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CARIM-India – Developing a knowledge base for policymaking on India-EU migration

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Indian Investment in Eastern Europe: Prospects, Issues and the Way Forward

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CARIM-India
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Research Report
Thematic Report

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Indian Investment in Eastern Europe: Prospects, Issues and the Way Forward

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CARIM-India – Developing a knowledge base for policymaking on India-EU migration

This project is co-financed by the European Union and carried out by the EUI in partnership with the Indian Council of Overseas Employment, (ICOE), the Indian Institute of Management Bangalore Association, (IIMB), and Maastricht University (Faculty of Law).

The proposed action is aimed at consolidating a constructive dialogue between the EU and India on migration covering all migration-related aspects. The objectives of the proposed action are aimed at:

- Assembling high-level Indian-EU expertise in major disciplines that deal with migration (demography, economics, law, sociology and politics) with a view to building up migration studies in India. This is an inherently international exercise in which experts will use standardised concepts and instruments that allow for aggregation and comparison. These experts will belong to all major disciplines that deal with migration, ranging from demography to law and from economics to sociology and political science.
- Providing the Government of India as well as the European Union, its Member States, the academia and civil society, with:
    1. Reliable, updated and comparative information on migration
    2. In-depth analyses on India-EU highly-skilled and circular migration, but also on low-skilled and irregular migration.
- Making research serve action by connecting experts with both policy-makers and the wider public through respectively policy-oriented research, training courses, and outreach programmes.

These three objectives will be pursued with a view to developing a knowledge base addressed to policy-makers and migration stakeholders in both the EU and India.

Results of the above activities are made available for public consultation through the website of the project: http://www.india-eu-migration.eu/

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Abstract

With liberalisation, economic growth and stable macroeconomic conditions, companies from developing countries like India, have started investing abroad. Of late, Indian companies have diversified their investments and have shifted from markets within Asia to European markets. This paper examines Indian investment in Eastern Europe, barriers to investment and possibilities for enhancing it through appropriate policy measures. Eastern Europe is a new destination for Indian investment. The paper highlights that India and East European countries have complementarities. However, despite several initiatives, the present level of Indian investment in Eastern Europe is low and limited to a few countries and sectors. A majority of the Indian investments are directed towards Russia and most of these investments are made in the manufacturing and mining sector. Moreover, a large part of the investments is made by a few large Indian companies. Based on in-depth interviews, the study found that lack of market knowledge, poor governance structure, high level of corruption, non-transparent public procurement process and cumbersome customs procedures are some factors hindering Indian investments in the region. The study identifies various areas of investment and collaborations and suggests measures to remove the barriers to investment. While some of these can be addressed under the on-going India-EU Broadbased Trade and Investment Agreement, others require strengthening diplomatic ties, foster information sharing and domestic reforms in India and East European countries.

Developed countries have traditionally been the major investors abroad and have dominated the outward foreign direct investment (FDI) flows. Of late, companies from emerging economies have started investing abroad and have become an important source of outward FDI. The share of developing countries in the stock of world's FDI outflows increased from 7% in 1990 to 18% in 2011.[1] Among emerging markets, India is an important source of outward FDI. In the past, India followed a closed-door policy. The country started liberalising in the early nineties, which led to removal of restrictions on scale expansion and growth of domestic entrepreneurs who after expanding their operation within India started global expansion. The Indian government also encouraged overseas investments by giving financial support to the companies willing to invest abroad and phasing out restrictive conditions. These included removal of conditions such as 'no cash remittances' and mandatory repatriation of dividend from profits that had adversely affected India's overseas investments in the past (Khan 2012).

In 2011, among developing and transitional economies, India was the largest investor in LDCs contributing $4.2 billion[2] in 39 projects, followed by China ($2.8 billion in 20 projects) and South Africa ($2.3 billion in 27 projects).[3] Apart from policy liberalisation, various others factors have facilitated global expansion of Indian companies. These include economic growth, stable macroeconomic and balance of payment conditions, presence of foreign multinationals in India, and availability of high skilled work force. In the past, Indian investors focused on either neighbouring countries in South and East Asia or other developing countries in Africa. However, they are now diversifying their investments and are targeting new markets in both developed and developing countries. Eastern Europe[4] is one such potential destination (a map of Eastern Europe is given in Appendix A, Figure A1). Indian Government has indicated in the Foreign Trade Policy 2009-14[5] that it will undertake measures to facilitate India's trade and investments in the Commonwealth of Independent States (CIS), which includes East European countries like Armenia, Azerbaijan, Belarus, Russia, Moldova and Ukraine.

A comparison of India and East European countries on various macroeconomic indicators is given in Appendix A, Table A1. The gross domestic product (GDP) growth in India is higher than most East European countries. However, East European countries in general have higher per capita income than India. FDI as a percentage of GDP is high in countries like Bulgaria and Armenia. Countries like Azerbaijan and Russia have huge natural resources. India and East European countries also have several commonality and complementarities. Like India, Eastern Europe was a latecomer in the process of liberalisation. After adopting socialist policies for several decades, East European countries initiated reforms in the late eighties. Prior to liberalisation, there was limited private participation. However, post liberalisation, Eastern European countries initiated policies such as allowing 100% FDI in most sectors, establishing industrial development zones and other fiscal incentives, among others, to attract both domestic and foreign investors. Unlike Western Europe and like India, labour costs in Eastern Europe are lower, making it an attractive destination for foreign investments.

Like different states of India, different countries in the region are at different stages of development. Indian companies are competent to operate in such a heterogeneous environment. Since

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[1] Author's calculations from UNCTAD (2012) pp. 169, Annex Table I.2.

[2] All dollar figures are in the US dollar.

[3] UNCTAD (2012)

[4] For the purpose of this study, the following countries of Eastern Europe are included, as listed by the European Union: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Georgia, Former Yugoslav Republic of Macedonia, Hungary, Kosovo, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. For details see *http://eurovoc.europa.eu/drupal/?q=request&view=mt&mturi=http://eurovoc.europa.eu/100277&language=en* (last accessed on July 25th, 2012).

[5] For details see *http://pib.nic.in/archieve/ForeignTradePolicy/ForeignTradePolicy.pdf* (last accessed on July 30th, 2012)

the market is unsaturated, it creates opportunities for Indian companies who are seeking new investment destinations. Inter-government engagements between India and Eastern European countries have increased and in recent years, there have been several high-level diplomatic visits and exchanges. India and individual East European countries have concluded several inter-governmental agreements some of which facilitate investment flows. India and the EU (European Union) are negotiating India-EU Broad-based Trade and Investment Agreement (BTIA), which is in an advance stage of negotiations. The India-EU BTIA will cover goods, services, investment, government procurement, sustainable development and labour standards, among others. The agreement is likely to strengthen the economic and strategic relationship between India and the EU and enhance trade, investment and co-operation by removing the existing barriers. Some East European countries are members of the EU and some others are considering joining the EU. It is likely that after the India-EU BTIA, India investment in EU Member states, including Eastern Europe, will increase.

Given this background, this paper examines Indian investment in Eastern Europe, barriers to investment and possibilities of enhancing it. The paper is based on secondary data analysis and in-depth interviews with industry and policymakers. It is divided into six sections. Section 1 highlights the recent trends and developments in India's outward investments. Section 2 gives an overview of foreign investment inflows in Eastern Europe. Section 3 presents an analysis of Indian investments in Eastern Europe. Since the literature on Indian investments in Eastern Europe is scanty to get more information, discussions were held with some Indian companies in Eastern Europe and diplomats and other representatives from Eastern Europe in India. Section 4 highlights some of the barriers faced in foreign investments in Eastern Europe. Section 5 presents the opportunities for Indian investors in Eastern Europe and the last section lays down the way forward.

1. India's Outward Investments

As the Indian economy is globalising, there has been an increase in Indian investments abroad. Existing studies show that the internationalisation of Indian companies is driven by a number of factors such as market access for exports, horizontal and vertical integration, delivery of services, capturing international brand names and access to technology, among others (Nayyar 2008). Existing literature also highlights that the Indian investments abroad have been in two phases –1978 to 1992 and 1992 onwards (Pradhan 2005). In 1978, Indian government allowed Indian companies to make direct investments in joint ventures and wholly owned subsidiaries abroad. In the post-liberalisation period, India's FDI outflows increased manifolds due to domestic reform measures such as introduction of automatic route[6] and single window clearance mechanism for overseas investments (Khan 2012). Several administrative reforms have also been initiated to streamlined Indian overseas investments. In 1995, work related to overseas investments was transferred from the Ministry of Finance to the Central Bank, Reserve Bank of India (RBI) (Khan 2012) and in the year 2000, the Foreign Exchange Management Act (FEMA) was introduced.[7]

In the 1990, India's share in world's total FDI outflows stock was 0.005%. This was low compared to that of other developing countries like China (0.21%), Brazil (1.96%), South Africa (0.74%) and Mexico (0.12%). Although in subsequent years the share of India increased, it is still lower than that of China. In 2011, India's share in world's total FDI outflows stock was 0.52% while that of China was 1.72%.[8]

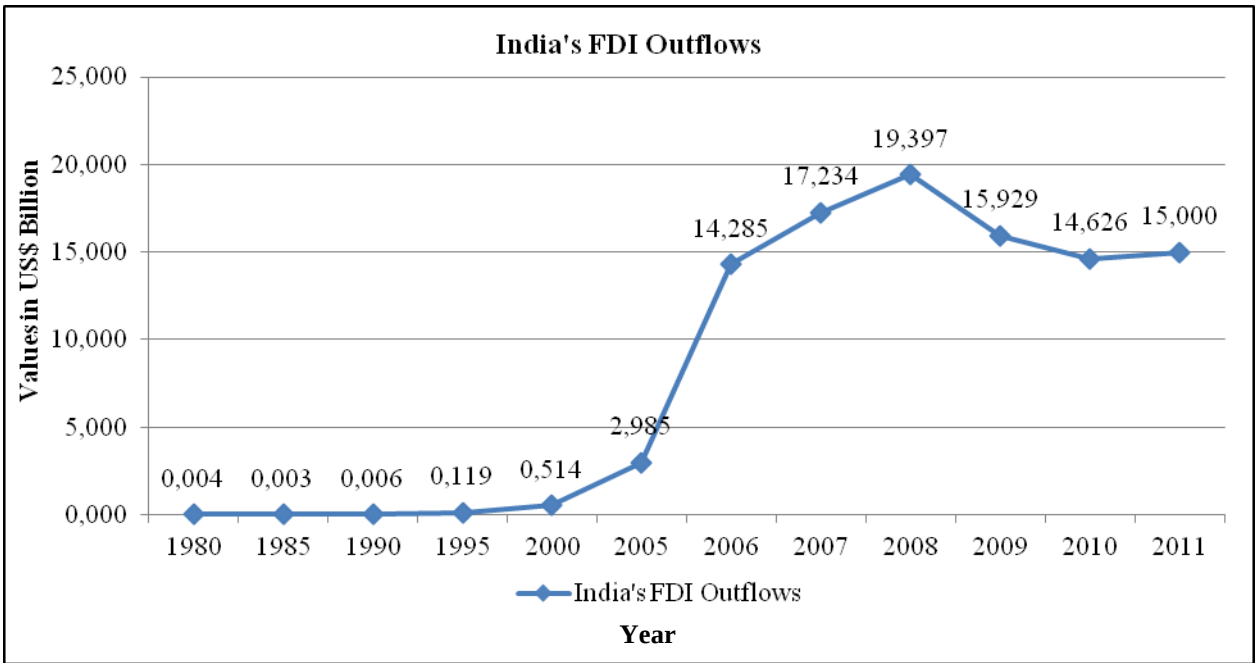
[6] Under the automatic route, an Indian party does not require any prior approval of the Reserve Bank of India for making overseas direct investments in a joint ventures and wholly owned subsidiaries.

[7] The Foreign Exchange Management Act (FEMA) act brought a new management regime of foreign exchange consistent with the World Trade Organisation (WTO).

[8] Author's calculation from UNCTAD (2012) pp. 169, Annex Table I.2.

FDI outflows increased from $6 million in 1990 to $15 billion in 2011. Outflows from India peaked in 2008 to reach $19.4 billion but declined thereafter to $14.6 billion in 2010 due to the global slowdown.[9] In 2011, outflows recovered and rose by 2.5% compared to 2010, to reach $15 billion (see Figure 1).

Figure 1. Trend of India's FDI Outflows



Source: Compiled by author from UNCTAD Database on 'Foreign Direct Investment', *http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx* (last accessed on March 2, 2012).

Figure 1 shows a major surge in FDI outflows after 2005. This is because the Indian outward investment policy has been liberalised progressively since 2004, which led to a surge in Indian overseas investments. In 2004, Indian companies were allowed to invest up to 100% of their net worth in overseas joint ventures and wholly owned subsidiaries without any separate monetary ceiling. In 2005, Indian companies were allowed to use special purpose vehicles (SPVs)[10] in international capital markets to finance their cross-border acquisitions. Since then, SPVs set up in off-shore financial centres, such as, Mauritius, Singapore and the Netherlands, have been mainly used as channels to mobilise funds and invest in third countries keeping in view the business and legal consideration, taxation advantages and easier access to financial resources in the countries. In 2005, the government also allowed Indian companies to invest up to 200% of their net worth, which was further enhanced from 200% to 300% and then to 400% of the net worth (Pradhan 2005). It was in this period when Indian companies made major acquisitions of foreign assets abroad. For instance, in 2008, Tata Motors acquired Jaguar Land Rover PLC from Ford Motor Company.

In the past, majority of Indian outward investment was in manufacturing and mining sector. However, with the growth of the services sector, in recent years, Indian companies have diversified their overseas investments and have started investing in high-technology and trade supporting services sectors. In 2008-09, 55% of Indian investments abroad were in the manufacturing and mining sector

[9] Calculated by author by using data obtained from UNCTAD Database on 'Foreign Direct Investment', *http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx* (last accessed on March 2, 2012).

[10] It is also referred to as a 'bankruptcy-remote entity' whose operations are limited to the acquisition and financing of specific assets. The SPV is usually a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt.

followed by the services sector (31%) (See Table 1). In 2010-11, share of India's investment in manufacturing and mining sector as a percentage of total FDI outflows declined to 31% while that of services sector increased to 61%.[11] In manufacturing and mining sector, Indian companies like Reliance Industries Limited, Ashok Leyland Limited, Tata Group, Suzlon Energy Limited, Piramal Healthcare Limited and Sun Pharmaceutical Industries Limited have invested abroad in sectors like automobile and auto component manufacturing, oil and gas exploration, pharmaceutical products and chemicals among others. Indian companies have invested in services sectors such oil and gas; and services incidental to mining to meet the country's energy needs and ensure energy security. Indian companies in information technology (IT) services have long been active players in global markets. Indian IT firms like Tata Consultancy Services, Infosys, WIPRO, and Satyam have acquired foreign companies and established offices in as number of countries. In recent years, companies in financial services and real estate services, such as Reliance Capital Asset Management Limited, Religare Capital Markets Limited and IL&FS Financial Services Limited have invested abroad.

Table 1. Sectoral Pattern of India's Outward Investments (Value in $ Billions)

Sectors	2008-09	2009-10	2010-11	2011-12 (Apr. – Feb)	Per cent Share in Total FDI outflows (2008-09)	Per cent Share in Total FDI outflows (2011-12)
Manufacturing and mining	10.18	5.35	5.04	2.74	54.8	31.4
Agriculture & allied activities	2.38	0.95	1.21	0.41	12.8	4.7
Electricity, Gas & Water	0.14	0.84	0.1	0.04	0.8	0.6
Services	5.77	6.46	10.32	5.42	31.1	62.1
Financial Insurance, real estate, & business services	*3.55*	*4.41*	*6.53*	*2.53*	*19.1*	*29.0*
Transport, communication & storage services	*0.31*	*0.38*	*0.82*	*1.34*	*1.7*	*15.3*
Wholesale & retail trade; & restaurants & hotels	*1.17*	*1.13*	*1.89*	*1*	*6.3*	*11.5*
Construction	*0.35*	*0.36*	*0.38*	*0.37*	*1.9*	*4.2*
Community, social & personal services	*0.39*	*0.18*	*0.7*	*0.18*	*2.1*	*2.1*
Miscellaneous	0.12	0.11	0.18	0.1	0.6	1.2
Total	18.58	13.71	16.84	8.73	100	100

Source: Extracted from Table 3, Khan (2012), *http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/OV27022012.pdf* (last accessed on July 16th, 2012)
Note: (a) Data is based on Indian Financial year starting from April and ending to March.
(b) Per cent share is calculated by the authors.

In the post-liberalisation period, Indian outward investments have also been more diversified across countries – from neighbouring countries and developing countries in Asia and Africa to countries like Singapore, Netherlands, the US, United Arab Emirates (UAE) and the UK.[12] It is worth mentioning that over time, India's share in the EU's total FDI inflows has increased. While in 2000, India contributed 0.02% in the EU's FDI inflows, in 2009, the share increased to 0.17%. India's rank as an investor in the EU has improved from 24th in 2000 to 13th in 2009.[13] Among the EU Member states,

[11] Calculated from Khan (2012), Table 3, pp. 7.

[12] Khan (2012).

[13] Author's calculations from Eurostat.

Netherlands, the UK and Cyprus are most preferred investment destinations for Indian companies.[14] Between July 2007 and April 2012, Netherlands accounted for a highest share (61.4%) of Indian total FDI inflows in the EU, followed by the UK.

As mentioned earlier, Indian government in its Foreign Trade Policy (2009-14)[15] has emphasised on market diversification to reduce the risks. India has taken a conscious decision to target countries with rich natural resources. For this, Indian companies are investing in mining and related consultancy services in some East European countries. FDI outflows from India to East European countries are likely to increase in the future as Indian companies continue to globalise and reach out to new markets. The next section discusses foreign investments in Eastern Europe while the following section examines Indian investments in Eastern Europe.

2. Foreign Investments in Eastern Europe

Until the late 1980s, East European countries followed inward looking policies. Some countries in the region followed communist strategies and the key economic policy goal during the period was to limit economic dependence on the West (Hamilton *et. al.* 1992). After the velvet revolution[16] in 1989, a process of privatising state assets and holding companies was initiated (Sadler and Swain 1994). FDI flows into Eastern Europe after 1989 were heavily concentrated in specific countries and sectors (Hoekman and Djankov 1997). Apart from Russia, a majority of the investments in Eastern Europe concentrated in the 'Visegrad countries' including Hungary, Czech Republic, Poland and Slovakia. This is because compared to other East European markets, these countries have higher income and high ranking in terms of human development indicators,[17] thereby providing both financial and human capital resources.

In terms of sector-wise distribution of FDI, a large part of foreign investments in East European markets is directed towards the services sector (Hoekman and Djankov 1997) such as financial intermediation, communications, wholesale, retail and other distribution services. Manufacturing, mining and construction sector have also attracted a large amount of FDI. In East European countries like Albania, Armenia, Azerbaijan, Russia and Ukraine, mining in oil and gas sector has attracted substantial FDI. By countries, a majority of the foreign investment in Eastern Europe is from EU member countries like Germany, Netherlands, Austria, France, Greece and Cyprus, and other neighbouring countries like Russia and Turkey. From the rest of the world, the US is a key investing country in the region (for details see, Appendix B, Table B1).

According to the World Bank Doing Business Report (2012)[18], almost all East European countries (except Ukraine) have a better rank than India in terms of ease of doing business. Some countries such as Georgia, Macedonia, Slovenia, Slovakia and Hungary, have a high rank because it is easier to start a business, get credit and enforce contracts in these countries. Some of these countries like Georgia, Macedonia and Slovenia are also good in terms of their investor protection laws, policies, and tax payments. Georgia is ranked the top-most destination in terms of registering a property (see Table 2).

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[14] It is important to note that Cyprus is a tax haven and Indian investments may be routed through Cyprus for other European markets.

[15] Available at *http://pib.nic.in/archieve/ForeignTradePolicy/ForeignTradePolicy.pdf* (last accessed on April 5, 2012).

[16] The Velvet Revolution or Gentle Revolution was a non-violent revolution in Czechoslovakia that took place from November 17 to December 29, 1989. Dominated by student and other popular demonstrations against the one-party government of the Communist Party of Czechoslovakia, it saw to the collapse of the party's control of the country, and the subsequent conversion from Czech Stalinism to parliamentary republic, followed by conversion of other economies.

[17] For details see UNDP (2011).

Table 2. Rank of East European Countries and India in 2012 Doing Business Indicators

Countries	Ease of Doing Business	Starting a Business	Getting Credit	Protecting Investors	Paying Taxes	Enforcing Contracts
Georgia	16	7	8	17	42	41
Macedonia	22	6	24	17	26	60
Slovenia	37	28	98	24	87	58
Slovakia	48	76	24	111	130	71
Hungary	51	39	48	122	117	19
Armenia	55	10	40	97	153	91
Montenegro	56	47	8	29	108	133
Bulgaria	59	49	8	46	69	87
Poland	62	126	8	46	128	68
Czech Republic	64	138	48	97	119	78
Azerbaijan	66	18	48	24	81	25
Belarus	69	9	98	79	156	14
Romania	72	63	8	46	154	56
Croatia	80	67	48	133	32	48
Moldova	81	88	40	111	83	26
Albania	82	61	24	16	152	85
Serbia	92	92	24	79	143	104
Kosovo	117	168	24	174	46	157
Russia	120	111	98	111	105	13
Bosnia and Herzegovina	125	162	67	97	110	125
India	132	166	40	46	147	182
Ukraine	152	112	24	111	181	44

Source: Author's compilation from World Bank Doing Business Report 2012 http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf (last accessed on July 18th 2012)

A majority of the East European countries has a high rank in terms of the Inward FDI Performance Index of UNCTAD in 2010.[19] Countries such as Albania, Georgia, Armenia, Ukraine, Bulgaria and Czech Republic have a good rank in terms of FDI performance index (see Figure 2). This implies that these countries are attracting a large amount of FDI compared to their economic size. Russia, Slovenia, Slovakia, Czech Republic and Poland, among others are identified as those with high potential to attract FDI as they have a better rank on the FDI Potential Index, compared to other markets.[20]

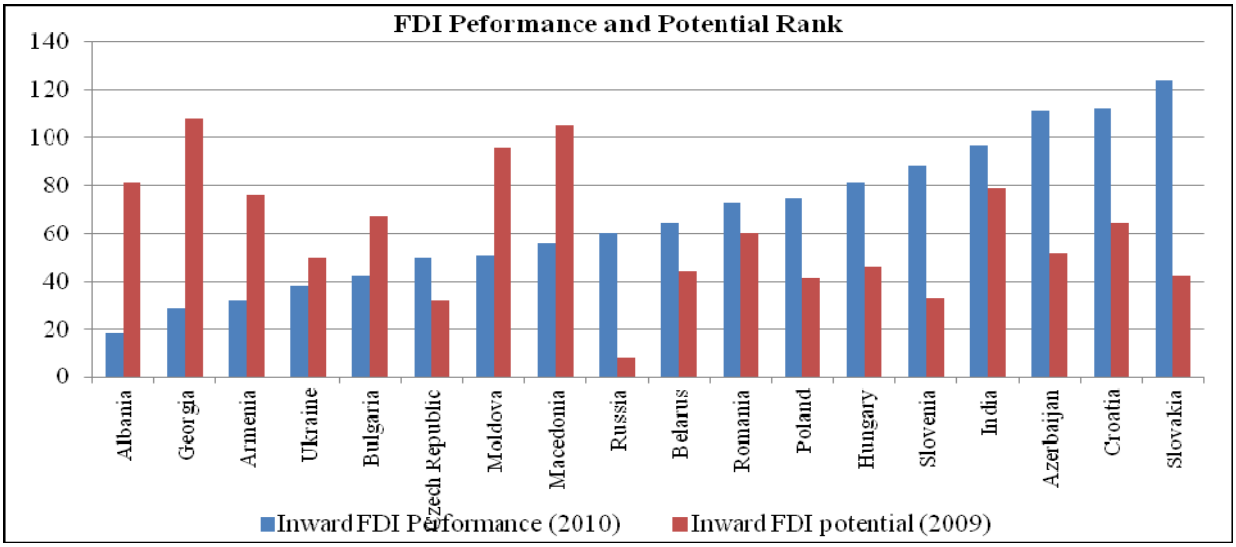
(Contd.)

[18] Economies are ranked on their ease of doing business, from 1 – 183. A high ranking on the ease of doing business index means the regulatory environment is more conducive to start and operate a business.

[19] The FDI Performance Index ranks 141 countries by the FDI they receive or they invest relative to their economic size. It is the ratio of a country´s share in global FDI inflows to its share in global GDP. Closer the rank is to one, better is the performance of the country.

[20] The Inward FDI Potential Index ranks 121 countries based on economy´s attractiveness to foreign investors. Closer the rank is to one, better is the performance of the country.

Figure 2. Ranking of Eastern European Countries and India on FDI Performance and Potential Index



Source: Author's compilation from UNCTAD FDI Inward Performance and Potential Indices, http://archive.unctad.org/Templates/WebFlyer.asp?intItemID=2471&lang=1 and http://archive.unctad.org/Templates/WebFlyer.asp?intItemID=2472&lang=1 (Last accessed on 5th July 2012)

Although there are diversities among the East European countries, in general, they provide several opportunities and benefits to their investors, which make them attractive investment destinations. Countries like Albania, Belarus, Bosnia and Herzegovina, Hungary, Moldova, Romania, and Slovakia have a growing market. After the global slowdown, even though there has been a decline in the GDP growth rate for most of the countries in Europe, these countries continue to have a positive rate of growth, though it has slowed down over the past few years. In 2011, the average growth rate of Europe was 2%, emerging markets in Europe including Poland, Romania, Hungary, Bulgaria, Serbia and Croatia, grew at an average rate of 5.3%.[21] Countries like Poland have a large and homogenous market. Most of the countries in Eastern Europe are unexplored and therefore provide an unsaturated market to investors. Countries like Albania, Bulgaria, Russia and Ukraine are rich in minerals and natural resources. Geographically, all East European countries have an advantage due to their nearness to the larger West European markets. Croatia has an additional advantage due to its proximity to the sea while Serbia has transport routes to larger East European countries like Bulgaria, Romania and Hungary. Most countries in this region have low labour cost and some like Hungary has a large pool of skilled work force.

The region also offers several benefits to its investors. Most of the countries in Eastern Europe have investor friendly policies. Countries like Albania, Azerbaijan, Bosnia and Herzegovina and Bulgaria have a liberal FDI regime. Albania allows 100% FDI in most sectors, Azerbaijan has an open-door policy and offers a single-window clearance system and almost all East European countries treat both domestic and foreign investors at par. Countries like Belarus, Russia, Serbia and Macedonia have free economic zones and industrial development zones for foreign investments. Bulgaria, Macedonia, Serbia and Moldova offer high fiscal incentives like low corporate and income taxes ranging from 0-10 per cent, compared to 30-35 per cent in India. All these factors make Eastern

[21] IMF World Economic Outlook, April 2012 *http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf* (last accessed on August 8th, 2012)

European countries an attractive and lucrative investment destination for foreign investors, including Indian investors.[22]

Apart from these benefits, as mentioned earlier some East European countries are members of the European Union (EU) and some are members of the WTO (for details see Appendix A, Table A1). Croatia will formally be a member of the EU from July 2013 while Macedonia, Montenegro and Serbia are candidate countries and Albania, Bosnia and Herzegovina and Kosovo are potential candidates. The EU Member states have a Customs Union implying a harmonised market for free movement of goods and common tariffs. If a company has a wholly-owned subsidiary in any EU member states, as per the EU policy, the company is treated as an EU company and it enjoys the same privilege as that by any EU company. It is, therefore, economical for a foreign company to establish presence in a low cost Eastern European market and cater the whole EU through the Customs Union. This makes the small countries in Eastern Europe attractive investment destination as they serve as the window to the larger EU market.

A majority of the East European companies are WTO Member countries and are covered by the multilateral agreement. Once a country accedes to the WTO, it has a predictable trade and investment regime, which is difficult to rollback. This provides a certainty and transparency in operating environment to foreign investors.

3. India's Investment in Eastern Europe

The above analysis shows that India and Eastern Europe has trade complementarities. Over the past few years, there have been some investments made by companies from India and Eastern Europe in each other's markets. The cumulative FDI from East European countries to India since April 2000 until June 2012 was $567.4 million, which accounted for 0.32% of total FDI inflows in India during that period. Around 82.5% of the FDI came from Russia, 9.15% from Poland, 3.05% from Czech Republic and 1.8% from Hungary, among others (see Table A1 in Appendix A).[23]

Of late, Indian companies have also started investing in Eastern Europe. Investment by Indian companies in Eastern Europe is a small proportion of the total outward investments; however, it is larger than the investments made by East European countries in India. Indian investments in Eastern Europe are in the form of overseas direct investments.[24] According to the RBI, from June 2007 to May 2012, India's cumulative direct investment in Eastern Europe was valued at $1.62 billion, which was 1.28% of India's total outward investment in the five-year period. Compared to this, cumulative investment of Indian companies in the EU27 during this period was $27.6 billion, which accounted for 21.95% of India's total outward investment. A large proportion (86.4%) of Indian investment in Eastern Europe is directed towards Russia, followed by Czech Republic (10.13%) and Poland (2.46%). Other East European countries, which have received investment from India, include Romania, Georgia, Slovakia, Albania, Ukraine, Slovenia and Serbia. However, Indian investment in these countries is very small (less than one per cent) (see Figure 3). In India, there is no official record of Indian investment to East European countries like Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Moldova and Montenegro. Indian companies have either not invested in these market or have invested through third country like Mauritius or Cyprus.

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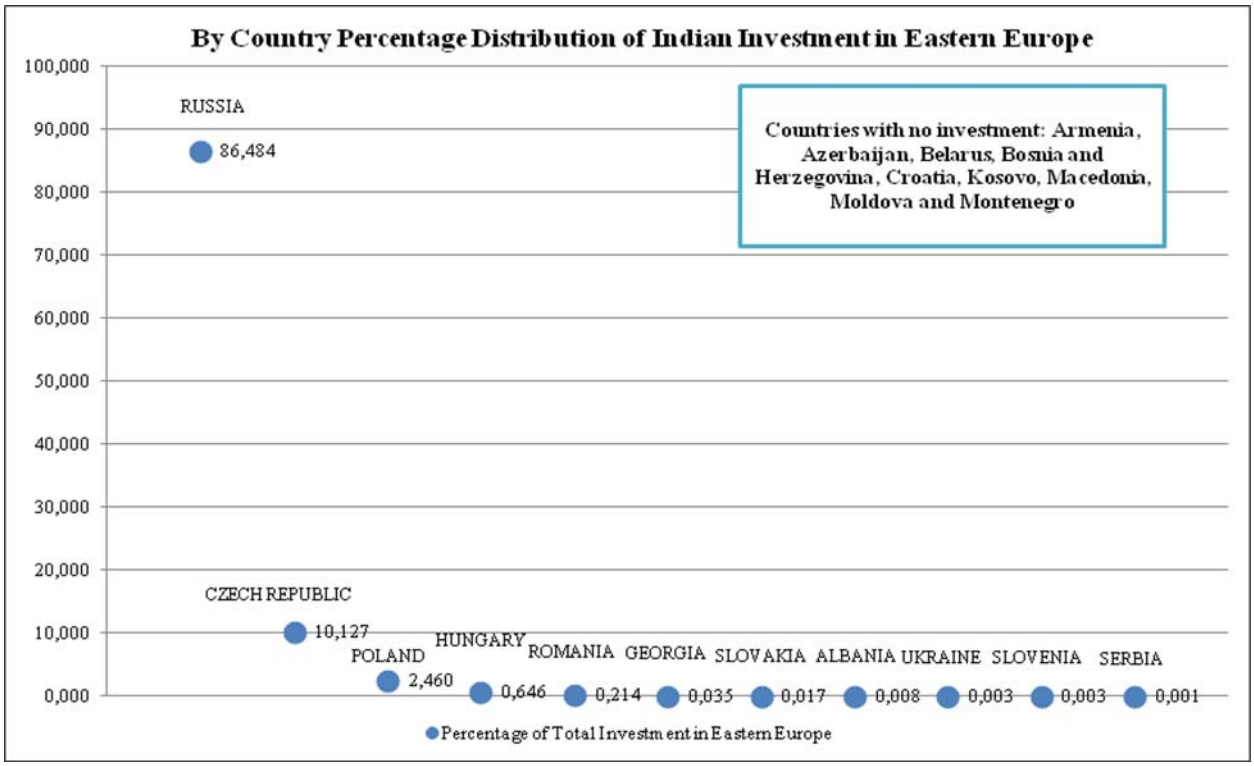
[22] The information is collected from US Department of State: Investment Climate Statement 2012 *http://www.state.gov/e/eb/rls/othr/ics/2012/index.htm* (last accessed on August 6th, 2012) and State government's websites listed in list of references.

[23] Author's own calculations from the FDI Factsheet on Foreign Direct Investment (FDI) from April 2000 to June 2012 *http://dipp.nic.in/English/Publications/FDI_Statistics/2012/india_FDI_June2012.pdf* (last accessed on September 26th, 2012)

[24] As per the data by the Consolidated Portfolio Investment Survey (CPIS) of the International Monetary Fund (IMF), Indian companies have not made any portfolio/ institutional investments in Eastern Europe. *http://cpis.imf.org/* (last accessed on September, 26th, 2012)

Figure 3. By Country Percentage Distribution of Indian Investment in East Europe from June 2007-May 2012



Source: Author's compilation and calculations from Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012)

In terms of sector-wise distribution of Indian investment, it is found that a majority of the Indian investment in Eastern Europe is in manufacturing and mining (see Table 3).

Table 3. Sector-wise Indian Investment in Eastern Europe

Sector	Value ($ Million)	Percentage
Manufacturing and mining	1485.00	91.51
Wholesale, retail trade, restaurants and hotels	82.22	5.07
Financial, insurance, real estate and business services	35.48	2.19
Electricity, gas and water supply	9.13	0.56
Community, social and personal services	5.31	0.33
Transport, storage and communication	4.62	0.28
Agriculture, hunting, forestry and fishing	0.45	0.03
Construction	0.30	0.02
Others*	0.22	0.01
Total	1622.718	

Source: Author's compilation and calculations from Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012)

*Note: others include some companies in agriculture and mining sector, which are registered as agriculture and mining companies with the RBI.

By country, manufacturing and mining sector has attracted a majority of Indian investment in Czech Republic (86.78%), Serbia (98.63%), Russia (95.51%), Slovakia (100%) and Slovenia (100%). In Hungary (99.24%) and Ukraine (77.27%) majority of Indian investment has been in the wholesale, retail trade, restaurants and hotels while in Poland and Romania, majority of investments has been in financial, insurance, real estate and business services. In Albania, Indian investment is in agriculture, hunting, forestry and fishing sector and in Georgia a majority of the investments (52.81%) is in the construction sector (see Table 4 for details). Interestingly, Georgia is the only country in Eastern Europe where India has made investments in construction sector and Czech Republic is the only country where there is record of Indian investment in electricity, gas and water supply.

Table 4. India Investment in Eastern Europe by Sector and Country

Country/ Sector	Manufacturing and mining	Wholesale, Retail Trade, Restaurants and Hotels	Financial, Insurance, Real Estate and Business Services	Electricity, Gas and Water Supply	Community, Social and Personal Services	Transport, Storage and Communication	Agriculture, Hunting, Forestry and Fishing	Construction	Others*
Albania	0	0	0	0	0	0	100.00	0	0
Czech Republic	86.78	3.33	2.74	5.55	0	1.59	0	0	0
Georgia	28.07	0	0	0	0	0	0	52.81	19.30
Hungary	0.68	99.24	0	0	0.05	0	0	0	0
Poland	3.18	4.76	73.72	0	13.28	5.01	0	0	0
Serbia	98.63	1.37	0	0	0	0	0	0	0
Romania	4.87	38.62	44.09	0	0	0	9.25	0	3.11
Russia	95.51	4.49	0	0	0	0	0	0	0
Slovakia	100.00	0	0	0	0	0	0	0	0
Slovenia	100.00	0	0	0	0	0	0	0	0
Ukraine	22.73	77.27	0	0	0	0	0	0	0

Source: Author's compilation and calculations from Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012)

*Note: others include some companies in agriculture and mining sector, which are registered as agriculture and mining companies with the RBI.

By companies, around 99% of the total Indian investment in Eastern Europe is made by 10 Indian companies. Almost 80% is made by ONGC Videsh Limited (Ltd.), which is involved in oil and natural gas exploration and production abroad. The company has made large investment in Russia that accounts for the largest share of Indian investment in Eastern Europe. Apart from this, Ashok Leyland Ltd., an Indian automobile manufacturing company, has large investment in Czech Republic in the manufacturing sector. Among Indian IT companies, Infosys BPO Ltd. has made investments in Czech Republic. A number of Indian pharmaceutical companies are present in the region. A list of top Indian companies and their percentage share of investment in Eastern Europe is given in Table 5.

Table 5. Percentage Share of Top Ten Indian Companies by their Investment in Eastern Europe

Name of the Indian Party	Country	Major Activity	%
ONGC Videsh Ltd.	Russia	Manufacturing	79.66
Ashok Leyland Ltd.	Czech Republic	Manufacturing	8.5
Shreya Life Sciences Pvt. Ltd.	Russia	Wholesale, retail trade, restaurants and hotels	3.7
Glenmark Pharmaceuticals Pvt. Ltd.	Russia	Manufacturing	2.38
Infosys BPO Limited	Czech Republic	Financial, insurance, real estate and business services	1.94
Lloyd Electric Engineering Ltd	Czech Republic	Manufacturing	0.85
PMP Components P Ltd	Hungary	Wholesale, retail trade, restaurants and hotels	0.64
Unique Pharmaceuticals Laboratory(P)Ltd.	Russia	Manufacturing	0.37
Time Technoplast Ltd	Czech Republic	Wholesale, retail trade, restaurants and hotels	0.34
Lambda Therapeutic Research Ltd	Poland	Community, social and personal services	0.3

Source: Author's compilation and calculations from Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012)

A majority (80%) of the Indian companies in East Europe are present through a joint venture agreement with a local partner. A large part (82.14%) of the investment is in form of equity investment (through buying and holding of shares of the company), followed by investments made by raising a loan (16.03%) and by guaranteed issue[25] (1.83%).[26]

A number of inter-governmental measures have facilitated Indian investment in Eastern Europe. India has signed and is actively negotiating Bilateral Investment Promotion and Protection Agreement (BIPA) with East European countries, which aims to facilitate investment. BIPA is defined as an agreement between two countries (or States) for the reciprocal encouragement, promotion and protection of investments in each other's territories by the companies based in either country (or State). India has signed BIPAs with 15 East European countries out of which 14 have already come into force and the remaining agreement is in the process of being enforced. India also has Double Taxation Avoidance Agreement (DTAA) with 10 East European countries (see Table 6). The agreement covers taxes on income proposed on behalf of each contracting state. It also provides reduced tax rates on

[25] It is a part of the financial commitment made by the Indian party in an overseas joint ventures/wholly owned subsidiary (JV/ WOS) in which it has equity participation. Guarantee is issued in form of corporate or personal including the personal guarantee by the indirect resident individual (promoters of the Indian Party)/ primary or collateral / guarantee by the promoter company / guarantee by group company, sister concern or associate company in India to the bank guarantee.

[26] Author's compilation and calculations from Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012)

dividends, interest, royalties, technical service fees, etc. received by residents of one country from those in the other. Different Indian ministries have signed cooperation agreements and Memorandum of Understanding (MoU) with their counterparts in East European countries. These are given in Table B2, Appendix B.

Table 6. Country-wise DTAA and BIPA with India

Countries	DTAA	BIPA*
Albania	○	○
Armenia	●	●
Azerbaijan	○	○
Belarus	●	●
Bosnia and Herzegovina	○	●
Bulgaria	●	●
Croatia	○	●
Czech Republic	●	●
Georgia	○	○
Hungary	●	●
Kosovo	○	○
Macedonia	○	●
Moldova	○	○
Montenegro	○	○
Poland	●	●
Romania	●	●
Russia	●	●
Serbia	○	●
Slovakia	○	●
Slovenia	●	◘
Ukraine	●	●

Source: Author's compilation from http://www.allindiantaxes.com/income-tax-dtaa.php (last accessed on July 17th, 2012) and http://finmin.nic.in/bipa/bipa_index.asp?pageid=1 (last accessed on July 17th, 2012)

* As on 9th December, 2011

Note: ● indicates that India has a DTAA or BIPA with the country, ○ indicates that India does not have an agreement with the country and ◘ indicates that India has an agreement but it is not enforced.

Hallward-Driemeier (2003) asserts that a trade agreements can help attract investment by serving as a commitment device. The India-EU BTIA, if signed, will be instrumental in enhancing Indian investment in Eastern Europe. India is working closely with Russia to set-up a Joint Task Force to increase bilateral trade and explore the feasibility of a Comprehensive Economic Cooperation Agreement (CECA) between the two countries.

Overall, the above analysis shows that at present, Indian investment in Eastern Europe is limited and a large part of the investment is concentrated in Russia. Moreover, bulk of the investment is in the manufacturing and mining sector. However, it is likely that in future markets and sectors of investment may diversify with the India-EU BTIA. There are some barriers to investment in Eastern Europe, which are given in the next section. If these are removed or relaxed, Indian investments in Eastern Europe will increase.

4. Key Barriers in Eastern Europe

This section examines the barriers to Indian investment in Eastern Europe. The analysis is based on both in-depth interviews and secondary information. Indian companies having presence or planning to establish presence in Eastern Europe were asked about the barriers faced in the market. The authors also had discussions with industry associations such as Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry (CII), Petroleum Federation of India (PetroFed) and National Association of Software and Services Companies (NASSCOM). In total 15 in-depth interviews were conducted to understand the barriers. In countries where India has no investments or does not plan to invest, secondary information was used to identify key barriers in the region. Most of the barriers are common across all the countries, while there are a few country-specific barriers. The discussion also highlighted that most of the barriers are not specific to Indian investors and other foreign investors face the same.

1. *Limited market knowledge:* One of the key reasons for low investment of Indian companies in Eastern Europe is the lack of market knowledge. This is partly because there are no Indian embassies or consulates in a number of East European countries including Albania, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova and Slovenia. Weak diplomatic presence has made it difficult for Indian companies to have market knowledge, coordinate with policy makers and industry and identify the local partners, among others. Absence of India embassy or consulate in these countries also adversely affects movement of people between the India and these countries. Due to lack of market knowledge, Indian investment in Eastern Europe is concentrated in a few large countries like Russia with whom India has strong historic ties while other markets are unexplored. Lack of local language knowledge is also a key barrier faced in the East European market. It makes it difficult to participate in the competitive bidding process. Due to this, majority of the investment is in manufacturing and mining where language-related barriers are lower as compared to the services sector such as IT and ITeS.
2. *Poor governance and high level of corruption:* The governance structure and regulations in Eastern Europe are weaker than West European countries. Many countries in this region suffer from high level of corruption. This is reflected by the ranks of these countries on the Corruption Perception Index (see Table 7), which is calculated for 183 economies.[27] During the interviews, it was pointed out that the bureaucracy has a lot of discretionary power in countries like Armenia, Azerbaijan, Bosnia and Herzegovina and Montenegro while the judiciary is weak. This leads to high incidence of bribery and corruption.

[27] Closer the rank is to one, lesser is the level of corruption in the country.

Table 7. Ranking of Eastern European Countries and India on Corruption Perception Index

Country	Rank
Slovenia	35
Poland	41
Hungary	54
Czech Republic	57
Georgia	64
Croatia	66
Montenegro	66
Slovakia	66
Macedonia	69
Romania	75
Bulgaria	86
Serbia	86
Bosnia and Herzegovina	91
Albania	95
India	**95**
Kosovo	112
Moldova	112
Armenia	129
Azerbaijan	143
Belarus	143
Russia	143
Ukraine	152

Source: Compiled by authors Transparency International Corruption Perception Index, for details see *http://cpi.transparency.org/cpi2011/results/* (last accessed on July 23rd, 2012).

A study on Bosnia and Herzegovina[28] has found that government officials in the country have extensive powers, including the right to shut down a company or seize goods. These powers are used to extort bribes. In Croatia, Georgia and Kosovo, the legislative structure is poor and complicated, leading to difficult and non-transparent operating environment. Absence of governing regulations and complicated laws lead to inconsistency in their interpretations. As a result, facilitation payments are common in this region.

3. *Non-transparent public procurement process*: The EU is a signatory to the WTO Agreement on Government Procurement. In 2004, the EU adopted a revised Utilities Directive (2004/17), covering purchases in the water, transportation, energy, and postal services sectors. This directive discriminates against bids with less than 50% EU content that are not covered by an international or reciprocal bilateral agreement.[29] India is not a signatory to the WTO Agreement on Government Procurement.[30] In EU member states like Bulgaria, Hungary and Slovenia the bidding and tendering process is not very transparent. Among non-EU member countries in Ukraine and Russia sometimes the tendering is non-transparent with preferences to certain

[28] For details see *http://www.isn.ethz.ch/* (last accessed on July 23rd, 2012)

[29] The EU content requirement applies to foreign suppliers of goods and services in water (production, transport, and distribution of drinking, water); energy (gas and heat); urban transport (urban railway, automated systems, tramway, bus, trolley bus, and cable); and postal services (USTR 2012).

[30] India became an observer to the WTO Committee on Government Procurement in February 2010

companies in tender awards and imposition of conditions over and above tender (also see USTR 2012). This creates problems for Indian companies particularly in mining and construction sector to operate in these markets. Moreover, in some countries bids of lower amounts are reserved for local companies.

4. *Lengthy customs procedures and high duties:* It was pointed out during the interviews that customs duties are high particularly on luxury goods in some East European countries like Russia. An Indian company with a distribution centre for jewellery in Russia is closing its operations as it has to pay high customs duty, which makes the operation non-profitable. Russia also has import restrictions, which adversely affect companies involved in product trading and distribution (USTR 2012). Countries like Armenia, Bosnia and Herzegovina, Czech Republic and Ukraine have time-consuming customs procedure requiring too much information to be filled at the time of product clearance. A number of East European countries have poor rank on the 2012 World Bank Logistics Performance Indicator (LPI)[31] as compared to India (see Table 8). According to the World Bank, time and cost involved in export and import of goods from the point of origin to the point of loading or the buyer's warehouse is very high in these countries.

Table 8. Ranking of East European Countries and India on 2012 World Bank LPI

Countries	Rank on LPI (2012)
Poland	30
Slovenia	34
Bulgaria	36
Hungary	40
Croatia	42
Czech Republic	44
India	46
Slovakia	51
Romania	54
Bosnia and Herzegovina	55
Ukraine	66
Serbia	75
Georgia	77
Albania	78
Belarus	91
Russia	95
Macedonia	99
Armenia	100
Azerbaijan	116
Montenegro	120
Moldova	132

Source: Compiled by authors from 2012 World Bank Logistics Performance Index, *http://siteresources.worldbank.org/TRADE/Resources/239070-1336654966193/LPI_2012_final.pdf* (last accessed on August 7th, 2012)

[31] For details see *http://siteresources.worldbank.org/TRADE/Resources/239070-1336654966193/LPI_2012_final.pdf* (last accessed on August 7th, 2012). Based on a worldwide survey of global freight forwarders and express carriers, the Logistics Performance Index is developed by the World Bank that measures performance along the logistics supply chain for 155 countries. Closer the rank is to one, better is the performance of a country along logistics supply chain.

5. *Geopolitical risks and problems in the region:* Some East European countries suffer from geopolitical risks and problems such as restricted accessed from some regions. For instance, Armenia's borders with Azerbaijan and Turkey are closed and therefore, flow of goods into the country is only through low-capacity roads and rail links through Georgia and Iran.[32] This adversely affects operations and efficiency of a company. Other political risks in the region include conflicts between Russia and Kosovo, Kosovo and Serbia and clashes between ethnic groups in Macedonia. This creates an uncertain operating environment in the region thereby acting as a barrier for companies planning to establish operations in this region. Individual countries in the region are small and therefore, companies would like to target the entire region rather than one or two countries in East Europe. Therefore, it is important to have easier accessibility in the region as a whole for an investor to invest.
6. *Increasing cost of operation and poor financial environment:* In countries like Croatia and Hungary wage rates and cost of establishing presence is rising. In some East European countries, operating costs have risen after their accession to the EU as the costs of establishing presence in West European countries and East European countries have converged after their accession due to free flow of capital and labour. In Albania and Macedonia, the financial sector is underdeveloped. In these countries, it is difficult to obtain long-term credit without large collateral. This increases the cost of operation, making it an unattractive destination to invest.
7. *Sector specific concerns:* There are certain sector-specific barriers faced by Indian investors in Eastern Europe in sectors such as pharmaceutical and the IT. These two sectors are of interest to Indian investors because Eastern Europe has an advantage in the pharmaceutical industry due to the presence of a number of universities and research and development (R&D) centres and India is a major exporter of IT and ITeS services. The system for determining pricing and reimbursement levels[33] of pharmaceutical products in certain East European markets like Czech Republic, Hungary and Poland are non-transparent and complex (USTR 2012). Each country uses different schemes and policies, adapted to its own economic and health needs. Russian government has called for greater local production of pharmaceutical product, which can be as high as 50% of total sales (USTR 2012). Several countries in Eastern Europe have a weak IPR protection and enforcement mechanism, which adversely affect Indian companies in the pharmaceutical and IT sector. Countries like Bulgaria, Czech Republic, Poland, Romania, Russia and Ukraine suffer from piracy, copyright infringement, conflicts of interest in enforcing patent protection and counterfeiting hardware. Language is another barrier for Indian IT companies, which is discussed earlier.

Due to the presence of these barriers, some Indian companies are closing their operations in the East European markets, while others are reluctant to invest. Apart from these, several other barriers exist in Eastern European markets. These include restrictions on movement of people that includes work permit and visa restrictions and non-recognition of degrees, restrictions on ownership of real estate, inadequate infrastructure including poor transportation and supply chain network, weak education system and lack of availability of desired skills. Nevertheless, some of these barriers such as weak supply chain also provide investment opportunities for Indian investors to invest in the East European market. The next section discusses some of the areas and prospects of investment in East Europe and the last section discusses the ways and means to enhance Indian investments in the region.

[32] For details see *http://www.unescap.org/tid/mtg/rrtpaper_armenia.pdf* (last accessed on July 23rd, 2012)

[33] In the EU, national authorities are free to set the prices of medicinal products and to designate the treatments that they wish to reimburse under their social security system. However, the European Union has defined a common procedural framework through the adoption of Council Directive 89/105/EEC, which is generally known as the "Transparency Directive". This instrument aims to ensure that national pricing and reimbursement decisions are made in a transparent manner and do not disrupt the operation of the Internal Market.

5. Opportunities for Indian Investors in Eastern Europe

India and East European countries have complementarities. Most of the Indian investments abroad are concentrated in services sectors such as financial intermediation, transportation and logistics sector and communications services. However, in Eastern European countries Indian investments is largely concentrated in manufacturing and mining sector. Since East European countries also attract substantial foreign investment in financial intermediation, transportation and logistics sector and communications services, there is potential for Indian investment is these sectors.

Precisely in the transport and logistics sector, at present, the logistics networks, especially the internal logistics network connecting the seaports, of smaller East European countries like Croatia, Bosnia and Herzegovina, Montenegro and Albania, is not well-developed. These countries are located near the Adriatic Sea and can develop as a transport hub for the region. Indian companies can work with East European government in a public private partnership model for developing logistics infrastructure in the region. Indian companies have investments in the manufacturing sector in some Eastern European countries and a sound transport and logistics sector will help to enhance trade with other countries in the region.

Other sectors where Indian companies can invest in Eastern Europe are pharmaceutical industry, metallurgical industries and agriculture sector. It was pointed out during the interviews that there is a lot of uncultivated fertile land in Eastern Europe that can be bought by Indian investors for cultivation. Countries like Russia, Romania, Albania, Azerbaijan, Bosnia and Herzegovina and Kosovo are rich in minerals and natural resources. While India has already made investments in Russia, Romania and Albania in natural resource extraction and energy exploration, it can also explore newer markets in the region. For instance, Kosovo has the fifth largest reserve of lignite in the world.[34] Indian companies like Coal India Limited, Neyveli Lignite Corporation and Indian Iron & Steel Company Limited who are involved in mining of lignite can invest in Kosovo. It was found during the interview that the level of awareness about the natural resource endowment of these countries is low among Indian companies. There is need to increase the level of awareness among Indian companies.

India is globally recognised as a country with knowledge infrastructure. Government officials and diplomats from several East European countries come to India for training under the India Technical and Economic Cooperation (ITEC).[35] There is scope for Indian investment in education sector in Eastern Europe. Indian companies can open IT training centres in the region. Indian government and governments of many East European countries have a Science and Technology agreement, which can be used to facilitate collaborative R&D. It was pointed out during the interviews that Indian companies could also open up English language training centres and introduce short-term programmes for development of soft-skills in countries like Albania, Armenia and Poland.

6. The Way Forward

Indian companies are globalising and are expanding their presence in other markets. Countries in East Europe are actively looking for foreign investment and have progressively liberalised their foreign investment regime in order to attract investments. Most countries in the region provide an untapped and niche market for investors with a number of investment opportunities that are still unexplored. Moreover, since a number of East European countries are members of the EU and some others are acceding to become members, investments in the region will be instrumental in getting access to larger European markets. All these factors indicate that there is scope for enhancing Indian investment in

[34] *https://www.rks-gov.net/en-US/Bizneset/InvestimetNeKosove/Pages/MundesiBiznesi.aspx* (last accessed on July 24th, 2012)

[35] Information provided by the Ministry of External Affairs, Government of India. The Indian Technical and Economic Cooperation (ITEC) programme is a bilateral programme of assistance of the Government of India to share in the Indian development experience with other countries.

Eastern Europe. This paper shows that until date Indian investment in Eastern Europe is small and is concentrated in a few markets and few sectors. However, there is scope for enhancing investment in a wide range of sectors.

The paper also shows that Indian investors face a number of barriers in Eastern European countries. Some of these like lack of market knowledge can be addressed through greater diplomatic ties and proactive Indian Embassies. India has diplomatic ties with many East European countries. However, while most of these countries have embassies in India, India does not have embassies or diplomatic missions in a number of East European countries. There is need to enhance diplomatic ties with countries like Albania, Armenia, Kosovo, Moldova and Montenegro. India has investment facilitation agreements such as BIPA and DTAA with many countries in the region. These agreements have not led to substantial increase in investments. The existing agreements need to be re-examined and investment facilitation agreements have to be signed with other countries with which India does not have such agreements.

There are several MoUs and cooperation agreements between business and government of India and Eastern Europe. However, in spite of that this paper shows that there is a lack of market knowledge, particularly in the case of smaller East European countries.

There is need for information exchange and knowledge sharing between key government departments like central banks and regulators and business communities/associations of India and Eastern Europe. Indian government can work with governments of Eastern European countries to identify professional bodies and industry organisations that can work with each other to facilitate exchange of regulatory information. Industry associations can also facilitate interactions between the business communities in India and Eastern Europe. For instance, the Federation of Indian Chambers of Commerce and Industry (FICCI) has set-up joint business council with its counterparts in Belarus, Bosnia and Herzegovina, Hungary and Slovakia for establishing direct contact between private business parties in these countries. It has also undertaken business promotion events in countries like Armenia in order to facilitate exchange of interaction and partnership between business communities. The industry chambers and government in India and Eastern Europe can organise trade fairs and shows in each other's markets. Such initiatives will help in generating awareness about each other's markets. There can be academic exchanges between universities and research organisations between India and East European countries and the government can initiate market research studies for enhancing knowledge about these markets.

Some of the barriers identified in this study such as weak IPR mechanism and issues related to government procurement can be discussed during the India-EU BTIA negotiations and at the WTO. However, regulatory issues are not often adequately addressed in trade agreements, which tend to focus on market access. They are better addressed through domestic reforms. There is a need for domestic reforms in the East European region in order to overcome barriers like corruption and non-transparent government procurement, which will ensure certainty and a more conducive investment and operating environment. There has to be a clear division of responsibility between the law enforcing agencies and the judiciaries. Countries should also have a proper dispute settlement mechanism in order to improve investor's confidence. This will facilitate inflow of Indian investments in Eastern Europe.

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Appendix A

Figure A1. Map of Eastern Europe

Source: Extracted by Authors from *http://www.europe-east.com/* (last accessed on September 26th, 2012)

Table A1. A Snapshot of the India and East European Countries

Country	GDP (Constant US$ Million, 2009)	GDP Growth (%, 2009)	GDP Per Capita (US$, 2009)	FDI as % of GDP (2009)	Population (in Million, 2009)	Natural Resource Rent (% of GDP, 2009)	Cumulative FDI into India (US$ Million – April 2000-June 2012)	Cumulative FDI by India (US$ Million – FDI from June 2007 May 2012)	EU Member	WTO Member
Albania	5.9	2.5	1863.1	8.1	3.2	1.8	-	0.1	○	●
Armenia	4.0	-14.4	1298.6	8.9	3.1	0.8	-	-	○	●
Azerbaijan	20.2	9.3	2302.6	1.1	8.8	44.5	-	-	○	◘
Belarus	24.7	1.4	2556.0	3.8	9.7	1.7	-	-	○	◘
Bosnia and Herzegovina	8.1	-2.9	2162.2	1.4	3.8	2	-	-	○	◘
Bulgaria	19.3	-4.9	2542.5	9.4	7.6	1.2	0.4	-	●	●
Croatia	28.4	-5.8	6414.6	4.7	4.4	1.1	0.5	-	◘	●
Czech Republic	75.8	-4.2	7225.4	1.4	10.5	0.3	17.3	164.3	●	●
Georgia	5.3	-3.9	1198.9	6.1	4.3	0.3	-	0.6	○	●
Hungary	58.5	-6.3	5833.5	2.2	10.0	0.5	0.0	10.5	●	●
Kosovo	3.1	4.0	1728.4	7.5	1.8	0	10.2	-	○	○
Macedonia, FYR	4.4	-0.7	2158.2	2.7	2.0	0.1	-	-	○	●
Moldova	2.0	-6.5	553.6	2.4	3.6	0.2	-	-	○	●
Montenegro	1.4	-5.7	2195.2	32	0.6	0	-	-	○	●
Poland	241.5	1.7	6330.6	3.2	38.1	0.8	51.9	39.9	●	●
Romania	56.0	-8.5	2606.6	3.9	21.5	2	4.5	3.5	●	●
Russian Federation	397.9	-7.9	2805.4	3	141.9	20.7	468.1	1403.4	○	◘
Serbia	9.0	-3.0	1229.4	4.5	7.3	0.6	-	0.0	○	◘
Slovak Republic	43.6	-6.2	8041.6	0	5.4	0.3	5.2	0.3	●	●
Slovenia	25.7	-7.8	12576.9	-1.2	2.0	0.1	8.2	0.0	●	●
Ukraine	45.4	-15.1	986.6	4.2	46.0	3.6	1.1	0.0	○	●
India	885.4	9.1	766.4	2.5	1155.3	4	-	-	-	●

Source: Author's compilation from World Development Indicators 2011, World Bank, Outward Investment Database of Reserve Bank of India accessible at *http://www.rbi.org.in/scripts/Data_Overseas_Investment.aspx* (last accessed on September 26th, 2012), FDI Factsheet on Foreign Direct Investment (FDI) from April 2000 to June 2012 *http://dipp.nic.in/English/Publications/FDI_Statistics/2012/india_FDI_June2012.pdf* (last accessed on September 26th, 2012) and *http://europa.eu/about-eu/countries/index_en.htm* and *http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm* (last accessed on August 6th, 2012).

Note: ● indicates that the country is a member of the EU or the WTO, ○ indicates that the country is not a member of the EU or the WTO and ◘ indicates that the country has acceded as a member to the EU but is not formally a member or the country is an observer to the WTO and are currently negotiating their membership.

Appendix B

Table B1. Top Investing Countries and Sectors Attracting FDI in Eastern Europe

Country	Investing Country	Key Sectors
Albania	Greece, Turkey, USA, Austria, Italy and Czech Republic,	Transport and communications, financial intermediation, oil, mining, metallurgy, manufacturing sector, construction and wholesale and retail trade
Armenia	Russia, France, Argentina, Germany and Cyprus	Communications, power and gas supply, transportation, mining industry and air transport activities
Azerbaijan	UK, Turkey, France, Russia, USA and Germany	Food processing, IT and communications, construction, metallurgical industries and mining
Belarus	Russia, Austria, Germany, Italy, Latvia and Poland	Banking, telecommunications, retail, construction and food and agro-processing industries
Bosnia and Herzegovina	Austria, Serbia, Slovenia, Croatia, Switzerland and Germany	Manufacturing, wholesale, real estate, renting, etc., financial intermediation, construction and trading
Bulgaria	Netherlands, Germany, UK, Austria, Greece and Hungary	real estate and business activity, financial intermediation, trade and repairs, construction, metallurgy and metal products and telecommunications
Croatia	Austria, Netherlands, Germany, Hungary and Luxembourg	Financial intermediation (excluding insurance), wholesale and commission trade, post and telecommunications, real estate activities and manufacturing
Czech Republic	Germany, USA, Austria, Japan and UK	Automotive components, financial services, software and IT services, textiles, industrial machinery, equipments and tools
Georgia	Netherlands, Denmark, Cyprus, Turkey and Russia	Manufacturing, finance, real estate, energy, transport and communications
Hungary	Germany, Netherlands, Austria, Luxemburg and France	Wholesale and retail trade, professional, scientific and technical activities, financial and insurance activities, information and communications technology and real estate activities
Kosovo	Netherlands ,Germany, Slovenia, Austria, China and Turkey	Manufacturing, financial intermediations, real estate, construction and trading
Macedonia	Netherlands, Germany, Greece, Slovenia, Austria and Hungary	Manufacturing, financial intermediations except insurance, wholesale trade, electricity, gas and steam and air conditioning supply, information and communications and construction
Moldova	Russia, Netherlands, France, Cyprus and Romania	Finance, wholesale and retail trade, food processing industries, real estate transactions and transport and communications
Montenegro	Hungary, Great Britain, Austria, Slovenia and Germany	Telecommunications, banking, tourism, mining and metallurgical industries
Poland	Netherlands, Italy ,Germany, France, Luxemburg and USA	Financial intermediation, business activities, trade and repairs, real estate and metal products

Country	Investing Country	Key Sectors
Romania	Netherlands, Austria, Germany, France Greece and Cyprus	Manufacturing, financial intermediation and insurance, trade, construction and real estate transactions and utilities
Russia	UK, Netherlands, Cyprus, Luxembourg and France	Wholesale, retail and repair services, mining and quarrying of energy products, manufacture of metal and fabricated metal products, transportation and communications and financial intermediation
Serbia	Netherlands, Greece, Germany Luxemburg and Norway	Financial intermediations, manufacturing, wholesale, retail and repairs, real estate activities and transport, storage and communications
Slovakia	Germany, Netherlands, Austria, UK, USA and Czech Republic	Industrial production, finance and insurance, transportation, warehousing and communications, wholesale and retail trade and property, letting and business services
Slovenia	Austria, Switzerland, Netherlands, France and Germany	Financial intermediation excluding insurance, manufacture of chemical and chemical products, other business services, wholesale and commission services and manufacture of rubber and plastic
Ukraine	USA, Germany, Russia, France, Switzerland and Poland	Financial intermediation, logistics, food, insurance and pension and non-metal mineral products

Source: Compiled by authors from Investment Climate Statements 2012, Bureau of Economic and Business Affairs, U.S. Department of State and the Central Banks of these countries

Table B2. Selected Memorandum of Understandings and Cooperation Agreements between India and East European Countries

Country	Memorandum of Understanding and other Agreements
Armenia	Over 30 MoUs covering trade & commerce, education, science & technology, information technology, academic cooperation between institutes and think tanks
Azerbaijan	Agreement on economic and technical cooperation
Belarus	MoU for establishing a digital learning centre at the high technology park in Minsk
Bosnia and Herzegovina	Establishment of Joint Business Council (JBC) signed between the Foreign Trade Chamber of BiH & FICCI, MoU between EXIM Bank and the Investment Guarantee Agency
Bulgaria	Air services agreement, agreements in the field of science and technology, information technologies, employment and social security, small and medium-sized enterprises development
Croatia	MoU between the Croatian Bank for Reconstruction and Development (HBOR) and the EXIM Bank of India, MoU on cooperation in information technology: signed between Electronics & Computer Software Export Promotion Council of India and the Croatian Information Technology Society, educational exchange programme
Czech Republic	Cooperation agreement between Council for Scientific and Industrial Research (CSIR) and the Czech Academy of Sciences (CzAS), joint deceleration for cooperation in the field of Education between India and Czech Republic, social security agreement between India and Czech Republic
Georgia	Agreement on the intergovernmental commission on trade, economic, scientific and technological cooperation, agreement on cooperation in the fields of science and technology
Hungary	MoU on cooperation in health sector, joint business council of Indian and Hungarian companies, air services agreement, social security agreement, agreements on agriculture, IT and science and technology
Montenegro	Agreement on scientific and technical cooperation, air services agreement
Poland	Agreement on cooperation in science and technology, bilateral agreement on shipping, agreement on cooperation in the field of health care and medical science
Romania	At least 22 bilateral agreements including agreements in the field of science and technology and medicine etc..
Russia	MoU on cooperation on India's 'Global Centre for Nuclear Energy Partnership", MoU between ISRO and the Federal Space Agency
Serbia	Air services agreement and scientific and technical cooperation agreement
Slovakia	Agreement for formation of the Indo-Slovak JBC, air services agreement, agreement on cooperation in science & technology and agreement on scientific cooperation between Indian national science academy & Slovak academy of sciences
Slovenia	Established joint committee of science and technology cooperation
Ukraine	Cooperation in science and technology

Source: Compiled by authors from the Ministry of External Affairs, Government of India.