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A Passage from India

Next month, UK Trade and Investment, the Government-backed agency that encourages overseas companies to do business in Britain, will reveal how many Indian companies invested here in the year to April.

The growth rate is expected to be Himalayan. In the previous year, the number of Indian companies that launched UK operations grew by 23 per cent, and there is no sign that this growth has slowed. Britain receives 60 per cent of all Indian investment in Europe and there are more than 430 Indian companies based here. Indian companies represent 30 per cent of all foreign investment in London and they are queuing up to float in the City.

Indeed, in the year to March 31 2005 the amount of money invested in new UK developments by Indian companies overtook the amount invested in India by British companies for the first time ever.

There are two factors driving this phenomenal passage from India. The first is that the strength of the Indian economy, which is growing by 8 per cent a year, has made a mockery of the assumption that globalisation is a one-way trend - from West to East. Indian companies, particularly in the media and software sectors, are intent on becoming global enterprises.

The second factor is a growing trend for "near-shoring", a reversal of the post-millennium offshoring phenomenon that led a raft of British companies to outsource back-office operations to India. Many Indian call centre operators are now setting up shop in the UK, realising that their customers - British companies - want their back-end operations closer to home.

"There is so much interest in the UK from Indian companies at the moment," says Anuj Chande, the international business partner at Grant Thornton, the accountants, which is advising several Indian companies on potential Aim listings.

The effect of the Indian economy's rampant growth on start-up activity in the UK is widely evident. Last week Nicholas Piramal, the Indian pharmaceuticals company, announced that it was buying a manufacturing plant from Pfizer, the drugs giant, in Northumberland.

And later this year a collective of hundreds of garment manufacturers from Tirupur, the fast-growing manufacturing town in the southern Indian state of Tamil Nadu, will open a warehouse in Felixstowe to supply retailers such as Mothercare and Gap with their clothing directly.

The Tirupur Exporters' Association (TEA) will open the warehouse through a joint venture with St John Freight Systems, an Indian company, and expects to sell 10 40ft containers worth of clothes every month.

The growth in near-shoring has been equally robust. Last week Powergen, the electricity supplier, said it would withdraw call centre activities from India and bring them home because of poor customer service. It said: "It can be a lower-cost option, but we were getting complaints about the way some of our calls were being answered."

Although Powergen's business will not go to an Indian company in the UK, the move looks to be the thin end of the wedge for the trend of near-shoring.

Also last week, ICICI OneSource, a Mumbai-based out-sour-cing company, said it would build a 1,000-person call centre in Belfast, its first in the UK. This follows last year's acquisition of a call centre operator in the area by HCL Technologies, another Indian company.

These and other developments represent a significant step in the evolution of globalisation; instead of British companies delegating jobs to Indian workers in call centres located on the subcontinent, Indian-based companies are employing British nationals in call centres based in the UK to do the same jobs.

"The argument for opening over here is that as we broaden our services to clients, there are components of what they want that are more suitable to be done locally. A lot can still be done offshore, but there are some things that are better kept closer to home," says Matthew Vallance, ICICI's managing director for Europe. Call centre activity in the UK is growing by 5.5 per cent a year, and more than 1m people are expected to work in the sector by 2007.

Nor has outsourcing lived up to its hype. Other companies complain of the high staff turn-over at Indian call centres, with some seeing up to 40 per cent change, partly because of the anti-social hours that employees have to work. To counter this, call centres are springing up in eastern Europe. Wage inflation of 13 per cent a year in India is also making its call centres more expensive.

So why the UK? Observers say historic and cultural links make it easier for Indian companies in Britain. The two countries have traded with each other since Queen Elizabeth I gave a royal charter to the East India Company in 1600, and the UK's past in India laid down a lasting trading framework and gave the countries a common legal system.

Phiroz Vandrevala, the exec-utive vice-president of Tata Consultancy Services, a subsidiary of Tata Group, the massive Indian conglomerate, says the English language provides a "common thread" between the two nations. He should know. His company was the first Indian IT company to set up shop in the UK, in 1975.

"In the 1970s it was a completely alien thought. India was a bit like Soviet Russia - it was a closed economy, there was no foreign exchange, you could not do a thing. The concept of establishing in the UK was unheard of," he says.

It has paid off. As well as employing 3,000 people in the UK, the company recently formed a subsidiary that opened an office in Peterborough to provide call centre services for Pearl, the closed fund life assurance group. The subsidiary, Diligenta, will expand to provide similar services to other life companies.

Grant Thornton's Chande says the large Indian community in the UK has been a spur to investment. "There is a significant Asian community in the UK and a lot of Indian companies have links in terms of relations or business contacts. This means many Indians find it more comfortable to deal with the UK. There is cultural empathy," he says.

One example of a company that has benefited hugely from such a move is Avestha Gengraine, a Bangalore-based healthcare technology group that employs 215 people in India. It opened an office in Cambridge in 2004.

Pierre Socha, Avestha's vice president of corporate development, says that although the UK office employs only three people, deals generated in Cambridge accounted for 35 per cent of the entire company's revenue last year. "It works pretty well," he says, with a touch of understatement.

Paul Whiteway of UK Trade & Investment says there are also broad economic reasons for the Indian influx. "We have a stable economic framework, flexible labour laws and a skilled labour force," he says.

As a marketing tool for UK plc, UK Trade & Investment is working overtime. Not only does it have teams working in New Delhi, Mumbai, Bangalore and Kolkata, its website lists the benefits of doing business in the UK. And it has worked. Whiteway says 19 Indian companies are already listed on the London Stock Exchange - more than on the New York Stock Exchange and Nasdaq combined.

However, the Indian invasion is not without its hurdles. In a spectacular act of protectionism, the Indian government introduced legislation last August preventing Indian companies from listing overseas unless they had a primary listing in India. According to Chande, this has held back expansion to the UK, at least in the short term. In the longer term, the trend will only continue.

"The UK brand is very strong, it's better than the French or the Spanish brand. Internationally it is better recognised."