

# EXTRAORDINARY AND PLENIPOTENTIARY DIPLOMATIST

SPECIAL REPORT

A stylized map of Europe and India is the central visual element. The map is rendered in a dark blue silhouette against a background of horizontal stripes in orange, white, and green, representing the Indian national flag. On the left side, a large, dark blue Ashoka Chakra is partially visible. The title "India Central Europe" is written in a white, elegant script font across the lower right portion of the map.

*India  
Central Europe*

2015



# India and Central Europe Opportunities and Future Prospects

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Central Europe (CE), sometimes also called as Middle Europe, is a geographical region of the European continent located between variously defined areas of continental Europe (such as Western, Eastern, Mediterranean, Nordics, Balkans, Baltics etc).<sup>1</sup> The countries in CE underwent massive political, economic and social transformation after collapse of communism in the Central and Eastern European Countries (CEE)<sup>2</sup>. Since then in the last two decades, Central European economies have successfully transformed themselves from a state-controlled and state-run closed economic system, to an open, developing and competitive market oriented economy. Despite the impact of global recession since 2007-08 and the challenges it posed for the developing economies, a large number of the Central European countries have not only been able to survive and tide over recession, but a substantial number of them have posted considerably higher growth rates during this time and have been doing better than the West European countries.

Data in Table 1 indicates key economic statistics and the percentage of Economic Growth in the countries of the CE. The

data indicates that countries in this region have been able to sustain and in some cases improve their growth rate in the last few years despite global slowdown.

Indian foreign policy has in the last couple of years begun to give adequate attention to improving its relations with these countries, particularly former Warsaw Pact countries and former Yugoslav countries, because of their technological know-how

in niche high technology sectors. In the last couple of years, New Delhi has hosted important ministers and delegations from these countries, including from Slovenia and Poland.<sup>3</sup> Within the broad frame of cooperation in the recent past, the India-Central Europe Business Forum was held in March 2014 in New Delhi, in which ministers and delegations from Central European countries and India came to discuss

Table 1

Country	2010	2011	2012	2013	2014
Austria	1.9	3.1	0.9	0.2	0.3
Bulgaria	0.7	2.0	0.5	1.1	1.7
Croatia	-1.7	-0.3	-2.2	-0.9	-0.4
Czech Republic	2.3	2.0	-0.8	-0.7	2.0
Hungary	0.8	1.8	-1.5	1.5	3.6
Poland	3.7	4.8	1.8	1.7	3.4
Romania	-0.9	2.3	0.4	3.5	1.8
Slovak Republic	4.8	2.7	1.6	1.4	2.4
Slovenia	1.2	0.6	-2.6	-1.0	2.6

Source: Compiled from data available at <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>



about synchronising economic agendas for harnessing business commonalities and assessed opportunities for trade and investment in both the regions.

The European Union (EU) and India are committed to further increase their trade relations and flow of goods and services. India is an important trade partner for the EU and an emerging global economic power. Trade in commercial services between the two quadrupled in the past decade, increasing from €5.2 billion in 2002 to €23.7 billion in 2013. The value of EU-India trade grew from €28.6 billion in 2003 to €72.5 billion in 2014.<sup>4</sup> India also enjoys trade preferences with the EU under the Generalised Scheme of Preferences. Both are working in the direction of enhancing bilateral investment and access to public procurement through the Free Trade Agreement negotiations since 2007. Despite some differences, substantial progress has been made in a large number of areas and the negotiations are going on in key areas such as improved market access for some goods and services, government procurement and geographical indications, and sustainable development.

As many of the Central European countries have become member of the EU, and a large number of them are candidate countries, it is time to open a new chapter in the existing relationship between India and the EU, with particular focus on the Central European countries.

The Central European countries have been important trading partners with India for many decades. The volume of total trade between the two regions has grown manifold over the years. CE has been an important region for India economically and the relationship can be further cemented for achieving many of the current initiatives taken by the Narendra Modi government since 2014. If we look at the figures, then India's total bilateral trade with Central European countries is \$26649.08 million. Significantly, the balance of trade is in India's favour with its total exports being \$15481.15 million and imports \$11168.9 million. India and Hungary enjoyed close economic and political ties during the Cold War era. India was Hungary's biggest trading partner in Asia with bilateral trade at nearly \$200 million during the 1980s. The two, however, found it difficult to keep up the momentum of vibrant economic cooperation in the post-1990 years. This has begun to change in the last few years with bilateral trade registering an increase and Indian investments in Hungary reaching a record level of \$1.5 billion. Bilateral trade reached \$840 million in 2011 but dropped to \$641.9 billion in 2012, mainly because of a decline

in exports from Hungary to India. However, these figures do not provide a comprehensive story of the entire region but reflect India's relation with couple of countries in the region such as Turkey and Hungary. With the rest of the countries in the region, India's trade statistics is not much. Lately it is realised that in the post-cold war era, India has not been able to build upon or carry forward the close ties it had with many of the Central European countries during the 1950s up until middle of 1980s.<sup>5</sup>

A critical analysis of the economic and social profile of these countries reveals that the region has significant expertise in industries and areas such as automobile, machinery, chemicals, pharmaceuticals, construction, mechanical and engineering goods. The products that India imports from these countries primarily includes fertilisers, iron & steel, metal scrap, mineral fuels & products, nuclear reactors, Swiss watches, glass and crystal products. The CE economies can hugely benefit from the rising demand for finished products and goods in India and also investment in infrastructure, which can translate into increased trade and investment in the manufacturing sector. Similarly, with a wide agricultural base, India can focus on manufacturing agricultural and primary goods including raw materials for manufacturing businesses. The CE region offers a host of incentives in the form of tax exemptions, greater market access as well as opening up of sectors for foreign investments. These incentives focus on priority sectors such as R&D, infrastructure, construction, transport, communication, energy and in general, aim at improving services sector and attract more investments in the future.<sup>6</sup> India can definitely benefit directly and indirectly from these developments. The major products what India exports to the Central Europe are electric machines, light and medium transport vehicles, pharmaceuticals, agricultural

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products, tea, coffee, garments, computer software, jewellery, leather products, etc. By offering incentives and delivering upon the promises of 'Ease in Doing Business', India can offer an opportunity for many of the companies from the CE to establish their manufacturing units/plants in India. The idea of 'Make in India' will fructify only if companies from not only big countries but even from smaller and emerging economies are welcomed with equal enthusiasm. Some of the major Central European companies with investments in India are Tatra, Skoda Auto, Nokia, Swarovski, Hilti, Siemens, Sulzer, Thussenkrupp, Telenor, Nestle, Novartis, Volvo, SAAB, Vitkovice, etc. The Confederation of Indian Industry (CII) and Indian embassies in these countries have also organised conferences, programs and events for promoting business ties between the two regions. Some of the major companies that have invested in Central European countries are Tata Motors, Aditya Birla Group, Infosys, Biocon, Dr. Reddy, TCS, Wipro, Tech-Mahindra and Oswal Group.

Statistics pertaining to India-Europe trade relations reveal that investors from India have an inclination or preference for big economies in the Central European Region, namely Switzerland, Austria, Poland, and Czech Republic. However, one can identify potential areas and opportunities





with other countries in the region as well such as Slovakia, Hungary, and Bulgaria. Drawing from the report prepared by CII, based on the information collected through interviews, 'one of the most prominent suggestions of the interviewees is to create a platform for further interactions between the two business communities and to increase pace of bilateral events and brand promotion activities across countries. Although the Central European countries have initiated a number of events and trade fairs along with delegations visiting India on numerous occasions, India is yet to reciprocate in the same manner'<sup>7</sup> and equal enthusiasm. The Indian industries enjoy a greater competitive advantage relative to Central European countries in the field of Agriculture, products like sugar, coffee, spices etc, Pearls and stones, Textiles, minerals and Computer and Information Technology industry. Whereas the central European region enjoys a greater competitive advantage than the counterparts in India in the field of Machinery, Automobile, Pharmaceuticals, Insurance & Financial Services, and Travel & Transport. Some industries such as Chemicals, Metallic manufacturing of iron/steel, Miscellaneous manufacturing items like Furniture, Travel goods including handbags, footwear, fancy goods etc. do not indicate any trend of comparative advantage and are potential areas for mutual cooperation between the two regions for enhancing trade ties.

In order to increase our agricultural productivity, India can import machinery and technical know-how in mechanised farming from Central European Countries. India can gain advantage in computer and information industry. The CE countries are investing more in infrastructure, communication,

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retail and R&D, but software and computer networking is essential in all the sectors and hence, India has opportunity to enter the market with its comparative advantage in the field. The requirement of a well-structured IT industry as a base for various European industries can only increase its demand in the future, and this is where India's expertise in the services sector might be helpful.<sup>8</sup> In other words, the Indian economy as whole has a strong hold and competitive advantage in the primary sector industries and the service sector on the other hand. The CE economies are stronger in the field of industrial and manufacturing sectors. The contemporary matrix of economic structure, government policies and future plans of these economies, indicate that both the regions have great opportunities to enhance and significantly benefit from their trade and investment relations.

Given the agenda of growth and development of the NDA government and many other initiatives such as Make in India, Digital India, Swachh Bharat, it is the need of the hour for India to strengthen its trade

relations with not just big economies, but also with the new and emerging economies that have great potential to benefit us. India has been looking at investing \$1 trillion in upgrading its infrastructure by 2017, and is open to newer technologies and processes to optimise its efforts to attract investments and develop world-class infrastructure at an accelerated pace, all of which the CE region can tremendously contribute to. It is necessary that India focuses upon the scope of enhancing the relations with CE countries. The CE countries are also inviting investors by announcing various incentives and initiatives. With similar goals and aspirations to generate income and employment for people and attract investment, it is prudent for both the regions to strike the synergy together and accelerate the momentum of growth and respective development.

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<sup>1</sup> There have been contending definitions of countries of eastern Europe, central Europe and Central and eastern Europe. The CEE refers to 13 countries of Central-Eastern Europe, which joined the European Union in successively in 2004, 2007 and 2013. These countries have share common cultural, historical and political linkages.

<sup>2</sup> Central and eastern Europe includes eastern and western Balkan.

<sup>3</sup> Archis Mohan, (2013).

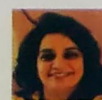
<sup>4</sup> <http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>

<sup>5</sup> Archis Mohan, 2013.

<sup>6</sup> CII, (2014).

<sup>7</sup> CII

<sup>8</sup> CII



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