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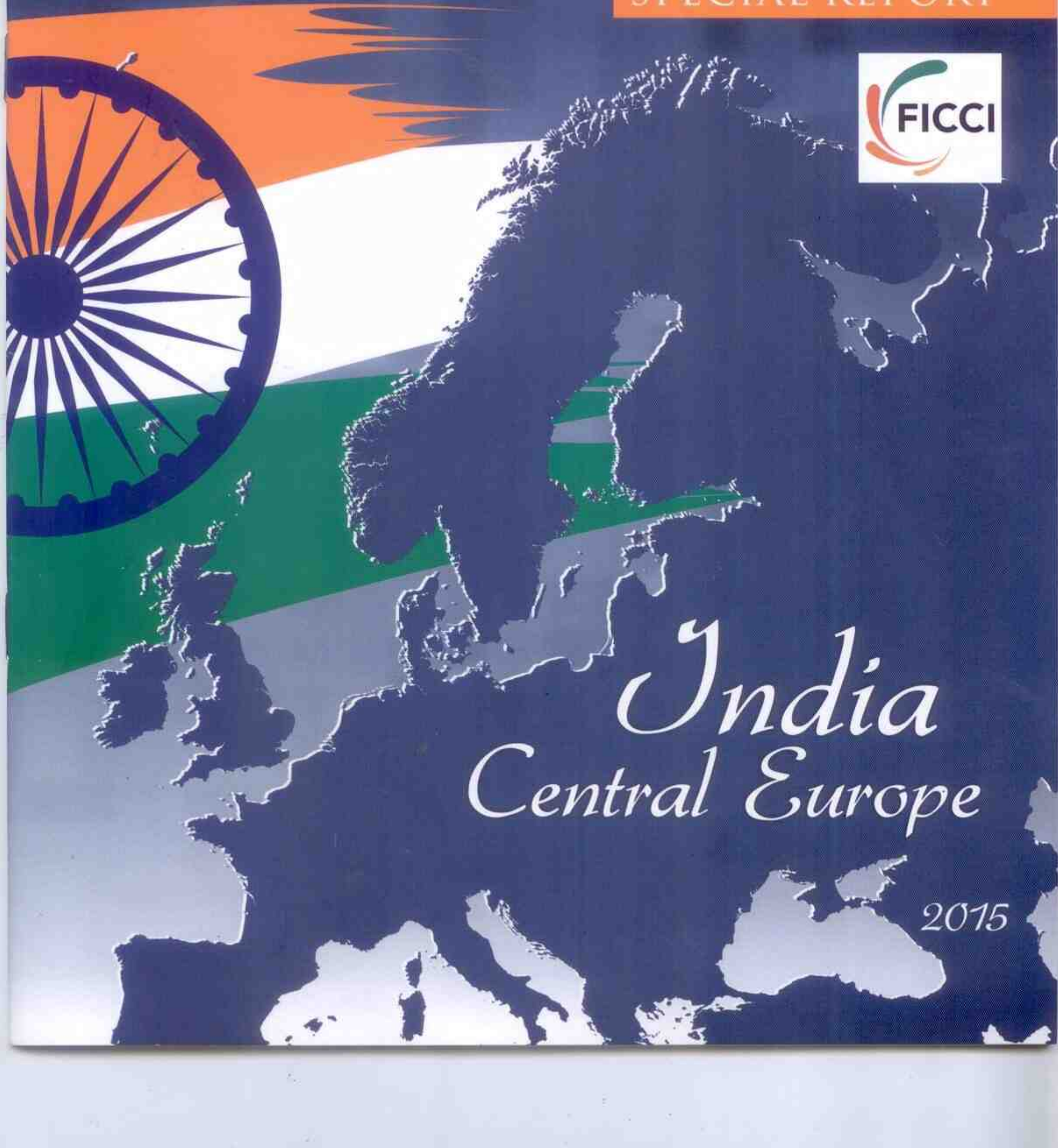

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India Inc in Central Europe - Negotiating Barriers

Dr Neeta Inamdar

Unleashing the economic potential of India is much more than just growth in terms of GDP; it also means investing in future – increasing overseas investment - and making a grand entry into the global marketplace. The idea now has the support and the vision of the Government of India, which through Ministry of External Affairs (MEA) and industry associations is trying to create an environment for mutually beneficial trade and investment. This increased interest in going global has also meant looking for greener pastures, which has led a few to Central Europe.

Current Situation – India-EU and Central Europe

Bilateral trade between India and European Union (EU) forms a quarter of India's international trade. Thus, EU emerges as an important trading partner for India constituting 16 percent of Indian exports and 11 percent of import in 2014-15 (April-June). India appears 10th in the list of trading partners of EU in the trade value and trade share, but constitutes only 2.1 percent of its share.

The FDI Equity inflow from EU to India is a quarter of the total inflow. Over the years, India's total capital inflow increased from $4,089 million in the year 1995-96 to $188.47 billion in the year 2012. Indian industrial houses such as the Tata group, Birla, Reliance, Ranbaxy, ONGC, Infosys and others are now more interested in cross-border acquisitions. The major items of India's export to EU during this period were products of chemical and allied industries, plastics, rubber, pearls, precious metals, machinery and appliances, transport equipment and optical and photography instruments.

India's bilateral trade with countries in Central Europe stands at $26649.08 million, with $15481.9 million being Indian exports (2013). This makes the Balance of Payment (BoP) situation favourable to India. However, these figures can be misleading considering the fact that the most of the trade accounted for is with the big countries in Central Europe and majority of the smaller countries remain unattended to. Most of the exports include agricultural products, tea, coffee, pharmaceuticals, IT and ITES, leather products and jewellery. Central European countries have expertise in pharmaceuticals, chemicals, automobiles, defence equipment, construction, mechanical and engineering goods and clean and green technologies. Therefore, imports from these regions largely include iron and steel, fertilisers, glass and crystal products and importantly defence equipment. Indian IT companies are using Central European countries as delivery locations to cater to western European clients rather than focusing on these rapidly developing regions.

FDI Outflows and Inflows

FDI outflows in 2014 from India were directed towards countries that offered tax concessions and those which led this phenomenon were the Netherlands, followed by Singapore and Mauritius. Most of this FDI outflow was in transportation sector, followed by communication sector, manufacturing, agriculture and mining, retail trade and restaurants. Within Europe, most of these outflows have been towards UK, Germany, and France. As UK puts it, India is the third largest source of FDI with investment increasing by 65 percent in 2015.

According to FICCI President Sidharth Birla, "two important focus areas for India, infrastructure development and assured power to its rapidly expanding industrial base, are the ones in which CE countries can support India's cause. India is not only looking at investing $1 trillion in upgrading its infrastructure by 2017, but is open to newer world-class infrastructure at accelerated pace".

It's only in last few years that India's foreign policy is also finding focus on Central European region, especially the former Warsaw Pact countries and Yugoslav countries given their steady rise as both business and political entities.

Historical Connect and Disconnect, and the Decision to Re-establish the Connect

Central Europe and India have had a historical connect with trade between regions dating back to centuries. However, they developed as trade partners and natural associates during the Soviet regime. Ideological proximity and socialist camaraderie made India and Central European countries allies in an undefined bond 1950s to 1980s. All this was happening under the India-USSR's overarching relation.

During 1990s, situations changed with the disintegration of the Soviet Union, leaving the newly independent countries to look for an anchorage in membership to EU and NATO. With that, their focus also shifted more towards western Europe with European single market and to an extent also making them inward looking like fortress Europe, missing focus on its external relations, both political and economic. The region did witness a steady and strong economic growth during this period from 1990s to 2008, but that proved to be a period of disconnect between India and Central Europe.

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In the last couple of decades after the disintegration of USSR and changed geopolitical scenario, Central European economies have been successful in making a transition from the state-run, protectionist closed economy to liberalised global economies and are preparing themselves for a competitive market economy. In recent times, it is also observed that these countries are recording a higher rate of growth consistently compared to their western counterparts. Most of this also due to the hand-holding done by European Union, encouraging some of the newly free and independent countries to build economies based on free and competitive market conditions. A steady flow of structural funds from EU, helped these countries improve infrastructure, introduce transparency and strong regulatory framework along with business friendly environment.

Until 1991, India remained largely under the socialist-inspired economic model with high level of protectionism and extensive regulation of the system that led to red-tapism, thus affecting economic growth. It is in 1990s that major changes happened in India also. Economically, it witnessed the period of liberalisation, a paradigm shift in the changing global scenario. In the period between 1997 and 2011, GDP growth in India averaged 7 percent. It changed the foreign policy of India that focussed on increasing its cooperation with the West. This created a void in the relation that had lasted decades earlier.

After the 2008 crisis, things have not remained very promising for these countries. Euro crisis has spread scepticism far and beyond, making it difficult for any government agency to boost investor confidence. The recent Ukraine crisis and Russia's annexation of Crimea in 2014, which led to economic sanctions on Russia have further worsened situation. Hungary and Greece's advice not to resort to economic sanctions did not receiving a good hearing in the EU.

The brief period of not-so-active trade relations between the regions has come to an end with a realisation that economic reforms process and underlying democratic fabric of the two regions should only make way for a mutually beneficial future collaboration. Interestingly, realisation has been from both the sides with immediate actions.

Efforts Mooted in the last Few Years

Several initiatives have surfaced in recent times to boost the trade and political relations between the two regions. We see the involvement of the Ministry of External Affairs (MEA) also in these initiatives that enhance the political implications of these trade and investment related events. Most of them are focussed on 'synchronising economic agendas for harnessing business commonalities and examining existing opportunities for trade and investment'

- Indian Embassy in Budapest and Confederation of Indian Industries (CII) organised a conference Rising India in Central Europe in November 2011;
- CII Constituted a Regional Committee to strengthen two-way trade between India and Central Europe and to develop Brand India in the region;
- MEA and FICCI's First India-Central Europe Business Forum in Delhi, March 27-28, 2014;
- MEA and FICCI's Second India-Central Europe Business Forum in Bengaluru scheduled from October 5, 2015

Challenges to Trade and Investments

Though there has been a considerable excitement about building this trade relation, it is not without challenges. Negotiations on India-EU Free Trade Agreement (FTA) have not made much progress. If signed, that would increase bilateral FDI flows by 30 percent. However, there are barriers not so easy to negotiate. Most of them are Non-Trade Barriers (NTBs) that need to be addressed in different forums. Apart from these, there are other challenges that the Central European countries pose to investors from India.

India Inc expresses its concerns about investing in Central Europe on account of geopolitical risks, cultural differences, trade barriers, start-up cost/time, local competition and identification of trustworthy partners including a few other factors.

Physical proximity to Russia, and Central European countries' love-hate relation with it and their also being a part of the EU - all create a confusing geopolitical environment that fail to boost the investor confidence. It is for this reason that the embassies of these countries are coming together in these events to portray political stability in their

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respective countries and provide a feeling of all-is-well. India Inc, which is now used to working with the western business enterprises (particularly American), finds it a different experience to work with the central and eastern European countries. Apart from languages, it is also the working and business culture that are intriguing at times. Business schools in India are largely focussed on introducing western culture to their students in intercultural studies but they have hardly attended to the cultures in these regions. May be some academic intervention can help in solving these issues. NTBs and the cost and time required to establish businesses is also perceived as a major problem as these are not visible at the first instance and surface as one progresses in the business. As these areas are less explored compared to a few others, Indian firms also find it difficult to locate trustworthy partners. Therefore, events such as conferences and business forums provide ample opportunities for people to know each other.

Efforts from the Central European Countries to Provide Investment Incentives to India Inc

Several actions such as tax exemptions, access to greater markets, opening up of different sectors for foreign investment are initiated by the Central European countries.

According to a CII - Deloitte report, Austria provides incentives and R&D subsidies for FDI involving substantial transfer of important technology and job opportunities. It also provides Grants up to 70 percent for later-stage R&D activities by companies. Bulgaria provides part or full reduction in amount of annual corporate income tax due by entities on their profits from manufacturing activities carried out in municipalities with high unemployment.

Croatia provides, reduced taxable base for 10 years ranging from 50 percent to 100 percent depending on volume of investments and number of new employees hired during the year. It also provides for cash grants 10-20 percent of the eligible costs of investments for construction of the new factory, production facility or tourist facility or buying of new machines depending on the amount of investment

Czech Republic provides ten-year full corporate income tax relief for Greenfield investments and ten-year partial tax relief for brownfield investments. There is also a provision of industrial property on discount. It provides financial support for the creation of new jobs and financial support for the re-qualification of employees. Hungary encourages FDI and implementation of new policies have ensured that up to 80 percent of the corporate income tax payable every year can be foregone for a period of 10 years.

Poland provides income tax and local tax exemption in any of the 14 Special Economic Zones (SEZ) and the Polish government offers cash grants for strategic investors. Poland's Go India campaign launched in 2015 is also being watched to bring interesting developments in the times to come.

Institutional Arrangements for Promoting Investment Flows in India

Financial sector is India is robust with over 5000 companies listed with Bombay Stock Exchange with a market capitalisation of $1.5 trillion as in May 2014. Government of India's campaigns like Make in India, Clean India and Digital India have created scope from investments by foreign firms, especially in energy, transport and telecom sectors. Several new schemes are announced at manifold meetings of business and political leaders.

Prime Minister Narendra Modi's call for 'Act East, Link West' approach to foreign policy has had an encompassing effect on trade engagements with western economies including central European countries.

The government of India has allowed unlisted companies in India to list on foreign markets without being publicly traded on domestic exchanges.

Going by the move of the Government of India to support and encourage international business, the Reserve Bank of India (RBI) has come forward in creating base for an increased investment outflow as it is convinced of adequate forex reserves in the following ways:

- Liberalised directives for overseas investments by the Indian firms;
- Raised overseas investment ceiling to $125,000 from $75,000;
- Relaxed norms for Indian companies by doing away with the ceiling for raising funds through pledge or shares, domestic and overseas assets;
- Announced concessions in case of Joint Ventures (JVs) and Wholly Owned Subsidiaries (WOSs);
- Raised borrowing limit for Indian corporates for investing overseas;
- Limited the financial commitment to be undertaken by Indian company, thus relaxing the norms;
- Allowed Limited Liability Partnership (LLP) firms to undertake financial commitment to/on behalf of WOSs of Indian companies abroad.

These actions should encourage the go-getters among the India Inc to invest in the global markets, and make their presence felt internationally.

According to a report from McKinsey Global Institute, 'Central and East European countries have stable macroeconomic environment, highly educated yet affordable workforce, favourable business environment and strategic location', thus making them interesting destinations for investment. Whether the India Inc takes serious note of them and uses all the opportunities created for it by the government of India and its agencies is yet to be seen. However, the hopes are soaring high.

Dr Neeta Inamdar is a professor and the Head of the Centre for European Studies at Manipal University since its establishment in 2009. She teaches courses on European economic governance to the students of MA European Studies program and has a team of researchers working with her on various aspects of European integration. She also holds a Jean Monnet module in Cultural Analysis and European Identity.