Studia commercialia Bratislavensia Volume 7; Number 27 (3/2014); pp. 417-425
DOI: 10.2478/stcb-2014-0041 ISSN 1339-3081

New Focus on India: A CEE perspective for Investment, Business and Trade Development[1]

Valeria Honaizer Svobodová[2] - Owen Fernandes[3]

Abstract

The expectations of Indian masses have skyrocketed since the new election results. There is excitement and anticipation in the air from all factions of society and industry. Will it be resurgent India taking giant strides towards a vibrating economy or will there be strategic moves on consolidation and then acceleration? The New Prime Minister has a proven record of doing things differently and has results to show that it worked for him at the state level. Will it work for the nation as a whole? What can Central Europe expect in terms of bilateral trade with India? This paper takes a look at some crucial factors.

Key words

India, CEE, Trade, Policies, Investment, Opportunities

JEL Classification: F18, F21, O11, O24, R11

Introduction

India today has emerged as the 4th largest economy in PPP terms. This is largely because of some transformational changes that have taken place in the Indian Economy over the last two decades. Political instability and internal turmoil has also impacted and dented growth, at certain stages, causing insecurity among foreign stakeholders. However during this period, India's economic integration in a globalized world has also enhanced significantly. India has seen consistent high growth rates (baring the last couple of years) even in the midst of an uncertain economic environment. As expected, the people of India have voted for a change. With a new leader at its helm, trade and investment relations will be the prime movers of bilateral engagements with other countries in the near future**.**

During the same period, the region of CEE has undergone a sea of changes too. From a closed state run inefficient system it is now seen as a developing competitive market economy. The expansion of the EU has also added to the dynamism of the region as a whole. The Central European countries have been important trade partners with India over the years. Economic cooperation has picked up in recent years, but is still below its potential. According to Indian data for the fiscal year 2011-2012 it stands at a mere 1% of the total USD 5.2 billion trade that India does with the rest of Europe.

[1] The paper is a part of scientific project VEGA no. 1/1057/12 *Solution to the debt crisis in the monetary (not fiscal) Union and factors of future deepening crisis in Europe and Slovakia.*

[2] Ing. Valéria Honaizer Svobodová, PhD.; University of Economics in Bratislava, Faculty of Commerce, Dolnozemská cesta 1, 852 35 Bratislava; E-mail: valeria.svobodova@euba.sk

[3] Owen Fernandes, B.Tech MBA, PhD Student , University of Comenius Bratislava, Faculty of Management, Odbojárov 10, 820 05 Bratislava; E-mail: owenfernandes68@gmail.com

It is believed that there is still untapped potential for further growth and it is with this belief that the Confederation of Indian Industry (CII, 2014) recently constituted a Regional Committee on Central Europe.

1 Methodology

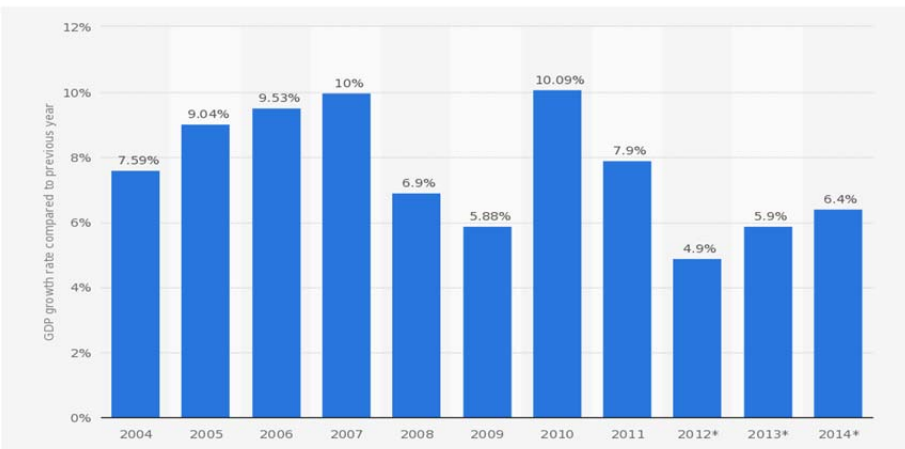
The aim of the paper is to analyze the present economic and political situation of India in the light of the recent election results and explore the opportunities available for CEE for trade and business activities.

The methodology used for the paper is based on data and research collected from research articles written by expert analysts in magazines, newspapers, internet literature and statistics, information consistent of EUROSTAT, IMF and others databases.

2 Reviving India's Economy

India has never had a strong state. Individual corporate brilliance with a continuous rise of excellent entrepreneurs has always kept India's economy in the news. A decade ago, the country with an Annual growth @ 10% (see Figure 1) was on its course with the attention of the world on its progress. Even during the financial crisis, India did reasonably well albeit slow (Bajaj, 2009) and seemed destined to rival China. Incompetence at the center, poor governance and red tape followed by a flood of huge corruption scam and scandals in the defense, energy and IT sector blocked growth creating insecurity among investors. Add to the fact that high inflation led households to buy gold, shifting money away from the banking system where it could have been productively employed (The Economist, 2014).

Figure 1 India: Real gross domestic product (GDP) growth rate from 2004 to 2014 (compared to the previous year)



Source: IMF, Statista 2014

A few months before the elections, in one of his campaign rallies, the now newly elected Prime Minister Mr. Narendra Modi had promised to develop 100 smart cities and set up top educational institutes in very state saying "urbanization should no longer be seen as the bane of our life but an opportunity to create facilities for all, particularly the poor" (Iyer, 2014). The hysteria surrounding the elections saw the Mumbai's benchmark Sensex index rise 15% between the announcement of the elections in early March, and the declaration of Modi's victory on May 16, 2014. The otherwise volatile Indian rupee also gained 4% too. Analysts say that this phenomenon is nothing short but a heightened sense of exuberance about what the markets think the new government can do" (Wright, 2014).

The administrative think tank of the new government will have to ensure that the promises made pre-election will need to be incorporated in the next 5 years for it to gain credibility and trust of the Indian masses. In the event of this not happening, India then will again find itself without any political and economic direction, the Congress led government being brutally ousted this time for having failed miserably, given a long run of 10 years, which was characterized by a sharp slowdown, high inflation, huge corruption scandals, that ignited the people of India to vote for change. The pressure on the new government is huge and there lies a window of opportunity for CEE countries and the world at large.

Prime Minister Mr. Narendra Modi's economic views have been formed while running the business-friendly state of Gujarat for the past 12 years. According to analyst Arvind Panagariya (2013) there is data that shows that the state has reduced poverty and malnutrition. The sex ratio has improved, and the quality of education is better and there is little room for anyone to credibly question the superior performance of Gujarat in industrialization, power generation and supply, agricultural development, and overall growth. If Mr. Modi is able to replicate even a fraction of his achievement on a nationwide basis, it would see India as an emerging powerhouse in the not so distant future. There is also possibility of an extending run since a successful leader is always trusted by the followers.

Asked some time ago about his economic influences, he described that unlike successful nations like Singapore and China, which Mr. Modi claims to have read a lot about them, India needs a different approach. He cited "India is a democracy and has different requirements". There is a need to focus proper governance and back it up will an agile administration to address the need of farming, small and medium enterprise whilst not ignoring global companies. The forces of men, machines and money should come together to meet this need (The Economist, 2014). Having run Gujarat well, Mr. Modi now faces the far harder task of running India. He has big advantages – administrative competence, control over his party and a majority in Parliament – that should ease decision-making. The last time a party got a majority in India was in 1984, three decades ago! The feeling of the nation to rise up is evident (Naqvi & Kennedy, 2014).

3 The New Governments to-do list for the period 2014-2019

In his first cabinet meeting, Modi outlined the government's agenda. Among the 10 points that he has set out called "Blue Print for Action" (Sethi & Mathew, 2014), Education, Water, Health take priority and so does building Infrastructure. On the administrative level, focus will be more on efficient governance, delivery and implementation of programs. Contact with the masses to feel the mood of the nation also takes precedence. Ending red tape and bureaucracy, encouraging innovative ideas and stability also figure in the plan. On Foreign policy, he wants to take tougher stand on border control, better defense deals and more FDI investments. More foreign investment in defense would help India reduce imports, modernize weapons systems and speed up deliveries of hardware it needs for operations and training. India, the world's biggest arms importer, now allows 100% foreign ownership in defense for state-of-the-art technology (Mishra & Ghosh, 2013).

Analysts believe the first priority should be infrastructure, and in particular power. "If Modi delivers on his promise of cutting the bureaucratic red tape – remember his catchphrase of less government, more governance – he would make life easier for foreign investors (Yazhiniyan et all, 2014). CII's (Confederation of Indian Industry) director general Chandrajit Banerjee says the top most priority for the new government should be to get the cleared projects operational. "This is the quickest way to revive investment demand."

Economic Analyst Singh (2014) highlights the fact that India's economic growth is much below the 8% target laid out in the 12th plan, with growth in the last two years slipping below 5%. Gross Domestic Product growth in the 2013-14 fiscal year is expected to be about 4.9% after the 4.5% growth clocked in the previous fiscal. The sharp slowdown Singh feels has not only impacted India's corporate, but has also limited job prospects for the country's growing population. The Big challenge for the new Prime Minister and his cabinet will be to generate enough job opportunities to employ the 10 million people who enter the country's workforce every year. India needs to grow 8 per cent a year to prevent a demographic disaster, analysts say.

Ridham Desai, managing director at Morgan Stanley, when interviewed on National Television debate (NDTV, 2014) feels that the new government must focus on reducing inflation, improving productivity and deleverage the private sector to bring back the Indian economy to the 7 per cent growth trajectory. Projects worth 6.2 trillion rupees ($ 105.1 billion) were shelved last year due to bureaucratic gridlock, according to CMIE (Economic Outlook CMIE report, 2014) an economic think tank, the highest in the past 18 years. Modi's reputation, of speeding up implementation of infrastructure projects and promoting manufacturing will come to the forefront and it remains to be seen how he does it at the national level.

According to Federation of Indian Chambers of Commerce and Industry (FICCI), India's largest, and oldest and the apex business organization, to secure adequate supply of energy resources it is important to develop bilateral and regional strategic energy partnerships that promote, diversification of hydrocarbon supply sources, acquisition of foreign hydrocarbon assets, tradability of energy sources through gas contracts , enhancement of the national knowledge - base and acquisition of technologies. India is the fifth largest energy consumer in the world. The growth rate of demand is around 6.8%, while the supply is expected to increase at a compounded annual growth rate (CAGR) of only 1%.

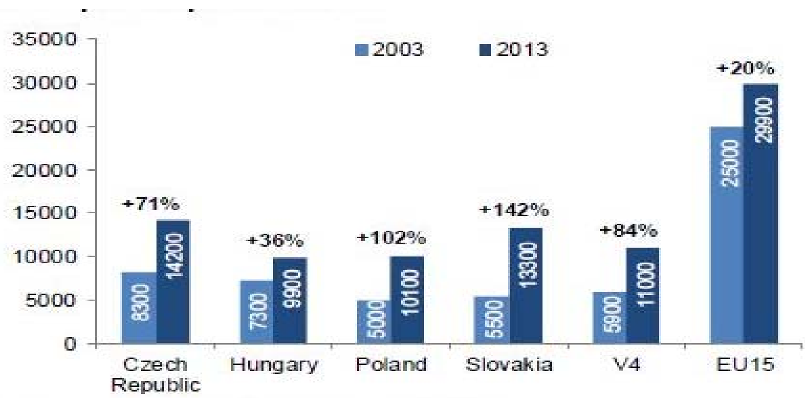
4 Interest and Opportunities for India and CEE

As data in the past show, India has had very limited economic and political interests in the CEE region. In stark contrast to China, it has not focused on developing a strategy for the region. India uses more diplomacy through the United Nations Security Council for advancing its economic interests. On the other hand CEE countries now have begun to realize and recognize the significance India's huge market and may want to balance their trade deficit and attract more investment. Moreover it also may look at minimizing risks through transcontinental trade, looking for new partners outside Europe. The India EU Strategic Partnership, which has come under serious strain in the recent past, mainly because of EU's pressure to cover human rights provision into a free trade agreement, through trade engagement with CEE, could come as a relief favoring trade over politics (Tharoor, 2014).

India being a pioneer in Democratic reforms, the same now seen in CEE will go a long way in strengthening common values leading to better trade relationships and cooperation. Also India may not be too happy seeing China taking an upper hand, as it recently announced its ambitious economic offer for CEE, including $500 million credit lines and a plan to double bilateral trade by 2015 (Szczudlik-Tatar, 2011).

Taking a look at the European side and CEE in particular, two decades of stable economic growth have made CEE richer and more attractive as an economic partner. The new EU Member States have quickly recovered from the 2008 financial crisis and are now among the fastest growing economies in Europe. A look at the graph (see Figure 2) below shows that the GDP per capita in the V4 nations of CEE have outclassed the EU 15. GDP per capita in EUR outperformed old EU15; it more than doubled in Poland and Slovakia (Jedlička, Kotian & Münz, 2014). With a population of over 100 million, a relatively cheap but skilled labor force, and a strategic location between Western and Eastern Europe, the region automatically selects itself as a top FDI destination.

Figure 2 GDP per capita in EUR



Source: Eurostat, Erste Group Research

Apart from the traditional sectors of agriculture, mining and power, India will look to infuse new structural reforms, to boost to innovation areas such as technological cooperation, biotechnology, and education. To cite an example in the energy sector, both India and much of CEE economies are based on coal as the main raw material. A closer cooperation in energy efficiency and in renewable and alternative sources of energy could be beneficial for both sides. There could be many other areas of common need, but more research is needed to examine the existing complementarities and the most promising areas of cooperation.

5 CEE and India in a New Perspective

In the not so distant future India for sure will look to re –engage with CEE and tap potential. This would work well both ways for India's re-engagement in the region. Holding a regional economic summit could be the right step to examine the existing opportunities for trade and investment and push for closer cooperation. Poland may use the momentum to play a leading role in this regional dialogue.

An immediate indication of the things to come, the "India Show-Poland" (2014), an initiative of Ministry of Commerce, Government of India, is being organized by EEPC India to gain access to the fast growing markets of Central and Eastern Europe. India has been declared as the "Partner country" for the show and around 125 Indian companies are expected to participate at the event. The event is scheduled to be held in Poznan (Poland) from 3-6 June, 2014. Holding such regional economic summits could be the right step to examine the existing opportunities for trade and investment and push for closer cooperation (Kugiel, 2013). The India Show is in many ways a reflection of India's multifaceted talent and capabilities. While it provides a unique opportunity to Indian industry to showcase its technological advances, the Ministry of Commerce of Government of India, responsible for enhancing trade and foreign investment, wants to promote Brand India across the globe and provide a platform to Indian Exporters to showcase their strengths and capabilities in emerging markets and developing countries.

An exhaustive report presented by Deloitte in cooperation with Confederation of Indian Industry (CII, 2014) vividly shows the relative comparative advantage enjoyed by the Indian industry vis-a-vis that of the CEE trading partners. The study covered 10 nations in the region and is based on the fundamental economic principles that free trade will result in specialization in certain products/industries in which the country enjoys a comparative advantage and will end up producing and exporting more products from these The same report shows the following Indian industries enjoy a greater competitive advantage relative to their counterparts in the CEE countries:

- Agricultural products like sugar, coffee, spices etc.
- Pearls and precious stones
- Textiles
- Minerals
- Computer and Information Technology

On the other hand, the following industries in CEE, according to the study enjoy a larger competitive advantage than the counterparts in India:

- Machinery (including defense equipment)

- Automobile
- Pharmaceuticals
- Insurance & Financial services
- Travel & Transport (including defense vehicles)

Other industries, the report mentions, did not show clear indicators, if any of the sides had a strong advantage over the other. In essence, one can read from the finding of the report that India would be better off exporting agricultural goods and importing machinery and technical know-how to boost productivity in mechanized farming, where the CEE economies had a good standing. The Indian Information Technology industry in the service sector could explore exporting software support to CEE nations as they plan to invest in heavy industries such as infrastructure, communications, retail and R&D. The overall analysis clearly shows that the Indian economy as whole has a strong hold on the primary sector industries and the services industry, with the CEE economies more dominant in the industrial and manufacturing sectors. Thus both sides could see each complimenting and boosting trade and cooperation.

6 Possible Challenges along the Way

From within the Indian fence, there is also the question of whether the new government at the center would seek to reverse the enabling framework allowing FDI in multi-brand. FDI in multi-brand has not been accepted by the larger masses, as they feel threatened by culture invasion in addition to loss of jobs. Quoting an example, expert trade analyst Manu Kaushik writes that the Department of Industrial Policy and Promotion (DIPP), the authority that frames FDI policy, stipulates that foreign retailers with plans to set-up multi-brand chains have to invest a minimum $100 million with 50 per cent of that amount spent in building back-end infrastructure such as warehouses and cold storage facilities. This proposal has upset retailers because investing 50 per cent in back-end operations initially is difficult when the focus has to be on increasing the store count to acquire scale (Kaushik, 2014). It seems likely that a reversal at the center would override previous policy to become the new law of the land—putting an end to the "enabling" framework (Ayres, 2014). Though this will seem as a popular move by some, the outside world, especially those deciding to set up shop in India would see it as a backward step. This move will indirectly affect the supply chain of some major retailers like Tesco and Ikea, just to name a few who do could possibly look for sourcing out of CEE.

On the CEE side there could be apprehensions and possibly fear of increased competition from India, especially in services and the movement of professionals (Kugiel, 2013). India will need to avoid the mistake that it normally does and have been continually doing in places like the UK, Singapore, US, Malaysia and to certain extent in Australia. They fail in pursuing a strategy of cultural assimilation. Instead of looking to invest in the development of local management and resources, Indian companies attempt to break into new countries by exporting Indians to run their interests and rarely invest in the development of local talent. This seems to start on a lack of trust of local availability of managers which would only add to starting issues due to administrative and international paper work which could be internally different for different countries within the CEE.

Conclusion

Taking a closer look at the economic structure, government policies and future plans of these economies, it is evident that both regions have tremendous opportunities to enhance their trade and investment relations and benefit significantly. Setting up a business and investor – friendly environment is key to both regions. Both regions must look to offer incentives in various fields in the form of tax exemptions, greater market access as well as opening - up of sectors for foreign investments. In the CEE, all these incentives are focused on priority sectors such as R&D, infrastructure, construction, transport, Greenfield projects, communication and energy. India can definitely benefit directly and indirectly from these developments. The requirement of a well-structured IT industry as a support and need to the well-functioning of any industry can only increase in demand in the future may go in India's favor and CEE can access it. Also Indian investors can invest in Greenfield projects in the field of infrastructure and help in improving the labor market. Both regions are believed to have vested interests in each other and can certainly benefit from increased trade and investment activities amongst each other. The New Indian Government's vow to breathe fresh life into the faltering economy by focusing on infrastructure, boosting investment, reforming the tax system and rationalizing interest rates can be attractive to CEE as well.

References

Ayres, A. (2014). A Closer Look At FDI Flip-Flopping In India. *Forbes Asia.* Retrieved February 20, 2014, from http://www.forbes.com/sites/alyssaayres/2014/02/04/a-closer-look-at-fdi-flip-flopping-in-india/

Bajaj, V. (2009). In India, Central Banker Played It Safe. *The New York Times.* Retrieved May 11, 2014, from http://www.nytimes.com/2009/06/26/business/global/26reddy.html?_r=0

Confederation of Indian Industries CII. (2014). *Trade & Investment Relations between India and Central Europe: A Study of Opportunities.* Retrieved February 26, 2014, from http://www.cii.in/PublicationDetail.aspx?enc=urjGUfGq3XGwEGo6U3QT/I8MzDsy+K7iiSfIc+pyUPk=

Economic Outlook CMIE report (2014). *Project completion in manufacturing sector loses vigour.* Retrieved May 21, 2014, from http://www.cmie.com/kommon/bin/sr.php?kall=wclrdhtm&nvdt=20140521095634943&nvpc=099000000000&nvtype=INSIGHTS

Embassy of India, Bratislava, Slovak Republic. *India Show-Poland.* Retrieved June 4, 2014, from http://eepcindia.org/indiashow/poland2014/index.asp.

Federation of Indian Chambers of Commerce and Industry. *Today, India is the fifth largest energy consumer in the world.* Retrieved May 28, 2014, from http://www.ficci.com/sector/67/Project_docs/hydro-profile.pdf

Iyer, S. (2014). Modi's vision for a 'new India' ahead of LS polls. *Hindustan Times* New Delhi. Retrieved January 20, 2014, from http://www.hindustantimes.com/india-news/allaboutnarendramodi/modi-unveils-vision-of-brand-india-with-host-of-promises/article1-1174645.aspx

Jedlička, J., Kotian, J., & Münz, R. (2014). Visegrad Four - 10 years of EU membership. *Erste Group Research – CEE Special Report.* Retrieved May 26, 2014, from www.erstegroup.com

Kaushik, M. (2014). Why the future of FDI in multi-brand retail looks bleak after the polls. *Business Today*. Retrieved May 11, 2014, from http://businesstoday.intoday.in/story/future-of-fdi-in-multi-brand-retail-after-polls/1/205379.html

Kugiel, P. (2013). *India's Policy Towards Central and Eastern Europe*. Retrieved June 4, 2014, from http://isnblog.ethz.ch/tag/india/page/3

Mishra, A. R., & Ghosh, S. (2013). Govt clears 100% FDI in defence, telecom. *The Wall Street Journal*. Retrieved May 30, 2014, from http://www.livemint.com/

Naqvi, M., & Kennedy, A. E. (2014). World's largest democracy gets new prime minister. *Associated Press USA Today May 16, 2014.* Retrieved May 16, 2014, from http://www.reviewjournal.com/news/nation-and-world/world-s-largest-democracy-gets-new-prime-minister

Panagariya, A. (2013). *Here's proof that Gujarat has flourished under Narendra Modi*. Retrieved May 24, 2014, from http://www.rediff.com/business/slide-show/slide-show-1-heres-proof-that-gujarat-has-flourished-under-narendra-modi/20131029.htm

Prashant, N. R. (2014). *Sensex may hit 75 000 in 10 years*. Retrieved May 30, 2014, from http://profit.ndtv.com/videos/news/video-sensex-may-hit-75-000-in-10-years-morgan-stanley-323136

Sethi, N., & Mathew, L. (2014). Narendra Modi's 10-point plan for India. *The Wall Street Journal*. Retrieved May 30, 2014, from http://www.livemint.com/Politics/PWOXZpZVucoOD4FdQK6noO/Narendra-Modis-10point-plan-for-India.html

Singh, M. K. (2014). What lies ahead for plan panel under Modi? *Times of India*. Retrieved May 22, 2014, from http://timesofindia.indiatimes.com/topic/plan-panel-deputy-chairman

Szczudlik-Tatar, J. (2011). China's Policy Towards Central and Eastern Europe. *Bulletin PISM, 44*(261).

Tharoor, S. (2012). Reconsider relations with the European Union. *India Today.* Retrieved May 30, 2014, from http://indiatoday.intoday.in/story/european-union-india-ties-india-eu-joint-action-plan/1/189252.html

The Economist. (2014). *Reviving India's economy Modi's mission.* Retrieved May 24, 2014, from http://www.economist.com/news/briefing/21602709-new-prime-minister-has-good-chance-resuscitating-countrys-underperforming

Wright, Ch. (2014). Modi's To-Do List: Priorities For A New India. *Forbes.com.* Retrieved May 28, 2014, from http://www.forbes.com/sites/chriswright/2014/05/26/modis-to-do-list-priorities-for-a-new-india/

Yazhiniyan et al. (2014). TN's To-do-List Fr Modi. *The New Indian Express.* Retrieved May 26, 2014, from http://m.newindianexpress.com/tamil-nadu/314652