analysis

IS IT WORTHWHILE TO DO BUSINESS IN INDIA?

- Challenges, Impediments and Advantages in Bilateral Cooperation
- Recommendations for Polish Companies Interested in the Indian Market

IPCCI

DOING BUSINESS IN INDIA...?

In the last two decades, Poland and India have travelled a similar path – they have rejected socialist solutions for liberalism and have joined the global economy. Today, both states are asking themselves questions about the future. e 60th-anniversary celebration of the establishment of diplomatic relations between the countries is a good opportunity to strengthen their economic ties, and, in Poland, to specify why we should be interested in India.

AUTHORS> **Małgorzata Bonikowska, Andrzej Turkowski**

India entered the 21st century as an enormous market (1.2 billion citizens) with a dynamically growing middle class. The middle class is now estimated to be between 50 and 300 million people (depending on the methodology) and is expected to reach 585 million by 2025. India is also the largest democracy in the world, with over 700 million people eligible to vote in elections (three times more than in the United States). Around 60 per cent of voters take part in elections (data from 2009), and considering the size of the population and the country's brief tradition of democracy, this is a great achievement.

The United Nations has estimated that in 2050 India will be inhabited by around 1.6 billion people, making the country the most populous in the world (and the most numerous Anglophone group). At the same time, Indian society, in contrast to China's for instance, is very young – over 50 per cent of India's inhabitants are under 25.

In spite of numerous challenges, India is today one of the world's largest spheres for the production and trade in items of mass consumption. By 2015, the retail trade sector should reach 750-800 billion dollars. The government's plans to increase support for infrastructure by 5 to 9 per cent of GDP and to invest a further 1 billion dollars in this sector create large opportunities for foreign firms. India's still unsettled border disputes and ambitions to be a regional power are driving its defence industry. During the coming decade, New Delhi intends to expend close to 1 billion dollars in this direction.

Among the most rapidly developing branches of the Indian economy are: the production of steel, iron and aluminium, the automotive industry, textiles and clothing, pharmaceuticals, chemicals and petrochemicals, electricity, energy, gas, telecommunications, IT, and also tourism, hotel services, biotechnology and agricultural products. Indian industry, however, employs scarcely 12 per cent of India's 510 million people of working age, and produces around 20 per cent of GDP. The significance of services, on the other hand, is rising: services give work to 28 per cent of professionaly active Indians and produce 55 per cent of GDP.

At the moment, India is the world's second largest producer of food after China, but it has the potential to occupy the leading position. Analysts predict that the productivity and turnover of Indian food processing will double in the next 10 years. At the same time, in the countryside, still inhabited by over half of Indian society, consumption is continually growing; the countryside has even become the chief consumer of certain articles (75 per cent of transactions in the case of watches, bicycles and radios).

CHALLENGES OF THE SUB-CONTINENT

Even though the Indian market offers unusual opportunities, economic cooperation with India is hindered by, among other things, bureaucracy, corruption, political influence in the economic sphere, high income tax on foreign companies (42 per cent), strict labour laws, long customs procedures (the average processing time is 27 days) and slow court proceedings (it's better to avoid them and stipulate non-Indian courts in contracts). These difficulties are reflected in the *Doing Business* ranking of 2014, where India occupies 134th position, below Russia (92nd), China (96th), and Brazil (116th). The lowest marks concern the execution of contracts (186th), receipt of building permits (182nd), establishing a firm (179th) and paying taxes (158th).

India has yet to finish the reforms begun in the 1990s set to liberalise the market. In consequence, there are limitations on capital inflows (money transfers and real estate purchases), among other matters. The development of entrepreneurship is hindered by the irregular supply of energy (frequent power cuts, even in large cities), lack of fuel, and also weak infrastructure for transportation, ICT and energy.

Entering the Indian market, one that is distant and governed by different rules and cultural norms than in Europe, is a challenge for Polish companies. This is reflected in India's negligible share in Poland's foreign trade (0.21 per cent of exports and 0.55 per cent of imports). Nevertheless, India is one of Poland's most important non-European economic partners – it occupies fifth position after China, the United States, South Korea and Japan – and a positive dynamic can be noticed in Polish-Indian trade exchanges. In 2011, bilateral trade rose by 42 per cent. In 2012, growth was only 1 per cent (trade amounted to 1.906 billion dollars), but Polish exports rose by 27 per cent, to 666 million dollars, and imports were reduced by 8 per cent, to 1.240 billion dollars.

The main Polish goods sold to India in 2012 were base products and base metal products, including iron and steel products, as well as copper and derivatives. An important position was occupied by plastics and rubber products, as well as machines, mechanical equipment, and electrical items. Imports were dominated by textiles and textile products, chemical industry products, mechanical and electrical equipment, and base products.

Although trade remains the basis for bilateral economic relations , the value of direct investments is growing. According to data of the National Bank of Poland, the value of Polish firms' investments in India at the end of 2012 amounted to 164.9 million euro. Indian businesses have invested 69.8 million euro in Poland. Among the native companies that have decided to invest in India, it is worth mentioning TZMO, which produces personal hygiene articles in Torun, and Can-Pack, which produces cans in Aurangabad. Inglot, a cosmetics producer from Przemyśl, already has ten shops in India, operated on the franchise model. Indian entrepreneurs have chiefly invested in Poland in the sectors of new technology, IT, outsourcing, cars, machines, steel production and packages.

PROMISING SECTORS

For Polish companies, the enormous potential of the Indian market and the increasing demand related with growing consumer wealth could be a lever for growth and bring economies of scale. For India, Poland and the remaining countries of East Central Europe are an attractive alternative to contacts with Western Europe. Poland, as the largest country of the region and an influential member of the EU, could provide a foothold for Indian companies wanting to expand their trade to Europe and Russia. It is also an ideal place for creating services centres, particularly in the ICT and BPO sectors.

1,25 million

The number of miles of roads built in India since gaining independence in 1947.

Source: The Economic Times

At the political level, contacts with Poland, which is strengthening its position and wants to play a larger role in international relations, could give Indians an important strategic ally in the EU.

An area in which Poland and India could cooperate in both the economic and political spheres is energy and the related issue of the international climate change regime. As Patrick Kugiel*, an analyst at the Polish Institute for International Affairs, observes, both states largely produce electrical power from coal (around 90 per cent in Poland and 70 per cent in India) and are striving to give future agreements about the limitation of global carbon dioxide emissions a shape that would not threaten their economic growths. This convergence of interests was apparent during the recent climate control summit in Warsaw, when Poland's best ally in working out a compromise turned out to be India.

Furthermore, the large dependence of both countries on the import of petroleum means that they treat diversification of supplies as a priority. India also faces a large challenge in increasing the availability of electrical power (25 per cent of the population does not have access to it) and ensuring the stability of supplies. The extent of the challenge is reflected in the International Energy Agency's prognosis forecasting that by 2035 India's needs for energy will grow two-and-a-half fold, the use of coal and gas by three fold, and oil by more than two fold.

A considerable role in India's energy policy will be played by nuclear technology (the aim for the next 10 years is to achieve the potential of creating 27,000 MW of nuclear energy); Poland has minimal experience in this area and could rather be the recipient of Indian expertise. The situation is different in regards to mining (designing, digging wells, supplying mining machinery and modernising power plants built by Polish firms in the past), quarrying, oil and gas exploration, energy efficiency, non-conventional energy sources (shale gas), or green technology.

Another sector that has a chance of becoming a pillar of Polish-Indian partnership is BPO (business processes outsourcing), in which India is a world power (having 37 per cent of the world outsourcing market); Poland, on the other hand, is growing to be a regional leader in the sphere

THE HISTORY OF POLISH-INDIAN RELATIONS

The establishment of diplomatic relations between Poland and India occurred in 1954, seven years after the Dominion of India acquired independence. However, two decades earlier, a consulate of the Republic of Poland had begun to operate in Bombay, as the first Polish diplomatic post in Asia. It was opened in the hope of diversifying the economic relations of the 2nd Republic on account of the Great Depression in Europe.

In the communist period, both countries had close diplomatic relations and intensive economic cooperation, particularly in the sectors of energy infrastructure and the defence industry. Polish engineers and builders worked on many projects and constructions in India, including power units and hydroelectric plants. Contacts weakened in the 1990s as Poland moved to bid farewell to everything associated with the People's Republic.
After Poland's accession to the European Union, the activeness of other EU member states on the Indian subcontinent encouraged Poland to take another look at the opportunities in that market.

India has not become a priority in Poland's strategy towards Asia, where China has begun to dominate. Nevertheless, interest in the country is growing. In February 2008, a Polish-Indian Parliamentary Group was formed, and thanks to a grant from the European Commission, in 2009 the Centre for Contemporary India Research and Studies was created at the Institute for International Relations of the University of Warsaw – the only institution of such kind in East-Central Europe. In 2013, the Polish Cultural Institute was opened in Delhi. A visit to India by Poland's minister of foreign affairs, Radosław Sikorski, and the participation of Poland's prime minister, Donald Tusk, in a Polish-Indian Economic Forum organised in 2010 in Bangalore, India's silicon valley, are signs of a desire for closer cooperation. Polish vice-ministers travel regularly to India as well.

1,6 billion

The number of citizens India will have in 2050, making it the most populous country in the world.

Source: UN estimate

(Krakow found itself among the first ten in *Tholons 2013 top 100 Outsourcing Destinations*). The latest trend among firms active in the Indian market is interest in investments abroad. This concerns Poland as well, where Indian companies in the BPO and IT sector – VSNL, Teleglobe International Holdings, KPIT Cummins, Zensar Technologies, Genpact, HCL Technologies, Infosys, Wipro, Irena, Intelenet Global Services, and CSS – are already serious players. In addition to attracting business, Poland should also take advantage of India's experience in creating the conditions for dynamic growth in these branches and in establishing local companies to provide services for global players.

Taking into account India's remaining needs and Polish export possibilities, opportunities for bilateral cooperation also appear in health care (medical and hospital equipment), food processing, the chemical industry (fine chemicals, paint ingredients) and defence (Polish military technology).

THE LARGEST ECONOMY IN THE WORLD

The Indian government wants to make its country the third largest economy in the world by 2025. India might, however, remain an 'eternally emerging nation' if it does not deal with its serious challenges, particularly the problem of poverty (three out of ten Indians live today on less than 1.25 dollars a day), illiteracy (26 per cent of society, or nearly 300 million people are unable to read and write), tensions of a religious nature (particularly between Hindus and Muslims), insufficient infrastructure and weak agriculture. The economic slowdown of recent years and numerous cases of pathological behaviour (armed robberies, rapes) have increased the number of voices calling the brightness of India's future into doubt. Much will depend on the political situation and the parties that win in the April elections. These elections will provide the 543 members of the Lok Sabha, the lower chamber of parliament.

Not only the size of the Indian market, but also the traits of Indian society – industry, resourcefulness, pragmatism, adaptability and a great hunger for success – argue for an intensification of Poland's activity in India. The Indian business elite has mostly been educated in Europe or the United States and is perfectly at ease in the global business world. Employee salaries and the cost of doing business are still low, and the attitude towards foreigners is very friendly. India's distance and the extra costs connected with it, excessive bureaucracy and the very low level of education (or entire lack thereof) among a large part of the population are hindrances to building economic relations with the country.

For India today, the most important matters are building an economy that will encompass all its citizens (inclusive growth), the economisation of foreign policy, and insuring internal security. Its strengths are the optimism and young age of its society, its creativity and its entrepreneurial spirit.

dr Małgorzata Bonikowska: managing partner of the centre for dialogue and analysis THINKTANK and chairman of the Centre for International Relations.
e-mail: mbonikowska@mttp.pl

Andrzej Turkowski: analyst of the centre for dialogue and analysis THINKTANK.
e-mail: aturkowski@mttp.pl

Translation: Michelle Granas

* Patryk Kugiel, Lidia Puka, 'Potrzeby energetyczne Indii – szanse dla Polski', *Biuletyn PISM* [,India's Energy Needs – An Opportunity for Poland', *Polish Institute of International Affairs Bulletin*] no. 67 (1043), 24 June 2013.

THINKTANK Recommendations

- It would be worthwhile to balance Poland's strategic partnership with China and the government programme *Go China* with intensified economic relations with India. India is a weak state with a strong society; China quite the reverse. In the long term, China, which has been united for a century, is the young Indian Union's main rival and strategic adversary in Asia, and its strengthening global role is a serious challenge. This explains, among other matters, India's nuclear weapons programme and its rapprochement with the USA after the breakup of the USSR. Poland's clear inclination for Beijing can't be viewed favourably in India.

- One of the interesting areas for Polish-Indian cooperation is business process outsourcing (BPO). Poland is the third centre in the world, after India and China, providing such services. The leading roles are played by Warsaw, Wrocław, Kraków, and Łódź. Poland has a large supply of well-educated employees (around 26 million people) who know foreign languages, it also has good location and relatively low labour costs and costs of doing business. Poland's nearness to Western Europe means that Indian firms view Poland as an excellent hub for servicing the entire European market.

- Poland is very little known in India, and Poles associate India chiefly with tourism and culture. Thus it would be worthwhile to undertake deliberate, long-term communication activities in both countries to increase knowledge of one another's economies and socio-political factors and to build clear associations, including with brands and products.

- The difference in potential and scale between Poland, with a population of 38 million, and India, with over 1.2 billion, could be decreased by Poland's intensified activities in selected states of the Indian Union, particularly in Gujarat (pop. around 56 million) and Maharashtra (pop. nearly 97 million), and also by Poland's undertaking to organise a summit of the Visegrad Group and India (such a form of cooperation already exists for relations with Japan, and there are similar arrangements between other states of East Central Europe and China).

TT

THINKTANK
centre for dialogue and analysis

www.mttp.pl

60TH PL+IN
anniversary of Polish-Indian
diplomatic relations
Community of Values

This publication has appeared in cooperation with the Centre for International Relations (www.csm.org.pl)
and the Indian-Polish Chamber of Commerce in Warsaw (www.ipcci.pl) in connection
with the 60th-anniversary celebration of the establishment of diplomatic relations between Poland and India.