

Seventh EU-India Business Summit Helsinki

## Opportunities for EU-India Partnership

Following are the excerpts of the Paper on Knowledge Based Services presented by Prof. Poonam Kumar, Chairperson, Mega Ace Consultancy, at the Seventh EU-India Business Summit, Helsinki.

Distinguished members on the panel, ladies and gentlemen, it gives me a great pleasure to be amongst you to share my thoughts on the growth and development of the service led economic growth of India and opportunities that it opens for EU-India partnership to further harness this potential.

Knowledge continues to be the harbinger of economic growth the world over. Endeavors in Science and Technology have brought about radical changes in the way the world communicates and travels.

Today as companies increasingly go global, creating economic value for clients and stakeholders, the most crucial and time critical aspects in modern day business paradigm is the need to harness and retain knowledge.

A view of the demographic patterns, in developed economies show that development has been invariably accompanied by a gradual decline in the proportion of working age people to total population as birth rates decline and life expectancy also goes up. Projections are that by 2020 developed countries will experience a shortage of working age people. Even countries like China, will be experiencing a shortfall in the proportion of working age people by 2020.

The scenario in India is however different with 36% of its population below the age of 15 years, and only 4% above 65. A population "bulge" in the working age groups, however large the total population, is an inevitable advantage. In 2020, the average Indian will be only around 29 years old, compared with 37 in China and the United States, 45 in Western Europe, and 48 in Japan. This would create a large and growing labor force, which is expected to deliver unexpected spin-offs in terms of growth and prosperity. With 2.4% of the world's land, India supports 17% of global population. Increasingly, this large population base is being viewed as a serious competitive advantage for India, with the potential of leapfrogging the country into the orbit of higher economic growth. Studies predict that India would be the only economy consistently growing in excess of 5% annually till the year 2050. It is estimated that by 2020 the US will be short of 17 million people of working age, China 10 million, Japan 9 million and Russia 6 million. Against this, India will have a surplus of 47 million working age people. Thus India is expected to continue having a competitive advantage in labor costs, which would be sustainable up to 2050. It is in this potential

that lies' India's opportunity to provide knowledge-based services to the developed world.

Several international studies point to the size, skills, and low costs of India's manpower as its comparative advantage amongst nations today. With a large English-speaking skill base of three million graduates, 700,000 postgraduates, and 1,500 PhDs qualified in bio-sciences and engineering each year, professional skills are available abundantly in India compared to other developing countries. The growth and development of Information Technology has been to India's advantage. India today has a clear and growing capacity in knowledge based service based on information technology which is now recognized the world over. Year after year, Competitiveness Reports have confirmed the high international opinion of India's engineering and scientific capacities. This growth has been a result, of the long-term investments that India has had towards the development of highly acclaimed research and management institutions like the IITs and IIMs. On another level the government efforts in public education is also paying off. The literacy rate in India has jumped from 52 per cent in 1991 to 65 per cent in 2001. The absolute number of non-literates dropped for the first time and gross enrolment in Government-run primary schools increased from over 19 million in the 1950s to 114 million by 2001.

India's BPO sector has always been much talked about. The most visible and evident dimension of the emergence of services has been in software and information technology (IT)-enabled services (including call centers, software design, and business process outsourcing). However, growth in knowledge based services in India has been much more broad-based than IT and BPO operations. Knowledge services are different in philosophy, objective and service delivery mechanisms. This difference lies in the core essence that knowledge based services is an inclusive part in the delivery paradigm of an organization - a crucial strategy for any company's core business process.


But today the countries transition from being a major business process outsourcing (BPO) destination to a Knowledge Processing Outsourcing (KPO) destination is imminent. India is set to become the most preferred destination for knowledge process outsourcing as it grows at 46 per cent to touch the \$17 billion mark by 2010. Areas with significant potential for Knowledge Processing Outsourcing (KPO) include pharmaceuticals, biotechnology, technology, legal services, intellectual property, research and design, and development of automotive and aerospace industries. India could emerge as a global Knowledge Processing Outsourcing (KPO) hub as the business requires specialized knowledge in respective verticals and the country's engineering and technical institutes are geared to address the manpower demand. Given the large pool of chartered accountants, doctors, MBAs, lawyers and research analysts, India will dominate the Knowledge Process Outsourcing (KPO) sector of the world by 2010. India will garner a whopping 71% of the projected \$17 billion Knowledge Processing Outsourcing (KPO) market by 2010 i.e. \$12 billion. The "inclusive" philosophy of knowledge based services is driven by the global availability of skills and the

**HELSINKI, FINLAND**  
OCTOBER, 2006



Prof. Poonam Kumar, Chairperson, Mega Ace Consultancy during her presentation at the Seventh EU-India Summit.





simultaneous diffusion and aggregation of knowledge across multiple geographies. Cost-reduction is an additional benefit that organisations happen to derive from including talented people from lower-cost geographies. Access to domain knowledge however is undoubtedly the key driver for the growth of knowledge based services.

Beyond IT, new sectors are emerging; Biotechnology for instance, is a sector where opportunities for innovations in India are multifold. Studies indicate that India is poised to make big contributions to the global healthcare industry and become a leading player in knowledge-based industries. This is based on its strengths and capabilities to be expeditious and cost effective in the development of products which is well supported by highly efficient and low cost manufacturing. Additionally, India is also emerging as a competitive base for several segments of the R&D value chain, especially in late discovery, preclinical, and clinical development.

India's biotechnology industry is poised to record substantial growth. The industry, in 2001 comprised of 110 units in the healthcare products sector, 140 units in agriculture and about 300 units in industrial and other biotech products sector. Put together, all these units in 2001 employed roughly 25,000 R&D scientists. Bangalore, Hyderabad, Pune, Chennai and New Delhi are fast becoming the hubs of the biotech industry in India. Unlike in the Indian IT sector, where outsourcing is a major area of focus and growth, in the biotechnology sector, there are partnerships between Indian and foreign firms where both sides have their own areas of strengths and specialization. This is reflective of the inclusive nature of the knowledge based services.

Another sector that has been leading the way with a high growth potential is Legal process outsourcing (LPO). As associate lawyers in the US carry price tags ranging from \$225 to \$450 per hour, India is a natural fit and already five of the 20-odd Indian KPO companies have established themselves and are tapping on skilled legal professionals to handle the outsourced work. By outsourcing to destinations like India, clients have enjoyed sharp improvements in efficiencies and the means to execute them with fully customisable, scalable and cost-effective on-site, offshore or hybrid outsourced solutions. Moreover, with the pay rate between 10% and 15% of that of US lawyers, LPO is catching on in India.

It has been seen that multi-national companies are seeking to set-up operations in India not merely to cut their costs, but also to access good quality services. Furthermore, over time, these companies continue to stay in India, to reap the benefits of quality at competitive costs. The fact that India has been able to provide good quality services has distinguished it vastly from others, such as the Philippines, China, Singapore and Mexico, the other major countries sought by MNCs for outsourcing. As a consequence, India has earned a strong reputation on account of high quality knowledge services.

The rich countries of Europe have seen the greatest decline in global GDP share by 4.9 percentage points. By 2025 the Indian economy is projected to be about 60 per cent the size of the US economy. The transformation into a tri-polar economy will be complete by 2035, with the Indian economy only a little smaller than the US economy but larger than that of Western Europe. By 2035, India is likely to be a larger growth driver than the six largest countries in the EU. Most forecasts indicate that by 2020 India's gross national product will overtake or be on the threshold of overtaking European economies.

Scarcely a day passes without media reports on the phenomenal growth of the Indian economy. In Europe, rather than being seen as a welcome development, this is often seen as a threat. Concerns being raised about the off shoring of jobs or the delocalization of industries to low-cost production locations. Also, India is attracting an increasing proportion of foreign direct investment and seen as exploiting its linguistic and human-capital advantages in a world transformed by the Internet. In short, the concern is that competition from India will exert downward pressure on pay and working conditions in the advanced economies.

However, EU-India trade has grown impressively over the years, from € 4.4 billion in 1980 to €33 billion in 2004. Trade with the EU represents almost a quarter of Indian's total exports and imports. The EU is also India's largest source of foreign direct investment. However, India accounts for just 1.7% of total EU trade. India attracts only 0.3 % of the EU's world-wide investments.

The EU and India have adopted a Joint Action Plan and agreed to take positive steps to further increase bilateral trade and economic cooperation and to tackle barriers to trade and investment. Specifically, they agreed to set up a High Level Trade Group to study and explore ways and means to deepen and widen their bilateral trade and investment relationship and agreed to cooperate on a number of other trade-related issues.

*Knowledge development is one of the potential area for EU-India partnership.* Various models of such partnership can be adopted like that of setting up of high end technical institutes and building Industry-Institution cooperation. Such partnership will help in setting up of world class institutes and research organization to generate knowledge resources for the world with both EU and India reaping the benefits. Opportunities also lie in creating knowledge based incubation centres which can nurture ideas and develop enterpreneurship in both India and EU countries. Opportunities of collaboration and business development also lie in partnership of universities with private sector.

In a study which we at Mega Ace Consultancy undertook among 100 leading Indian companies to evaluate their perception investing in Europe, we found that many of the companies were seeking opportunities for partnerships and collaborations. This trend was particularly evident among high-end, high-technology companies from leading automobile companies to pharmaceutical and biotech companies.

Clearly, India is a gold mine for higher levels of skill, knowledge and experience extending across varied functions and industries. With around 2.5 lakh professionals expected to be working in India's knowledge based KPO industry, India expects KPO to clock a compounded annual growth rate (CAGR) of around 45% as against 26% for non-KPO outsourcing business. The project management experience gained in the BPO sector is adding immeasurable value in delivering KPO offerings. On the basis of these competitive advantages, supported by cost-arbitrage opportunities, India has gradually begun to emerge as an offshore hub for knowledge services. As mentioned earlier, a key driver on the demand side has been the changing demographics.

The need lies for building capacities within our regions, involving the public and private sector in partnership with knowledge institutions. It is for us to see how we can partner, prepare, deliver and market knowledge resource and make the most of the opportunities that exist.

Thank you for your time.

**Mumbai Office :**  
68-B, Mittal Tower,  
Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-22812298, 22815126  
Fax: +91-22-22812305

**London Office :**  
10, Middle Field,  
St. Johns Wood,  
London NW8 6NE, U.K.  
Tel: +44 207 289 0296

www.mega-ace.com