Europe India Chamber of Commerce

Newsletter

Issue: 45 Volume: 4 **November 2011**

Global India Business Meeting 2012 dates announced

The Flemish government has announced that the Global India Business Meeting 2012 will take place in Antwerp on 24-25 June 2012. The GIBM 2012 which will be hosted by the Flemish Government is the first such global business event being organized in Belgium. Horasis Chairman Dr. Frank Richter visited Brussels on 19th and 20th October and held discussion with the officials of the Flemish Government and its Investment Agency the Flanders Investment and Trade about the preparation of the business summit. The Secretary General of the EICC who had also been invited by the Flemish government to attend the meeting thanked the regional government and assured them that the Chamber will support, coordinate and cooperate with the government and its agencies in the successful organization of the summit. The two day high level business summit will be attended by more than 300 CEOs from India, Europe and other parts Asia, Gulf countries and from North America. The summit is also aimed at strengthening the Belgo-India trade and economic relations and will offer opportunities for business collaboration in the two countries Although it is hoped that the global economic situation will improve in the next few months by the time the event is held, the business summit however will take place in the midst of global economic uncertainty, ever unfolding Eurozone economic crisis and challenges faced by Indian business leaders on doing business with Europe. The summit will therefore assume special significance as to how Indian and global business can join together to avoid economic recession and how global business leaders address this challenges. Dr. Richter accompanied by the EICC Secretary General visited Antwerp to discuss logistics and other conference related issues.

EICC Netherlands Chapter awarded gold medal

The Institute of Economic Studies, New Delhi based think-tank has conferred "International Excellence Award" and Gold Medal on EICC Resident Director in the Netherlands Mr. Vikas Chaturvedi. The Institute has conferred this honour to EICC Netherlands for its active contribution and for its role in promoting trade and business between the Netherlands and India. The award was conferred by H.E. Mr. Korn Dabbransi, former Deputy Prime Minister of Thailand to Vikas Chaturvedi during the ceremony in Bangkok on 29 September 2011. EICC Netherlands Chapter which came into being in April this year is actively engaged in facilitating meaningful business collaboration between Indian and Dutch companies. The Chapter has already helped over 10 Indian and Dutch companies in doing business in the Netherlands and in India respectively. EICC Netherlands Chapter came into force in April 2011. The Institute of Economic Studies was established in 1980 by a group of economists, parliamentarians and industrialists to study and discuss problems concerning various aspects of the economy and economic development of India and offer their expert advice and services. The Institute seeks to broaden its activities by keeping close rapport with Chambers of Commerce, Trade and other industry associations, Government authorities, other eminent persons to update information on policy issues.

India does a Nano again, launches digital revolution with $35 tablet computer

The computer for the masses is finally here. India on 4 October launched a low-cost internet access-cum-computing device to usher in a digital revolution and further India’s drive towards digital literacy. The Union Minister for human resourced development launched the device, 'Aakash', costing $35 a piece and distributed it among 500 children on the occasion. The low-cost tablet is manufactured by DataWind, a wireless web access products maker based in Montreal. The tablet has a 7-inch display with 800x480 pixel resolution, 256MB of RAM, 2GB flash storage, and a 366MHz processor from Connexant. The tablet runs the Android 2.2 operating system. The devise that can withstand temperatures of up to 48 degree Celsius (118 degree Fahrenheit) has been developed with support from the Indian Institute of Technology. The company hopes to execute the first order of 100,000 units from a factory in Hyderabad over the next six weeks. The government is expected to buy 8-10 million units of the device by 31 March 2012. The launch of the “Aakash” which means sky is also seen as India’s attempt to shift from being a global outsourcing centre to one of frugal innovation for lower-income consumers. Aakash is designed to

boost e-learning to help India solve its education problems and bridge the digital divide that sees India lagging behind its emerging market peers in internet access. Current estimates put the number of Internet users in the country in the range of 80 million to 100 million, or roughly 8% of India's 1.2 billion population.

At a time when the tablet computer is the most coveted gadget in the world, India has scored a big hit by launching this at a small price tag. It's not as powerful as home PC and it is definitely not the cool, world-beating iPad but Aakash still packs a punch and can do a lot of what the iPad does, perhaps in a slower speed. The launch of Aakash - an affordable "access device" comes just a week after Amazon created ripples in the tablet market by unveiling 'Kindle Fire' for $ 199 (Rs9,785). The Apple iPad costs about Rs32,000 in India. Aakash is the country's latest offering in the series of affordable technological innovations that includes the world's cheapest car, Tata Nano.

India drafts new electronics manufacturing policy

The Indian government on 3 October announced the draft of a new electronics policy which seeks to build a strong manufacturing base and address the issues that are the cause of the current weak manufacturing ecosystem in place. The ambitious new plan is low on specifics but clearly mentions that more policy issues are to be announced over an unspecified period of time. India's draft National Policy on Electronics, 2011, aims at achieving a turnover of about $400 billion by 2020, involving investment of about $100 billion. It also aims at ensuring employment to around 28 million in the sector by 2020.

The policy draft envisions creating a globally competitive electronics systems and design manufacturing (ESDM) industry in the country, including nano-electronics, to meet the country's needs and to serve the international market. Against a production level of $20 billion in 2009, the draft electronics policy envisions a quantum jump in production levels, including achieving a turnover of $55 billion of chip design and embedded software industry and 480 billion of exports in the sector. The government proposes to set up over 200 electronic manufacturing clusters towards achieving this. The draft policy also proposes to significantly upscale high-end human resource creation to 2,500 PhDs annually in the sector by 2020. The draft looks at several long-pending issues, including the creation of a National Electronics Mission that covers the setting up of wafer fabrication facilities, VLSI incubation centers and the development of a so-called "India microprocessor." The steps include special and attractive financial incentives for indigenous manufacturing, setting up of wafer fab facilities, giving locally manufactured electronic systems a boost by preferential treatment in purchases, creating a fund for promoting electronics manufacturing in particular, creating scores of clusters for promoting electronics manufacturing and paying special attention to automotive electronics and industrial electronics. The hope is to grow production in India from about $20 billion in 2009 to a large but unspecified target that includes growing chip design in India to $55 billion and growing tech exports to $80 billion. India's current chip design export revenue is about $7.5 billion. According to the new draft, the plan is to rename the Department of Information Technology as the Department of Electronics and Information Technology to reflect the new impetus being sought for electronics manufacturing in the country. The draft policy has been hailed as one of the most significant in the history of electronics production in India, even though most said they would wait for the final policy to be announced before commenting on the same.

Corporate India may get more time for IFRS adoption

Corporate India may get more time to prepare itself for the adoption of the Indian version of international financial reporting standards (IFRS) popularly known as Ind AS. The CA institute has decided to suggest to the Government that Ind AS be implemented from April 1, 2013 and not April 1, 2012 as planned earlier. The government is yet to notify the date from which Ind AS should be implemented. One of the fundamental problems with recognising the IFRS framework for taxation effective April 1 arises due to the fact that not all companies will transition to IFRS from this date. India Inc. is at an inflection point with respect to the impending adoption of International Financial Reporting Standards (IFRS). Companies are making a concerted effort to prepare for this transition. However, one issue that is currently being deliberated by companies and regulators is the taxation framework (both direct and indirect) applicable for corporates that follow the IFRS-converged standards. It may be difficult to justify how two Indian corporate entities are taxed differently for similar transactions just because they follow different accounting frameworks (Indian GAAP or IFRS-converged standards). This is further accentuated due to

the fact that IFRS will be rolled out in multiple phases and there will be companies within the same industry following different accounting frameworks. The regulators need to take a view on whether financial statements prepared in accordance with the IFRS converged standards will be acceptable for both direct and indirect tax purposes, or whether companies will be required to maintain two sets of accounting records.

With the International Accounting Standard (IASB) revising six existing IFRS and issuing four new ones, which are likely to come into effect from January 1, 2013, the CA institute wants the proposed Ind AS to be changed in line with the revised global IFRS before implementing them. If the Centre were to notify Ind AS implementation prior to January 2013, say April 1, 2012, it will place companies under hardship as they have to adjust their procedures again in the subsequent year when the revised global IFRS comes into force, the sources said. This hardship can be avoided if the entire set of Ind AS is implemented from April 1, 2013. By that time, the CA institute expects to revise the existing Ind AS in line with the revised IFRS. India is looking to conver its accounting standards with IFRS and not adopt the global standards. There will be some differences between the global IFRS and the Indian version if the proposed Ind AS were to be implemented. If the Corporate Affairs Ministry and the CA institute were to agree on setting April 2013 as the launch date, then the time available from now and till April 2013 should be used to bridge the gap between Indian IFRS (Ind AS) and the global version, the head of Accounting Advisory Services, KPMG in India said recently. India Inc. is at an inflection point with respect to the impending adoption of International Financial Reporting Standards (IFRS). Companies are making a concerted effort to prepare for this transition. However, one issue that is currently being deliberated by companies and regulators is the taxation framework (both direct and indirect) applicable for corporates that follow the IFRS-converged standards.

Indian diamond industry fights off economic slowdown

The slowdown in demand from the US and Europe has not impacted the diamond trade in Surat, Asia's largest diamond polishing hub, thanks to the diversified export market. This was not the case till recently. Only two years ago, the diamond industry in Gujarat (which polishes over 95 per cent of the world's diamonds) was in trouble due to a drastic fall in export orders from US and Europe. But now there are newer markets. "Development of Asian and domestic markets in the last couple of years has changed the dynamic. Asian market, which contributed merely 2-3 per cent to the trade a decade ago, has now risen to over 25 per cent. Earlier, we were dependent solely on the US and Europe," said President of the Surat Diamond Association (SDA) in a statement. "The dependence on the US and Europe has come down," the SDA statement added. Nevertheless, US and Europe still account for a sizeable quantity of the diamond exports from the country.

According to the Gems and Jewellery Export Promotion Council (GJEPC), among the Asian markets, Hong Kong accounted for the highest export of cut and polished diamonds from India between January and August, 2011, at USD 5,957 million. It was followed by Thailand (USD 355.85 million), Japan (USD 173.41 million), Singapore (USD 151.03 million), the Republic of Korea (USD 36 million), Malaysia (USD 23.64 million) and Nepal (USD 1 million). Exports of cut and polished diamonds to the US in the same period stood at USD 2,330.28 million, and Belgium (a key market) in Europe at USD 1,532.48 million. The UAE was another top export destination for Surat's diamond merchants (USD 7,789.25 million). Last fiscal, the UAE emerged as the largest importer of Indian diamonds, accounting for a 47 per cent share, followed by Hong Kong with 22 per cent and the USA with 11 per cent, as per the GJEPC. The impact of the slowdown in the US and Europe is not so hard this time, as it was in 2008-09. The people in the industry have spread out to smaller economies, which are very sturdy and steady in market terms. According to an RBI report, the diamond industry in Gujarat accounts for 72 per cent of the world's processed diamonds and 80 per cent of India's diamond exports. Gems and jewellery exports in the country grew by 46.89 per cent last fiscal. GJEPC says the growth was driven by cut and polished diamonds. As per government data, there are 6,547 diamond processing units in Gujarat, which employ about a million people.

More affluent households in India than in much of Europe

There are more affluent households in India than in many European countries, and with $1 million of investable assets on average, the country's rich are better off than the wealthy in most parts of Europe.

The *Global Affluent Investor* study by TNS, part of one of the world's largest insight, information and consultancy groups, Kantar, reveals that the affluent in emerging markets such as India now rival their developed counterparts in terms of the amount that they have to invest.

India, along with the UAE, appears in the top-five countries where the affluent have more than $1 million investable assets on average, alongside Singapore and Hong Kong. The only Europeans to feature in this top five are the Swedish, whilst the UK and France are the least likely in Europe to have these levels of investable assets. Based on interviews with 12,000 people across 24 markets including India, China and Brazil the study shows that the growth of developing economic powerhouses is starting to impact personal fortunes among households with more than $100,000 investable assets. The study estimates that about one per cent of Indians (about 12 million people) constitute the affluent, with investable assets of more than $100,000. The incidence of affluence is high in small, wealthy countries such as Luxemburg (29 per cent) and Singapore (20 per cent), but lower in large countries like India and China (one per cent each).

''When examining global incidence of affluence, it's not only size that matters,'' remarks Reg van Steen, director, business and finance, TNS. ''We wanted to identify the growth potential of each market – and our research confirms that emerging markets will become new centres of affluence in coming years. India and China have already surpassed major European markets like Germany and France. It's interesting to see that the entrepreneurial spirit of people in these markets is already paying off in terms of personal wealth.'' The findings also demonstrate regional contrasts in terms of what the affluent actually invest in. While Indian, Chinese and German affluent are keen investors in precious metals (cited by 33 per cent, 35 per cent and 23 per cent of respondents respectively), this falls to just three per cent in Sweden, Norway and the Netherlands, and two per cent in Denmark and Israel. ''Despite today's pan-global financial trends, it's important to recognise the diversity in local preferences when it comes to asset allocation,'' adds van Steen. ''We detected big differences between markets, even when they border each other geographically: only five per cent of Norwegians invest in bonds, compared to 31 per cent of the Swedes.'' And while the popularity of commodities fluctuates at a global level, they are very popular among India's affluent. ''These are the insights that make all the difference when trying to engage the wealthy with a specific product or service,'' he adds.

Youngest Indian millionaires lead Asia, world HNIs

India has the youngest millionaires in Asia and amongst the world’s fastest growing populations of high net worth individuals in the world. India’s elite have a networth equivalent to more than a third of its total gross domestic product (GDP) and their numbers grew by afifth in 2010, according to the Asia-Pacific Wealth Report released on Thursday by Merrill Lynch Global Wealth Management and Capgemini. The total wealth held by India’s high networth individuals who have investible assets in excess of a million dollars (Rs.4.9 crore) was $582 billion (Rs.28.59 lakh crore) during 2010.This is equivalent to 34.23% of the country’s total GDP of $1.7 trillion (Rs.73.07 lakh crore), as per the latest government data. The high networth wealthy individuals’ (HNWIs) wealth in India grew by 22% in 2010. India added 26,000 HNWIs, registering a 20.8% growth in numbers in 2010. The total number of such individuals in India has risen to 1.53 lakh in the year 2010 as against 1.27 lakh in 2009. “The key drivers of wealth in India is the real GDP expansion by 9.1% in 2010, and the market capitalisation which increased by 24.9% in 2010,” says Pradeep Dokania, managing director and chairman, Global Wealth and Investment Management, India DSP Merrill Lynch limited. Another reason why wealth is being created is because the national savings as a percent of GDP (gross domestic product) increased to 33.5% in the year 2010.

The reports also adds that India is amongst the eight Asia-Pacific markets which are part of the 20 fastest growing markets in terms of its population of high net worth individuals. Other markets include Hong Kong, Vietnam, Sri Lanka, Indonesia and Singapore. India also has the highest number of billionaires in the age group of 31-45, as against Japan and Hong Kong which have HNWIs above 66 years of age. A significant portion of this money is invested in equities. HNWIs from India had around one-third of their holdings in equities, said the report. Atul Singh, managing director and head Global Wealth & Investment Management, India DSP Merrill Lynch limited said, the exposure of HNWIs towards equity for FY12 could come down due to choppy markets and that to the fixed income could increase considerably due to increasing interest rates. Fixed Income allocation is expected to increase from 26% to 29% whereas

allocation to Cash or deposits is set to decrease from 9% to 8%. Allocation to equities is expected to decrease marginally from 36% in 2010 to 35% in 2012. Investments by HNWIs in real estate could also see a sluggish growth because investors have become wary as investments in real estate are illiquid and risky too, according to the report. Indian HNWIs had 23% allocation towards real estate which is expected to fall down to 21% for FY12. Allocation towards alternative investments is expected to increase by 2012 to 8% from 6% in 2010.

EBTC plans 2012 trade mission to India

EUROCHAMBRES, the Association of European Chambers of Commerce and Industry, is pleased to share the 2012 calendar of activities of the European Business and Technology Center (EBTC) in India. EBTC is European Union funded initiative working in the space of technology transfer that works towards the promotion of EU interests in India, and enhancing collaboration between EU and India in four sectors: energy, environment, biotechnology and transport. The EBTC provides services like market overviews, market insights, feasibility studies for companies who wish that, and arrange trade delegations, seminars and workshops providing valuable insight and information to business and research communities. The EBTC's mission is to assist European companies and researchers in the clean technologies field with first entry services in the Indian market and the identification of research cooperation opportunities. Due to a number of factors, though, the EU's market share in India's cleantech sector is not nearly as high as it could be. With four offices in Delhi, Mumbai, Bengaluru and Kolkata, and a dedicated team of experts, EBTC is keen to cover the untapped potential and identify specific opportunities to expand mutual cooperation. Basically, EBTC acts as a platform, providing a soft landing for facilitating collaboration - discussing how to do business in India, and showing people that there are opportunities in creating partnerships and cooperation agreements in business and in the research domain. EBTC handholds companies, especially SMEs, in finding Indian partners, and helps companies navigate regulatory and governmental issues. The following web-link gives the mission and other info about the EBTC.

http://www.eurochambres.eu/Content/Default.asp?PageID=234

EICC and EBTC plan to strengthen their cooperation and help each other in their missions. Together with EUROCHAMBRES the EICC had organised an important trade and business event in December 2010 on the eve of the EU-India Summit in Brussels.

More efficient and secure visa system goes live for Schengen countries

As from 11 October, the much awaited Visa Information System (VIS) for Schengen countries started operations. Visa applications will now be processed much faster thanks to the use of biometrics (fingerprints and a digital facial image) which will facilitate the identification of visa holders and help to avoid identity theft. This new system will allow for a quick and effective exchange of data on short-stay visas among Schengen countries. The VIS will also reinforce the integrity of the system and strengthen trust among its member states. The first consular posts to be connected to the system are those in North Africa (Algeria, Egypt, Libya, Mauritania, Morocco and Tunisia). Commissioner Cecilia Malmström, responsible for Home Affairs, said: "From now on, foreigners wishing to visit the EU will benefit from clearer, more precise, transparent and fairer visa application rules. The new system will also allow visas to be issued and verified in a more efficient and secure way. This is a big step towards improving and modernising the common EU visa policy."

Currently, around 13 million Schengen visas are issued every year by the 25 countries of the Schengen area, and numbers are likely to increase in the future. The current visa delivering, monitoring and verifying system is struggling to cope with such big numbers. It is not always easy to prevent frauds and abuses and the application process can be cumbersome for those who are legitimately seeking a short stay visa for travel within the EU. The new technologically advanced Visa information system (VIS) helps to tackle these challenges by introducing digital facial image and fingerprints. The VIS will not only speed up the processing of visa applications but will also make checks at external borders more efficient and enhance overall border security. Thanks to the new system it will take just a few clicks to verify the real identity of a visa holder, and therefore prevent and fight fraudulent use of visas. At the same time, visa applicants will see their applications processed much faster. Visa authorities in all Schengen states will be able to consult the VIS data, for example when a previous applicant applies for a new visa. The VIS

will contain all Schengen visa applications and all subsequent decisions taken by the visa authorities. This will allow applicants to obtain new visas quicker and more easily, as authorities will be able to verify the applicant's good track-record and reliability. The VIS will not become operational in all Schengen countries consulates worldwide at once. Rather, it will be progressively deployed region by region. The North Africa region will soon be followed by the Near East (Israel, Jordan, Lebanon and Syria), and the Gulf regions (Afghanistan, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen). All Schengen states' consular posts worldwide should be connected to the VIS within two years.

EU Member States face challenges in tax policies

The consequences of the financial and economic crisis are deeply reflected in the EU Member States' government revenues. Having implemented a wide range of tax stimulus measures from 2008 to 2010, the focus of tax policy has now clearly shifted towards a much needed consolidation of public finances in Member States. This is even more necessary in light of the difficulties currently faced by some Member States in refinancing their sovereign debt. The 2011 report 'Tax reforms in EU Member States: Tax policy challenges for economic growth and fiscal sustainability' takes a look at recent trends in tax revenues and tax reforms implemented in Member States. In view of future tax reforms Member States may implement the report analyses the issue of quality of taxation and identifies challenges for tax policy in euro-area Member States. "Member States with an unsustainable budgetary situation and clear room for tax revenue increases might have to consider using taxation to contribute to the consolidation of public finances, in addition to the necessary expenditure control. At the current conjuncture it is particularly important to make tax structures more growth-friendly and to enhance the design of individual types of tax. Taxation is an important element in the integrated economic policy coordination within the EU," said EU's Economic and Monetary Affairs Commissioner, Olli Rehn. Algirdas Šemeta. The Commissioner emphasised: "Paying attention to the quality of taxation will help addressing current policy challenges and meeting the objectives of our growth strategy. Well-designed tax reforms promoting employment and growth can go hand in hand with social equity. Finally, effective tax policy coordination in the EU would deliver better outcomes, at lower economic costs. This report will help Member States facing their tax policy challenges."

The report points to three types of potential challenges in the area of taxation and tax policy faced by EU Member States: the potential need to address severe fiscal consolidation challenges also by measures on the revenue side; the potential to make the tax structure more growth friendly; ways to improve the design of the tax system for individual types of taxes. The report shows that, while tax revenues had dropped markedly in 2008 and 2009, they are on the rise again, for cyclical reasons and due to tax increase measures. Overall tax policy in the EU thus had a slightly contractionary effect on GDP already in 2010. Tax measures adopted in the first half of 2011 focused in almost all Member States on raising tax revenues. In some Member States measures have been taken to amend the tax structure with a view to supporting growth. The report furthermore analyses the tax structure as one important aspect of the quality of taxation. The report focuses on the effect of taxation on economic growth and presents a ranking of taxes. A "good" tax system should design taxes so as to reduce distortions to the minimum possible and, where appropriate, correct market failures. Adverse interaction between cross-country tax systems in the EU resulting in double taxation or non taxation should be avoided.

Applying an indicator-based approach, the report identifies in which euro-area Member States higher tax revenues could potentially contribute to consolidation and which countries could benefit from a shift from labour taxes, in particular those falling on vulnerable groups, to consumption and real estate taxes. Analysing more specific horizontal challenges related to the design of individual taxes, the report concludes that almost all euro-area Member States face at least one challenge. Among these challenges, the report looks in particular at the potential need to decrease tax expenditure in direct taxation, the debt bias in direct taxation, VAT efficiency, possible options to "green" tax systems, the efficiency of tax collection and issues of tax evasion. These identified tax challenges may deserve further investigation in the framework of the integrated economic policy coordination with the EU, i.e. the "European Semester".