscored by the high number of domestic and foreign delegations engaging in high-level talks in the days thereafter.

"Partner Country India"- India's highly opportune and well-received appearance as the official Partner Country of HANNOVER MESSE 2006 promises to give a long-term boost to the nation's bilateral trade prospects, particularly with its host country of Germany. India successfully demonstrated its considerable industrial prowess on a massive display area of over 13,000 sq m. A total of 343 Indian exhibitors took part in the Partner Country showcase, and expressed widespread satisfaction with the many contacts they had made contacts regarded as holding great promise for future business ventures and foreign investment. Especially in the international arena, India's Partner Country appearance drew outstanding media coverage and public interest. The total business generated through Indian companies' participation in the five-day Hannover Messe 2006 fair has been put at \$1.3 billion. Recognizing India's extraordinary potential, Dr. Peter Klaus (Chairman, KfW) had announced an investment of over 2.5 to 3 billion Euros by the Bank in India at the Hannover Messe 2006, substantially increasing their commercial portfolio in the country. Out of a total of 5,175 exhibitors, 2,322 foreign companies came from 66 different nations to exhibit in Hannover, Germany, this year a turnout which is about five percent greater than in 2004. The largest foreign delegation this year came from India as this year's Partner Country (343 exhibitors), followed by China (250), Italy (210), Switzerland (138) and Turkey (103 exhibitors).

Indication of economic upswing: Exhibitors from other European nations were particularly gratified at the quality and international mix of trade visitors. They detected an optimistic mood and a palpable sense of an economic upswing. For the majority of Central and Eastern European exhibitors as well, HANNOVER MESSE remains an absolute must. Numerous businesses there have recorded full order books and are already requesting stand space for the coming year.

R&D institutions backing up the industry and the governments to constantly improve the IP norms and foster innovations: For

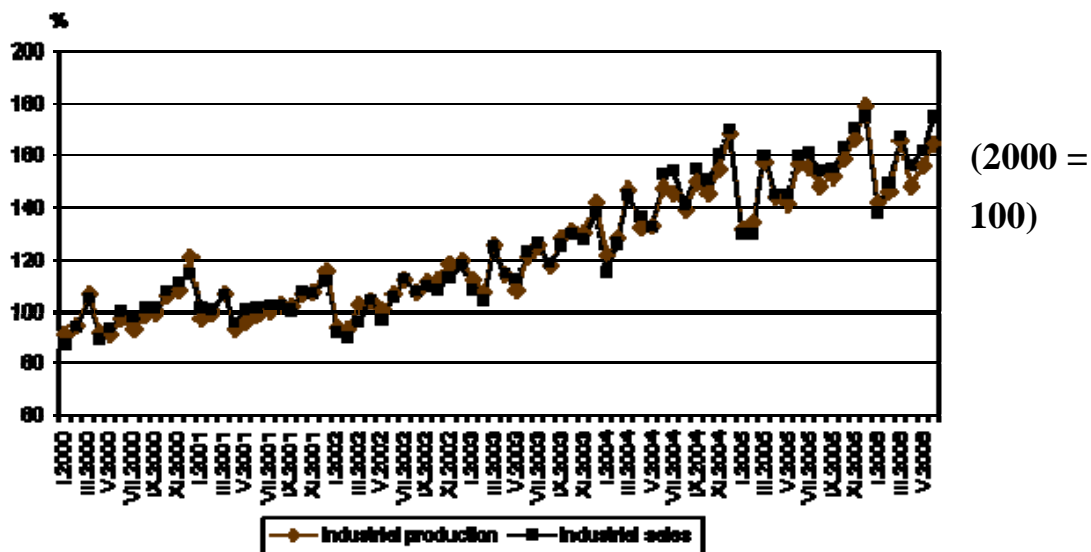
collaboration in R&D and Technical Education, some of the selected leading institutes joined hands together. Some of them are new partners and the rest (as in the program below) took this opportune moment to enhance the level of exchanges to reach higher potential. Indian Institute of Technology (IIT alumni association in EU) in Europe took charge to organize this unique event bringing the academia close to it as well. Initiating flow of intellectual capital both ways to build up the groundwork for strong collaboration, it set the tone for upcoming innovation and research developments both the partners highly deserve. Some of the significant issues of **technology transfers** during this growth in manufacturing and outsourcing would be to constantly improve the Intellectual Property (IP) norms keeping abreast with the fast pace in the industry. The road ahead for **collaboration** is widening to its full potential in the near future boosting the economy of India and Europe to reach their targeted growth rates.



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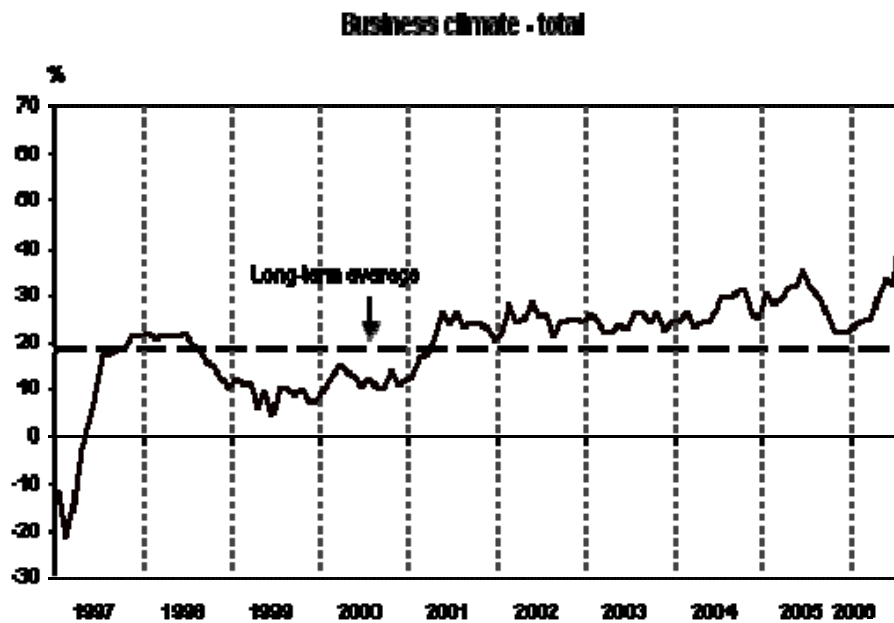
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<http://www.din.de>
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10. EuroBarometer (European Commission’s Technology Study Report ‘05)

Industrial Production Indexes and Industrial Sales Indexes (**Eastern European example of BULGARIA**):



Appendix 1 (B), (C):

Source: National Statistical Institute (NSI, Bulgaria)



Foreign direct investment (FDI) in Bulgaria by investing country and year (inflow, Euro, million)

Year							
Country	1999	2000	2001	2002	2003	2004	2005
Austria	122,2	203,8	297,7	579,5	671,1	1235,1	3268,5
Greece	95,7	233,4	273,4	472,4	532,6	635,3	985,1
Italy	37,2	314,7	308,0	329,4	412,4	482,3	663,2
UK	239,2	220,4	238,5	225,7	292,6	344,1	659,2
Germany	419,4	353,8	326,0	438,0	428,9	520,5	374,2
USA	260,0	281,2	320,4	332,4	363,0	451,2	331,4

Appendix 2: Entering into the EU market

MARKET SURVEY	
PART A EU MARKET INFORMATION AND MARKET ACCESS REQUIREMENTS	
EU Market Information (Chapters 1-8) Product characteristic Introduction to the EU market Consumption and production Imports and exports Trade structure Prices	EU Market Access Requirements (Chapter 9) - Non-tariff trade barriers: Product legislation Market requirements: Occupational health and safety Environmentally sound production Packaging, marking and labelling - Tariffs and quotas
PART B EXPORT MARKETING GUIDELINES: ANALYSIS AND STRATEGY	
External Analysis (market audit) (Chapter 10) Opportunities & Threats	Internal Analysis (company audit) (Chapter 11) Strengths & Weaknesses
Decision Making (Chapter 12) SWOT and situation analysis Target markets and segments Positioning and improving competitiveness Suitable trade channels and business partners Critical conditions and success factors (others than those mentioned) Strategic options & objectives	
Export Marketing (Chapter 13) Matching products and product range Building up a trade relationship Drawing up an offer Handling the contract Sales promotion	