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Business Opportunities in India: State of Play and Prospects

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Although the economic potential of China has been recognised in Poland, the importance of the Indian economy has yet to be fully acknowledged. Even though India remains a relatively distant and difficult partner, its huge consumer market and fast growth offers new opportunities to expand Polish exports and investments, especially in times of economic crisis in Europe. While the private sector will need to learn more about the market and be prepared for high entry costs, the government may further facilitate economic cooperation through intensification of political dialogue, launching an India-specific promotional campaign, and strengthening cultural cooperation.

Growing Opportunities. With more than 1.2 billion people and high rates of growth in the last decade (around 8% of GDP on average), India has become an attractive market for foreign exporters and investors. India's merchandise imports stood at $463 billion in 2011, making it the 12th largest importer of manufactured goods (2.5% of the world's total imports) while it was also the 7th biggest importer of commercial services (3.1%). It is also the 8th largest export destination for European companies. India emerged as a preferred FDI destination with a total inflow in 2000–2012 of $280 billion and according to UNCTAD's World Investment Prospects Survey 2012–2014 is regarded as the third-most attractive destination for FDI (after China and the U.S.) in the world. While foreign capital used to be located mostly in services and IT (21% and 8%, respectively), India also has important advantages such as its large and cheap workforce to attract more investment in labour-intensive sectors and may replace China as the next manufacturing hub. Although major economic reforms in the year before general elections in 2014 are unlikely, India's need for capital can make it more investor-friendly in the coming years.

To sustain high-level growth and eradicate persistent poverty, the country's 12th Five Year Plan (2012–2017) envisages more than $1 trillion in investments in infrastructure and multibillion dollar programs in energy and power generation, healthcare and education. The 4th largest consumer of primary energy sources, India will see its energy demand double in the next two decades, increasing its thirst for oil as well as consumption of gas and coal while also developing renewable energy and green technologies. In other areas, as the world's largest importer of arms, the Indian military is expected to spend around $100 billion on defence procurements in the next five to seven years. The retail sector was valued at $440 billion in 2011 and is expected to grow to $730 billion by 2015. The information technology industry created $100 billion in revenues in 2012 and is predicted to grow at 9% annually. The pharmaceutical market should increase by 14% annually to $36 billion by 2015, while the biotechnology industry was worth $3.7 billion in 2011 and may reach $10 billion by 2015. At the same time, the Indian middle class, estimated at around 200 million people, may increase to 600 million by 2025. All these factors offer new opportunities, especially for European companies, if the EU-India trade and investment agreement, negotiated since 2007, is signed later this year, giving wider access to the Indian market.

Barriers and Challenges. Economic cooperation with India is not, however, an easy task. According to a World Bank report measuring ease of doing business, India was classified as 132nd out of 185 countries in 2012 (for comparison, Poland was 55th and China was 91st). The worst situation is in contract enforcement (184th), construction permitting (182nd), and starting a business (172nd). Moreover, exports to India are constrained by high duties on certain products (i.e., food and automobiles), many non-tariff barriers, and prolonged and complicated customs procedures; foreign companies operating in the country struggle with bureaucracy, complex tax systems, poor infrastructure, arbitrary administrative decisions, an inefficient legal system and pervasive corruption. The Corruption Perception Index 2012 ranked India 95th among 174 countries, and recent big corruption scandals have further undermined the investment climate.

Despite ongoing liberalisation of the economy (since 1991), FDI is still prohibited in some sectors (atomic energy, gambling or lotteries) or highly restricted (financing, aviation, insurance). Even though the Indian government has tried to regain confidence by pushing forward controversial domestic reforms to open multi-brand retail (stores such as supermarkets which offer products sold under various labels) and aviation sectors to foreign investors last year, much more needs to be done. Further constraints on business include burdensome labour regulations (including strict employment protection), limited access to sensitive sectors such as agriculture, and preferences for national companies in public procurements. While operating in India, one needs to take into account the various regulations of every state as some of them may be more investor friendly (Gujarat) than others (West Bengal).

Polish Experiences. After recording growth of 42% in 2011 and 1% in 2012, bilateral trade reached $1.9 billion in 2012, making India Poland's 5th largest non-European trading partner (after China, the U.S., South Korea and Japan). More importantly, Poland's exports to India have been rising dynamically, by 57% in 2011 and 27% in 2012, allowing the European country for the first time in years to reduce the trade deficit with India from $831 million to $574 million. This positive trend is likely to continue into the future as a recent report by HSBC bank shows Polish exports to India may grow at 16% annually between 2016 and 2020, which would be the fastest among all of Poland's economic partners. India also has emerged as a new destination for FDI from Poland. With a total stock of Polish FDI to India at $182 million by the end of 2011, although still not very big, it was yet a more preferred destination than China (which received only $127 million). Companies that have decided to make direct investments in India (such as TZMO, Polmor, Canpack) are prospering and considering further expansion. The intensification of economic cooperation also was a major topic during visits to India by Prime Minister Donald Tusk in 2010 and Foreign Minister Radosław Sikorski in 2011.

Despite this, the current level of economic cooperation can hardly be seen as satisfactory as India's share of total Polish exports is only 0.36%. Limited knowledge about the market and high entry costs are the main barriers for most Polish small and medium-sized enterprises to expand their operations to India. Poland's exports to India include mostly industrial products, such as in electrical goods (machines and machine equipment), chemical supplies (rubber products and organic chemicals), and iron and steel (iron, cast iron, steel) and as such do not consist of what India wants most (oil, gas, nuclear technology). Many of the most attractive sectors in India during its transformation (automobile, infrastructure, telecommunications, multi-brand retail, etc.) will be of little relevance for Polish companies, which are not important players in these fields. However, companies should be able to find niches on the huge Indian market, especially in the defence industry, oil and gas exploration, food processing, pharmaceuticals and medical apparatuses, chemicals, cosmetics and services. One area of strategic importance where Poland has expertise and both countries have cooperated for decades is in energy. This includes not only exports of coal and machinery and technology for coal mining but also exploration of alternative sources of energy (i.e., shale gas) and the development of green technologies.

Conclusions and Recommendations. Even though Indian economic growth slowed to 5% in fiscal year 2012-2013, it has strong fundamentals and the potential to return to high rates of growth in the future and reach the government's aim to emerge as the third-largest economy in the world by 2025. Although the EU is struggling with the economic crisis, it is high time to acknowledge opportunities in emerging markets and consider India a priority destination for Polish exports and investments. To achieve success on this difficult market, however, Polish companies must learn more about the partner, be prepared to bear relatively high market entry costs and aim for a long-term presence. They should also have better access to and more effectively use existing export support instruments available at the national and European levels. To leverage their position vis-a-vis larger Indian partners and increase their competitiveness when applying for bigger contracts they can also try to join assets into consortia. The formation of joint ventures with reliable Indian partners also may be a good strategy to expand their presence on the Indian market.

These efforts may be further strengthened by government support through continued intensification of the high-level political dialogue and enhancement of measures promoting the Polish business abroad. A program similar to one launched for China by the Ministry of Economy but India-focused ("GoIndia") would help to disseminate knowledge about opportunities there and may draw more actors to the Indian market. While also assisting Polish SMEs in entering the Indian market, the government may focus on facilitation of cooperation in strategic areas such as energy, defence, and scientific cooperation. Moreover, reinforced cultural cooperation and enhanced people-to-people contacts will be important to build a positive Poland brand in India and create a market for Polish products in the long term.