India Business Service Center

Beyond Karma*

Grasping the economic potential of two trade nations

*connectedthinking

PricewaterhouseCoopers

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Foreword

Dear Reader,

Speaking as someone who is of Indian origin, but who has lived and worked in the Netherlands for many years, I can tell you one thing – these two countries have never been as willing to work together as they are today. During my career, I have had the opportunity to be involved with numerous business transactions involving both Indian and Dutch companies, and I have seen the same mutual interest and respect expressed at all levels.

The first recorded agreement between India and the Netherlands was signed on 11 November 1604, when the Dutch East India Company and the Zamorin of Calicut agreed to an alliance against the Portuguese military presence in India. Both countries have come a long way since then, but links have remained, and in the last couple of years we have witnessed an upsurge in these contacts. Relations between the Indians and the Dutch have reached new heights – economically, politically and culturally.

In the light of both these developments, and the current level of interaction between the two countries, we wanted to bring some transparency to the actual facts of trade and agreements. We aim to offer an insight into industry, share information about business opportunities, and address some of the key challenges that we see.

I am therefore very pleased to introduce our latest whitepaper, entitled “Beyond Karma: grasping the economic potential of two trade nations”. This whitepaper gives an overview of Indian-Dutch relations, examines current levels of economic activity between the two countries, and discusses practical aspects of doing business in both India and the Netherlands. The aim of the whitepaper is to offer the reader a clear perspective of relations between the two countries and highlight the potential for further cooperation.

Happy reading!

Yogen Singh
Director IBSC, PricewaterhouseCoopers

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Executive summary

“Growth is unstoppable”. This phrase neatly sums up the growth in business ties that has occurred between India and the Netherlands over the last few years. Missions, delegations, seminars and conferences take a similar direction – designed to promote and facilitate cross-border trade between India and the Netherlands.

Historically, there have been several treaties between the two countries that were aimed at promoting cross-border business. However, there is still much to be achieved. Business relations between these two economies have not always developed as they might, a fact that some experts attribute to cultural aspects, while others blame the lack of awareness among people.

For Indian companies entering the global sphere, the Netherlands can offer a world-class infrastructure, a strategic location for business expansion, and fiscal benefits. On the other hand, India can provide cost-saving benefits, a large consumer base and an availability of highly skilled labour to meet the needs of Dutch multinationals.

This whitepaper provides an overview of the key strengths of these two countries and offers an in-depth analysis of the most important sectors that are relevant for taking business to the next level. Within each sector, we discuss the current status and future growth prospects. We have also tried to link sectors and opportunities for bilateral cooperation.

The whitepaper also offers information concerning business transactions between India and the Netherlands, including details on the best way to enter these markets. In addition, we discuss the tax system and regulatory environment in each country, particularly emphasising the benefits that these two economies offer.

The reasons for the growth in business between India and the Netherlands are many. Nonetheless, there are certain difficulties that may hinder economic growth and interaction. This whitepaper therefore provides insight into the main issues that companies should bear in mind.

This whitepaper has been drafted with the aim of assisting the corporate world in decision-making and business transactions, encouraging new growth in financial exchange between these countries. The whitepaper is designed to outline the roadmap of growth between India and the Netherlands, boosting cross-border investments and future trade, while developing stronger bilateral relations in various other areas.

1 Relations between India and the Netherlands

Overview

The relationship between India and the Netherlands encompasses a wide range of dimensions, ranging from the political and economic to the cultural, the social and others. The frequent, and often intense, political dialogues to have taken place at all levels have been spearheaded in the past few years by an unprecedented series of state visits and signed agreements. During this time, the Netherlands has firmly emerged as one of India's strong trading partners. Trade crossed the 1 billion mark for the first time in 1997, and by 2006 had reached a total of €2.77 billion.[1]

India's population is growing rapidly alongside the country's expanding economy, and this has created a large middle class. India not only has a strong system of higher education, it also holds the world's second-largest pool of English speakers. In addition to these socio-economic advantages, the country boasts a high degree of manufacturing expertise, and has recently introduced new patent laws to provide a better protection for intellectual rights. In recent years, as sectors of the Indian economy have expanded and collaboration between India and the Netherlands has become more frequent, India has also seen an increased demand for collaboration in the sciences, technology and education. It is certainly true to say that India's attractions are rapidly increasing and the country is gradually emerging as one of the world's most significant markets.

At the same time, many businesses around the world currently consider the Netherlands to be an attractive location from which to run their pan-European or regional operations. The Netherlands can offer a company a unique combination of assets – a stable economy, a constantly developing, internationally oriented infrastructure, and a multicultural society that is equally open to both foreigners and new ideas. Moreover, the country provides highly qualified business services, an excellent infrastructure for logistics, IT and R&D, and a fiscal climate that is highly attractive to the international business environment.

A brief overview of the history shared by India and the Netherlands, as well as recent developments and agreements, are outlined in the following section.

History

Historically, relations between the Netherlands and India date back to the seventeenth century. On 11 November 1604, the Dutch East India Company and the Zamorin of Calicut signed an agreement and formed an alliance against the Portuguese military who were then present in India. This alliance is the first recorded agreement between the two countries. Although the Dutch had trading posts on both the western and eastern coasts of India and exercised some authority in these areas, they made no attempts to extend their territorial control. Historians have largely assumed that the Dutch did not want – or were unable to hold – an empire in India at this point in time.[2]

The diplomatic relationship between India and the Netherlands can generally be divided into three periods: a so-called "recovery period", a period in which the Netherlands was included in the "Aid India" consortium in 1962, and a new period of relations based purely on bilateral interests and benefits, starting in 2004.

Indo-Dutch relations were generally distant and subdued during the first period of relations. Both countries were recovering from their own experiences – India from the country's partition, and the Netherlands from the devastation of World War II. However, during this period, both countries focused on the consolidation of their economies and the rebuilding of their institutions.

During the next phase of relations, the Netherlands joined the "Aid India" consortium in 1962, making India the first – and the largest – recipient of Dutch development assistance. At the onset of this phase, Dutch aid was mainly focused on financing the export of items produced in India, something India itself was unable to fund due to a shortage of foreign exchange resources. In the 1970s, however, the Netherlands shifted its attention towards the development of India,

1) Central Bureau for Statistics, Netherlands (http://www.cpb.nl/eng/)
2) Country Brief - The Netherlands, Embassy of India in the Netherlands

concentrating on those projects that would be valuable for the improvement of the country's economic situation. Dutch aid therefore focused on specific sectors such as water management, rural education and improving the position of women and children in Indian society. At this time, several high-profile visits took place between the two countries, including visits by the Indian and the Dutch prime ministers, and the Dutch Queen.[3]

Dutch interest in India had increased in the mid-1970s, but it was only after the Indian economy was liberalised in the 1990s that the Netherlands noticed the sustained growth that had occurred over several years in many sectors, including IT, biotechnology, space research and satellite technology. By the beginning of the twenty-first century, both the Dutch government and the business elite had begun to move towards intensive trade, investment and technological cooperation. These transformations in the Indian economy laid the foundation for a new age of cultural and business cooperation between the two countries.

Recent developments

In 2004, the Dutch government was surprised when India announced – without any reciprocal consultation or discussion – that it would no longer accept economic aid from the Netherlands. India instead decided to forge a new relationship that focused both on mutual interests and benefits with emphasis on trade, investment and outsourcing, as well as on technological, educational and cultural collaboration.

Since then, bilateral trade has shown steady growth, reaching €2.77 billion in 2006.[4] At this time, the Netherlands also became the fourth largest investor in India, following Mauritius, the USA and the UK. Dutch investments in India are primarily in telecommunications, financial and non-financial services, agro-processing and chemicals. There is enormous potential for further expansion both in these and in other areas.

The cultural sector of the Netherlands is also looking more closely at cooperation with India. Interest in Indian culture has been continuously on the increase in the Netherlands for the past four decades. However, the biggest obstacle faced by cultural organisations based in the Netherlands is a controlling and bureaucratic culture that is typified by a lack of direction from above, numerous small-scale activities and a lack of interaction. If strong cooperation can be developed between cultural sectors, it may have a huge impact in both countries.

Educational collaboration between various field organisations in the Netherlands and India has been steadily increasing over the past few years. Collaboration between Indian and Dutch scientists is based on joint multidisciplinary research, exchange programmes and seminars. The Dutch government actively supports these developments, providing grants and scholarships to Indian students.

In 2006, the Dutch government approved an inter-ministerial policy document, intended to guide the future framework of the Indo-Dutch relations. Following the priorities and predicted developments of both India and the Netherlands, the bilateral relations between the two countries will be based on economic, cultural, scientific and technical collaboration. In light of this, the Dutch immigration policy that deals with Indian expatriates moving to the Netherlands should be amended and simplified. In addition to these developments, the Netherlands will work with India and its neighbours to manage threats of terrorism, and improve the management of water, the environment and sustainable energy sources, in an attempt to bring security and stability to the region. India and the Netherlands will also work on a common commitment to democratic governance, the rule of law, respect for human rights and religious freedom.

October 2007 proved to be particularly important for both countries, as Queen Beatrix of the Netherlands visited India after a long gap of 20 years. Her visit was aimed at boosting bilateral ties between the two countries, particularly in relation to culture, trade and the economy. The top executives of several large Dutch companies – KLM, TNT,

3) R. Lakhina, Indo Dutch Relations, President of the Netherlands India Chamber of Commerce and Trade (www. nicct.nl)

4) Central Bureau for Statistics, Netherlands (www.cpb.nl/eng/)

Campina, ING, DSM, Akzo Nobel, Rabobank, Philips and Royal Haskoning – accompanied the Queen on her visit to India. In the aftermath of this visit,, the two countries have committed to working together in key sectors such as IT, agro industry, infrastructure, water management, biotechnology and health.

At the end of 2007, Frank Heemskerk, the Dutch State Secretary for Economic Affairs, went on a 6-day economic mission to India. He was accompanied by representatives of 70 companies and educational institutions. The main goals of the mission were to:

- Strengthen economic links between the Netherlands and India
- Promote the Netherlands as a location for Indian companies
- Promote the expertise of Dutch companies, particularly in the areas of ICT, biotechnology, infrastructure and logistics, and health.[5]

In February 2008,Camiel Eurlings, the Dutch Minister of Transport, Public Works and Water Management, also went on a working visit to India. The minister was accompanied by representatives of some 52 Dutch companies who currently operate in the sectors of airport development, aviation, maritime transport and logistics. This mission was one of the Netherlands' largest ever sectoral trade missions to India. While in Delhi, Camiel Eurlings signed a Memorandum of Understanding (MoU) with T.R. Baalu, the Indian Minister of Shipping, Road Transport and Highways.[6]

The scientific cooperation in education and research between the two countries was further strengthened in March 2008, when a delegation from Dutch research universities visited India, led by Sijbolt Noorda, president of the Association of Universities in the Netherlands (VSNU) and former president of the University of Amsterdam. This delegation included university presidents, top scientists from both technological and comprehensive universities, and partners from the government and academic societies.[7]

At the same time an increasing number of Indian companies consider the Netherlands as a unique destination from where they can run pan-European or regional operations. Compared to other EU countries, the Dutch investment climate has proven to be particularly conducive to foreign entrepreneurs.[8]

Agreements and treaties

As a direct result of the intensive collaborations between the two countries over the past 60 years, the following important agreements and memorandums of understanding (MoU) were signed:

- Agreement on Collaboration on Trading Area (1974)
- Agreement on Commercial and Economic Collaboration (1981)
- Agreement on Economic and Technical Cooperation (1983)
- Several agreements on specific products, such as cane sugar, textiles, sackcloth products, coconut products, and handicrafts
- Memorandum of Understanding and Agreement on Scientific Cooperation (1985)
- Cultural Agreement (1985)
- Agreement on Cooperation in Science and Technology (1985)
- Agreement on Avoidance of Double Taxation and Prevention of Fiscal Evasion (1989); this agreement is currently being updated and renegotiated
- Agreement on Collaboration of Partnership and Development (Publicatieblad L223, 27-3- 94)
- Agreement on Bilateral Investment Protection (1995)
- Memorandum of Understanding on Investment Promotion (2004)
- Memorandum of Understanding for Cooperation in Biotechnology (2005)
- Two agreements on Cultural Cooperation (2007)
- Memorandum of Understanding on increased cooperation in the area of science and technology (2008)

5) The Hindu Business Line (http://www.thehindubusinessline.com)
6) Ministry of Transport, Public Works and Water Management (www.verkeerenwaterstaat.nl/english/)
7) The Financial Express (www.financialexpress.com)
8) Doing Business 2008 Netherlands (IBRD/The World Bank)

- Memorandum of Understanding on Ports and Maritime Transport and Logistics (2008).

Alongside those agreements listed, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Dutch employers' association (VNO-NCW) signed an agreement in February 1982 that was intended to promote bilateral trade and economic relations. The Confederation of Indian Industry (CII) and the VNO-NCW also entered into a similar agreement in January 2000. In February 2004, the two countries signed an MoU to promote investments.[9]

This list of agreements and memoranda demonstrates that both India and the Netherlands are eager to cooperate, and both governments have shown that they are willing and committed to this process. This will ease business barriers, and have a positive impact on the business environment.

9) Federation of Indian Chambers of Commerce and Industry (www.ficci.com)

2 Economic activities

Overview of key industries in India

Introduction

India's economic development has brought the country tremendous success and has also considerably improved its global image. The table below gives a projection of the way in which the Indian economy is expected to develop in the future.

Key indicators	2008	2009	2010	2011	2012
Real GDP growth (%)	7.9	7.4	7.4	7.5	7.5
Consumer price inflation (average %)	5.6	5.2	5.1	5.0	5.0
Budget balance (% of GDP)	-3.0	-2.8	-2.6	-2.5	-2.3
Current-account balance (% of GDP)	-1.5	-1.3	-1.3	-1.6	-2.0
Lending rate (average %)	12.9	12.0	11.0	10.0	10.0
Exchange rate Rs:US$ (average)	38.4	37.4	36.5	36.0	35.5
Exchange rate Rs:¥100 (average)	36.5	38.8	39.0	39.2	38.7

Source: The Economist

What follows is a discussion on the industries recognised by PwC as the key industries in India. The key industries that have been identified are: infrastructure, pharmaceuticals, ICT, agriculture and retail.

Infrastructure

Investors largely consider infrastructure to be the number one sector for investment in India.

With a Gross Domestic Product (GDP) growth rate of 8.7% in 2007–2008, India is one of the fastest-growing economies in the world and is also widely considered as the future for long-term investments. The challenge now faced by the Indian government is to at least maintain the GDP growth rate and attempt to improve it during its Eleventh Five Year Plan period (2007–2012). While the total investment requirements for infrastructure over the next 5 years have been estimated at about Rs. 40,000–45,000 crore (US$115–130 billion), the Indian government plans to spend about US$500 billion on infrastructure during this period and nearly double the rate of investment in the sector to 9% of GDP.[10]

India has the second-largest road network in the world, carrying about 70% of the freight and 85% of passenger traffic in the country. Development of roads is clearly essential for sustained economic growth, especially as an annual growth rate of 12–15% for passenger traffic and 15–18% for cargo traffic is anticipated over the next few years. The Indian government plans to substantially increase its expenditure on road development, and the necessary funding is already in place. A large part of the highway development effort is to be accomplished through PPPs.[11]

In the past, maritime activity was dominated by the government. However, current government policy is aimed at encouraging the private sector to take the lead in port development and operations. Cargo handling in all ports shows a projected growth of 7.7% per year until 2013–2014, with minor ports growing at a faster rate of 8.5% compared to only 7.4% for major ports.[12]

India has 125 airports, of which 11 are designated international airports. During 2004–2005, Indian airports handled 60 million passengers and 1.3 million tonnes of cargo. Passenger traffic in 2005 showed a 22% increase compared to figures from 2004, while cargo grew at 21.6%. Within the next 5 years, passenger traffic is projected to

10) Wall Street Journal Asia
11) Department of Road Transport and Highways
12) Investment Commission of India

grow at a CAGR (compounded annual growth rate) of more than 15%, while cargo traffic is projected to grow at a CAGR of 20%. Major investments are also anticipated for new airports, while existing airports will be upgraded in the next few years.[13]

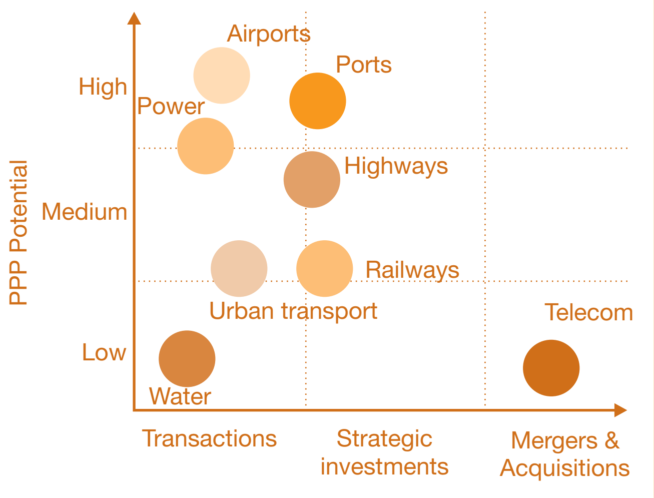
Over the past five years, India's construction sector has recorded phenomenal growth in line with increased government expenditure on infrastructure projects. The country received a composite score of 47.95 in the Business Environment Ranking matrix, putting it in seventh place among the twelve Asian countries listed. India is expected to sustain this growth rate, as the value of its industry is forecast to reach US$129.38 billion in 2011 (10.54% to the country's GDP), increasing at an average rate of 13.92% between 2007 and 2011.[14]

As part of its infrastructure investment, the Indian government has recently decided to automatically permit Foreign Direct Investments (FDI) with up to 74% equity for road and bridge construction. FDI proposals going beyond this would have to be considered by the Foreign Investment Promotion Board on an individual basis.

This sector offers the following opportunities for foreign investors:

- Private sector participation (PPP) on a large scale
- Reasonably well-developed projects on offer across all sectors
- Government-approved Model Concession Agreements and RfP documents
- Government agencies with an increasing understanding of PPP structures.

The following graph shows the current state of the infrastructure sector in India:



Source: PwC

13) Investment Commission of India
14) India Infrastructure Q3 2007 Report

Pharmaceuticals

With India's healthcare sector spending fixed at 5% of GDP, this industry holds tremendous potential. According to CRISIL (India's foremost provider of credit ratings, research and analysis), the overall demand in this industry (including exports) was US$13 billion in 2006–2007 and it is expected to exceed US$33 billion by 2011–2012.

ICT

In the Global Information Technology Report (GITR), the World Economic Forum and INSEAD jointly ranked India in fiftieth position out of 127 participating countries in the Networked Readiness Index. Based on its elementary advantages of talent, cost and quality, India's IT sector has exhibited a steady growth, and has gradually expanded into newer service lines in the last financial year (2007–2008). Some of the forecasts for India's IT sector are:

- Export revenues and overall software services revenues are expected to reach US$60 billion and US$73–75 billion respectively by 2010
- The US and the UK continue to be the key markets for IT and BPO (Business Process Outsourcing) exports (excluding hardware), which comprise about 80% of total exports
- India's share in the global transaction-processing offshore market is expected to increase from 40% to 47% over the next five years
- Transaction processing is forecast to grow at a CAGR of 20.9% from 2007–2008 to 2010–2011.

Success in the ICT sector has benefited the telecom industry, an area that has undergone some landmark changes in regard to policy and market organisation.

The total number of telephone connections in India (both fixed line and wireless) reached 300 million in March 2008 according to the Telecom Regulatory Authority of India (TRAI). India also has one of the highest rates of mobile phone usage in the world, while the cost of making a call is one of the lowest. Such figures mean that India has the world's second largest wireless network, after China.

Despite some weak spots within India, teledensity is expected to rise from 19% in 2006–2007 to 45% in 2011–2012.[15]

Significant forecasts for the telecom industry over the next few years include the following:

- According to CRISIL research and TRAI, the number of rural subscribers will reach 176 million by March 2012, increasing from only 33 million in March 2007.
- By the end of 2011, there will be 6.9 million WiMAX connections (mobile and fixed).
- Long-distance rates are expected to drop by 8–13% p.a. in the next 5 years.
- In the next 5 years, National Long Distance (NLD) rates are expected to decline at a CAGR of 13%.
- Local mobile-rates are forecast to decrease at a rate of 10.7% p.a., until 2011–2012.

In line with these trends, certain investments are planned:

- Wireless service operators plan to invest about US$27 billion in the next 5 years
- Of this, US$12 billion is earmarked for passive infrastructure building. The rest will be reserved for investing in active infrastructure.

15) Teledensity: the number of telephone lines per 100 individuals

Agriculture

India is the world's largest producer of milk, and the second-largest producer of fruit and vegetables. The country is also the largest overseas exporter of cashew nuts and spices. The agricultural food industry is particularly significant due to India's large agrarian economy, which accounts for over 18% of the country's GDP and employs around 52% of the population.

However, this sector has witnessed sluggish growth rates in recent years – agriculture and allied activities only showed a growth of 2.6% during 2007–2008 in comparison to the previous year's figure of 3.8%. In order to revive this sector, the Indian government has begun to implement the following steps:

- Introducing a comprehensive scheme of debt waiver and debt relief for farmers. This will entail a complete waiver for small and marginal farmers and a One Time Settlement payment (OTS) for the others.
- Setting up an irrigation and water resource finance corporation.
- Introducing crop insurance schemes for tea, rubber, tobacco, chilli, ginger, turmeric, pepper and cardamom.
- Repairing, renovating and restoring water bodies. As part of a centrally sponsored scheme on micro-irrigation, the World Bank has signed agreements with Andhra Pradesh, Karnataka and Tamil Nadu. These three agreements, worth US$738 million, will benefit people in an area of 900,000 hectares.
- Making several sub-sectors available to 100% FDI as a matter of course. Sub-sectors include horticulture, floriculture, seed development, animal husbandry, aquaculture, vegetable cultivation and any services relating to agricultural and allied sectors.

In recent years, several foreign and Indian corporate houses have entered into agreements for major investment plans with farmers. The following table lists some of the major agreements formed:

Private sector	Partner
Pepsi	Punjab government – a 5-year programme to provide 4 million sweet-orange trees
Cadbury India Ltd	Tamil Nadu Horticulture Department – designed to promote cocoa farming across 50,000 acres of land
Himalaya Drugs	Farmers throughout southern Indian states – sourcing of at least 70% of herbs required by Himalaya Drugs
Reliance Retail	Farms in Punjab, West Bengal and Maharashtra – deals worth US$5.6 billion
Skol Breweries India Ltd	Barley farmers in Haryana – contract farming

Source: Government of India

Agriculture in India is on the brink of a revolution that will modernise the entire food chain. As a consequence, total food production in India is likely to double in the next 10 years.

As per recent studies, the turnover of the total food market is approximately Rs. 250,000 crore (US$69.4 billion), of which value-added food products comprise Rs. 80,000 crore (US$22.2 billion). The Indian Government has also approved proposals for joint ventures, foreign collaborations, industrial licences and 100% export-oriented units. This should lead to an investment of Rs. 19,100 crore (US$4.80 billion), of which foreign investment will provide over Rs. 9,100 crore (US$18.2 billion).

In terms of both foreign investment and the number of joint ventures taking place, the consumer food industry is the most significant aspect of Indian agriculture. However, other segments of the agricultural industry have also proved attractive – deep-sea fishing, aquaculture, milk and dairy, and meat and poultry all have the capacity to attract foreign investment and show promising benefits.[16]

Retail

India is one of the most attractive destinations for retail investment. Almost every large retail chain in the world is keen to expand into the Indian market, and many large Indian corporate houses are actively planning on entering into retail. In the next ten years, the retail market is expected to grow threefold, rising from US$206 billion at present to about US$660 billion by 2015[17]. The Indian retail sector, growing at a healthy pace of 5% p.a., also contributes about 10% of the country's GDP.

The following factors highlight the growth and potential of this sector:

- India recently topped AT Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year as being the most lucrative retail destination.
- The Retailers Association of India estimates that there are over 12 million retail outlets in India. Of these, some 900,000, or 7.5%, comprise the organised segment.
- According to CRISIL, organised retail will hit Rs. 23,660 crore by 2012.[18] A variety of top global players have already made a foray into the Indian market. These include M&S, Lacoste, Disney, D&G, Versace, Calvin Klein, Spar, Esprit and Tommy Hilfiger. Some of these brands have exhibited a growth pattern of 100% since launching their operations in India.

Players in the Indian retail market

Retailer	Original format	Recent format
RPG Retail	• Supermarket (Foodworld)	• Hypermarket (Spencer's) • Speciality store (Health and Glow)
Piramal's	• Department store (Piramyd Megastore) • Mall (Crossroads)	• Discount store (Trumart)
Pantaloons	• Department store (Pantaloons)	• Supermarket (Food Bazaar) • Hypermarket (Big Bazaar) • Seamless mall (Central)
K Raheja Group	• Department store (Shoppers Stop) • Specialty Store (Crossword)	• Home (Home Stop) • Hypermarket (Hypercity)
Tata/Trent	• Department store (Westside)	• Hypermarket (Star India Bazaar)
Landmark Group	• Department store (Lifestyle)	• Hypermarket (Max)
Others	• Department store (e.g., Subhiksha, Trinethra, Nilgiri's, etc.) • Specialty stores (e.g., Vivek's, Vasanth's, etc.)	

Source: CII-AT Kearney Report

16) India Agro Industry (www.agriculture-industry-india.com)
17) Investment Commission of India
18) Crore is an Indian numerical term referring to the equivalent of ten million. 1US$=41.7898 INR (as on May 7, 2008)

Biotechnology

This sector increased by 35% during the last financial year, with India now holding a 2% share in the global biotechnology market. [19] Achievements in biopharma, bioinformatics and bioresearch have led to the discovery of new drugs, new molecules and clinical development. Such developments have raised India to third place within this sector in the Asia-Pacific region, following behind Japan and South Korea. The biotechnology industry in India comprises five broad divisions:[20]

- Biopharma
- Agribiotech
- Bioinformatics
- Bioindustrial
- Bioservices

India has about 340 companies in this sector, as well as certain prominent businesses that work in the field of clinical research, drug discovery and application development.

The following table outlines the growth within biotechnology, and government-led initiatives to further develop this sector.

The south Indian cities of Hyderabad and Bangalore (India's Silicon Valley) have witnessed the greatest activity in this sector. According to an analysis carried out by Cushman & Wakefield, Bangalore alone is likely to require 6.5 million square feet of space for the biotechnology sector from 2007–10.

Andhra Pradesh has been a favourite among investors, not least because it provides the location for the Genome Valley Project, a research project that has attracted some US$1.24 billion of foreign exchange from pharmaceutical, biotechnology, chemical and allied chemical companies. In its Vision 2020 document, the Indian government also identified the biotechnology sector as an "Engine of Growth".

19) According to the FICCI
20) Source: IBEF

Growth	Government initiatives
• On a global level, the Indian biotechnology sector ranks fourth in terms of volume and thirteenth in terms of value, with the highest number of manufacturing units approved by the USFDA. • The industry has been registering an annual growth of 35–40% for the past 3 years. • It is estimated that the industry will be worth over US$10 billion by 2010. • Projections suggest over 140 million square feet of work space will be occupied by the biotechnology sector by 2010. • Revenue from this sector was US$1.6 billion in the financial year (FY) 2006, with the top 6 firms accounting for US$22.7 million.	• The government has recognised biotechnology as the "sunrise sector". • A 125% weighted average tax deduction has been declared on outsourced R&D. • The eleventh five-year plan should see a government outlay of Rs. 6,500 crore across the sector. • The biotechnology regulatory authority – envisaged on similar lines to the USFDA – will be in place in 2 years. • A large-scale scheme will be put in place for the department of biotechnology. This will include a re-entry package designed to encourage the return of expatriate scientists and technocrats. • The government expects an investment of US$1.6 billion between 2008 and 2012, increasing from US$362 million between 2002 and 2007.

Source: IBEF, The Hindu Business Line, The Economic Times

Genome Valley is the first state-of-the-art biotechnology cluster in India to focus on life sciences research, training and manufacturing activities. In 2007, Genome Valley received a certification mark from the United States Patent & Trademark Office (USPTO). Some of the leading R&D institutions located in Genome Valley include:

- Centre for Cellular and Molecular Biology
- Centre for DNA Fingerprinting and Diagnostics
- Indian Institute of Chemical Technology
- International Crops Research Institute for the Semi-arid Tropics (ICRISAT)
- National Institute of Nutrition
- International Institute of Information Technology
- Defence Metallurgical Research Laboratory
- Environment Protection Training and Research Institute.

According to the International Service for the Acquisition of Agri-biotech Applications (ISAAA), the total acreage of GM crops amounted to 114.3 million hectares (MH) in 2007. This makes India the fifth-largest cultivator of GM crops on a global scale.

The Indian biotechnology sector is not only attracting funds from the UK and the USA, but also from new geographies such as Australia, New Zealand, Denmark, the Netherlands and Sweden. This is due to a variety of factors, including low research and production costs, as well as the availability of an educated and English-speaking Indian research team. Recently, Italy has also expressed an interest in collaborating with Indian counterparts to manufacture nano solutions for local and global markets. To enable this sector to grow, Indian companies need to enter into collaborative research programmes and import or license platform technologies. This would help them expand their existing skill base as well as shortening timelines from research to commercialisation.

Overview of key industries in the Netherlands

How has a small country like the Netherlands, with a mere 16 million inhabitants, become the fifteenth largest economy in the world? Passengers who fly into Amsterdam's Schiphol airport are beginning to appreciate the economic strength of this small country. Stretching deep inland, the Netherlands seems to consist of nothing but flat green polders, criss-crossed by a lattice of canals that glitter in the morning light. One-fifth of this country – the most densely populated in western Europe – has been recovered from the sea. Not a strip of land is left unused.

Because of the country's strategic location, positioned on the Rhine delta at the point where this great river drains into the North Sea, trade, export and distribution are in the Dutch genes. The ports of Rotterdam and Amsterdam both have outstanding infrastructure and logistics services. The port of Rotterdam is also among the most important transport centres in the world, while Amsterdam's Schiphol airport occupies a similar position within Europe. From an operational perspective, both the geographic location of these two port cities, as well as their position as international hubs in Europe, are highly advantageous.

Dutch telecom facilities and broadband internet connections are among the best in the world. However, a second major factor contributing to the development of trade and commerce within the Netherlands is undoubtedly the presence of important clusters of companies and research institutes throughout the country. Between them, these sites cover sectors such as chemicals, high-tech and innovative materials, food and flowers, life sciences and health, water management and maritime (offshore) engineering, and both the creative industry and financial services.

This paper now moves on to a discussion of those industries recognised by PwC as the key industries in the Netherlands. The industries identified are infrastructure, horticulture, ICT, biotechnology, chemicals and energy.

Infrastructure

The Dutch construction and infrastructure sector is heavily oriented towards the national market. It is small in scale and has a limited innovative capacity. Exceptions to this rule are the civil engineering sub-sector (earth-moving, road-building and hydraulic engineering) and parts of the building installation sector.

The construction and infrastructure sector comprises the following sub-sectors:

- **Civil and non-residential buildings**: These companies build new homes, commercial properties and government buildings. They also carry out necessary maintenance, repairs and renovations on dwellings and other buildings.
- **Civil engineering**: Companies in this sub-sector are relatively large by the standards of the sector as a whole. There is also a considerable variety in the types of companies found within this sub-sector, as it includes companies engaged in hydraulic engineering for land and water-based infrastructure and contractors for infrastructure works and street pavers. The activities of companies involved in building infrastructure can be further broken down into road building, operation of the rail infrastructure, airport construction and the preparation of land for building.
- **Finishing works for buildings**: Finishing companies represent a large proportion of the companies included in the construction and infrastructure sector. They include painters, plasterers, joiners and bricklayers, and tillers. They also include companies specialising in finishing floors. The companies that carry out finishing work on buildings are generally only engaged towards the end of the building process.
- **Building installations**: Building installation companies form a significant part of the construction market. This sub-sector can be further divided into electrical engineering companies, plumbers, and heating and air-conditioning companies.

Together, these four sub-sectors form the construction and infrastructure sector. This sector also works closely with other businesses – mainly their suppliers or their clients. The most important of these commercial relations are the following:

- **Wood and building-material industries**: These industries are some of the major suppliers within the infrastructure sector, and fall into a number of sub-sectors, including earthenware, glass and cement.
- **Sale and lease of real estate**: Companies who sell and lease real estate are often the customers (or principals) of companies in the civil and non-residential building sector.
- **Architects and engineering firms**: These firms are important for the building and infrastructure sector, as to a large extent, they establish the framework for the construction of a building or an engineering structure.

Horticulture

The primary horticulture sector consists of:

- Cultivation of horticultural crops, including vegetables, fruit, bulbs and tubers, plants and arboriculture.

It also includes:

- Cultivation of turf and horticultural seeds, improvement of horticultural seeds and propagation of plant materials.

The primary horticulture sector is dominated by several small and medium-sized private companies. Only a few dozen companies within this sector have more than 50 employees on their workforce. In 2005, the total production value of the primary horticulture sector amounted to over 7.5 billion.

The cultivation of flowers and plants within greenhouses involves over 27% of horticultural companies, 36% of the overall number of employees, 27% of the production value and 55% of the added value of the horticulture sector as a whole, making it the most important activity in the horticulture sector. Vegetables, bulbs, fruit and trees are also cultivated in greenhouses on a similar scale. Around 2,000 companies are active in each of these fields. Around 1,000 companies are also active in the outdoor cultivation of vegetables. A few hundred companies are involved in the cultivation of fungi (mainly mushrooms). This activity takes place on a relatively limited scale in comparison with the other activities. Organic horticulture is also carried out on a small scale – only 212 companies are active in this field.

The horticulture sector involves a range of different services, including the following:

- Research and consultancy – provided by several large research institutes, as well as an unknown number of small and medium-sized consultancy firms.
- Service provision – including field staff and machine rental. This concerns approximately 6,500 companies who provide services to the primary agricultural sector.

Between them, they make a net turnover of €2.7 billion and employ approximately 280,000 workers.
- Two large auction houses and several smaller sites – designed for sales of flowers and plants. In 2005, the total turnover of the two large auction houses amounted to €3.7 billion.
- Transport companies – concerning some 125 specialist transport companies.

The demand for – and production of – horticultural produce is increasing on a global scale. Such an increase is caused by the difficulty in transporting fresh products (e.g., vegetables, cut flowers, mushrooms) over long distances. At present, the global market for these products remains divided into blocks, which roughly correlate with the continents. For the Netherlands, Europe remains the most relevant market, and it is certainly the most important market for sales of fresh produce such as flowers, vegetables and mushrooms. For other horticultural products (e.g., bulbs, fruit, trees and shrubs, seeds and plant propagation materials), distance is less of an obstacle and these products can be sold on a truly global market.[21]

ICT

The Netherlands has a substantial ICT industry, involving some 26,000 companies, employing over 250,000 people, and generating €29 billion – 5.5% of GDP. However, the Netherlands faces a shortage of skilled IT staff. In addition to its standalone activities, ICT also plays a vital role in other industries. ICT is responsible for 25% of the EU's GDP growth and has contributed to a 40% gain in productivity. A similar effect can be seen on a more localised scale within the Netherlands. The "Innovation Axis" refers to the ability of ICT to enable innovation in other industries. The world-class position that the Netherlands enjoys in industries such as logistics, food technology, maritime construction and the creative sector is closely related to its ICT expertise.[22]

Broadband connections
No. of connections per 100 Inhabitants

		2006
1	Denmark	29.3
2	The Netherlands	28.8
3	South Korea	26.4
4	Finland	25
5	Sweden	22.7
6	Canada	22.4
7	UK	19.4
8	Belgium	19.3
9	U.S.A.	19.2
10	Japan	19

Source: Statistics Netherlands (CBS), 2007

21) EVD (from www.hollandtrade.nl)
22) EVD (from www.hollandtrade.nl)

Key ICT figures and the Dutch economy 2001-2007 (in%)

	2001	2002	2003	2004	2005	2006	2007
Gross Domestic Product (GDP)	1.93	0.08	0.34	1.95	1.53	3.02	2.89
ICT growth (incl. office tech.)	2.48	-1.17	0.90	3.51	3.78	2.60	2.42
ICT growth	2.55	-5.49	0.09	3.86	5.64	4.91	4.32
Telecommunications growth	2.52	2.22	1.58	3.37	2.52	0.95	1.02
Private consumption	1.83	0.93	-0.18	0.63	0.69	-1.07	2.20
Gross corporate Investment	-2.13	-7.15	-1.83	-2.23	3.15	4.21	4.93
ICT share in GDP	6.11	5.82	5.48	5.52	5.55	5.46	5.36

Source: ICT Marktmonitor™ 2007

The performance of the Dutch ICT manufacturing industry (the branch responsible for developing and producing information and communication equipment) does not seem to do justice to its competencies. The number of highly educated personnel and the presence of the headquarters and prominent laboratories of leading multinationals such as Philips, ASML and Océ mean the industry offers several strong competencies. Nonetheless, the performance of the Dutch ICT industry was disappointing during the 1990s. On an international level, it lagged behind in both development and volume of production and productivity, as this branch of industry is not specialised in the production of goods. The paradox of strong competencies and weak performance can (at least partially) be explained by the relatively poor performances of Dutch managers and researchers for Dutch ICT multinationals. But riding on the back of ICT and R&D, Europe should be the most competitive region in the world in 2010, with Netherlands as the frontrunner.

Did you know?

- The Netherlands is the world’s fourth-largest exporter of ICT services after the USA, the UK and Germany.
- If you have ever listened to music, enjoyed wireless internet or used a wireless headset with your mobile phone, chances are that you’ve been using technology developed in the Netherlands.
- The compact disc (CD), which revolutionised the music industry, was partly developed by engineers from the Dutch company Philips.
- The hole in the middle of a CD is exactly the size of an old Dutch ten-cent coin (a “dubbeltje”).
- Wi-Fi, the global standard for wireless internet, has Dutch roots. It was developed in the Dutch town of Nieuwegein, at a subsidiary of NCR Corporation/AT&T.
- Projected growth for the ICT industry in the Netherlands is expected to continue at a healthy rate of 4.5%.

Biotechnology

Classical biotechnology encompasses traditional techniques for improving the quality of animals and plants, as well as the use of bacteria, yeasts and fungi to make bread, beer, wine and cheese. Modern biotechnology takes these techniques a step further. It modifies the characteristics of bacteria, plants and animals by making changes to the DNA. Due to the continuous scientific developments in the field of modern biotechnology, a close relationship has developed between life sciences, research institutions and industrial companies.

Life sciences are applied in several industrial sectors:
- The agriculture and horticulture industry
- The food industry
- The dairy industry
- The animal feed industry
- The pharmaceutical industry
- The chemical industry
- The fish processing industry
- The environmental sector

Within the life sciences sector, a distinction is made between dedicated life sciences companies, for whom life sciences are the core activity, and other companies who only make limited use of life sciences applications in their R&D or production processes and are not focused on acquiring new knowledge in the field. Examples in this case may be a pharmaceutical or food company. Such a distinction means that even if companies have similar objectives, they may belong to different categories, depending on the extent to which they apply life sciences.

A considerable number of the dedicated life sciences companies are still solely concerned with R&D. They have not yet brought any products into the market and so are not yet profitable. Approximately 160 such companies exist in the Netherlands.

The number of other, non-dedicated life sciences companies in the Netherlands runs into the hundreds. These include both SMEs and multinationals in the pharmaceuticals industry (e.g., Organon, Solvay Pharmaceuticals), the food and dairy industries (e.g., Friesland Foods, Numico, Cosun) and suppliers (e.g., DSM).

The life sciences sector is responding to a number of important national themes, which are also promoted by the Dutch government. These themes are:
- **Sustainability**: Applying clean and energy-efficient processes and using recyclable materials. Thanks to biotechnology, an increasing number of chemical processes can be replaced by more sustainable, enzymatic processes, and alternatives are being developed for the purification of chemicals. This theme is important in the white biotechnology sub-sector.[23]
- **High-return crops and a reduction in the use of crop protection products**: As a result of biotechnology, improved crops can be developed relatively quickly. This theme is important in the green biotechnology sub-sector.
- **Safe and healthy food products in relation to the issue of public health**: This theme is important in the green biotechnology sub-sector.
- **Reliable diagnostics, prevention and therapy in relation to the issue of public health**: This theme is important in the case of emerging potential epidemics such as SARS or bird flu, and in the case of existing epidemics such as AIDS. It is also important in the red biotechnology sector.

These themes are, to a certain extent, abstract. For this reason, they have been further developed in relation to various different sub-sectors.

The turnover of the sector involving dedicated life sciences companies has grown from approximately €73 million in 2000 to €190 million at the end of 2004. Despite this, the average turnover per company has not increased, as the number of companies also increased during this period. Instead, the figure has remained relatively constant at €1.2 million per company. Overall however, the profitability of the sector, expressed as a percentage of the turnover, has increased – or, more specifically, the losses have decreased. If this trend continues, it is expected that the sector as a whole will break even in 2012.

23) White biotechnology, also known as industrial biotechnology, is biotechnology applied to industrial processes

The table below shows the development of the life sciences sector in the period 2000–2004.

Year	Number of companies in the life sciences sector	Number of companies that entered the sector in the year concerned	Number of employees in the life sciences sector	Average number of employees per company
1999	53			
2000	69	22	1014	6.8
2001	96	18	1442	6.7
2002	126	17	1950	6.5
2003	138	17	2100	6.6
2004	157	22	2150	7.3
Increase	104	96	1136	

Source: BioPartner sector reports 2001-2005

The Dutch government recognises the importance of the life sciences sector, actively encouraging the Dutch biotechnology industry via the Life Sciences Action Plan.

- The key objectives of this plan are as follows:
- To stimulate entrepreneurship in the life sciences sector
- To simplify legislation and regulations
- To strengthen the knowledge base
- To strengthen international networks
- To achieve clear and unambiguous governmental communications.

The life sciences sector is a relatively young sector that already operates at an international level. It will continue to develop into a full-grown sector serving an even broader international client base than is currently the case, with all the opportunities and threats that this entails. It is, however, important to acknowledge that, while the Netherlands boasts a large number of start-up companies with potential, only a limited number of these companies can truly be said to be developing.

Chemicals

The chemicals industry plays an essential role in the Dutch economy. It is a relatively large sector in the Netherlands due to the scale of the basic chemicals segment. This success is based on a favourable location, the availability of natural gas, and highly innovative companies. The high-quality knowledge-based infrastructure in the Netherlands is also an important factor.

Scientific research in the Netherlands is among the best in the world. In a recent report published by NOWT (the Netherlands Observatory of Science and Technology), the Netherlands was ranked third among the top research countries, following the USA and Switzerland. This position is largely due to the contribution of the chemical industry. The sector's ambition is to achieve improved prosperity and wellbeing in a sustainable manner. In specific terms, its goal is to double its contribution to the Dutch GDP within 10 years, reduce the use of fossil fuels by 50% within the next 25 years and develop the technological competencies that such aims require at a level of global excellence.

The Netherlands produces chemical raw materials such as ethane and propylene, and industrial chemicals such as glycol, butane, phenol and formaldehyde. The presence of sea ports is helpful for the continuous import of crude oil – the chemical industry's feedstock. Basic chemicals and derivative commodities (semi-manufactured products such as resins, plastics, coatings and detergents for cleaning agents) make up more than 60% of the Dutch chemical production.

The chemical industry in the Netherlands spends approximately 2.5% of its turnover on in-house R&D, amounting to a total of €900 million. In addition, approximately €200 million is spent on outsourced R&D. Expenditure on innovation and expenditure on R&D currently amount to around a quarter of the total industrial budget for these segments. The chemical industry is currently working with the government on plans for further improving the innovativeness of the sector. In addition to the very large-scale basic chemicals industry – dominated by Dutch and foreign multinationals – the sector also includes the fine chemicals and rubber and plastic processing industries. Although the two latter industries are generally far smaller in scale, multinationals also have a dominant presence in certain segments of these markets – for example in the production of paint (e.g., AKZO-Nobel), soap (e.g., Unilever) and pharmaceuticals (e.g., AKZO, subsidiaries of several foreign multinationals). The fine chemicals industry produces medicines, pesticides, soap and cleaning agents, perfumes, aromas and flavourings, paints, adhesives, industrial gases and ancillary products for other chemical processes.

Overall thoughts

Infrastructure

Tremendous pressure is currently being placed on the Indian government to support current levels of economic growth through the provision of sufficient infrastructure. The Indian government is responding to this need by opening up this sector to foreign investors. As a consequence, Dutch companies have many opportunities for PPPs. Already many successful Dutch companies have a presence in India, where they can offer their expertise and experience in dredging, road building, water management and other, similar areas.

Pharmaceutical

In recent years, the Indian government has adopted significant welfare measures for its people. Since India signed the WTO agreement on intellectual property (leading to better acknowledgement and organisation of copyright, patents and trademarks), the Indian pharmaceutical industry has become better organised. For international pharmaceutical companies based in India, advantages include the low cost of R&D and highly skilled and relatively cheaper professionals.

ICT

The ICT sector is part of the current economic growth and success story of the Indian economy. The Dutch government is contributing to this success story through the development of captive centres (e.g., ABN, ING), although there has been a visible downturn in the outsourcing market. In order to maintain its position as one of the most innovative leaders in this industry, the Netherlands is currently organising the seventeenth World Congress on Information Technology (WCIT), which will be held in 2010. At present, Indian firms are showing an inclination towards moving to the west, and especially Europe.

Agriculture and horticulture

A PwC analysis indicates that wastage in the food supply chain can be as high as 40%, largely due to the repeated handling of produce, poor packaging, a lack of temperature-controlled storage facilities and transportation, and poor infrastructure. Moreover, a lack of information on end-consumer requirements and pressure from consolidators often mean Indian farmers are forced to make inefficient decisions with regard to crop selection and pricing. This results in huge wastage and poor-quality produce.

Key trends in this industry include the growth of organised retailing and improvements in the supply chain, brought about by the technology and the logistical know-how of large local and multinational companies. These changes will result in disintermediation in both the agriculture value chain and the food supply chain, as well as investments in upgrading technology and practices in the value chain such as production, packaging, grading, storage and logistics. These efforts should help reduce wastage and duplication of efforts, enabling farmers to realise higher productivity and better prices.

The Dutch are known for their expertise and technology in agriculture, horticulture and biotechnology. More than that, they are a market leader in the production of seeds for glasshouse plants. This knowledge can be useful in helping India to reduce waste, simultaneously improving the quality of its products and reducing the costs.

Despite the growth factor in this sector, certain restrictions and limitations remain in place with regard to foreign direct investment (FDI) possibilities.

Retail

A boom has occurred in India's retail sector, largely due to the increasing spending power of the growing middle classes. One consequence of this growth is the change in consumer preferences – consumers are demanding good quality products. The retail sector is now becoming increasingly organised, and the rise in the number of new malls and (hyper) markets is an indicator of this trend.
For the Netherlands, such changes mean varied distribution options for consumer products (e.g., Pearl-Reliance partnership), although this sector has limited FDI options and is not a completely open market.

3 Doing business

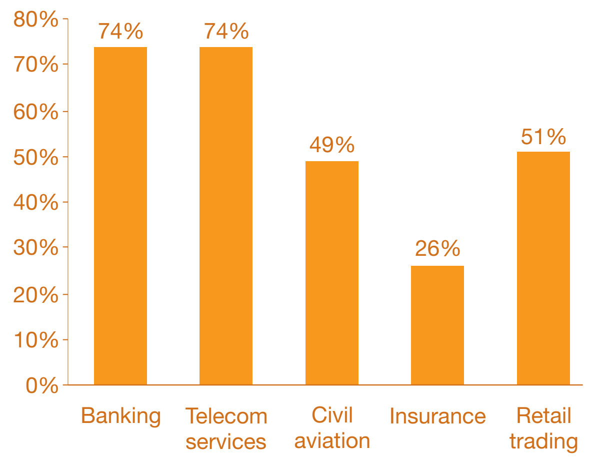
In India

Overview

India is among the fastest growing economies in the world, with an increasingly open business environment. In particular, early investments have allowed the IT and software sector and BPO to flourish. This development has not only created new job opportunities for millions, but also made India a credible destination for offshoring activities. By 2008, this sector is expected to attract one-third of all foreign direct investment (FDI), generating an estimated $60 billion a year in exports.[24]

As India continues to attract foreign investors, the government has founded the Foreign Investment Promotion Board (FIPB) as part of the Ministry of Finance. This board is designed to approve investment in sectors that are either sensitive, or require the implementation of sectoral guidelines. India automatically permits 100% FDI in most sectors, but banking, telecom services, civil aviation, insurance and retail trading require separate approval.[25]

The chart below demonstrates the maximum percentage of investments per sector.



Source: PwC

Banking	Shareholders have a maximum voting right of 10% regardless of their level of investment in a bank, according to the Banking Regulation Act,1949.
Civil aviation	No foreign airline companies can invest in the civil aviation industry, according to the Ministry of Commerce.
Insurance	Investors can invest up to 26% with permission from the Investment Regulatory and Development Authority (IRDA).
Retail trading	FDI is allowed only in single-brand retailing. Multi-brand retailing is currently not allowed in India, according to the Department of Industrial Policy and Promotion under the Government of India.

The Indian economy, powered by a skilled labour force, has attracted several multinational companies who have begun to outsource much of their business to India.

Advantages of doing business in India

- A large and rapidly growing consumer market – up to 300 million people constitute the market for branded consumer products
- Easy access to markets of the other nations belonging to SAARC (the South Asian Association for Regional Cooperation) – Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka
- Large manufacturing capability, spanning almost all areas of manufacturing activities
- Well-developed research and development infrastructure, and technical and marketing services
- Abundance of natural resources (including a rich mineral base) and agricultural self-sufficiency
- Developed banking system with a commercial banking network of over 63,000 branches, supported by a number of national- and state-level financial institutions
- Skilled manpower and professional management, including engineers, managerial personnel, accountants and lawyers, all of whom are available at competitive costs

24) McKinsey Quarterly, 2004
25) Foreign Investment Promotion Board (http://finmin.nic.in)

Challenges of doing business in India

- **Relatively poor infrastructure**: The main hurdle to investments continues to be poor infrastructure support. "I think there is a lack of excitement about investing here because of factors like poor energy supply, roads, airports, ports, the core infrastructure …" – William Harrison, Chairman, JP Morgan Chase & Co.
- **Relatively restrictive labour laws**: "... Indian labour laws are highly protective of labour, and labour markets are relatively inflexible. These laws apply only to the organised sector. Consequently, these laws have restricted labour mobility, have led to capital-intensive methods in the organised sector and have adversely affected the sector's long-run demand for labour".[26]
- **Complex tax system**: A complex structure for goods and services is a problem. Direct taxation remains in an infant state, in terms of both weight and structure. Import duties remain at non-negligible levels. The taxation system in a country such as India inevitably raises more than one problem, often associated with complex and obsolete indirect taxation and the fiscal relations between government layers. Attempts to update and improve the Indian tax system began in the early 1990s, but the effect has yet to be realised.
- **Large population**: The problem with a large population in India is probably due to the government's inability to implement family planning policies.

Indian regulatory environment

Exchange control is regulated under the Foreign Exchange Management Act (FEMA), 1999. As part of the FEMA, foreign exchange transactions have been divided into two broad categories – current account transactions and capital account transactions. Transactions that alter assets or liabilities outside India belonging either to a resident in India or a person resident outside India have been classified as capital account transactions. All other transactions are considered current account transactions. The Indian Rupee (INR) is fully convertible for current account transactions, subject to a list of transactions that require prior approval. An Indian company reliant on foreign investment is treated in an equal manner to other locally incorporated companies. Accordingly, the exchange control laws and regulations for residents apply to foreign-invested companies as well.

There are various regulatory bodies which act as a first point of contact between the foreign investors and the Indian government.[27]

The Secretariat for Industrial Assistance (SIA), functioning within the Department of Industrial Policy and Promotion, in the Ministry of Commerce and Industry, acts as a gateway to industrial investment in India. Broadly, the SIA performs various functions to assist entrepreneurs and investors in setting up projects monitors the implementation of these projects, and establishes relationships with state governments and other governmental bodies. The SIA is also supposed to provide information on any government policies related to investment and technology. It provides single-window clearance for entrepreneurial assistance and facilitates the processing of investors' applications that require government approval. To provide these services, the SIA acts via specialised divisions such as the Foreign Investment Promotion Board, the Foreign Investment Promotion Council and the Foreign Investment Implementation Authority.

The Foreign Investment Promotion Board (FIPB) is the nodal agency for all matters concerning foreign direct investment and its promotion. The main functions of the FIPB include, amongst other things, ensuring expeditious clearance of proposals for foreign investment, periodic reviews of the implementation of proposals that have been cleared by the Board, reviewing the general and sectoral policy guidelines, and working with the Administrative Ministries to incorporate transparent rules for each of these sectors. This is done by undertaking investment promotion activities that include establishing contact with, and inviting, selected international companies to invest in India in appropriate projects. When granting approvals, the FIPB

26) Economic Survey of 2005-2006
27) Destination India. Regulatory framework. PwC Publication, 2007

(functioning under the Ministry of Finance) maintains flexibility through purposeful negotiations with investors, and considers project proposals as a whole, with a view to maximising foreign direct investment in the country. The Board meets once every week to ensure the speedy processing of applications.

The Project Approval Board (PAB) provides a forum in which policy questions that affect a large number of applications are discussed and resolved. The PAB was set up to undertake detailed reviews with respect to pending letters of intent, industrial licences and foreign collaborations. The PAB identifies delays with the various agencies involved and fixes targets for clearing arrears. The PAB also reviews progress in the implementation of letters of intent and industrial licences up to the stage of the actual commissioning of capacity.

The Reserve Bank of India (RBI), India's central bank, was established on 1 April 1935. The Banking Regulations Act, passed in 1949, brought the RBI under government control. Its basic purpose is to secure monetary stability and to develop India's financial structure in line with national socio-economic objectives and policies. The RBI also acts as a banker for the central government, commercial banks, state cooperative banks and some financial institutions. It plays an important role in maintaining the exchange value of the Rupee and acts as an agent of the government in relation to India's membership of the International Monetary Fund (IMF). The following functions have been outlined for the RBI in order for it to reach its desired objective to formulate, implement and monitor India's monetary policy:

- Prescribing broad parameters of banking operations within the country's banking and financial system functions
- Administering external trade and payment
- Promoting orderly development and maintenance of the foreign exchange market in India.

The Registrar of Companies (ROC) plays a crucial role in the governance of Companies Act – the nodal law that regulates companies doing business in India. In a nutshell, the ROC has two distinct, but complementary roles: (i) facilitating business and commerce by providing a vehicle for the incorporation of companies, registration of documents and charges, and (ii) assisting in the regulation of business and commerce by striking off and prosecuting those companies who fail to comply with their statutory obligations under the Companies Act.

The Securities and Exchange Board of India (SEBI) was established with the prime objective of protecting the interests of investors in securities, promoting the development and regulation of the securities market and dealing with any other associated matters.

The Central Board of Excise and Customs (CBEC) is a part of the Department of Revenue within the Ministry of Finance. It is responsible for the formulation of policies that concern the levy and collection of customs and central excise duties, as well as service tax and associated administration. The Board is the administrative authority for subordinate organisations such as Custom Houses, Central Excise Commissionerates and the Central Revenues Control Laboratory.

The Central Board of Direct Taxes (CBDT) governs matters relating to the levy and collection of direct taxes and the formulation of policy concerning administrative reforms and changes for the effective functioning of Income Tax Department.

The Authority for Advance Rulings (AAR) has been constituted under the Income Tax Act, 1961, in order to help taxpayers plan their income tax in advance, and to avoid long, drawn-out and expensive litigation. A non-resident applicant can seek an advance ruling on any question of law or fact relating to a transaction that has either been, or is proposed to be, undertaken by the non-resident applicant. A separate Authority for Advance Rulings has also been constituted under the indirect tax regime.

Independent Regulators (IRs): Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority (IRDA), Central Electricity Regulatory Commission (CERC), Reserve Bank of India (RBI), etc.

Indian tax environment

Tax incentive schemes are key elements of the Indian government's approach to assisting new and existing businesses to establish and grow in underdeveloped regions.[28]

The following are the schemes undertaken by the Indian government.

The Export Oriented Unit (EOU) Scheme was introduced by the government in 1980 to promote exports. EOUs extend a host of incentives and facilities, including duty-free imports of all types of capital goods, raw materials and consumables as well as tax deductions against export income. These units can be set up for a varied range of business activities including manufacturing, services, software development, agriculture, aquaculture, animal husbandry, floriculture, horticulture and sericulture. Units set up as EOUs are eligible for a deduction of 100% of export profits for 10 years up to 31 March 2009. The exemption from Minimum Alternate Tax enjoyed by these units has been withdrawn with effect from 1 April 2007.

The success of the Export Processing Zone (EPZ) model in promoting exports led the Government of India to introduce the Special Economic Zones (SEZ) Policy in 2000 with the following objectives:

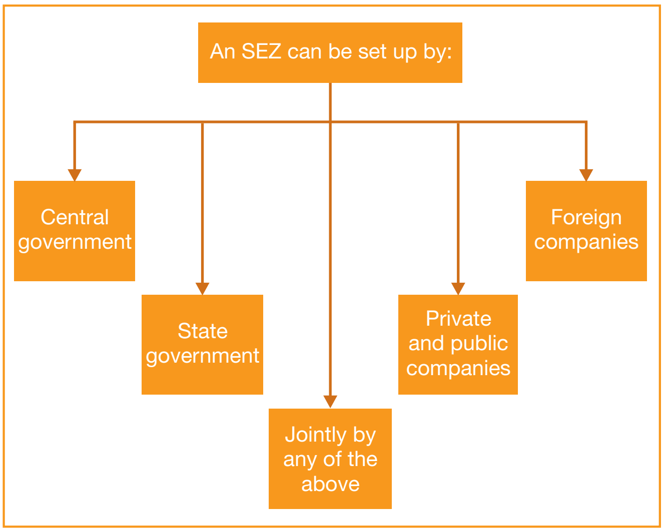
- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment opportunities
- Development of infrastructure facilities.

The SEZ Act of 2005 provides a legal framework that covers all important legal and regulatory aspects of SEZ development. The SEZ rules lead to:

- Simplified procedures for development, operation and maintenance of SEZs and for setting up units and conducting business in SEZs
- Single-window clearance for setting up an SEZ
- Single-window clearance for setting up a unit in an SEZ
- Single-window clearance on matters relating to central as well as state governments
- Simplified compliance procedures and documentation with an emphasis on self-certification.

The idea behind SEZs is to beat procedural complexities, infrastructural deficiencies, red tape and assorted obstacles that may be involved in setting up a business with regard to money, taxation, tariff, labour policies and other issues.

Who can set up an SEZ:



Source: PwC

Approval and administration mechanism of SEZs:

The Board of Approval has been set up by the central government. Any decision taken by the Board of Approval must be approved by its 19 members. The functioning of the SEZs is governed by a three-tier administrative set-up. The Board of Approval is the apex body, headed by the Secretary of the Department of Commerce. The Approval Committee operates at a zonal level, and deals with approval of units in the SEZs and other related issues. Each zone is then headed by a Development Commissioner, who is the ex-officio chairperson of the Approval Committee.

28) Destination India, Regulatory Framework, PwC Publication, 2007

The following table outlines the number of SEZs that have either already been, or are in the process of being, approved:

Status of SEZ approvals	
439	SEZ proposals that have received formal approvals
195	SEZs that have been notified
138	Approvals that are valid in-principle

Source: Government of India

Incentives and benefits:

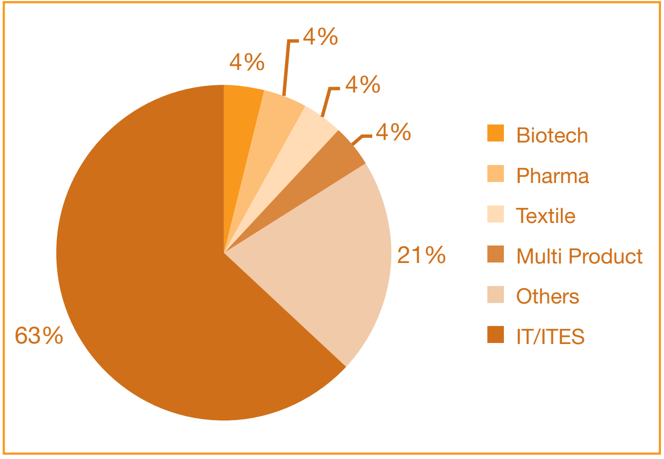
A plethora of incentives and benefits are on offer under the SEZ scheme in order to attract investors:

- 100% income tax exemption for a block of five years, and an additional 50% tax exemption for two years thereafter
- Automatic approval for 100% FDI in the manufacturing sector, with a few key exceptions
- The external commercial borrowing of up to $500 million a year is allowed by SEZ units through recognised banking channels, without any maturity restrictions
- Facility to retain 100% foreign exchange receipts in an Exchange Earners' Foreign Currency Account
- 100% FDI permitted to an SEZ franchisee when providing basic telephone services to SEZs;
- No cap on foreign investment for items reserved by the small-scale sector
- Exemption from industrial licensing requirements for items reserved for the small-scale industry sector
- No import licence requirements
- Exemption from customs duties on the import of capital goods, raw materials, consumables, spares, etc.
- Exemption from Central Excise duties on procurement of capital goods, raw materials, consumable spares, etc. from the domestic market
- No routine examinations by customs for export and import cargo
- The facility to realise and repatriate export proceeds within 12 months
- Profits allowed to be repatriated without any requirements for balancing of dividend
- Filling vacancies on behalf of domestic exporters for direct export allowed
- Subcontracting (both domestic and international) is permitted. This facility is also available to jewellery units
- Exemption from central sales tax and service tax
- Facilities to set up offshore banking units in SEZs.

Developers are entitled to benefits such as:

- Exemption from duties on import or procurement of goods for the development, operation and maintenance of the SEZ
- Income tax exemption for a block of 10 to 15 years
- Exemption from service tax
- FDI to develop townships within SEZs with residential, educational, healthcare and recreational facilities permitted on a case-by-case basis.

The following chart illustrates the distribution of SEZs by sector that have already received formal approval.



Source: Government of India.

SEZs in eastern India

In the eastern part of India, the state of West Bengal has received the formal approval for 21 SEZs. According to the state's Commerce and Industry minister, Nirupam Sen, these are expected to bring in an investment of Rs. 228,039 crore. Furthermore, these SEZs are expected to create 642,420 new jobs within the state. However, a significant challenge for the state government has been to provide land for the establishment of the SEZs: most of the land intended for the purpose is fertile farmland, and acquisition of such land has led to protests from farmers. The government does not have any model rehabilitation package in place for acquisition of SEZ land, but it hopes to resolve this issue by providing jobs for at least one member of each family affected by the land acquisition. Some of the major SEZs set up in the area include:

- **Chemical SEZ**: A chemical hub on a 12,500 acre plot at Nayachar Island near Haldia, named Prafulla Chandra Roy Chemical Complex (PCRCC). At present, the intention is for the site to be developed by PCR Chemicals Ltd., a JV set up by New Kolkata International Development Pvt. Ltd. (NKID) and West Bengal Industrial Development Corporation (WBIDC). NKID and WBIDC have a shareholding in the JV in a ratio of 51:49. NKID is a consortium between Unitech (40% stake), Indonesia's Salim Group (40% stake) and Universal Success (20% stake).

- **IT Hardware SEZ**: Kolkata-based RP Group is setting up the country's first IT hardware SEZ at Baruipur in the South 24 Parganas district. The company has already acquired 40 acres for this project.

- **IT SEZs**: The West Bengal government is teaming up with Wipro and Infosys Technologies to set up two SEZs for IT in the state. The state will allocate 90 acres of subsidised land each to Wipro and Infosys in the Rajarhat area, in Kolkata. The government will acquire land through PPP, and will also develop road, water, sewerage and power infrastructure.

Challenges of SEZs

- Political resistance if the land for the SEZ falls on fertile farmlands
- Total land acquired remains small in comparison to China
  - The largest SEZ in China, Shenzen, takes up 49,300 hectares by itself, while in India, the total land requirement for the formal approvals granted to 439 SEZ proposals is approximately 59,685 hectares.
- The majority of the SEZs are set up by firms engaged in the real-estate business, who demonstrate a lack of knowledge in planning and operating SEZs.
- Most SEZs are concentrated near major cities and at a distance from the coastline. This dispersal will give rise to distribution issues.

In a bid to enhance the export potential of the electronics industry, and develop both an efficient electronic component and information technology industry, Electronic Hardware Technology Park (EHTP) and Software Technology Park (STP) schemes have been announced. These schemes offer a package of incentives and facilities in line with the EOU scheme, including duty-free imports, export benefits and tax holidays. Export-oriented IT-enabled services such as call centres, data processing, and medical transcription are also eligible for registration under the STP scheme. The directors of STPs (with respect to STP proposals) and the designated officers (with respect to EHTP proposals) can award automatic as long as they comply with the same set of conditions as those applying to EOUs. Undertakings set up either in the EHTP or the STP are eligible for a deduction of 100% of export profits derived for 10 years up to 31 March 2009. The exemption from minimum alternate tax enjoyed by these units has been withdrawn from 1 April 2007.

The Industrial Parks Scheme has been introduced with a view to enhancing the development of infrastructure facilities intended for industrial use. The Secretariat for Industrial Assistance and the Department of Industrial Policy and Promotion (DIPP) approve the foundation of Industrial Parks that meet all the criteria laid down for automatic approval, such as the minimum area to be developed, the minimum number of industrial units to be provided, and the minimum amount of capital to be invested in infrastructure development. 100% tax deduction is available to the developers of Industrial Parks (notified by DIPP on or before 31 March 2009) for any ten consecutive assessment years within a fifteen-year window, beginning from the year in which the enterprise is first able to begin operating as an industrial park.

A 100% tax holiday, lasting for a period of ten consecutive years (and beginning with the initial year) is available to those units who carry out prescribed eligible businesses in the north-eastern states (including Sikkim). Such units must (a) begin the manufacture of any eligible article or item or (b) undertake a substantial expansion between 1 April 2007 and 1 April 2017. The eligible businesses include hotels (excluding those below a two-star category); adventure and leisure sports including ropeways; medical and health services; retirement homes; vocational training institutes for hotel management, catering and food craft; entrepreneurship development; the nursing and paramedical sector; civil-aviation-related training; fashion design and industrial training; IT-related training centres; and the manufacture of IT hardware and biotechnology.

Tax incentives for development undertakings other than infrastructure

New industrial undertakings located in specified "backward" states and districts are entitled to full tax exemption on profits for the first three or five years of operation. For companies, this is followed by a partial tax exemption of 30% on profits for the next five years. The list of "backward" districts has been divided into two categories – A and B – depending on the level of infrastructure development in those areas. The initial tax exemption period is five years for Category A and three years for Category B. A similar incentive also applies to hotels that fulfil redefined conditions. The profits of an undertaking engaged in (a) integrated business of handling, storage and transportation of food grains, (b) developing and building a housing project, (c) scientific research, (d) commercial production or refining of mineral oil, (e) setting up and operating a cold chain for agricultural produce, (f) building, owning and operating a multiplex theatre or a convention centre, (g) processing, preservation and packaging of fruits or vegetables or (h) operating and maintaining a hospital in rural area are also eligible for tax exemption subject to the fulfilment of prescribed conditions. The period of tax exemption ranges from five to ten years and the rebate percentage is either 30%, 50% or 100% in the first year, changing to 30% or nil in later years.

Tax incentives for infrastructure development undertakings

Enterprises engaged in power generation, transmission or distribution, developing or operating and maintaining an infrastructure facility or an industrial park and undertaking substantial renovation of the existing transmission network or distribution lines and operating a cross-country natural gas distribution network are eligible for 100% profit tax exemption for 10 consecutive years falling within the first 15 years of operation. This is extended to 20 years in the case of infrastructure projects or facilities, with certain exceptions: ports, airports, inland waterways, water supply projects and navigational channels in the sea. Eligible facilities include toll roads, bridges, rail systems, highway projects, water supply projects, water treatment systems, irrigation projects, sanitation and sewerage systems and solid waste management systems, ports, airports, inland waterways, inland ports and navigational channels in the sea.

Tax incentives for 100% export-oriented units or units in FTZ, STP, EHTP and SEZ

Export profits of a new industrial undertaking, established in a free trade zone (FTZ), software technology park (STP) or electronic hardware technology park (EHTP) or a 100% export-oriented undertaking are exempt from tax for 10 years, commencing in the year of manufacture. However, this exemption is only available until FY 2008–2009.

PwC records show that there have recently been several corporate tax changes in India. Venture Capital Funds (VCFs) and Venture Capital Companies (VCCs), which were set up to raise funds from any investment in venture capital undertakings, used to be treated as "pass-through entities" and their income was tax exempted. With effect from FY 2007–2008, this pass-through status and tax exemption is restricted to those VCFs and VCCs that invest in domestic companies whose shares are not listed on the Indian stock exchange and are engaged in certain business sectors, such as nanotechnology, IT hardware and software development, seed research and development, biotechnology, research into and development of new chemical entities for the pharmaceutical sector, bio-fuels production, building and operation of integrated hotel and convention centres with a seating capacity of over 3,000, or the development, operation and maintenance of infrastructure facilities. Within the dairy and poultry industries, export profits (entitled to tax exemption) of those undertakings set up in free trade zones (FTZs), special economic zones (SEZs), export processing zones (EPZs), software technology parks (STPs) or 100% export-oriented undertakings used to be exempt from minimum alternate tax (MAT). However, this was withdrawn for FY 2007–2008. In addition, as of FY 2007–2008, fringe benefits tax (FBT) – introduced in FY 2005–2006 – will include stock options given to employees. And, finally, amalgamated cooperative banks are now able to set off and carry forward any unabsorbed loss or accumulated depreciation incurred during the amalgamation or demerging process, subject to certain conditions.

Dutch business going to India

India is an outsourcing hotspot for the US and the UK, and several firms are already outsourcing their work to companies in India. Currently, Dutch investments in India primarily focus on telecommunications, financial and non-financial services, and the agro-processing and chemical sectors. However, there is scope for major expansion, and the governments of both India and the Netherlands are looking at other areas where they can work together, such as ICT, biotechnology, agriculture and food processing, inland water transport, urban water and solid waste management, infrastructure development, shipbuilding, port development, oil and gas and environment.

Below, we outline some existing Dutch outsourcing initiatives:

ICT

- Pink Roccade, a major Dutch IT company, has initiated an outsourcing pilot project.
- A Memorandum of Understanding (MoU) now exists between the Indian IT giant Wipro and Ordina, a large Dutch IT service provider. The two companies will focus on the Benelux energy market, a move that will cut costs by 30–40%.
- Logica CMG, another Anglo-Dutch IT company, is expanding its outsourcing business in India. It is also increasing the workforce from 240 to 2,500. The move will reduce the company's costs by between 30% and 50%.

Water and waste management

- On 25 October 2007, the Netherlands Development Finance Company (FMO), together with Intellecap, an Indian development finance consultancy, and Goodwell, a joint Indo-Dutch social investment firm, announced the launch of a collaborative initiative to provide the poor with clean water and sanitation solutions. This new programme, entitled Flows: Filling the Base of the Pyramid, will help to develop business and financial opportunities that will fulfil the huge water and sanitation requirements of low-income households, farmers and specific communities in India. The programme will utilise the existing global best practices and form strategic associations with different players from each of the sectors involved. The FMO will use its Capacity Development Fund to study business models that enable water management and microfinance to be integrated into sustainable solutions.

Financial services

- On 27 October 2007, the FMO signed a letter of intent (LoI) with Aavishkaar India (a micro-venture capital fund) to support offers of venture capital to micro-entrepreneurs in India. If the financing from the FMO is approved, many micro-entrepreneurs will gain access to long-term equity and be able to receive venture capital. This would include players from various different sectors, including technology, handicrafts, renewals, and others.
- Triodos Bank and the FMO have approved an initiative to increase equity investment in Bellwether Microfinance Fund. Bellwether Microfinance Fund was set up in 2005, and is India's first microfinance investment fund. The purpose of this Fund is to invest equity in India's microfinance institutions (MFIs). In line with this objective, the Fund invests in high-potential start-ups as well as medium and small MFIs in India. So far, it has made 12 investments throughout the country. With a fresh capital injection, the Fund's capital will increase to US$25 million.

- On 27 October 2007, the FMO and MAS Financial Services signed a Letter of Intent enabling them to provide retail financing of approximately US$5.5 million to Indian micro-enterprises. The funding will be in the form of convertible preferred equity.

Mobility issues

In five of India's major cities – Delhi, Mumbai, Kolkata, Chennai and Amritsar – registration of foreigners and immigration services are dealt with by the Bureau of Immigration (BOI). The field officers in charge of immigration and registration activities in these cities are called Foreigners Regional Registration Officers (FRROs). Throughout the rest of the country, the relevant District Superintendents of Police function as Foreigners Registration Officers (FROs).[29]

Business visas may be issued for up to 5 years, and have a multiple-entry provision. Although business visas are issued by Indian Embassies abroad, they can still be renewed or extended within India if the applicant desires. Foreign nationals who wish to work in India must obtain a residential permit from the FRRO. A foreign national who holds a visa (other than a tourist visa) that is valid for a period exceeding 180 days is required to register with the FRRO within 15 days of their arrival in India. Changing the purpose or type of a visa is not permitted. Furthermore, visas for any purpose other than employment, study or entry are normally not considered for extension.[30]

The "transfer of residence" scheme applies to foreign nationals visiting India for long durations. Under this scheme, foreign nationals can import certain personal effects without paying customs duty. To do this, the individual must provide a bank guarantee, which is refundable if he or she stays in India for a year. To take advantage of this scheme, the relevant goods must be shipped during the two months preceding, or in the first month following an individual's arrival in India. In addition, the individual – or their family – must have owned the goods that are brought into India under the transfer of residence scheme for at least one year beforehand.

In the Netherlands

Overview

In recent years, the Netherlands has successfully attracted a sizeable amount of FDI, as the following points illustrate:

- The Economist Intelligence Unit and the International Institute for Management Development have ranked the Netherlands fifth on the 2006 global business environment ranking for the period up to 2010, as one of the most attractive destinations for FDI.
- In its Doing Business report, the World Bank ranks the Netherlands 22nd in terms of ease of doing business.

Foreign investors are free to invest in any sector and are entitled to equal treatment with domestic Dutch firms. The only exception to this is investment in air transport. However, there are plans to divest a small share of Amsterdam Schiphol Airport to private investors. No screening mechanism exists for foreign investment and 100% foreign ownership is permitted in sectors where foreign investment is allowed.

Advantages of doing business in the Netherlands

Strategic location in Europe

The Netherlands provides a strategic location from which to serve markets within the current and future European Union, the Middle East and Africa. The central geographical position of the Netherlands, combined with accessibility and an excellent infrastructure are just some of the reasons why numerous European, American and Asian companies have established their facilities in the Netherlands.

29) Bureau of Immigration, Ministry of Home Affairs, India (www.immigrationindia.nic.in)

30) Ministry of Commerce and Industry, Department of Industrial Policy and Promotion (http://dipp.nic.in)

International business environment

The Netherlands is an obvious choice for locating a pan-European operation, whether a European headquarters, a shared services centre, a customer care centre, a distribution and logistics operation, or an R&D facility. The country's pro-business environment creates a gateway to Europe that helps international companies succeed throughout the continent. An international outlook and openness to foreign investment is firmly ingrained in the Dutch culture, and this has yielded a wealth of world-class business partners who are experts at facing and resolving global business challenges.

Superior logistics and technology infrastructure

The port of Rotterdam is the world's third-largest seaport. Handling approximately 40% of EU trade, the port makes the Netherlands a natural entry point for Indian businesses into Europe. In addition, Schiphol Airport is recognised as one of the major business hubs in Europe, claiming over 100 international awards over the last couple of decades. More than a decade of investment in high-speed internet, cable and digital communication systems, as well as the rapid adoption of state-of-the-art computer and mobile phone technology, have made the Netherlands an ideal base for companies seeking to take advantage of modern technology.

Highly educated, multilingual and flexible workforce

The Netherlands has one of the most highly educated, flexible and motivated workforces in Europe. Most Dutch professionals are multilingual, enabling them to successfully operate in companies in any industry, serving customers throughout the world.

Quality of life

The Netherlands has a high standard of living, while the cost of living, housing, education and cultural activities are lower than in most other western European countries.

Favourable fiscal climate

Since January 2007, the Dutch tax environment for international companies has become even more attractive. The corporate tax rate has been lowered to 25.5%, well below the EU national average. Dividend tax has been reduced from 25% to 15%. Furthermore, the Netherlands recently introduced a patent box, with a 10% tax rate on income from innovations. Combined with other traditional features of the Dutch tax system (i.e., wide tax treaty network, participation exemption, and a 30% tax break for highly qualified foreign employees), this makes the fiscal climate particularly attractive, and offers a further reason to establish or expand European operations in the Netherlands.

Challenges of doing business in the Netherlands

- Restrictive labour regulations
- Inefficient government bureaucracy
- Inadequate supply of infrastructure
- Inadequately educated workforce
- Tax rates
- Tax regulations

The Netherlands is a key player when it comes to global agrifood imports and exports. There are opportunities for exporters of these products to enter into partnerships with Dutch companies.

A large amount of medical equipment as well as supplies are imported into the country, providing opportunities for suppliers of such equipment to invest in the country. The Dutch government's increasing desire to reduce the cost of medical services and healthcare has provided market players with a fresh impetus to export their equipment to the Netherlands. Another factor influencing the increase in exports of medical equipment and supplies is the country's ageing population. It provides suppliers of cardiovascular products, orthopaedic implants and diagnostic imaging products with a receptive market, encouraging them to increase their exports to the Netherlands. The leading causes of death in the Netherlands are circulatory illnesses (33%) and respiratory disorders (9%). This means suppliers of medication and equipment related to these disorders have a good chance of increasing their exports to the country. Almost 85% of branded drugs and 60% of generic drugs used in the Netherlands are imported. There is a strong demand for over-the-counter medication, particularly vitamins and homeopathic remedies.[31]

The Dutch government and leading players have recently been focusing on the biotechnology sector. To date, four new Genomic Centres of Excellence (for cancer, biosystems, multifactorial diseases and industrial fermentation) have been set up in the country.

The Dutch environmental sector has come up with sophisticated technologies for air purification, wastewater treatment, household waste processing, recycling, soil decontamination and groundwater purification. While there is not much that Indian companies can contribute to improve this, there are opportunities for collaboration in the renewable energy market. Opportunities abound in the areas of research and development for wind turbines, solar energy and refining of biomass.

The Dutch ICT market has been looking increasingly strong in recent years, especially in the areas of telecommunications hardware, software and services. There are good opportunities for scientific and technological collaboration in ICT and related areas, including photonics, advanced manufacturing, and ICT-related microtechnology and nanotechnology. Other key areas of market opportunity include hardware and software for applications in wireless communications, security and data security, internet applications (including VOIP), and new media technology (including products for the convergence of new media and telecommunications).

Dutch regulatory environment

The Dutch regulatory environment has regularly been reshaped over the past few decades. In the 1980s, reforms in the labour market and the social welfare system were implemented. In the decade that followed, the Dutch government introduced further changes with a view to creating a new balance between protection and dynamism based on competition policy, regulatory reform and market openness. Today, the Netherlands ranks among the top OECD (Organisation for Economic Cooperation and Development) countries in terms of economic performance, such as growth in employment. Though still in its early phases, regulatory reform has already produced major gains for the Netherlands in terms of competitiveness, flexibility and consumer benefits. Yet major challenges are still to be faced. Some important reforms have been slow, indicating that the balance between domestic consensus building and policy responsiveness is still being adjusted in the new Dutch model. Further reforms in many areas will help to boost the employment rate, improve sectoral performance and provide social protection at a lower cost.[32]

Financial sector

The Dutch Authority for the Financial Markets (Autoriteit Financiële Markten – AFM) is the body responsible for regulating behaviour in the Dutch financial markets. In other words, AFM regulates the behaviour of all parties involved with respect to savings, loans, investment and insurance markets. It ensures that financial institutions in the Netherlands provide correct and proper information about their financial products and services. It also monitors all parties' compliance with the relevant legislation and regulations, and advises the Ministry of Finance whenever new legislation is being prepared. In short, AFM has the following three aims:

- Making the financial markets more accessible
- Promoting the smooth operation of the financial markets
- Promoting confidence in the financial markets.

To help safeguard financial stability, De Nederlandsche Bank (DNB) defines and implements a single monetary policy for those countries that have introduced the euro (the euro area).[33] The DNB promotes the smooth operation of the payment system and supervises financial institutions and the financial sector. At a public law level, the DNB has a dual function,

31) Discover the business opportunities in the Netherlands, The Canadian Trade Commissioner Service
32) Regulatory reform in the Netherlands, OECD Publishing, 1999
33) Nederlandsche Bank (www.dnb.nl)

being both part of the European System of Central Banks (ESCB) and an independent public body.

As a part of the ESCB, the DNB is jointly responsible for determining and implementing the monetary policy for the euro area, as well as forming a link in the international payment system.

As an independent public body, the DNB ensures financial institutions are prudently supervised and acts as an advisory body to the Ministry of Finance on export and import guarantees.

Privacy

The Dutch Data Protection Authority (College bescherming persoonsgegevens) ensures companies and organisations comply with the acts that regulate the use of personal data: the Personal Data Protection Act (Wbp: Wet bescherming persoonsgegevens), the Data Protection [Police Files] Act (Wpolr: Wet politieregisters) and the Municipal Database [Personal Records] Act (Wgba: Wet gemeentelijke basisadministratie). The Dutch DPA must be notified about the use of all personal data, unless an exemption applies. The framework for such notification is set out in the Personal Data Protection Act and other related legislation. Within this context, Dutch legislators have implemented Article 28 of the European Privacy Directive 95/46/EC, which explicitly provides for the existence of such a supervisory authority, and which also stipulates that this authority should be able to fulfil its task completely independently.[34]

Anti-trust

The Netherlands Competition Authority (Nma: Nederlandse Mededingingsautoriteit) has a straightforward statutory task: to make markets work. Its mission statement is: “We monitor effective competition and contribute to the proper functioning of markets.” The effects of this mission statement have become increasingly evident, as businesses now know that the NMa will take action against any anti-competitive activities that inhibit a competitor’s chances of success. The NMa upholds the principle that innovation and creative entrepreneurship result in new products and methods of production, stimulating competition while also boosting the competitive force of businesses. This will increase the competitive power of the Dutch economy in general, and consumers will profit from an improved price-to-quality ratio and a wider choice of products.[35]

Energy

The Office of Energy Regulation (Directie Toezicht Energie, DTe) is responsible for regulating the Electricity Act, 1998 and the Gas Act. This regulatory body comes under the Ministry of Economic Affairs and operates as a chamber within the Netherlands Competition Authority (NMa). This allows for effective synergies between DTe and departments of the NMa.[36]

Telecom

OPTA supervises industry compliance with legislation and regulations governing the postal service and electronic communications. In particular, this concerns the Postal Act and the Telecommunications Act, as well as minor regulations based on these acts and European regulations. This legislation and these regulations are intended to promote competition in these markets, giving consumers more choice and fairer prices. OPTA can take enforcement measures against a provider if it holds an excessively strong market position that could limit competition. In situations like this, OPTA can impose obligations with regard to interconnectivity, network access and tariff regulation.[37]

Healthcare

The Dutch Healthcare Authority (Nederlandse Zorgautoriteit – NZa) is the supervisory body for all healthcare markets in the Netherlands, including healthcare providers and insurers, in both the curative and long-term care markets. The NZa evolved out of the supervisory Board for Health Care Insurance (CTZ) and the National Health Tariffs Authority (CTG), which both focused on controlling total costs by providing funding to healthcare providers and ensuring that health insurance legislation was correctly implemented. While the NZa still deals with these tasks, the main emphasis of its work has now shifted from implementation to

34) Dutch Data Protection Authority (www.cbpweb.nl)
35) Netherlands Competition Authority (www.nmanet.nl)
36) Office of Energy Regulation (www.dte.nl)
37) OPTA (www.opta.nl)

proactively setting and enforcing the conditions under which market forces operate. The aim of the new healthcare system is to ensure that consumers receive value for money. Efficiency, choice, quality and accessibility of healthcare markets are central to achieving that aim.

Dutch tax environment

On 1 January 2007, significant changes were implemented in the Dutch Corporate Income Tax Act along with several other taxes. This has led to a substantially lower corporate tax rate of 25.5%, a lower dividend withholding tax rate of 15%, the introduction of a new regime for intra-group interest, and a patent box. On 1 August 2007, a new tax-exempt investment fund was also introduced, which exempts investment funds from paying corporate income tax and dividend-withholding tax. In addition, Dutch legislators have amended the existing regime for fiscal investment funds, meaning that, from 1 August 2007, fiscal investment funds can be invested in real-estate development.

Further progress has also been made in corporate income tax deductions. For investments in energy-efficient assets, investors can benefit from a corporate income tax deduction of 44% of the total value of their annual investments between €2,100 and €110,000,000. Investments in certain new environmental assets which exceed €2,100 per calendar year benefit from a corporate income tax deduction of 40%, 30% or 15%, depending on the ministerial classification of the assets.

Wage tax to be paid on wages has been reduced for employees engaged in research into and development of new technological products. The subsidy accrues to the employer, while the employee pays the normal (unreduced) amount of wage tax. The benefit per employer (or group of companies) may not exceed €8,000,000 per year.[38]

Dutch tax reform attracts attention “Business is coming to the Netherlands”[39]

The Dutch investment climate for foreign entrepreneurs is improving. As a jurisdiction that continues to encourage foreign investment, the Netherlands scores better in this area compared to other EU countries and has moved higher up the rankings of the World Economic Forum. This is not only thanks to the abolishment of capital tax, but also to an important degree thanks to the reduced statutory corporate income tax rates. These tax changes have had several positive consequences, according to Joop Wijn, former State Secretary of Finance: ”It is not only getting more attractive for companies to invest in the Netherlands, but also to stay in our country after an international merger.”

The tax requirements for headquarters are clear. What’s more, if foreign investors have any questions, tax inspectors are always able to provide certainty about the tax consequences of foreign investors’ investments in advance and at short notice. “For investors, and consequently for the Dutch economy, this is a matter of great importance. We receive more and more positive signals from tax advisors about the Advance Pricing Agreements and the Advance Tax Rulings practice – which is, of course, to the satisfaction of the Ministry of Finance and the tax authorities.”

38) Doing business in The Netherlands, World Bank Group, 2008
39) Dutch Tax Reform attracts attention “Business is coming to the Netherlands”, August 2006, PwC

Joop Wijn believes that the investment climate can improve even more. “For major investors, such as private equity investors, it is of great importance that they have enough flexibility. In this way, it is more attractive for them to invest.” Wijn has taken this into consideration in the ‘Werken aan Winst’ bill (modernisation of the Corporate Income Tax Act). Encouraging entrepreneurship is the central theme in this proposal, which involves the reduction of tax rates and the broadening of the tax base. Such broadening is designed to generate profit and reward innovation. If the Dutch Parliament approves Wijn’s proposal, the corporate income tax rates will be reduced down to 20% on profits up to €25,000, 23.5% on profits between €25,000 and €60,000, and 25.5% on profits exceeding €60,000. Entrepreneurs, who pay income tax rather than corporate income tax, will be exempt from payment of tax on 10% of their profit. As a result, the top income tax rate for entrepreneurs will be reduced from 52% to 48.3%.

For royalties, a separate 10% “royalty box” will be introduced. According to Wijn, this will not only boost the technological economy, but it will also result in new economic impulses. An open world economy would also play an important role in this. “Free trade is essential for our wealth and progress. In my view, this is not the case in the United States of America. I was recently in Washington to present a speech to all Chiefs of Staff of Senators and Representatives, in which I touched upon the protectionist tendencies in American politics”, says Wijn. “True free trade includes an open acquisition climate. Both as government in The Hague and as European politicians, we will do everything we can to clear the path. When companies cooperate across borders, new incentives will arise.”

Mobility issues

International companies and organisations already actively invest in the Netherlands and frequently use the country as a base from which to manage their foreign activities. The Netherlands’ attractive location, financial power and political stability have recently attracted an increasing number of foreign companies and investors, and there has been a significant increase in business immigration from non-EU/EEA countries. If managers, executives, newly hired staff members, IT workers and other skilled workers, investors or self-employed people from non-EU/EEA countries come to work in the Netherlands for more than three months, they need to obtain a work permit.

The Immigration and Naturalisation Service (IND), a department within the Ministry of Justice, is responsible for implementing the Netherlands’ immigration policy and related procedures. It is primarily responsible for assessing family reunification and allocating residence permits in the Netherlands. The main shortcoming of this organisation is the quality of the service it provides. Although in many European countries government agencies dealing with immigration procedures are also bureaucratic and inflexible, the IND seems to be particularly indecisive in most matters. In spite of the fact that the work of IND has improved significantly in recent years, political and social pressures combined with many other issues related to the governmental immigration policy mean that the IND still takes too long to decide whether a work permit or visa should be issued.

A foreign company can bring employees into the Netherlands as either labour migrants or as highly skilled migrants:

- A labour migrant is someone who comes to the Netherlands to work as an employee. The company can bring a foreign employee into the Netherlands as a labour migrant as long as his or her salary at least meets the social assistance standard. In addition, the worker also needs to be in possession of a work permit, to be issued by the Centre for Work and Income (CWI).
- A highly skilled migrant is also someone who comes to the Netherlands to work as an employee. However, to ensure an employee qualifies as a highly skilled migrant, the employer must sign a statement in which they assume a number of responsibilities. In addition, the employee must have a gross annual income of at least €46,541 or, if a person is less than 30 years old, of at least €34,130 (2007). This income requirement does not apply to individuals employed in the Netherlands in the context of academic research or to employees who are doctors undergoing specialist training.[40]

40) Bringing a foreign employee to the Netherlands, The Immigration and Naturalisation Service (www.ind.nl)

4 Summary

India and the Netherlands: The way forward

Economic ties between India and the Netherlands have rapidly emerged as one of the most important bilateral relationships in the world.

Internationally, India is one of the fastest growing economies in the world. This has been fuelled by growth in all sectors, but particularly in the country's globally competitive knowledge-based sectors. A growing consumption of goods and services by India's 300 million strong middle-class population, major investments in infrastructure creation and an increasingly open business environment with opportunities for domestic as well as international players have also triggered considerable growth. Many Indian companies have also already found their way to the Netherlands. Not only is the country an important export market in its own right, but it also has a very strategic location. Often referred to as the Gateway to Europe, the Netherlands provides India with an opportunity to step into the entire European market.

The Netherlands, with a history of over four centuries of trade with India, is one of the leading investors in the country, and by 2006, the Netherlands had also become the largest recipient of Indian overseas investment. Over 100 Dutch companies – among them ABN AMRO, Shell, Rabobank, ING Bank and ING Insurance – already have a presence in India.

While it is true that increasing trade ties between India and the Netherlands benefit both countries, certain issues remain that must be tackled. These include such things as an adherence to global standards with regard to corporate social responsibility and management, and the introduction of business-friendly visa policies to encourage partnerships and collaboration.

At the same time, some existing linkages in Indo-Dutch business relations could be further strengthened. These include agro processing, financial services, chemicals, pharmaceuticals and the environment and, above all, knowledge-based industries such as IT and biotechnology. Besides these, during the next decade, Dutch companies and institutions will almost certainly focus on five areas in which innovation is extremely important – high-quality use of space, IT, sustainable system and process innovation, micro systems and nanotechnology, and health-nutrition and biotechnology.

Even so, innovations in these areas must go beyond the concept of patents. Instead, innovations must be of the highest scientific quality and must contribute directly to the "Dutch Knowledge Economy" through market feasibility. When India's economy is examined, it seems clear that Indian companies and institutions can – and will – co-create value for the challenges in innovation also faced by their Dutch counterparts. In fact, the Indian agenda touches upon four of the Netherlands' five focus areas.

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