FICCI
Federation of Indian Chambers of Commerce and Industry

Cámara
de Comercio de España

INDIA-SPAIN
Synergizing Economic Complementarity

A Working Paper, June 2016

Title : **India-Spain: Synergizing Economic Complementarity**

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Foreword

As we mark the completion of 60 years of diplomatic relations between India and Spain this year, we also celebrate a rich and multifaceted connect between the two countries that holds great promise for mutually supportive growth.

Over the past two years, emerging global economic imperatives have directly impacted the way India and Spain have been engaging with each other. There is a gradual but certain qualitative shift towards widening and deepening economic engagement.

Spain is India´s 7th largest trading partner in the European Union and the 12th largest investor in India. We believe that this is just a fraction of what is achievable for the dynamic private sector in India and Spain, supported by an enabling policy environment on either side.

Spanish expertise is of direct relevance to the present Indian government's developmental goals: Possibilities for cooperation are immense in infrastructure, Make in India campaign and Smart Cities initiative.

The window to provide solutions for sustainable growth including renewable energy, water treatment and clean tech has led Spanish companies to look afresh at India as their "Next and immediate destination" to deploy their technological brilliance.

This publication is intended as 'food for thought' to catalyse thinking and start a dialogue to ignite innovative partnerships between India and Spain.

Federation of Indian Chambers of Commerce and Industry (FICCI) remains committed to assisting all stakeholders in developing economic and knowledge partnerships and are confident that the government, private sector and policy experts will find it a useful point of reference.

Ambika Sharma
Director General-International
Federation of Indian Chambers of Commerce and Industry

Foreword

It is a pleasure and an honour for me to present this Working Paper on the future of the economic and business relations between Spain and India. FICCI and the Spain Chamber of Commerce share the common goal of strengthening ties between the business communities of both our countries as a means to promote trade, growth and job creation. This is a new step forward.

India plays a leading role in the world economic system, with a buoyant emerging economy that continues to grow while the macroeconomic balances are kept under control. Its demography, its wealth in natural resources and the well-known entrepreneurial spirit of Indian citizens are some of the factors behind the remarkable development prospects. The IMF's GDP growth projections of an average 7.7% in the coming four years are a good proof of that bright economic future.

Besides, the government led by Prime Minister Modi is committed to implement ambitious structural reforms to consolidate the economic and social development, enhancing productivity while combatting poverty.

Transport infrastructures (roads and railways), electricity transport, renewable energies, environment, urban development or tourism have all been identified as priority sectors by the Indian government. In all of those, Spanish companies have reached end enjoy leading positions in world markets. Even if some of them are already present in India, there is an enormous potential for further bilateral business cooperation in these and many other sectors.

The Spain Chamber of Commerce has identified India as one of its priority markets in order to promote and support the internationalization of Spanish companies. We are undertaking new initiatives for reinforcing our strategy and available instruments, like signing a new collaboration MoU with our counterpart FICCI, recommending the territorial Chambers in Spain to actively promote the Indian market among the companies of their jurisdictions, and collaborating with the Indian and Spanish governments in the setting up and development of the new bilateral CEOs Forum.

We believe that this Working Paper, issued on the occasion of the celebration of the India-Spain Business Forum in Madrid, will contribute to showing the huge potential of our future business bilateral cooperation, that the Spain Chamber of Commerce is deeply committed to promote in collaboration with FICCI in the coming years.

Inmaculada Riera
Director General
Spain Chamber of Commerce

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SPANISH ECONOMY

An overview

Spain's mixed capitalist economy is the fourteenth-largest economy by nominal GDP (USD 1.4 trillion) in the world. It is the fifth-largest economy in the European Union, and the fourth largest in the Eurozone, based on nominal GDP statistics.

With a GDP growth of 3.2% in 2015, as compared to 2.5% for United States and 1.5% for European Union, Spain is one of the fastest growing economies in developed world. This GDP growth has not resulted in Balance of Payments current account deficits as in previous growth cycles.

Spain's growth prospects are stable. The Spanish economy is evidencing a more favourable pattern of behavior compared with the rest of the largest developed countries. In fact, GDP growth is expected to outperform the larger developed countries and the Euro area average over the next years, according to the IMF.

This growth is supported by the progressive increase in internal demand, primarily led by private investment and domestic consumption. In fact, the private components of domestic spending have played a key role in the growth of the Spanish economy in recent quarters, and have made a decisive contribution to improving investors'

Spain in Nutshell

Political Structure: *The politics of Spain takes place under the framework established by the Constitution of 1978, arguably the most liberal in Western Europe.*

Spain is established as a social and democratic state& the form of government is a parliamentary monarchy, that is, a social representative, democratic, constitutional monarchy in which the monarch is the head of state and the prime minister- whose official title is "president of the Government"- is the head of government.

Executive power is exercised by the government and Legislative power is vested in the Cortes Generales(General Courts), a bicameral parliament constituted by the Congress of Deputies and the Senate.

Economy: *Spain's mixed capitalist economy is the fourteenth-largest economy by nominal GDP (USD 1.4 trillion) in* expectations. Specifically, the expansive behavior of household spending on consumption in the most recent period has continued to be sustained on the upward trend in financial factors and employment. In fact, GDP and employment are growing at the same pace. Spain has generated 42.8% of all the employment created in the Euro Area since 2014.

The positive effects of structural reforms account for a large part of this trend. Spain undertook an ambitious program of structural reforms which is having a significant impact on the Spanish economy, driving an increasing improvement in competitiveness at company level and on the whole of the country's economy. These reforms have increased competition, brought greater flexibility to the labour market, restructured the financial system, and improved the conditions under which new companies can access the market.

The Spanish economy registered quarterly growth of 0.8% in the fourth quarter of 2015. The growth is projected to remain robust in 2016 and 2017, backed by positive labour market developments, improved access to credit for firms and households, high confidence and low oil prices. Spain's economy has expanded by 3.2% in 2015 and is forecasted to grow 2.7% and 2.4% in 2016 and 2017, respectively.

the world, and sixteenth-largest by purchasing power parity.

It is the fifth-largest economy in the European Union, and the fourth-largest in the Eurozone, based on nominal GDP statistics.

In 2015, Spain was the nineteenth-largest exporter in the world and the fifteenth-largest importer. Germany, France, Italy, UK and China are main trading partners.

***Taxation:** As of January 1st2015, the corporate tax rate reduced to 28%. In 2016 the tax further reduced to 25%. There is a lower tax rate for newly-formed companies. The rate, which was introduced in 2015, is set at 15% for the first 2 years in which the company obtains taxable profit.*

For small and reduced-sized companies, up to 2014 there were reduced rates, which have now been eliminated, except for a transitory period in 2015, when the rate is 25%, except for the profit over 300K Euros for medium-sized companies where the tax is 28%.

According to hard and soft data on economic activity, private consumption growth remained robust in the last quarter of 2015 and it is expected to remain the main driver of growth in 2016 and 2017, supported by low inflation and steadily improving labour market conditions. Exports will remain resilient, with exports of goods progressively gathering steam, fueled by continued improvements in competitiveness and recovering growth in Spain's main export markets.

In 2015, inflation averaged -0.6%, driven by the fall in oil prices. It is expected to turn slightly positive again in the short term, but to remain low over 2016 and 2017, due to low external price pressures and remaining slack in the economy.

Job creation remained very robust in the second half of 2015, while the labour force registered an expansion. There are 958,800 more employees than in end-2013. The unemployment rate fell to 20.9% in the fourth quarter of 2015, with a further expected decrease in the next quarters.

		2014		Annual percentage change						
	bn EUR	Curr. prices	% GDP	96-11	2012	2013	2014	2015	2016	2017
GDP		1041.2	100	2.6	-2.6	-1.7	1.4	3.2	2.8	2.5
Private Consumption		606.8	58.3	2.3	-3.5	-3.1	1.2	3.1	3.4	2.3
Public Consumption		202.4	19.4	3.9	-4.5	-2.8	0	2.2	0.6	0.6
Gross fixed capital formation		204.1	19.6	2.5	-7.1	-2.5	3.5	6.1	4.6	4.8
of which: equipment		66.6	6.4	3.9	-8.5	4	10.6	9.7	8	5.9
Exports (goods and services)		338.8	32.5	5.1	1.1	4.3	5.1	6	6.1	5.8
Imports (goods and services)		312.9	30.1	5.1	-6.2	-0.3	6.4	7.9	7.4	6.2
GNI (GDP deflator)		1036.9	99.6	2.5	-1.6	-1.4	1.4	3.4	2.6	2.5
Contribution to GDP growth:		Domestic demand		2.7	-4.5	-2.8	1.3	3.5	3	2.4
		Inventories		0	-0.3	-0.2	0.2	0.1	0	0
		Net exports		-0.1	2.1	1.4	-0.2	-0.4	-0.2	0.1
Employment				1.7	-4.9	-3.5	1.1	3	2.6	2
Unemployment rate (a)				13.8	24.8	26.1	24.5	22.3	20.4	18.9
Compensation of employees / f.t.e.				3.3	-0.6	1.7	-0.6	0.6	0.5	1
Unit labour costs whole economy				2.5	-2.9	-0.2	-0.8	0.4	0.4	0.6
Real unit labour cost				-0.3	-3	-0.8	-0.4	-0.3	-0.6	-0.7
Saving rate of households (b)				10.6	8.8	10	9.6	9.5	9.6	9.7
GDP deflator				2.8	0	0.6	-0.4	0.8	1.0	1.3
Harmonised index of consumer prices				2.8	2.4	1.5	-0.2	-0.6	0.1	1.5
Terms of trade goods				-0.1	-1.1	0.9	-1	3.7	1.7	-0.4
Trade balance (goods) (C)				-5.5	-2.8	-1.4	-2.2	-1.9	-2	-2.5
Current-account balance (C)				-4.6	-0.4	1.5	1	1.5	1.4	1.3
Net lending (+) or borrowing (-) vis-a-vis ROW (C)				-3.9	0.1	2.2	1.6	2	1.8	1.7
General government balance (C)				-2.8	-10.4	-6.9	-5.9	-4.8	-3.6	-2.6
Cyclically-adjusted budget balance (d)				-3.1	-6.3	-2.3	-2.1	-2.6	-2.6	-2.5
Structural budget balance (d)				-	-3.4	-1.9	-1.7	-2.5	-2.6	-2.5
General government gross debt (C)				53	85.4	93.7	99.3	100.7	101.2	100.1
(a) as % of total labour force. (b) gross saving divided by gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.										

Source: European Commission (Eurostat)

Spain as an Investment Destination

Spain is one of the most open countries to foreign investment in the world. According to the FDI Regulatory Restrictiveness Index ranking, issued by the OECD, Spain is the ninth country with the fewest regulatory restrictions on foreign investment. In Spain, foreign investors are accorded exactly the same treatment as Spanish investors, with no discrimination regarding the type or size of the investment.

As the OECD explains in the Index, there is a direct link between the absence of restrictions on foreign investment and the volume of inward foreign investment. In fact, Spain places eighth in the world ranking of countries with the greatest stock of inward foreign investment (Source: UNCTAD).

Foreign investment in Spain involves over USD 720 billion. There are now over 12,000 foreign multinational companies based in Spain from all sectors, especially those with higher value added such as ICT, automotive, biotechnology, chemicals, logistics, e-commerce, healthcare, aerospace, near shore or business services, consumer goods and tourism.

In recent years, Spain has been EU largest recipient of foreign investment along with the UK. In fact, productive foreign direct investment amounted to Euros 21.7 billion in 2015, 11% up on 2014 (Euros 19.6 billion), according to the Investment Register of the Spanish Ministry for Economy and Competitiveness.

One of the main drivers of this attractiveness is the potential end expected growth of the Spanish economy, as described above. The Spanish market size is another key factor to attract international investors. The Spanish domestic market is one of the biggest in Europe with more than 46 million of consumers with a high GDP per capita and an additional injection of demand coming from the 65 million tourists who visit the country every year. In terms of purchasing power, the Spanish market is larger than many of the more consolidated and dynamic emerging economies.

With this as a basis, Spain has a highly developed business sector. There are a number of Spanish companies established all over the world and with international acclaim, with the experience and capacity necessary to become partners in all type of international projects throughout the world.

For these reasons, Spain stands as an attractive platform for international business operations in third countries. As a member of the EU it offers entrepreneurs the opportunity of an easy access to the worlds' biggest free market area. This means potential investors can benefit from European aid programs, a single currency, no intra-Community tariffs and free movement of goods and services, capital and people.

Furthermore, the Spanish geographical location allows an easy access to markets in the whole of the Mediterranean area, Northern Africa and Middle East. Its business, economic, historic, linguistic and cultural ties with Latin America also allow a suitable access to these countries. Spain has signed Double Taxation treaties with 93 countries that represent more than 95% of the world´s GDP, in addition to more than 70 Agreements for the Promotion and Reciprocal Protection of Investments.

Companies setting up in Spain also have the added guarantee of favourable access to all international markets and all the corners of the national territory, thanks to the modern logistics and infrastructure network which has been put in place. Spain is the European leader in terms of the length of its highways and the number of kilometers in use of its high-speed rail lines. Additionally, it houses 3 of Europe's 10 largest container ports (Valencia, Algeciras, and Barcelona) and two of Europe's 10 busiest passenger airports (Madrid and Barcelona).

As a result of the increasing attractiveness of the Spanish economy as a platform for international business, Spanish exports are growing substantially. Spanish exports of goods grew by 4.3% compared to those recorded in the previous year, reaching the highest-ever figure on record. In the last few years, Spanish exports of goods and services have risen steadily in terms of GDP. According to Eurostat, the weight of exports in GDP has increased from 21.9% in 2009 to 33.5% by 2015 greater than in Italy, France or the United Kingdom.

In addition, Spain provides international Investors falling taxation costs. Corporate Income Tax is at 25%. Moreover, it is noteworthy that the average effective corporate tax rate is much lower at nominal rates due to the interesting tax incentives companies can apply. Among these tax benefits we can highlight those which may be applied by companies that carry out R & D.The OECD considers these benefits as the most beneficial among developed countries, as is the patent box regime, which exempts from corporate tax 60% of the net income earned by the assignment of patents and other intangibles.

Among the tax benefits in the Corporate Tax regulations is a tax incentive for newly created companies. New Companies will be taxed at the rate of 15% in the first tax period in which the tax base is positive and in the next.

Spain also offers a wide range of grants and incentives for investment available at European, national, regional, and local levels available to foreign companies established in Spain on equal terms with firms owned by Spanish capital. This means companies established in Spain can access the program of regional incentives, which involve financial grants for productive investment to encourage entrepreneurship which, by directing their location toward predetermined areas and depending on the area chosen, can range from 10% to 55%.

Spain also offers international companies a comprehensive social security system and high living standards and a well-educated and highly skilled workforce. Spain has three business schools in the top 20 in the world, according to the main international rankings of the sector.

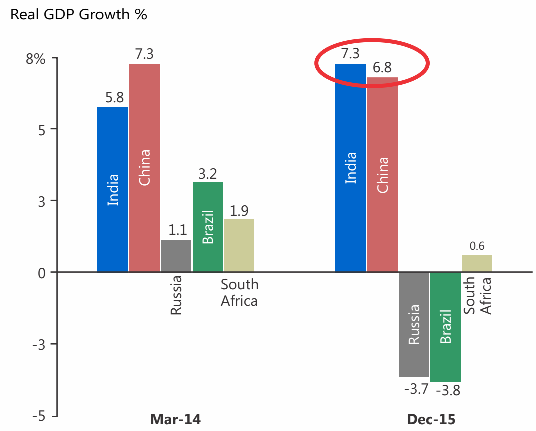
Also noteworthy is the fact that Spain has a beneficial tax regime for impatriates in which any foreign worker who resides in Spain for employment reasons can choose to be taxed under Individuals Income Tax or Non-Resident Income Tax (which has the competitive flat tax rate of 24%). Another fiscal incentive for the internationalization of companies established in Spainis the participation exemption regime, by which dividends and capital gains are exempt from tax if received by a Spanish entity (on equal terms if the company is owned by foreign or Spanish capital) that holds at least 5% of the share capital or equity of a foreign entity for a continuous period of at least one year.

2 Indian Economy

INDIAN ECONOMY

An overview

Quarterly Real GDP Growth (%)



Source: EIA database, Bloomberg

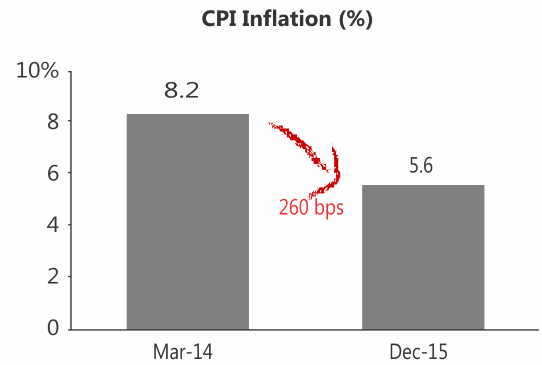
The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity(PPP). India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China. Stabilizing fundamentals and improved sentiments have enhanced India's prospects placing it at leading position among the BRICS nations.

The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. With 18% of its population in the 15 to 24 age group, in the next 30 to 40years, these young people will provide a dynamic and productive workforce, enabling faster growth.

With IMF stating the Indian economy as the "bright spot" in the global landscape, it has the potential to become the world's third-largest economy by the next decade, and one of the largest economies by mid-century.

The improvement in India's economic fundamentals accelerated in the year 2015 with the combined impact of strong government reforms, RBI's inflation focus supported by benign global commodity prices. Robust urban consumption and public investment have supported growth despite an unfavorable external environment.

As per Central Statistical Office (CSO) data private consumption grew by 7.4% in 2015/16, up from 6.2% in the previous year. It was supported by low inflation that has been on a downward trajectory driven by low oil and moderate food prices. In the long-term, the India Inflation Rate is projected to trend around 3.80 percent in 2020.



Source: MOSPI, Mid-year economic analysis 2015-16, Analyst reports

India was ranked the highest globally in terms of consumer confidence during October-December quarter of 2015, continuing its earlier trend of being ranked the highest during first three quarters of 2015, as per the global consumer confidence index created by Nielsen.

India topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16. According to IMF World Economic Outlook Update (April 2016), Indian economy is expected to grow at 7.5 per cent during FY 2016 and 2017, despite the uncertainties in the global market, powered by greater access to banking, technology adoption, urbanisation and other structural reforms.

India has the one of fastest growing service sectors in the world with annual growth rate of above 9% since 2001. India has become a major exporter of IT services, BPO services, and software services. It is also the fourth largest start-up hub in the world with over 3,100 technology start-ups in 2014-15. India ranks second worldwide in farm output. The Indian auto mobile industry is one of the largest in the world. India had USD 600

World Economic Outlook (WEO), IMF- April 2016

	2015e	2016f	2017f	Diff from Jan'16 update	
World	3.1	3.2	3.5	-0.2	-0.1
US	2.4	2.4	2.5	-0.2	-0.1
Euro Area	1.6	1.5	1.6	-0.2	-0.1
Japan	0.5	0.5	-0.1	-0.5	-0.4
China	6.9	6.5	6.2	0.2	0.2
India	7.3	7.5	7.5	0.0	0.0
ASEAN-5*	4.7	4.8	5.1	0.0	0.0

ASEAN-5: Indonesia, Malaysia, Philippines, Thailand and Vietnam* billion worth of retail market in 2015 and according to NASSCOM India is one of world's fastest growing E-Commerce markets which is expected to reach USD 100 billion by 2020.

The manufacturing sector in India contributes over 15 per cent of the GDP. The Government of India, under the Make in India initiative, is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP. This initiative is expected to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. As per a recent study by Deloitte Indian consumer market size will grow to USD 3.6 trillion by 2025.

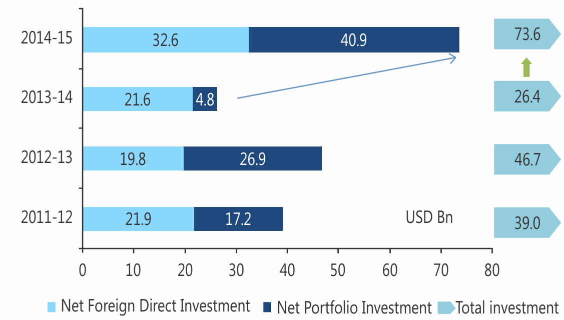
India as an Investment Destination

India has emerged as one of the most attractive destination not only for investment but also for doing business in the recent years.In first half of 2015 India emerged as the number one FDI destination in the world. With FDI capital inflows of USD 30.8billion (338 FDI projects),India outpaced all other economies, moving up to the premier position from being in the fifth spot during the corresponding period of the previous year.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The pro-reform Government has launched a slew of initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others to encourage investment.

India's rank in the Doing Business Report 2015 was 142 among 189 countries, which improved to 130 in the Doing Business Report, 2016. Government of India has emphasized on the importance of 'Ease of Doing Business' and it is a major pillar of 'Make in India' initiative. Prime Minister Narendra Modi aims to transform India's ranking in the World Bank's Ease of doing business ranking to 50th place within three years. The Government also aims to reduce the time taken to register a business to 1 day - from current 27 days.

Foreign direct investment (FDI) in India have increased by 29 per cent during October 2014-December 2015 period post the launch of Make in India campaign, compared to the 15-month period before the launch.

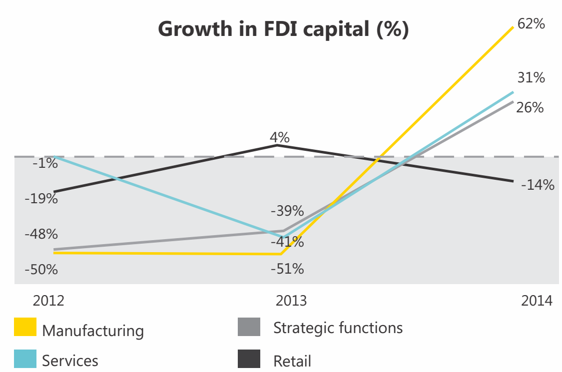


According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows soared by 24.5 per cent to USD 44.9 billion during FY2015, as compared to USD 36.0 billion in FY2014 indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

India has also emerged as one of the strongest performers with respect to deals across the world in terms of Mergers and Acquisitions (M&A). The total transaction value of M&A involving Indian companies stood at USD 26.3 billion with 930 deals in 2015 as against USD 29.4 billion involving 870 deals in 2014.Also, Private equity (PE) investments increased 86 per cent y-o-y to USD 1.43 billion.

According to a recent attractiveness survey on India done by Ernst & Young a leading 32% of the investors ranked India as the most attractive market this year, while 60% placed the country among the top three investment destinations. Investors believe that ongoing economic reforms are increasing opportunities for them to develop their companies profitably in India. Enthusiasmis strongest among companies with annual revenue exceeding USD 2billion. Overall, 71% of respondents from big companies think India will be more attractive than other regions.

The year 2014 witnessed a spike in FDI capital in the manufacturing sector (fastest in seven years), particularly in automotive, aerospace and cleantech. Manufacturing contributed the highest share of FDI capital and jobs created. Services also remained robust, particularly looking at financial services, which accounted for the highest FDI capital share in 2014, witnessing 120%



Source: FDI Markets, May 2015.

YOY increase in FDI capital. Investors from the US, Japan and Germany have increased their pace of investment.

In 2014, the Government liberalized the FDI limit in the defense sector and has removed restrictions such as the lock-in period of three years on equity transfer. Alongside, the Government is laying emphasis on clean energy, for which it has set a target of generating 175gw of power through renewable energy by 2022. As are sult, FDI capital inflows are gaining pace in aerospace and defense as well as the cleantech sector.

One of the main drivers of India's attractiveness to foreign investments has been its large sized middle class, which is further expanding substantially, offering a big fat market for foreign products and services. With 1.26 billion people and growing, India will surpass China and become the world's most populous nation by 2022.

Last year, household incomes increased on average by 10%.By2020, India's per capita income (by purchasing power parity) is expected to rise 59%, outpacing spending-power growth in the US (23%), the UK (22%), Brazil (12%) and Russia (12%). In fact, if India continues its recent growth trend, average household incomes will triple over the next two decades and it will become the world's fifth largest consumer economy by the year 2025.

India's most attractive feature for foreign investors is abundant labor. According to the UN Conference on Trade and Development, India's workforce will reach 557 million by 2020,even as the global labor market tightens. To reinforce this labor cost advantage, the Indian Government is aiming to improve labor skills. Its National Skill Development Policy 2015 aims to ensure one Indian in four has skills appropriate to the labor market by 2020, and there are plans to open 1,500 more industrial training institutes and 5,000 skill development centers across the country.

The World Economic Forum's Global Competitiveness Report 2015-16 puts India at the 42ndplace among countries worldwide in terms of innovation capacity. India is strong among the BRICs in terms of availability of scientists and engineers. The research and innovation ecosystem in India presents a significant opportunity for companies across the globe to explore the rich talent availability in the country.

The adoption of a nationwide GST in place of myriad local taxes is proposed to take effect in 2016. This is expected to simplify hugely both tax management and logistics in

Indian companies, and facilitate location of operations on sites where they can most effectively serve their markets.

Furthermore, the Indian geographical location allows an easy access to markets of South East Asia, Middle East and SAARC region. Its business, economic and historicties with these regions allow a suitable access to these countries.

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, India acquired ninth slot in the top 10 countries attracting highest FDI in 2014 as compared to 15th position last year. The report also mentioned that the FDI inflows to India are likely to exhibit an upward trend in 2015-16 on account of economic recovery. India also jumped 16 notches to 55 among 140 countries in the World Economic Forum's Global Competitiveness Index that ranks countries on the basis of parameters such as institutions, macroeconomic environment, education, market size and infrastructure among others.

3

India Spain Bilateral Relations

INDIA SPAIN BILATERAL RELATIONS

Economic and commercial relations between India and Spain have been cordial since the establishment of diplomatic relations in 1956 and have been growing steadily.

Given the infrastructure push that is planned in India in the areas of power, roads, ports, airports, telecom and urban infrastructure, especially as part of the Delhi-Mumbai Industrial Corridor and the Make in India campaign, the possibilities for cooperation are immense for Spain. India, on the other hand, could offer Spain quality options in the fields of IT and services, pharmaceuticals (particularly generics) and the chemicals sector.

Trade Relations

After increasing by 9%from previous year to USD 5.15 billion in 2014-15 bilateral trade between India and Spain decreased by over 5% in 2015-16. Although Indian exports to Spain increased by over 2% during the same period Spain's exports to India decreased by more than 17% resulting in decrease of overall trade.

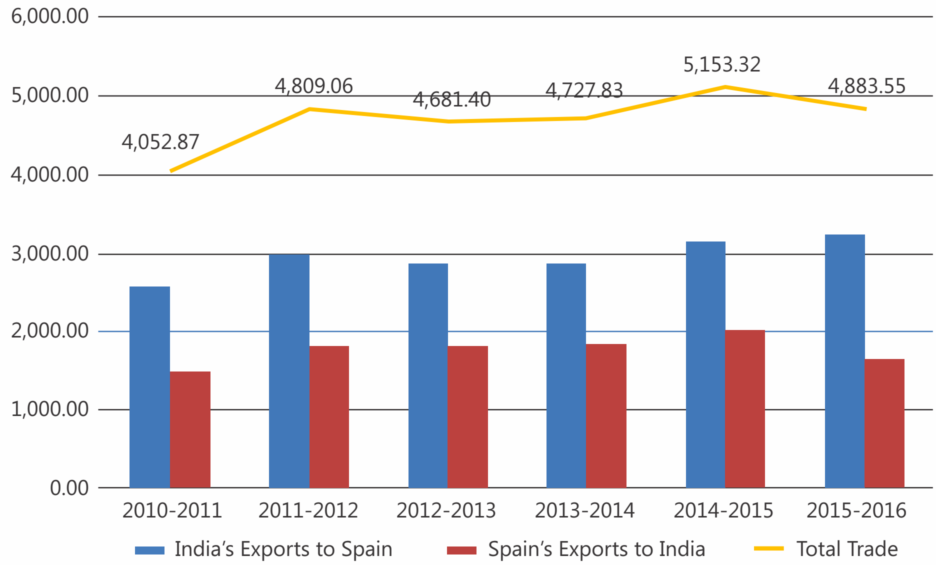
In 2015-16 Spain ranked 7 thin the EU and 37th worldwide as India's trading partner. In the same period Spain ranked 23rd among countries importing from India and 41st among countries exporting to India.

The balance of trade has been in India's favour.

India-Spain Bilateral Trade *(Fig in USD million)*

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
India's Exports to Spain	2,565.29	2,999.27	2,865.75	2,884.41	3,148.12	3,237.54
%Growth		*16.92*	*-4.45*	*0.65*	*9.14*	*2.84*
Spain's Exports to India	1,487.58	1,809.78	1,815.66	1,843.42	2,005.20	1,646.01
%Growth		*21.66*	*0.32*	*1.53*	*8.78*	*-17.91*
Total Trade	4,052.87	4,809.06	4,681.40	4,727.83	5,153.32	4,883.55
%Growth		*18.66*	*-2.65*	*0.99*	*9*	*-5.23*
Trade Balance	1,077.71	1,189.49	1,050.09	1,040.99	1,142.92	1,591.52

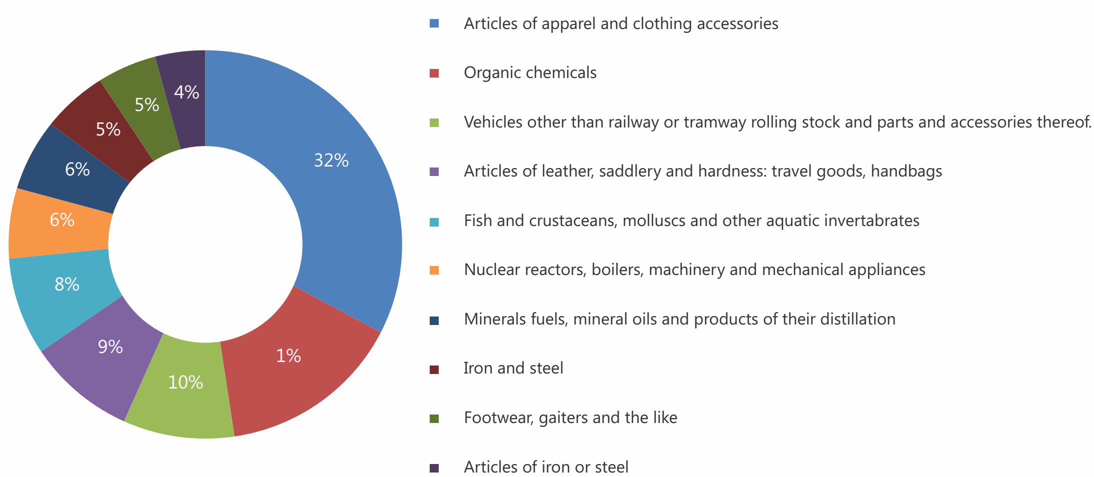
Source: Ministry of Commerce and Industry, GoI



Trade Basket

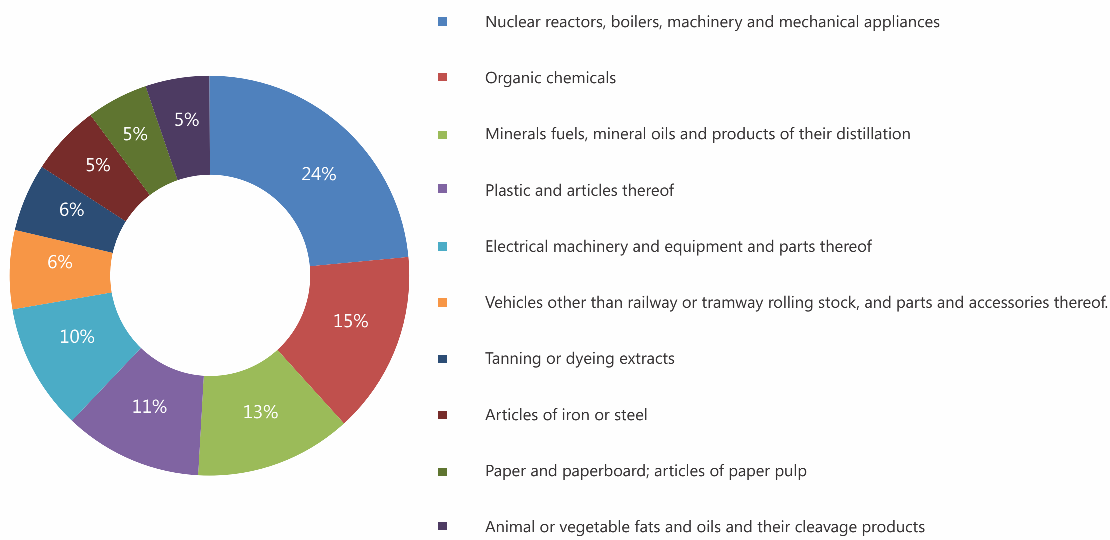
Major items of India's Exports to Spain

Major items of India's exports to Spain include organic chemicals, textiles and garments, iron and steel products, automotive components, marine products and leather goods etc. New products such as marble and granite, furniture and silk furnishings, stainless steel ware also have started coming into Spain.



Major items of Spain's Exports to India

Major items of Spain's exports to India consist largely of machines and mechanical appliances, vehicles and automobiles, plastic manufactures, electrical appliances, rubber and rubber products and olives/olive oil. Spain also exports electronics for Indian defense Industry.



Investment Relations

Spanish Investment in India

Spain is the 12thlargest investor in India with USD 2.20 billion in FDI between April 2000-March 2016, mostly in infrastructure (Isolux Corsan, Grupo San José), renewable energy (Gamesa), auto components (Gestamp), water desalination (Abengoa) and single brand retail (Inditex-Zara, Mango). Around250Spanishcompanies have subsidiaries, joint ventures , projects or liaison offices and purchase offices in India.

According to Invest in Spain, Spanish investments in India saw five-fold increase in2008.Spanish firms such as Navantia (naval construction), Dragados (container terminal), Grupo Roca (parryware), Grupo Antolin (auto components), Mapfre (insurance),Telvent(urban infrastructure), Isolux (infrastructure),Cobra(infrastructure), and Indo link (consultancy)setshop in the country in the during2008-2009.

Though some major Spanish companies like Duro Felguera, Cipsa, Acciona, Simon or Banco Popular have entered into India, Spanish investment in India is not commensurate with the potential that exists in sectors such as tourism, infrastructure, food processing, energy-both renewable and non-renewable and automobile industries.

According to DataInvex, the Spanish direct investment flows into India fell from Euro 76.97 million (USD 86.63 million approx.) in 2014 to Euro 13 million(USD 14.63 million approx.) in 2015. During the two previous years, the figures were higher, as they registered Euro 48 million (USD 54.02 million approx.) in 2012 and Euro 50 million (USD 56.27 million approx.) in 2013.

Major Spanish Investment in India

Following are some of the major Spanish investments at present in India:

- **Infrastructure sector: construction and maintenance of roads, airports, ports and commercial complexes:** A few of the most remarkable Spanish infrastructure specialized companies are investing in India, such as Isolux-Corsan, a company whose first road concession was awarded back in 2008 (Euro 1,260 Million) and won three more contract awards until today. In 2016, Isolux Corsan got the extension and reconstruction of section 5 of NH-75 in the Karnataka state. The project awarded by the National Highway Authority of India has a budget of Euro 80 million (USD 90.03 million approx.) and an execution period of 24 months. Parallel, the company has also sold some of the concessions awarded to the PSP Canadian fund.

  Another example is Inabensa, which won in 2014 his first award of two electric transmission lines of 134 km, with a 35-years concession period in the state of Gujarat.

- **Railways:** CAF is one of the major railway rolling stock companies in Spain, and 84 CAF trains will be supplied to the East West Metro project in Kolkata. Before, CAF had supplied such rakes to the Delhi Airport Metro project.

  Furthermore, in 2015 the Government of India has given an in-principle nod for the locomotive-maker Talgo to undertake trial runs of its lighter and faster trains, which could cut travel time between Mumbai and Delhi from 17 hours to 12 hours without overhauling India's ageing rail tracks.

- **Energy and clean energy:** In this field, the wind turbine maker Gamesa is the clear market leader. In 2016, the company has bagged a contract from ReNew Power for supply of 20 custom-made G97 turbines of two megawatts (MW) each for a project in Karnataka. Gamesa has already commissioned over 140MW of wind projects for ReNew Power across Maharashtra and Karnataka and this order will be its fourth order.

- **Machine tools, automotive components, textile machinery and biodegradable plastic:** A few Spanish automotive components and machine tools companies already operate in India. On June 2013 Spain's CIE Automotive S.A and India's Mahindra & Mahindra Ltd entered into a strategic partnership wherein Mahindra has agreed to acquire 13.5 percent stake in CIE for Euro 94.24 million (USD 106.05 million approx.). By this partnership agreement Mahindra Forgings will be renamed Mahindra CIE Automotive in which Spanish auto components maker CIE will hold 51 percent stake and Mahindra will own about 20 percent stake. It is expected that Mahindra CIE Automotive will become one of the top 25 global auto component suppliers in the world with annual sales of about USD 3 billion.

  Furthermore, in 2014 the Spanish company JJuan, manufacturer of braking systems for motorcycles, has signed an agreement with Chassis Brakes International of technology transfer in order to develop new breaks for 2 and 3 wheels vehicles. In the same year, FrenosIruña built a factory in Chennai, which produces hydraulic brake system components and automotive brake calipers.

- **Technology in water desalination/purification and city waste management:** One major Spanish company, Abengoa, is already involved in India in water desalination. They have a major project in Chennai as partner of the Chennai Municipal Corporation (25-year concession, Euro 85 million) and another one in Hogenakkal (5-year concession, Euro 37.6 milion).

- **Other:** There are other remarkable investments in some other areas such as Simon, Spanish switch maker that have invested in 2015 INR 250 million (USD 3.73 million approx.) in Noida, or Mahou-San Miguel Group, which started off in India by establishing a 50:50 joint venture with Rajasthan-based Arian Breweries in 2012 and later in 2015 acquired the remaining stake to rename it as Mahou India. Additionally, the 100% family-owned beer maker had also announced that it was investing Euro 18 million (USD 20.26 million approx.) in the next four years in order to brew and sell only its high-end brands in the country.

Spanish Investment by sectors

Investment from Spain to India (2010-15) (fig in thousand €) Source: Ministry of Economy and Competitiveness, Spain	
Sector	**Stock**
Manufacture of other non-metallic ore products	31.260,00
Chemical industry	21.610,00
Retail trade, except of motor vehicles and motorcycles	17.510,00
Publishing	11.890,00
Computer programming, consultancy and related activities	11.540,00
Manufacture of metal products, except machinery and equipment	8.850,00
Fishing, hunting, agricultural and related services	8.080,00
Specialized construction activities	2.940,00
Electricity, gas, steam and air supply	2.810,00
Manufacture of motor vehicles, trailers	2.610,00
Manufacture of electrical material and equipment	2.320,00
Manufacture of other transport equipment	970,00
Total	**122.390,00**

Indian Investments in Spain

Indian investment in Spain has been growing and presently stands over USD 900 million. There are over 30 Indian companies having presence in Spain through 100 subsidiaries, the most significant ones being in the areas of IT (TCS, Tech Mahindra), energy (Avantha) and automobiles (Mahindra), pharmaceuticals (Ranbaxy) and road maintenance. Together they account for the creation of 10,000 direct jobs and a very significant amount of indirect employment.

Year 2007 saw major Indian investment in Spain with the merger of Arcelor with Mittal Steel, resulting in Arcelor Mittal Asturias (4th largest investor in Spain during that same year). Worthy of special mention is one Indian investment made in the Spanish construction sector in the same year which was worth Euro 596 million (USD 928 million approx.) and accounted for 1.6% of total incoming FDI in Spain that year.

In 2009 with Euro 12 million (USD 13.50 million approx.) worth investments India achieved 40th position among main investors in Spain.

In 2012, two important Indian investments were made in Spain with a value of Euro 103.4 million (USD 116.36 million approx.) in the chemical sector (specifically in plastics manufacturing) and transportation equipment manufacturing and distribution of electric energy by Indian companies Crompton Greaves and ABS Industries respectively. This investment placed India at the 32nd investment position in Spain.

Later in 2014, the company iYogi started managing its European operations from its headquarters in Madrid, creating up to 250 new jobs that could become 3000 in the near future. However, according to data from Datacomex, investment relations show a negative slope since 2013 when it reached Euro 5.63 million (USD 6.34 million approx.).In 2014, it fell to Euro 814,000 (USD 916,034.90 approx.), figure that was further reduced by half in 2015 to Euro 429,020 (USD 482,797.66approx.).

Major Indian Investment in Spain

The presence of Indian-owned companies in Spain has increased, through the subsidiaries of foreign companies established in Spain and purchased by Indian companies. Examples of this phenomenon include the takeover of the Land Rover, Jaguar and Rover brands from the Ford group along with their Spanish subsidiaries, by Tata, and the merger of Arcelor with Mittal Steel, resulting in Arcelor Mittal, which has a major presence in Spain.

In addition to these indirect operations made in the domestic market, Spanish companies have also been purchased directly by Indian companies, as in the case of Hispano Carrocera bought by Tata and the Elsamex Group bought by Indian firm IL&FS.NIIT has also recently bought the Spanish company Proyecta Sistemas de Información to add value to its IT effort.

Moreover, some Indian companies have begun direct investment processes in Spain; Greenfield projects, in sectors with a high technological content and high value-added, such as Suzlon in the renewable energy sector and the Ranbaxy company in the pharmaceutical sector. From 2003 to 2010 India has announced 8 Greenfield projects, with an estimated investment of Euro 474 million (USD 533.42 million approx.) and the creation of 1,472 jobs (source: FDI Markets, 2010)

Despite significant presence of Indian companies in Spain, the figures for investment remain modest. By Autonomous Regions, the Basque Country comes in first as the main receiver of FDI, also as a result of that major operation registered in 2007. The Madrid region and Catalonia come in second and third places for incoming investment.

Indian Investments by Sector

Investment from India to Spain (2000-2015)(fig in thousand€) Source: Ministry of Economy and Competitiveness, Spain		
Sector	**Stock**	**%**
Chemical industry	40.965,58	7,69
Manufacture of pharmaceutical preparations	49.203,51	9,25
Manufacture of rubber and plastic products	29.048,80	5,46
Manufacture of motor vehicles, trailers and semi-trailers	4.626,96	0,87
Civil engineering	122.522,98	22,39
Wholesale and retail trade; repair of motor vehicles and motorcycles	80.299,12	15,07
Wholesale except motor vehicles	61.834,59	11,62
Warehousing and support activities for transportation	129.806,96	24,40
Computer programming, consultancy and related activities	4.268,90	0,80
Real estate activities	12.860,15	2,42
Central offices activities: business and other management consultancy activities	313,06	0,04
Total	**535.750,61**	**100,00**

4

Sectors Of Interest: The Way Forward

SECTORS OF INTEREST
The way forward

Potential areas of interest for Spanish companies in India are infrastructure (roads, airports, ports, railways), energy (renewable and non-renewable), technology in agriculture, food processing, water desalination/purification, city waste management and tourism with great potential for cooperation from Spain to India. Similarly, for the Indian companies, there is a huge potential for cooperation in the areas of pharmaceuticals (generic medicines) and IT.

- **Infrastructure**

  Construction and maintenance of roads, airports, ports, commercial complexes: Many large and SME Spanish companies have know-how, expertise and high quality equipment. Over 15 Spanish construction companies figure among the top 200 global firms in this sector. Since the Spanish market is saturated, these firms are increasingly on the lookout for markets abroad, particularly in Latin America, Asia, the Gulf and Africa. A few of them are already in India.

- **Railways**

  Spain has well developed MRT, rail network and 2800 km of high-speed rail (speeds of over 300 km/hour). Spain has expertise in construction, signaling, safety (anti-collusion system), 200-220 km speed locomotives, track-interchange techniques and management capability. Recently Spain got a contract for supply of six coaches to Kolkata metro. With Government of India laying special emphasis on improving current railway infrastructure in India there huge scope cooperation for Spanish companies.

- **Energy**

  Spain is among world leaders in solar thermal and wind energy technology. Major Spanish companies in this field such as Acciona and Gamesa are already in India. Spain's Gas Natural Fenosa a leading multinational in the gas/electricity sector has signed a Euro 1 billion deal in 2012 with GAIL India to supply approximately 3 billion cubic meters of Liquefied Natural Gas (LNG) to India spread over the next three years.

Recently the Avantha Group (Crompton Greaves) has bought a Basque company ZIV for Euro 150 million to incorporate its expertise in smart power grid systems.

- **Food Processing**

Spain has knowhow in biotechnology, agriculture, aquaculture, dairy products and greenhouse farming. Spain has a well-developed food processing industry. Spain exports large quantities of vegetables, fruits and juices to the EU and is an importer of marine products. They also have firms such as Eroski-Caprabo and Mercadona which are producers as well as mid-size retail chains. Spanish companies have expertise in the entire value chain from green house farming /aquaculture to retail trade and are being encouraged to set up agro-industrial parks, cold storage facilities, as well as food processing and packaging units.

- **Machinery**

Machine tools, automotive components, textile machinery, biodegradable plastic-are other areas in which business could develop. A few Spanish automotive components and machine tools companies already operate in India. Recently, on 17 June, 2013 Spain's CIE Automotive S.A and India's Mahindra & Mahindra Ltd entered into a strategic partnership wherein Mahindra has agreed to acquire 13.5 percent stake in CIE for 94.24 million euros. By this partnership agreement Mahindra Forgings will be renamed Mahindra CIE Automotive in which Spanish auto components maker CIE will hold 51 percent stake and Mahindra will own about 20 percent stake. It is expected that Mahindra CIE Automotive will become one of the top 25 global auto component suppliers in the world with annual sales of about USD 3 billion.

- **Water Management**

Spain has technology in water desalination/purification and city waste management. One major Spanish company (ABENGOA) is already involved in India in water desalination. They have a major project in Chennai as partner of the Chennai Municipal Corporation. There is potential for collaboration in this field.

- **Information Techonolgy**

There is scope for exploitation of IT software opportunities in Spain in the banking and telecom sectors. Local skill availability is reasonably good. TCS and Infosys have small operations in Spain and NIIT has recently bought a Spanish company called Proyecta Sistemas de Información to add value to its IT effort. Indian IT professionals need to acquire Spanish language skills to fully exploit the potential in this market and in Latin America.

- **Pharmaceuticals**

  Generic medicine is one sector which might open up an opportunity for India in Spain. However, existing procedures for registration of medicines and approval of reference price are complicated and takes up to 2 years. Authorities and the public at large are brand and quality conscious. Any generic medicine will only pass muster if it has an exact molecular value to that of the corresponding branded product.

*There is also potential in the Tourism and hospitality industry including budget hotel chai*ns.

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