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India's Policy Towards Central and Eastern Europe

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Central and Eastern Europe has not occupied an important place on India's external policy agenda so far. However, since many CEE countries have joined the European Union and India is now a major emerging power, the time is ripe to open a new era in the relationship. The history of close ties and untapped potential for economic cooperation bodes well 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.

Lost in Transition. Central and Eastern Europe used to enjoy close relations with India during the Cold War, but geopolitical changes after 1989 and following economic reforms in both CEE and India have had an adverse effect on two-way trade and the intensity of bilateral contacts. While post-communist countries reoriented their attention to integration with the EU and NATO, India focused in its foreign policy on Asia and cooperation with major global powers. The EU accession of many CEE states in 2004 and 2007 has not led to any major changes in the relationship. The EU-India partnership is still largely dominated by big Western states (UK, Germany and France), while the EU12 nations play a minor role in shaping the EU's policy vis-à-vis India. Although relations with CEE countries are officially described as "close and friendly," there has been little interest in India in upgrading the dialogue. For instance, despite many high-level visits from the region to India in the last two decades, no Indian prime minister has paid a visit to the EU12 in the same period.

Economic cooperation has picked up in recent years, but is still below its potential. According to Indian data, trade with EU12 countries amounted to \$5.2 billion in the 2011–2012 fiscal year, which was less than 1% of India's total external trade. India's largest economic partners in the region are Poland, the Czech Republic and Hungary, but none of them figures among India's top 50 trading partners. Thus India's cooperation with the EU still takes place mostly with the "old Member States" as the EU15 accounts for around 95% of the EU's total trade with India. Similarly, most of India's outward FDI in Europe goes to Western European countries; as of the end of 2009 only 3% of this investment was allocated in the EU12. The small Indian diaspora in the region, limited people-to-people contacts and the fact that CEE is little known in India are further factors that make improvements in economic cooperation challenging.

Interests and Opportunities. India has limited economic and political interests in the CEE region and, unlike China, it has not developed a well-articulated regional strategy.¹ Traditionally, India focuses on securing diplomatic support on global forums (especially for its permanent membership of the UN Security Council) and on advancing its economic interests. On the other hand, CEE countries have started recognising the significance of India's market of over 1.2 billion consumers and want to balance their trade deficit and attract more investment. Several factors may help to expand this modest agenda to include new directions.

After many CEE countries realised the strategic aims of regional integration and strengthened their position in the EU in recent years, they are ready to look for new partners outside Europe. India, which is interested in expanding its global influence from South East Asia to Latin America, may find it equally useful to revive its ties with old friends in CEE. Democratic reforms in the region have

¹ Justyna Szczudlik-Tatar, "China's Policy Towards Central and Eastern Europe," *Bulletin PISM*, no. 44 (261), 9 May 2011.

additionally strengthened the foundations of common values for better cooperation. In this respect, the convergence of interests between India and the EU12 in areas such as countering terrorism, UN reform, non-proliferation, and stabilisation in Afghanistan, need to be recognised. Importantly, stronger Indian engagement in the region could better adjust Indian policy towards the EU and reinforce the EU-India strategic partnership. Finally, India may want to take note of the growing engagement in the region of China, which recently unveiled its ambitious economic offer for CEE, including \$500 million credit lines and a plan to double bilateral trade by 2015. Even if India does not have enough resources to come forward with a similar initiative it should not fail to take advantage of the emerging opportunities in the region.

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. With a population of over 100 million, a relatively cheap but well trained labour force, and a strategic location between Western and Eastern Europe, the region is regarded as a top FDI destination. The fact that the EU12's share in the EU's trade with India is only half of its contribution to total extra-EU27 trade and 10 times smaller than trade with China means that there is substantial room for improvement. It is already possible to see that Indian business organisations, including the Confederation of Indian Industries (CII), are increasingly interested in the CEE region, but more research is needed to examine the existing complementarities and the most promising areas of cooperation. Structural changes in EU12 economies, especially the strong position of the SME sector, and the emergence of innovative sectors in India (such as IT, BPO, and pharmaceuticals), suggest that, apart from traditional sectors (such as mining, machinery, and power), more attention must be paid to innovation in areas such as technological cooperation, biotechnology, and education. For instance, since both India and most E12 economies are based on coal, closer cooperation in energy efficiency and in renewable and alternative sources of energy could be beneficial for both sides. Moreover, the EU-India Free Trade Agreement, which may be concluded in 2013, could create new avenues for cooperation. Even if some EU12 states may harbour fears of increased competition from India, especially in services and the movement of professionals, the benefits—among them better access to the large Indian market and more investment inflows—would outweigh the possible costs. In fact, both India and CEE have benefited from trade liberalisation and share an interest in repelling any attempts at renewed protectionism.

Conclusions. Although CEE remains a secondary direction for India's foreign policy—mainly because the country sees more opportunities in other parts of the world, especially those rich in energy or strategically located—there is still substantial untapped potential for stronger cooperation. However, given India's serious domestic challenges, global ambitions and already overstretched diplomacy, the future shape of these relations will largely depend on initiatives originating in the region. Keener interest on the part of CEE countries and better coordination of policies towards India between individual countries in the region would certainly help to position these countries better vis-à-vis their larger Asian partner.

New EU Member States may try to be more active in shaping the EU's India policy and present clear opinions on global issues important to India (such as UNSC reform, climate change, and terrorism). A regular dialogue between business organisations is necessary to examine the new opportunities in economic cooperation. Full exploitation of the existing potential will be difficult, however, without raising CEE's profile in India and enhancing people-to-people contacts. Some ideas worth exploring include a joint cultural program presenting the "new Europe" to the Indian public, in addition to regional promotional campaigns showing CEE as an attractive tourist and education destination, or co-funding CEE chairs at leading Indian universities. Furthermore, encouraging closer ties between think tanks, academia, and media could be useful in improving mutual understanding and forging new initiatives. Other tasks include re-establishing direct travel connections and easing the visa process, especially for businesspeople.

A good occasion to open a new phase in CEE-India relations could be a high-level regional summit. It seems that Indian policy makers may respond positively to such a proposal to send a clear signal about their growing interest in this part of the world. Poland, the largest country in the region, is well positioned to play a leading role in such an initiative. Building on its positive experience as the host of a China-CEE regional economic forum in 2012, the Polish government should explore opportunities for organising a similar summit with India in 2013. If such an initiative is carried out, it will contribute to the EU-India partnership and reaffirm Poland's status as an important EU member and a regional leader.