Deloitte.

Confederation of Indian Industry

Trade & Investment Relations between India and Central Europe

A Study of opportunities

February 2014
www.deloitte.com/in

Contents

Abbrevations

Term	Description
ASA	Air Services Agreement
BGN	Bulgarian Lev
BPO	Business Process Outsourcing
BTIA	Broad-based Trade and Investment Agreement
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CE10	Central European countries
CHF	Swiss Franc
CII	Confederation of Indian Industry
CZK	Czech koruna
DIPP	Department of Industrial Policy & Promotion
DTAA	Double Taxation Avoidance Agreement
DTTIPL	Deloitte Touche Tohmatsu India Private Limited
ECG	Electrocardiogram
EFTA	European Free Trade Association
EUR	Euro
EU	European Union
FDI	Foreign Direct Investment
FII	Foreign Institutional Investment
FP7	EU's Seventh Framework Program for Research
FY	Fiscal Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GST	Goods & Services Tax
HRK	Croatian Kuna
HUF	Hungarian forint
IBEF	India Brand Equity Foundation
ICT	the Information and Communications Technology
IIP	Index of Industrial Production
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISJEC	Indo-Slovak Joint Committee for Economic and Commercial Cooperation
IT	Information Technology
ITES	Information Technology Enabled Services
JEC	Joint Economic Committee
JV	Joint Venture

Term	Description
MNE	Multinational Enterprise
MSME	Micro Small and Medium Enterprise
MOU	Memorandum of Understanding
NASSCOM	The National Association of Software and Services Companies
NATO	North Atlantic Treaty Organization
NMP	National Manufacturing Policy
NRE	Non-recurring engineering
OECD	Organisation for Economic Co-operation and Development
PLN	Polish Zloty
PPP	Public Private Partnership
PPP	Purchasing Power Parity
PSU	Public Sector Unit
QFI	Qualified Foreign Investors
R&D	Research and Development
RCA	Revealed Comparative Advantage
RON	Romanian Leu
SEE	South East Europe
SITC	Standard International Trade Classification
SEZ	Special Economic Zones
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
TEN-T	Trans-European Transport network
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSC	United Nations Security Council
VAT	Value Added Tax
WTO	World Trade Organisation

About Confederation of Indian Industry (CII)

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7100 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 enterprises from around 257 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII Theme for 2013-14 is **Accelerating Economic Growth through Innovation, Transformation, Inclusion and Governance**. Towards this, CII advocacy will accord top priority to stepping up the growth trajectory of the nation, while retaining a strong focus on accountability, transparency and measurement in the corporate and social eco-system, building a knowledge economy, and broad-basing development to help deliver the fruits of progress to all.

With 63 offices, including 9 Centres of Excellence, in India, and 7 overseas offices in Australia, China, Egypt, France, Singapore, UK, and USA, as well as institutional partnerships with over 300 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

About Deloitte

Deloitte drives progress. We advance the aims of our clients and their stakeholders, striving to make them leaders wherever they choose to compete. We focus on making a tangible positive difference by combining strategy with action and delivering measurable impact. We form unique collaborations to find smarter insights, innovative solutions and entrepreneurial ways to move ahead. We invest in outstanding people of diverse talents and backgrounds and empower them to achieve more than they could elsewhere. We believe that when our clients succeed, and when society succeeds, so do we.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

In India, Deloitte is spread across 13 locations and over 20,000 professionals take pride in their ability to deliver to clients the right combination of local insight and international expertise.

1. Executive Summary

The Central European countries have been important trade partners with India over the years. The volume of total trade between the two regions has grown exponentially over the years, even during the adverse global economic conditions at some points in time. . In addition to historically strong growth in the last decade, it is believed that there is still a huge potential for further growth and it is with this belief that the Confederation of Indian Industry (CII) recently constituted a Regional Committee on Central Europe. It is aimed at strengthening India's engagement with Central Europe through two-way trade and investment and to develop brand India in the Central European region.

The members of the Committee recognised the importance of conducting a critical & focussed study in order to achieve the desired objectives. Which are the key potential industries/sectors of interest for Indian businesses which can drive trade and investment between India and Central European countries? What are the key challenges faced by Indian traders and investors who are currently engaged in doing business in Central Europe? Are there any brand building initiatives undertaken by the Indian government/industry associations to promote Brand India in Central Europe? These are some of the questions that this report addresses.

A critical analysis of socio-economic profiles of CE10 economies reveals that the region has significant expertise in industries like chemicals, pharmaceuticals, automobile, machinery, construction and mechanical and engineering goods, The CE10 economies can certainly benefit from the rising demand for manufactured goods in India which can translate into increased trade and investment in the industrial sector. Similarly, with a wide agricultural base, India can focus on manufacturing agricultural and primary goods including raw materials for manufacturing businesses. The CE10 region offers a host of incentives in the form of tax exemptions, greater market access as well as opening-up of sectors for foreign investments. These incentives focus on priority sectors such as R&D, infrastructure, construction, transport, communication, energy and in general, aim at improving services sector and attract more Greenfield investments in the future. India can definitely benefit directly and indirectly from these developments. The requirement of a well-structured IT industry as a base for various European industries can only increase its demand in the future, and this is where India's expertise in the services sector might be helpful.

An empirical analysis of Indo-European trade relations suggests that Indian investors have a natural inclination towards four big countries in the Central Europe, namely, Austria, Czech Republic, Poland and Switzerland. Nonetheless, it also highlights number of untapped opportunities in countries like Slovakia or Hungary. In addition to highlighting the obvious advantages that increased trade and investments would have on both the regions, the report also discusses based on the information collected through interviews the current challenges and recommendations of the Industry experts or the Indian Ambassadors to overcome the these barriers. One of the most prominent suggestions of the interviewees is to create a platform for further interactions between the two business communities and to increase pace of bilateral events and brand promotion activities across countries. Although the Central European countries have initiated a number of events and trade fairs along with delegations visiting India on numerous occasions, India is yet to reciprocate in the same manner.

Our industry specific analysis focuses on determining the relative comparative advantage enjoyed by the Indian industry vis-a-vis that of the CE10 trading partners. The basis for this analysis stems from the fundamentals of trade theory, which concludes that free trade will result in specialization in certain products/industries in which the country enjoys a comparative advantage and will end up producing and exporting more products from these industries. The following Indian industries enjoy a greater competitive advantage relative to their counterparts in the CE10 countries:

- Agricultural products like sugar, coffee, spices etc.
- Pearls and precious stones
- Textiles
- Minerals
- Computer and information industry

On the other hand, the following industries in CE10 enjoy a larger competitive advantage than the counterparts in India:

- Machinery
- Automobile
- Pharmaceuticals
- Insurance & Financial services
- Travel & Transport

Certain industries like Chemicals, Metallic manufacturing of iron / steel, Miscellaneous manufacturing items like Furniture, Travel goods including handbags, footwear, watches etc. are on the borderline with no clear trend that may allow us to conclude whether India or CE10 economies have a clear advantage over the other.

A more fruitful partnership can evolve between the two regions with India exporting agricultural goods and importing machinery and technical know-how in mechanized farming, a well-established practice in the CE10 economies, to increase its own productivity. Similarly, despite at a comparative disadvantage in Manufacturing Industry, India can still gain from increased association with CE10 economies in these industries by gaining in terms of intangible benefits, particularly, technical know-how. In the services sector, computer and information industry is central to any set-up and with most of the CE10 economies trying to invest in heavy industries such as infrastructure, communications, retail and R&D, there are many opportunities for Indian exporters. The overall analysis broadly depicts the fact that the Indian economy as whole has a strong hold on the primary sector industries and the services industry, with the CE10 economies more dominant in the industrial and manufacturing sectors. A closer look at the economic structure, government policies and future plans of these economies, however, show that both the regions have tremendous opportunities to enhance their trade and investment relations and benefit significantly from enhanced trade and investment activity.

Finally, the analysis finds ample evidence to conclude that there are enough opportunities for trade and investment enhancement for India in this region and vice-a-versa, provided adequate efforts are taken. Important initiatives announced by the respective governments in these countries that may help Indian businesses to enhance their business interests in these countries have been highlighted Overall, these opportunities can lead to the benefits of income and employment generation in India adding to India’s growth momentum.

2. Introduction

Background

The Confederation of Indian Industry (CII) recently constituted a Regional Committee on Central Europe with an aim to:

- Strengthen India's engagement with Central Europe through two-way trade and investment
- Develop brand India in the Central European region

The members of the Committee further believed that it was critical to conduct a study on enhancing trade and investment relations between India and Central Europe in order to achieve the desired objectives.

Given the background, CII joined hands with Deloitte Touche Tohmatsu India Private Limited (Deloitte) to undertake the study, which would identify opportunities, key bottlenecks impacting business and trade ties and suggest initiatives (at the government and industry level) through statistical evidences as well as empirical analyses.

Broad scope

The Deloitte-CII report on Indo-Central Europe Trade Relations highlights key trends and existing potential markets for Indian businesses in the Central European region. An emerging market, the region covers countries like Austria, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia and Switzerland.

The report focuses on identifying key potential industries/sectors of interest for Indian businesses with the intent to driving trade and investment between India and Central European countries. It also highlights key problems and bottlenecks faced by existing Indian traders and investors doing business in Central Europe (across small, medium and large companies), alongside recommendations by the Industry experts or the Indian Ambassadors possible that could be implemented by the Indian government / industry associations to ease constraints. The study also analyses various broad-based brand building initiatives undertaken by the Indian government/industry associations, to promote Brand India in Central Europe.

The report draws its findings from in-depth research conducted on each Central European country, capturing their key industry sectors, various economic policies and trade growth initiatives. Furthermore, Deloitte has performed exhaustive interviews with industry experts, from small, medium and large businesses within India. The research teams also recorded observations of the Central European Embassies in India, as well as, Indian Embassies in Central Europe. The report also details out key country statistics that provide a snapshot of relevant demographic and macro-economic data.

Based on statistical data and other relevant research areas, the study offers sector profiles/case studies of the prioritised sectors highlighting potential trade and investment opportunities for Indian investors. It also offers information on key aspects, such as investment rules and regulations, labour laws and other relevant information for doing business in Central Europe.

3. Introduction to Central Europe

Report Coverage

Central Europe, sometimes also referred to as Middle Europe, is a region of the European continent lying between variously defined areas of continental Europe. Keeping in mind the ultimate purpose of this study as well as practically possible access to the information relating to various countries, the following ten countries have been focused in this study as being part of Central Europe –

1. Austria
2. Bulgaria
3. Croatia
4. Czech Republic
5. Hungary
6. Poland
7. Romania
8. Slovakia
9. Slovenia and
10. Switzerland

Henceforth, these countries are also collectively referred as “CE10 economies” in the following sections of the Report.

Country-specific key facts and trends

After defining the central European countries covered in this report, this section will feature each country separately and document the relevant economic facts and trends in conjunction with some basic facts about these countries. This segment will also identify key industries dominating these economies, various tax incentives being currently offered and future policies announced by the Governments of these countries. These policies are critical to identify opportunities for enhanced trade and investments in this region in the future.

Following subsections summarise the findings of each country’s facts/policies, which are discussed in detail in the individual country profiles annexed to this document.

Summary of basic facts & Key economic statistics (2012)

Countries/ Indicators	Austria	Bulgaria	Croatia	Czech Republic	Hungary	Poland	Romania	Slovenia	Switzerland
Population (million)	8.5	7.3	4.3	10.5	10.0	38.5	21.4	2.1	8.0
Capital city	Vienna	Sofia	Zagreb	Prague	Budapest	Warsaw	Bucharest	Ljubljana	Berne
Main language	German	Bulgarian	Croatian	Czech	Hungarian	Polish	Romanian	Slovene	German, French
Currency	Euro	Lev (BGN)	Croatian kuna (HRK)	Czech Koruna (CZK)	Hungarian Forint (HUF)	Polish Zloty (PLN)	Leu (RON)	Euro	Swiss franc
Membership	EU, OECD, UN, NATO, OECD	EU, NATO, OECD, WTO	EU	EU, NATO, OECD, WTO	EU, NATO, OECD, WTO	EU, NATO, OECD, WTO	EU, NATO, OECD, WTO	EU, NATO, OECD, UN	European Free Trade Association (EFTA),UN
Inflation	2.6%	3.0%	3.4%	3.3%	5.7%	3.7%	3.3%	2.6%	-0.7%
GDP per capita (US$)	46,570	7,000	13,226	18,640	12,510	12,720	7,900	22,082	79,010
Real GDP growth	0.9%	0.8%	-2.0%	-0.9%	-1.7%	2.1%	0.7%	-2.4%	1.0%
Export (US$ billion)	225.7	34.0	24.5	153.3	118.0	227.7	67.8	34.5	330.2
Import (US$ billion)	213.0	35.8	24.1	142.3	108.8	226.5	76.5	32.4	264.3
Unemployment rate	4.4%	11.1%	19.1%	6.8%	10.7%	12.8%	5.6%	12.0%	2.9%
Minimum wages	No national minimum wage	EUR 153	EUR 375	EUR 311	EUR 309	EUR 345	EUR 160	EUR 763	No minimum wage
FDI (inward) (US$ billion)	4.1	2.1	1.4	10.6	13.9	6.7	2.6	0.2	2.7
FDI (outward) (US$ billion)	17.6	0.5	0.1	1.3	11.2	1.4	0.2	0.4	31.6
Trade with India (import) 2013	US$ million 929.2	US$90.1 million	US$18.1 million	US$644 million	US$263 million	US$863 million	US$311 million	US$117.5 million	US$32,166.5 million
Trade with India (export) 2013	US$ 328.6 million	US$157 million	US$134 million	US$251 million	US$324 million	US$811 million	US$283 million	US$274 million	US$1,117.3 million

Source: Economist Intelligence Unit, Eurostat, SeeNews (Serbia), INSTAT (Albania)

Key industries, policies & opportunities

Austria

Key industries

- Agriculture and forestry
- Food and Drink
- Mechanical and steel engineering
- Chemical
- Automotive
- Electrical engineering and electronics
- Wood, pulp and paper

Investment incentives

Tax incentives

- Incentives and R&D subsidies for FDI involving substantial transfer of important technology and job opportunities

Cash grants

- Grants up to 70% for later-stage R&D activities by companies

Future policies & consequent opportunities

- Improve infrastructure
- Promotes R&D and education
- Structural reforms in the service sector
- Increasing strength of the telecommunication sector
- Liberalisation of the transport sector
- Moderating retail sector
- Improvement in the efficiency of the banking sector
- Improvement in thermal insulation
- Manufacturing sector serving as a key driver of economic growth
- Highly developed tourism sector

Bulgaria

Key industries

- Agriculture
- Mining and semi-processing
- Construction
- Tourism
- Financial services

Investment Incentives

Tax incentives

- Part or full reduction in amount of annual corporate income tax due by entities on their profits from manufacturing activities carried out in municipalities with high unemployment

Future policies & consequent opportunities

- Encouragement for further privatisation
- Expected growth in greenfield and infrastructure
- Restructuring of bureaucracy
- Elimination of unnecessary regulations
- Liberal foreign investment regime
- Reorganisation of Invest Bulgaria
- Likelihood of getting EU membership
- Reforms of customs and revenue collection
- Improvements in tax collection
- Liberalisation of telecommunication along with internet penetration

Croatia

Key industries

- Agriculture
- Chemicals
- Food and beverages
- Tourism

Investment incentives

Tax incentives

- Reduced taxable base for 10 years ranging from 50% to 100% depending on volume of investments and number of new employees hired during the year

Cash grants

- 10%-20% of the eligible costs of investments for construction of the new factory, production facility or tourist facility or buying of new machines depending on the amount of investment

Future policies & consequent opportunities

- Enhancement of the investment environment
- Focus on business zone
- Complete integration in the EU market
- Increasing foreign investment - market opportunities, tax system and financing
- Reform of labour market legislation
- Measures to improve the judicial system
- Liberalisation of the market
- Reforms and restructuring of state-owned companies
- Further investments in Energy, Infrastructure and Tourism Sectors

Czech Republic

Key Industries

- Agriculture
- Automotive industry

- Electrical and electronic industry
- Financial services
- Construction
- Retail

Investment incentives
- Ten-year full corporate income tax relief for greenfield investments and ten-year partial tax relief for brownfield investments
- Provision of industrial property on discount
- Financial support for the creation of new jobs and financial support for the re-qualification of employees

Future policies & consequent opportunities
- Enhancement and encouragement of competitiveness
- Welcoming environment with foreign investor-specific incentives
- Membership of the EU and OECD
- Attractive infrastructure, good location and qualified labour force
- Foreign ownership up to 100%
- Liberalisation of the foreign- exchange regime
- Reformation of pensions
- Reforms in labour force
- Availability of EU funding for infrastructure projects

Hungary

Key industries
- Agriculture
- Automotive industry
- Manufacturing
- Information and communication technology
- Pharmaceuticals
- Chemicals
- Financial services

Investment incentives

Tax incentives
- Encouragement for foreign direct investment (FDI) and implementation of new policies
- Development tax allowance, whereby, up to 80% of the corporate income tax payable every year can be foregone for a period of 10 years

Cash grants
- Cash grants from EU co-financed funds.

Future policies & consequent opportunities
- Protection of private property rights
- Streamlining of the administrative procedures
- Large share of funds for small and medium-sized enterprises
- Streamlining of bureaucracy

- Improvement in access to lending
- Encouragement of foreign investment in the automotive sector
- Liberalisation of the electricity sector
- Aim to strengthen the energy and utility sectors
- Laying emphasis on development of transport sector, infrastructure and R&D, job creation, green development, general enterprise support and tourism (Health tourism)
- Emphasis on R&D spends

Poland

Key industries

- Manufacturing
- Automotive industry
- Agricultural production
- Construction
- Financial services

Investment incentives

Tax incentives

- Income tax & local tax exemption in any of the 14 special economic zones (SEZ)

Cash Grants

- The Polish government offers cash grants for strategic investors

Future policies & consequent opportunities

- Moderate improvement in the business environment
- Availability of EU funding for investment
- Liberalisation in several transport, energy and communications markets
- Shift of emphasis from privatisation to greenfield investments
- Liberalisation in trade services
- Liberalisation of the foreign-exchange regime
- Reforms in the tax and benefit system
- Improved efficiency of the education system
- Marginal liberalisation of the labour code
- Gradual liberalisation in infrastructure
- Further spending on motorway construction, continuing private investment in the telecommunications system, modernisation and partial privatisation of the state railways, large investment in airports and modernisation of the energy sector, providing the foundation for gains in this category
- Liberalisation of several transport, energy and communications markets

Romania

Key industries

- Agriculture
- Manufacturing
- Automotive
- Pharmaceuticals
- Real estate and constructions

- Financial services

Investment incentives

Tax incentives

- Tax exemption on reinvested profit
- Special incentives for expenses related to R&D
- Dividend tax exemption for reinvestments
- Reduced VAT rate of 5% for the sale of buildings
- Local tax exemptions for businesses located in industrial parks or scientific and technological parks

Future policies & consequent opportunities

- Restructuring of the state-owned enterprises (SOEs) under private management
- Liberalisation of energy prices for commercial customers
- Attracting greenfield investment, particularly in renewable energy
- Five-year Programme for modernising the tax administration in 2012-17
- Proposals to liberalise power supplies over the forecast period
- Implementation of structural reforms agreed under the precautionary standby programme with the IMF.
- Inclusion of reforms in the healthcare system, restructuring and privatisation of loss-making state-owned enterprises, deregulation of energy prices and the sale of (some) government holdings in the energy sectors
- Expansion of the trans-European transport network (TEN-T)
- Prioritising the construction of a motorway from the Black Sea port of Constanta to Nadlac on the Hungarian border, as part of the Pan-European Corridor IV motorway
- The European Commission has approved non-refundable credits of EUR 940 million for the refurbishment of two sections of the Pan-European Corridor IV rail network. These will double the speed of trains to the Hungarian border.

Slovenia

Key industries

- Agriculture
- Automotive
- Chemical and pharmaceuticals
- Electrical and electronics
- Information and communication technology
- Machining and metalworking

Investment incentives

Financial grants

- Financial grants to companies investing in Slovenia minimising the cost for the entrants in the manufacturing and service sectors

Future policies & consequent opportunities

- The best business environments in the region
- A gradual approach to business-friendly reforms
- Favours greenfield investment in industries

- Expansion of trade within the Euro zone and with other countries as the share of exports in GDP increases
- Structural funds to invest in venture-capital funds
- Focus on constructing/upgrading secondary roads
- Significant penetration of internet for boosting the telecommunication sector
- Availability of the EU structural funds to ensure a significant increase of investment in research and development (R&D), for which it has introduced corporate tax exemption

Switzerland

Key Industries

- Agriculture
- Financial services
- Machinery
- Chemical & pharmaceuticals
- Tourism

Investment incentives

Federal assistance

- In the form of a Federal Tax holiday for up to 10 years for companies boosting the economy in specific regions of Switzerland.

Cantons grants

- Most cantons also grant tax holidays to companies bringing economic value-added functions and creating significant new jobs up to 10 years.

Future policies & consequent opportunities

- Improvements in the macroeconomic environment and market opportunities
- Top-ranking country in Europe in terms of labour market, financing and taxation
- Aim to improve competition in services between cantons. Shareholder rights on executive pay likely to strengthen in 2013
- Few fiscal incentives for foreign investment at the federal level, but some smaller ones at the cantonal level
- Moderating wage growth
- Continuous upgradation in the Telecommunications infrastructure

Concluding remarks

The above section summarises the information in respect of the key sectors, main incentives and policies of each the CE10 economies and these are explicitly discussed in the country profiles. The CE10 region has expertise in a wide range of industries that include agriculture, chemicals and pharmaceuticals, automobile, machinery, construction and mechanical and engineering goods. With a wide agricultural base, India can well focus on the agricultural and primary goods (like raw materials for various manufacturing businesses), which already have a considerable consumer base in the CE10 economies. Similarly, with rising demand for manufactured goods in India, and an equally robust manufacturing base in the CE10 economies, the CE10 economies can benefit from increased trade and investment in the industrial sector.

One of the central aims of the CE10 economies for the future seems to be creation of a business and investor-friendly environment. The region offers a host of incentives in various fields in the form of tax exemptions, greater market access as well as opening-up of sectors for foreign investments. All these incentives are focused on priority sectors such as R&D, infrastructure, construction, transport, Greenfield projects, communication and energy. Majority of the CE10 economies are taking significant steps to increase investments in various sectors enhance trade activity in a host of industries. The CE10 economies, in general, aim at improving sectors such as services, telecommunications, construction, energy and R&D and attract more Greenfield investments in the future. India can definitely benefit directly and indirectly from these developments. The requirement of a well-structured IT industry as a secondary industry for all the aforementioned heavy industries can only increase its demand in the future. India can also take initiatives and benefit from these incentives directly. It can invest in Greenfield projects in the field of infrastructure and help in improving the labour market.

Hence, keeping in mind the existing production base in India, the current scenario of trade relations and future aims of the CE10 economies, both regions are believed to have vested interests in each other and can certainly benefit from increased trade and investment activities amongst each other.

4. Economic indicators of India and Central Europe

Introduction

Due to limited exposure to the global financial sector, active and perceptive monetary and fiscal policies and a strong domestic market, India was able to ride through the global economic slowdown at a much better pace, as compared to other emerging and advanced economies. Similarly, the Central European countries (CE10) fared better than the rest of Europe during the global financial crisis.

Despite Europe being the worst hit region during the financial crisis in 2008-09, the Central European economies performed fairly well during and post the slowdown. The primary factors responsible for this resilient performance during testing times included:

- Ability to diversify the markets and increase business with non- European Union (EU) economies leading to favourable terms of trade;
- Becoming an attractive destination for foreign investors with steady Foreign Direct Investment (FDI) inflows;
- Ability of the governments to largely stick to its fiscal consolidation targets, even with macroeconomic concerns and budget constraints

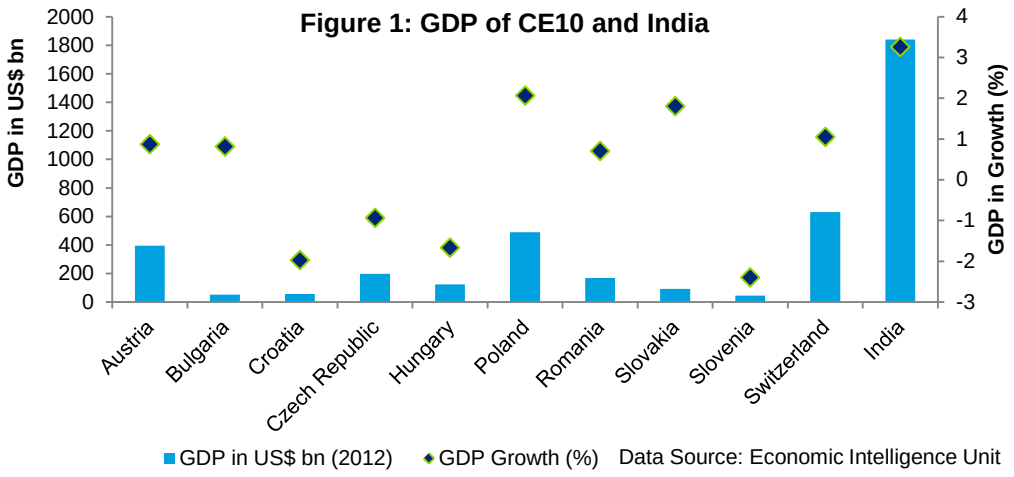
  and

- Resurgence of confidence in the financial sectors of these economies due to domestic regulations being aimed at protecting the financial markets.

However, given the repercussions of the crisis and the continued struggle of the global economy, both India and Central Europe are facing long-term challenges in achieving their targets of inclusive and sustained growth and control over sovereign debt.

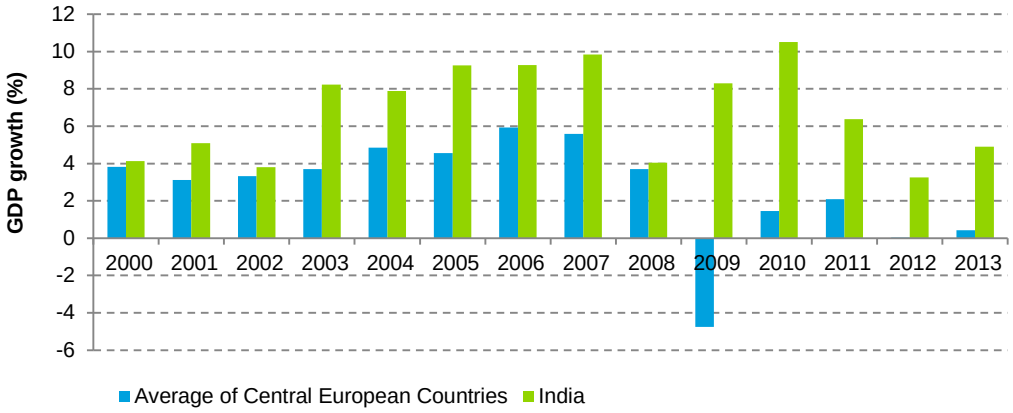
The following section contains an overview of the economic indicators of India and Central European economies (CE10) by discussing the basic macro-economic factors. Understanding of the economic conditions of various economies may give a suitable platform to understand the potential of the trade opportunities in these regions.

Gross Domestic Product (GDP) – Trends in the past decade



The above graph in figure 1 depicts the GDP figures and growth rates of India and the CE10 economies for 2012. With a GDP of US$1.8 billion and a growth rate of 3.24%, India leads the pack in terms of the sheer size of economy, followed by Switzerland with a GDP of US$ 0.6 billion and growth rate of 1.05%. As seen from figure 1, Austria and Poland are other main contributors to the total GDP of the CE10 economies and together with Switzerland constitute 67% of the total CE10 economies' GDP. All CE10 economies are still quite vulnerable to the Euro crisis, especially with sustained contraction of growth rates in this region. Even the top three economies, Austria, Poland and Switzerland, are likely to witness a further slump in the growth rates. With a struggling manufacturing sector and decline in export revenues, as well as, loss of confidence in the financial market, Poland's GDP has been facing a slowdown ever since the later half of 2011. Similarly, due to loss of investor confidence, Switzerland has also been struggling and its GDP is expected to contract in the near future.

Figure 2: GDP Growth (%) of CE10 and India



Data Source: Economist Intelligence Unit

India also faces similar circumstances with a struggling manufacturing sector, negative trade deficit and an overall slowdown in domestic activities. However, even with a decline, India's GDP is much higher than that of the CE10 economies. Thus among the two regions, India is expected to play a larger role in boosting the trade and investment activities amongst the two regions. Buoyed by its three large fundamental sectors i.e. Agriculture, Industry and Services, India certainly has an edge over the CE10 economies, both in terms of size and economic activity.

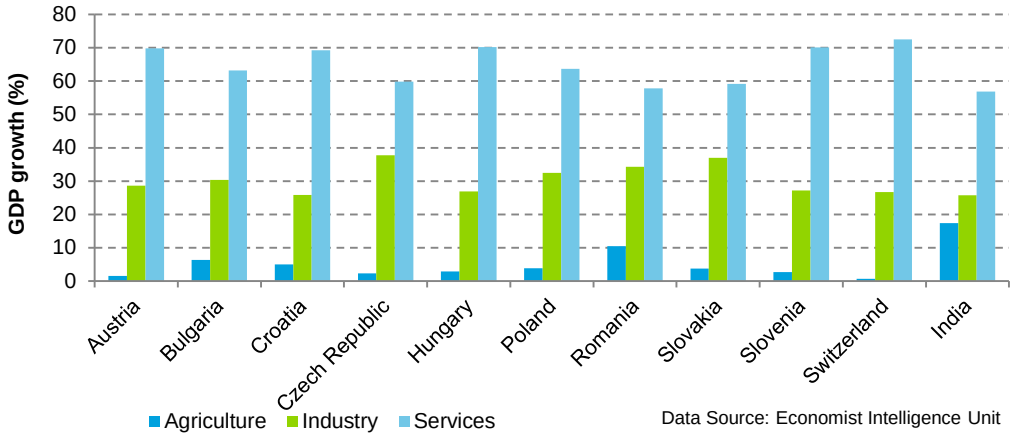
As can be seen from the above graph in figure 2, both, India and CE 10 economies have experienced similar trends as far as GDP growth is concerned. During the pre-crisis growth-oriented period, both displayed promising progress with India outperforming CE10 economies by achieving a maximum growth rate of 9.8% in 2007. CE10 economies also witnessed consistent growth during this period, with 2006 achieving a high growth rate of close to 6%. Both were hit by the financial crisis in 2008-09, with India registering a fall in GDP and CE10 economies experiencing a negative growth rate in 2009. However, as compared to the rest of Europe and the US, both India and CE10 fared better during the crisis and post-crisis period.

During the crisis, the contraction in trade, reversal of capital flows and increased integration with global financial market affected the real and financial sectors in India and more importantly hit the investor confidence. However, with its favorable demographics, resilient economic structure, stable democratic institutions and continued infrastructural investment, India experiences strong mid-term growth prospects. Despite the recent slump, India has managed to surpass Japan in GDP (PPP terms), thus becoming the third largest economy in the world. The Indian economy did display resilience through the crisis, however, its growth has been contracting during the post-crisis era with a relative slowdown in all three sectors, agriculture, manufacturing and services, as depicted in the graph above.

Similar to the Indian story, CE10 economies have also been resilient during the financial crisis as these economies are not as badly affected as the rest of Europe. The sustained resilience of the CE10 economies to the crisis and meltdown of the European market can be attributed to the sustainable trade, growth of the manufacturing sector, public investment and restriction in the exposure of the economies' major banks to the global financial market. The increase in trade with non-EU partners has also supported the CE10 economies. However, continued contraction in the Euro zone has cast a negative impact on the growth of the CE10 economies too. This is depicted in the graph above in figure 2 with growth figures declining from 6% in 2006, in the pre-crisis era, to a contraction of around 0.02% in 2012, in the post-crisis era.

Composition of GDP

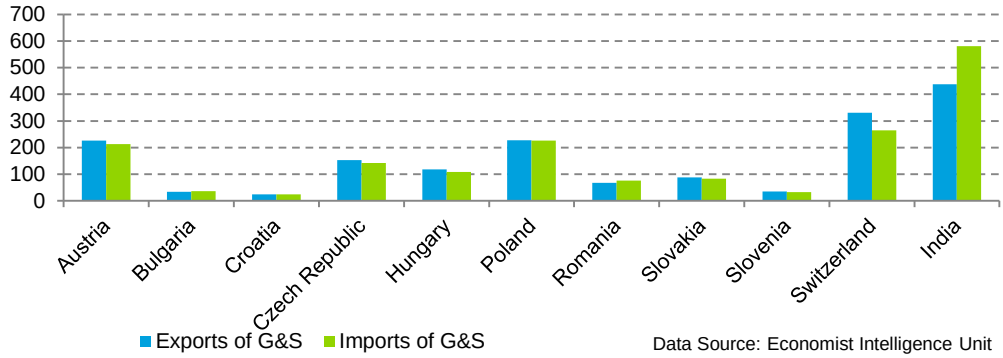
Figure 3: Sectorial Composition of GDP (%)



The above graph in figure 3 depicts an analysis of the sectoral GDP of the CE10 economies and India in 2012. As can be seen from the graph in figure 3, the services sector is the highest contributor to GDP for all the economies including developing economies like India and advanced economies like Switzerland, Austria, etc. Apart from Austria and Switzerland, which have a flourishing tourism industry and Slovenia which has a growing export-oriented IT industry, the manufacturing sector plays a much more important role in the composition of the overall GDP in CE10 economies as compared to India. With automobile, chemical, machinery, manufacturing, infrastructure, steel and pharmaceutical industries at the helm of the growth stories of these economies, the industrial sector plays a critical role in the CE10 economies. The primary sector has the highest contribution for India, followed by Romania. As against 17% contribution of agriculture in the Indian economy, agricultural activities in CE10 economies excluding Romania, on an average, contribute merely 3.2% to the overall GDP.

Latest Foreign Trade Figures

Figure 4: Country-wise Foreign Trade in 2012 (US$ billion)



The above graph in figure 4 shows the overall exports and imports of the CE10 economies and India in 2012. The overall trade activity in India outweighs the trade activities of the individual economies of CE10. However, as is depicted in the graph in figure 4, India has the highest trade deficit among the economies with imports heavily outgrowing the exports. Among the CE10 economies, Bulgaria and Romania are the ones with a negative trade balance in 2011.

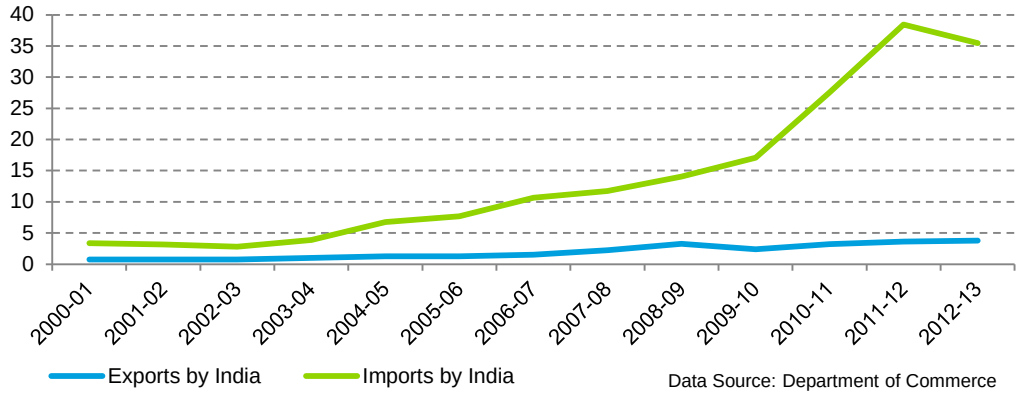
In recent years, India has faced a stiff challenge in controlling its trade deficit owing to the country's increasing imports on account of high domestic demand, persistent oil prices and stagnating exports, mainly due to the decline in external demand. The rise in trade deficit is further leading to mid-term macroeconomic bottlenecks due to the consequent rise in Current Account Deficit (CAD). The services

sector dominates Indian exports with the manufacturing and agricultural sector lagging behind. Primary and agricultural goods still play a major role in India's trade, as the government polices focus on these articles considering the dependence of a large chunk of the Indian population on this sector. Manufacturing and industrial exports have experienced a major degree of volatility thus increasing the dependence of the economy on the services sector for its exports.

Trade has played a critical role in growth of the CE10 economies as well. With the increased trade with non-EU partners, the CE10 economies are in the process to create a niche position for themselves in the global trade. Although not that significant in terms of global trade at the moment, most of the CE10 economies are export oriented. The rise in trade in recent quarters and contraction in demand due to the crisis has led to favourable trade balance for the CE10 economies. The manufacturing sector, especially the automobile sector, has played a vital role in spurring the export growth in these economies. In countries like Czech Republic, Hungary and Slovakia, increase of exports in the automobile sector was one of the only growth drivers[1].

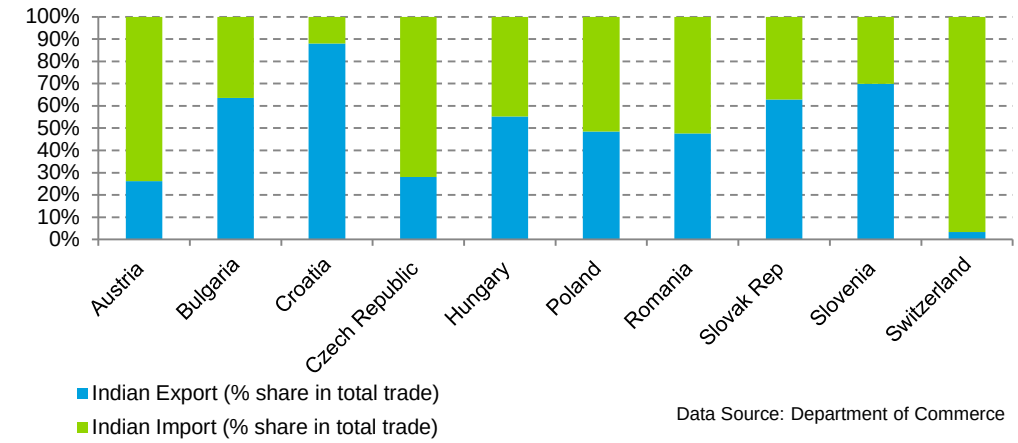
Trade with India

Figure 5: Trade between India and CE10 (US$ billion)



The above graph in figure 5 depicts the total trade between the two regions, which has grown exponentially through the years. The last decade saw a steep rise in trade activities with trade growing from US$3.6 billion in 2000-01 to 37.75 billion in 2012-13. There has been a consistent rise in trade activities between the two regions, which was not disrupted even during the financial crisis, when global trade became adverse. The rise in trade, however, has been lopsided with Indian imports heavily outweighing its exports. As can be seen from the graph, imports by India have grown at a much higher pace than exports by India especially in the last three years (2008-09 to 2012-13) with imports growing at a CAGR of 25.8% as compared to an export CAGR growth of 11.2%. Hence, trade in the post-crisis era has seen a distinct trend between the two regions with Indian imports heavily dominating trade.

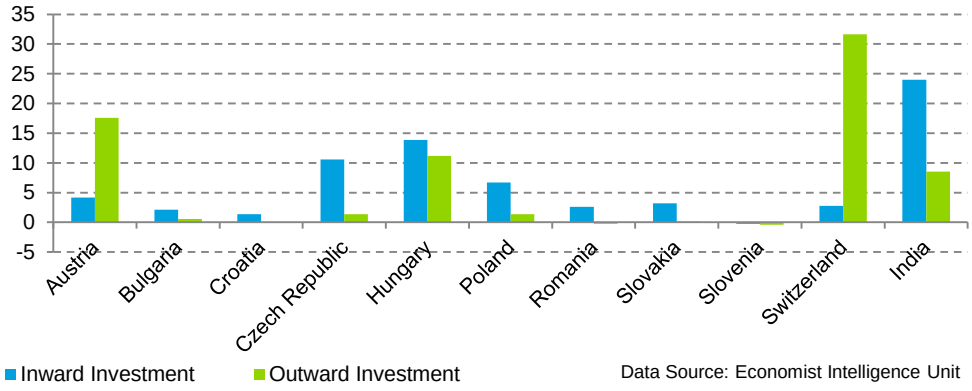
Figure 6: CE 10 Trade with India (2012-13)



The above graph in figure 6 depicts an elaborate picture of the trade between the two regions. It can be seen that Switzerland dominates the Indian imports followed by Austria, whereas, Croatia and Slovenia are at the other end of the spectrum being favourable Indian export destinations among the CE10 economies. Countries like Bulgaria, Hungary, Poland and Slovakia fall in the middle crust with balanced exports and imports. Most of the fiscal policies of the CE10 economies are in accordance with the EU policies with a high degree of trade liberalisation and liberal investment policies. This has greatly helped the region to boost trade and investment activities with India.

Foreign Investment

Figure 7: Foreign Direct Investment (US$ billion)



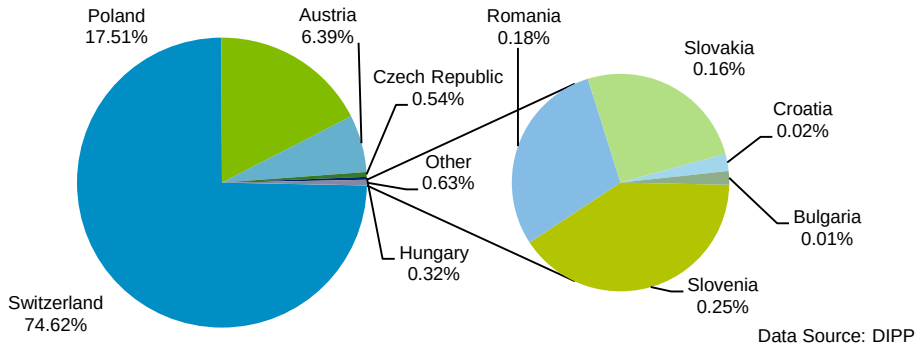
The above graph in figure 7 elaborates the investment activity in the two regions in 2011-12. As can be seen from the graph, Switzerland and Austria lead the pack along with India, as far as, total FDI investment are considered. Foreign investments of Switzerland and Austria are dominated by the outflow of direct investments, whereas, Indian foreign investments are dominated by inflow of direct investments. With relatively stable growth rates, resilient economic structure and future growth opportunities, India has always been an attractive destination of FDI in diverse sectors such as services, construction, telecommunication, pharmaceuticals and consumer goods. With the recent slew of measures taken in 2011-12, wherein more sectors were opened up for foreign investment, India is expected to remain an important destination for global investments. India has also witnessed a significant uptrend in outward FDI in recent years with Indian equity investment resting at US$7.1 billion in 2012-13. India showed a consistent performance even in the toughest of times and hence is looked upon as a strategic international player and an important source of funds for other economies. India is expected to be the largest source of emerging market Multinational Enterprises (MNEs) by 2024[2].

FDI activity in the CE10 region, other than Switzerland and Austria, has been low, with the dominance of Poland. However, when compared with the rest of Europe, the FDI activity in CE10 is comparatively high and more importantly consistent and stable. Their ability to remain an attractive destination for FDI even during the Euro crisis, with a stable inflow of investors, sets the CE10 region apart from the rest of Europe[3]. The general perception of high yields and declining risk due to relatively stable financial institutions has been attracting foreign investment into the region. The region has investment-friendly policies, which are in sync with the larger policy framework of the EU. This has helped in increasing investment activities in the region. With added focus on sectors such as Infrastructure, Greenfield investments, energy, automotive industry, manufacturing and research and development (R&D) projects the CE10 economies are expected to consistently attract FDI in the coming years.

[2] IBEF report - Indian Investment Abroad - Overseas Direct Investment by Indian Companies http://www.ibef.org/india-at-a-glance/investments/indian-investments-abroad.aspx
[3] EU11-Regular Economic Report Issue 26, January 2013- The World Bank

Central European investments into India / from India

Figure 8: Central European investment into India (Country-wise %)



The above chart in figure 8 depicts the cumulative inflow of FDI into India from April 2000 to October 2013. As can be seen from the chart, a large portion of the FDI inflow is from Switzerland with a contribution of close to 75% followed by Poland with a contribution of close to 18%. India and Switzerland share close ties, with more than 150 companies investing in India to the tune of CHF2billion (Swiss Francs) and employing over 60,000 workers[4]. Investment from Switzerland spans over a wide range of sectors such as engineering, chemicals, pharmaceuticals, tourism, financial and logistics services, as well as industrial equipment[5].

Among the other CE10 economies, both Austria and Poland share a conducive atmosphere for investments with India. There are close to 500 Austrian companies in India in diverse sectors such as infrastructure, engineering, automotive and energy. Overall, the inflow of investments from CE10 economies since 2000 constitute less than 2% of the total FDI attracted by India. This signifies that there is further scope of invetsments from Central European countries into India.

Conversely, during financial year 2012-13, India has invested US$231 million in the Central European countries with major Indian companies investing in Europe include Arcelor Mittal, Videocon, Escorts Ltd, Strides Arcolab, Reliance Industries, Ranbaxy, Essel Propack, Zensar Technologies Ltd, Tata Consultancy Services, HCL Technologies and Infosys. Out of these investments, Switzerland has landed equity investments of US$228 million.

[4] Swiss-Indian Chamber of Commerce report (http://www.sicc.ch/pdf/June-18-2012-New-Delhi-Record-Note-Indo-Swiss-cross-border-acquisitions.pdf)
[5] Annual Economic Report 2011-12 of The Economic and Commercial Affairs Division of the Swiss Embassy

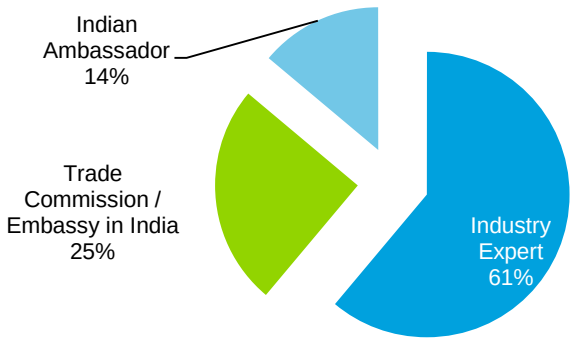
5. Doing business in Central Europe & India
An empirical analysis

Methodology

After gaining an insight about economies of Central European nations and their current economic relations with India in previous two chapters, we will now undertake an empirical analysis of the existing trade and investment relations and the prospective opportunities for trade enhancement. The section will also take a closer look at the corresponding barriers in the trade and investment relations between India and CE10 economies. The idea behind this analysis is to understand and document the practical view-points/opinions of the stakeholders with respect to foreign trade and investments. Accordingly, we have tried to capture the opinions of those specifically identified experts who are closely related to this topic through interviews/surveys. The research team of Deloitte has further analysed these observations to identify some key trends.

In order to get a fairly broader perspective, the research team of Deloitte approached various industry experts, Indian Ambassadors in some of these countries and personnel working in various embassies/trade commissions of these countries in India. The industry experts included CFOs/Directors/relevant personnel of Indian companies having notable existence in Central Europe or European companies having establishments in India or companies aspiring to establish some relationship in the Central Europe. Following chart shows in figure 9 distribution of profiles of the interviews considered in this analysis.

Figure 9: Profile of Interviewees



The observations of this specifically identified audience (henceforth referred as “interviewees”) were recorded through three personal meetings, telephonic Interviews or online surveys. The results obtained from all three sources were then combined for the purpose of analysis. The interviewees were asked a set of 8-10 questions and their answers to such questions were recorded for further analysis. The pointers below capture a broad overview of the questions asked from the interviewees.

- Which European countries are considered as priority countries/covered in your expansion plans and why?

- Could you please highlight top 2-3 industry sectors with specific regional and market advantages in these countries? Are any sectors showing significant presence in this region or emerging currently or can be considered as priority for trade / investment enhancement in this region?
- Which parameters largely define your decisions on targeting your growth markets in Central European countries i.e. which are key attractiveness factors of CE10 economies?
- Please highlight key bottlenecks or challenges faced by the industry in Indo-Central European trade and corresponding solutions / suggestions for the government / industry associations etc.?

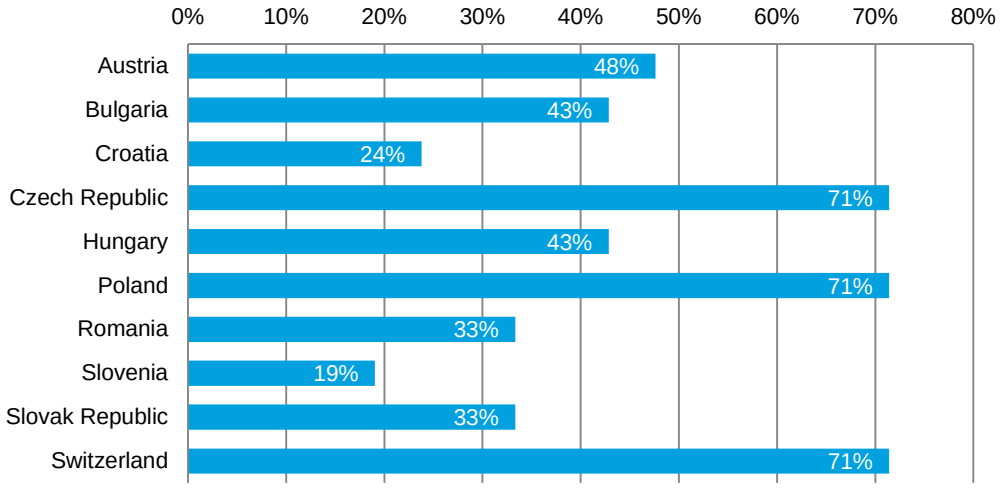
Answers received from all the interviewees were compiled in order to analyze the answers to relevant questions in totality. Following section discusses the results from such interviews and analysis related to the same.

Significant observations

Priority countries for trade/investments

We asked the industry experts from various sectors/business backgrounds about which are the countries in the Central Europe that attract them to pursue business expansion. It was interesting to note that in most cases either the respective companies already had some sort of establishments in such countries or were exploring opportunities in such countries.

Figure 10: Priority countries for Indian Businesses

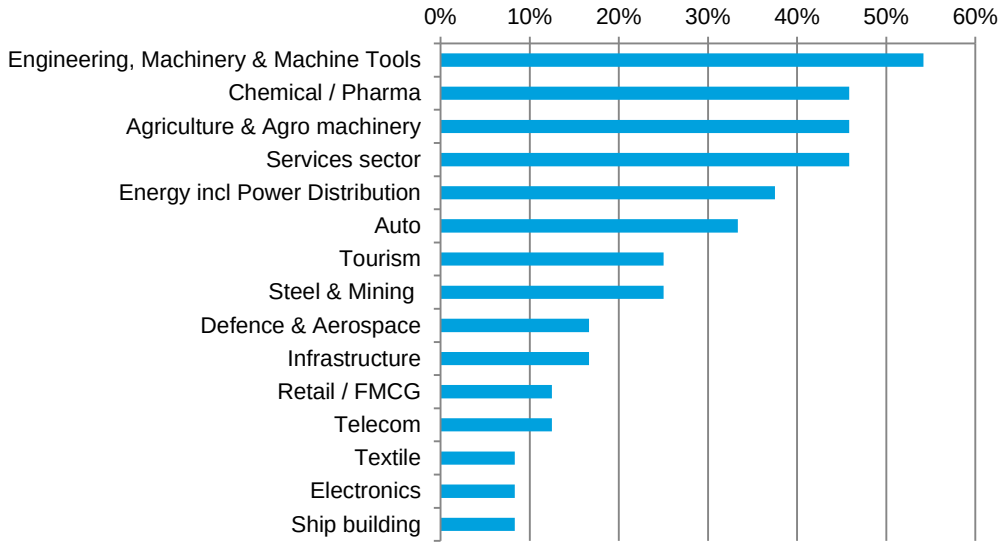


As can be seen from the above chart in figure 10, Switzerland, Poland and Czech Republic are considered as the top three priority markets by the Indian businesses looking at exploring this region for business development or by the companies already having some establishments in this area. Not surprisingly, these economies top the GDP figures among the CE10 economies along with Austria (which is voted by 48% of interviewees as a fourth country of priority) and have fairly good growth prospects in the near future. Considering their economic dominance in the Central European region, these four countries come as natural choices for business establishment/development. These countries already have stronger trade relations with India as compared to others and account for 69% of Indian exports to CE10 economies and 94% of the total trade between India and CE10 economies. Slovenia and Croatia have received the lowest number of votes with 19% and 24% of respondents choosing these countries respectively.

Key industries/sectors in various countries

After identifying the key markets for investment by Indian businesses, it was pertinent to understand various industries that could be considered for trade/investment enhancement. Accordingly, the interviewees were asked to identify specific industries/sectors which would be beneficial for further growth?

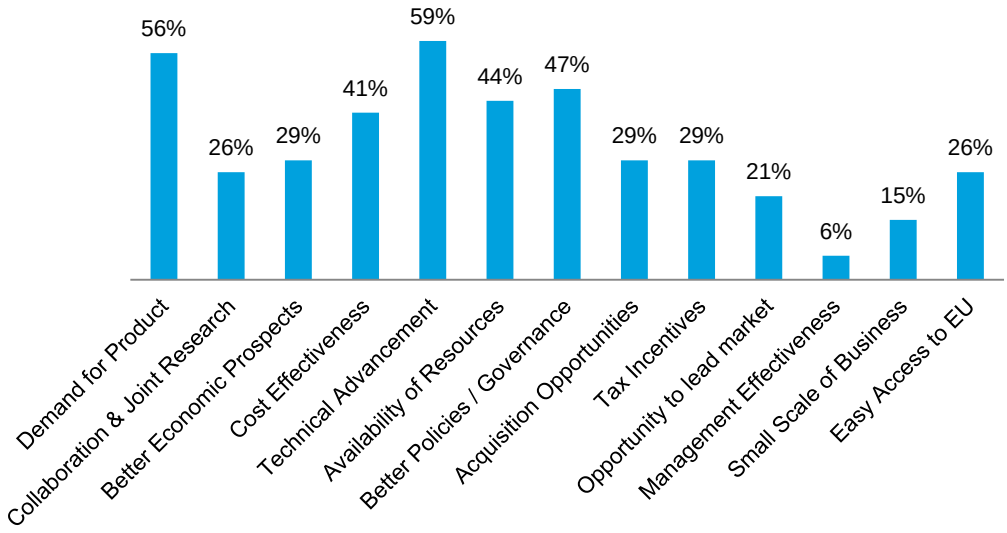
Figure 11: Priority Sectors for Indo-CE trade



The above chart, in figure 11, shows that engineering, machinery & machine tools sectors had a distinctive demand for business establishment/development or investments. More than 50% respondents considered these sectors as potential for adding further value to the Indo-CE10 relations. Most of the Central European economies are already strong in technological aspects and have a rich heritage of established businesses in engineering and manufacturing of machinery and machine tools. Hence these sectors are considered as key drivers for initiating further investments in India, leading into consequent trade opportunities. Also, as Indian businesses venture and emerge successful outside the domestic markets, the increased need for technological support can further form the basis of investment for Indian players in the CE markets. These are closely followed by other potential sectors such as chemical/pharmaceuticals, agriculture and agro-processing sectors. With respective dominance by India and CE10 economies in IT/Software services and financial services respectively the services sector is also important from an investment and trade enhancement perspective. Other than the above sectors, energy (including power generation), automotive, tourism and defence are among the other sectors identified for promoting trade and investment relations between India and Central Europe.

Country/region specific key advantages – attractiveness factors

Figure 12: Attractiveness factors of Central Europe

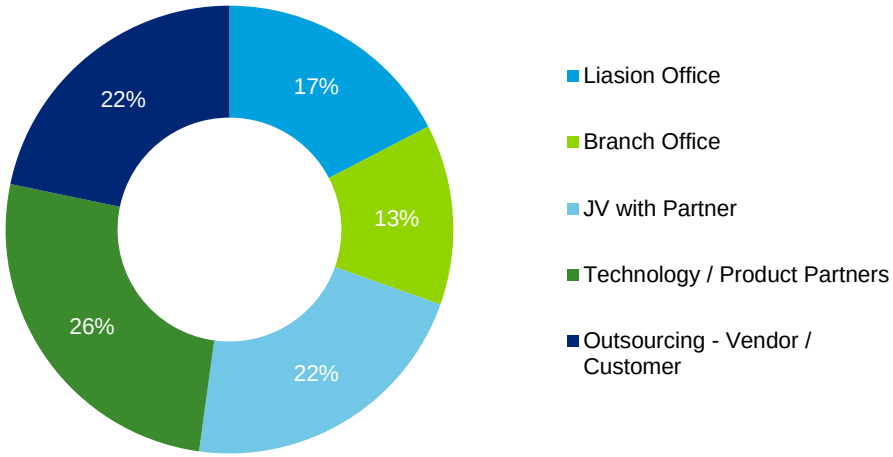


Availability of advanced technology and a growing market, which has a potential demand for various products, are the key factors attracting the Indian traders and investors to the CE10 economies. Other notable factors attracting the investors are the pro-trade policies of the European nations (including notable tax incentives), availability of resources and cost effectiveness, which depicted in the above graph in figure 12. Also, more than a quarter of the interviewees perceived the Central European countries as a route to venture into the bigger European markets, particularly Germany. Establishments in these countries offer a cost effective and easier way of access to the European markets. Additionally, opportunities for acquisition and better economic prospects of these economies as compared to some of the other European countries like Greece, Spain etc. attract the investors towards CE10 economies.

Preference of nature of establishment in Europe

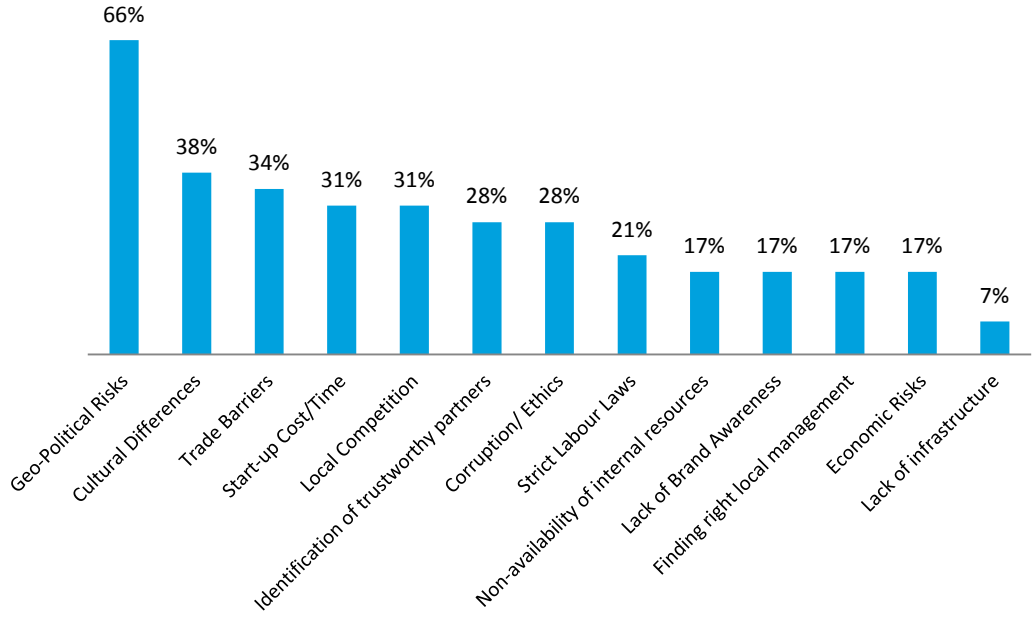
Another key aspect was to identify the nature of establishment and relationship being preferred by the Indian investors looking forward to venture in the Central European markets. Not surprisingly, 'Technology partnership' surfaced as the most common relationship, followed by outsourcing business with vendors/customers and joint ventures with established players. Also, some of the companies would prefer to setup a liaison/branch office in Europe.

Figure 13: Preferred form of Establishment



Key bottlenecks / challenges

Figure 14: Challenges / Barriers in External Trade



Various challenges/barriers faced by the business world vis-à-vis the Indo-CE10 economies was the next key factor to be looked into.

The biggest challenge considered by almost two-third interviewees was the ‘geopolitical risks’, which basically directs us towards the political relations between India and the CE10 economies. This signifies the importance of political relationships between the two countries or rather the lack of it. Dearth of government initiatives, bureaucratic delays, risks associated with currency fluctuations and political instability in wake of challenging economic conditions are primary risks having an impact on the decision-making of traders and investors. Additionally, cultural differences, trade barriers and corruption are also other related challenges. Almost one-third interviewees thought that the presence of stiff local competition

and additional costs/time required for starting-up of any venture posed significant bottlenecks. Another important aspect, which is critical for inter-country trading, is identification of trustworthy partners and finding right local management personnel.

Potential solutions / suggested actions

In background of the aforementioned challenges, researchers asked the industry experts to opine potential solutions to these problems, either to be implemented by the Government or by any of the industrial organisations in India or Central Europe. The table below summarises various suggestions emerging from the discussions, which can be considered by the Indian Government in order to enhance trade with CE10 economies.

Trade incentives & agreements

- Free Trade Agreements
- Tariff concessions
- DTAA
- Enhanced trade incentives

Help in outbound investment

- Identification of trustworthy partners
- Funding requirments
- Outsourcing opportunities
- Formation of JVs

Create platform for interaction

Promote Brand India

One of the key aspects suggested made by the maximum number of interviewees was the need for a collective effort by the industry bodies and the Government to identify trustworthy partners for trading and investment. Also, creation of platform to trigger proactive interactions amongst business communities in India and CE10 countries, by way of organising events and sending delegations, emerged as another progressive idea. Few interviewees also suggested that explicit promotion of ‘Brand India’ in these countries might also result into further integration of the two regional economies.

Opportunities for investing in India

Although the interviewees primarily focused on trade between India and CE10 economies and investment opportunities for Indian businesses in Central Europe at large, they also shared thoughts on opportunities for Central European economies looking at investing in India. Most of the respondents clearly mentioned that it was both unlikely and unrealistic for small-scale traders from the CE10 economies to invest in India. However, they believed that India could certainly benefit from acquiring advanced technologies along with investments from these countries in various sectors such as –

- Infrastructure (specifically in railways and construction)
- Engineering/Heavy machinery
- Aerospace and Defence
- Financial services
- Agro-processing
- Energy

Other country-specific observations

This section strives to capture other relevant aspects that are valuable in terms of trade and investments with each of the CE10 countries. The data is presented in a country-wise format.

Austria

Though Austrian exports to India are more than its imports, it is an important trade partner for India. Austrian imports from India span across a number of products like machine tools (contributing around 50% of total imports), finished products, tents, food, carpets, garments, gems and leather. Further, already around 120 Austrian companies have a base in India which comprise of almost 85-90% of small and medium scale companies predominantly operating in sectors like engineering, construction, tunnelling, product-solutions for power generation, automotive, industrial cranes and machine design. Although few companies have wound-up their operations in India in the recent years, overall, the Austrian business community is quite satisfied, especially considering the fact that auto companies were benefited even during the global economic slowdown.

Further, being one of the top three places in the world for quality of living, Austria enjoys an advantage in environmental technology (in areas such as agriculture, soil, etc.), energy, hydro and renewable energy. It is home to production units of various automotive suppliers like BMW, Mercedes Benz and General Motors. With minimalistic penetration of brands, retail is another potential sector in Austria. Also, technology for specific products like railways and high-end machineries can be obtained through tie-ups with Austrian companies. Though the technology companies in Austria are predominantly small-scaled, they possess very high technologies, which present good opportunities for Indian firms to acquire such targets.

It was also noted in one of the interviews that a Lifestyle exhibition is being planned to be conducted in India sometime during September or November of 2013, which represents the efforts taken by the Austrian Government on promoting trade in India.

Bulgaria

Bulgaria draws a major percentage of its GDP from agriculture. Additionally, with low incomes of its populace, tax rates in this country are significantly lower at 10% for both individuals and corporates. Regarding trade with India, there are trade barriers restricting exports to India and Bulgaria acts as a bridge as it redirects most of the imports from India to other parts of Europe.

Croatia

Croatia became a part of the EU on 1st July 2013 as a full member.

Various areas of cooperation were identified during the 9th meeting of the Indo-Croatian Joint Committee on Trade and Economic Cooperation held in Zagreb in March 2009. The country's legislation in the field of drugs and medical products has been harmonised with the EU legislation in this matter. The Indian pharmaceutical companies looking at marketing their products in Croatia should, therefore, follow the same procedure as they do with regard to export of these products to the EU. Further, specific areas within Information Technology sector such as electronics, software development, etc., need to be explored by Indian companies to market their products/enter into technical tie-ups with the Croatian counterparts operating in these sectors. Croatian companies are aware of India's phenomenal strength in these areas but it will require considerable efforts by Indian companies to enter this area where American and European companies already have a strong presence.

Telecommunication sector is fully liberalised in Croatia and companies in this sector are mostly under private ownership. Strong possibilities exist for cooperation in this sector but Indian telecommunication companies will have to make rigorous efforts to be able to penetrate this sector through joint ventures/tie-ups. The Croatian companies also have expressed their interest in making joint efforts in the field of oil and gas exploration and production in India.

Croatia also has considerable experience in construction and engineering sectors. Strong possibilities exist for cooperation between Indian and Croatian companies in specific fields of road construction,

construction of bridges, viaducts and tunnels. Similarly, Croatia has a strong food processing industry with modern technology, which could be explored by Indian companies through technical tie-ups/joint ventures.

Czech Republic

Czech Republic was the hub of manufacturing/technology for Russian businesses and boasts about presence of high level technical skills in manufacturing of high tolerance machinery, steel, forging, casting etc. Thus Czech Republic is doing relatively better than other countries with consistent (though flat) growth and unemployment under 10%. Consequently, the Czech economy is not showing any signs of strains, as is the case with Ireland, Greece and Spain etc.

Some of the Indian companies already have some establishments in Czech Republic. Few notable Indian players operating in this geography are Larsen & Toubro, Ashok Leyland, Infosys, SWAN, Tata Tetley, Mothersons Auto, Centex (yarn), Glenmark, PMP components (Piramal); Café Coffee Day and Punj Lloyd. Most of these companies have acquired a local company. Other potential areas for Indian companies are exports in textiles, Nano technology, bulletproof dresses, pharmaceuticals, automobiles etc. A lot of enthusiasm is also seen towards India in the areas of Bollywood, Ayurveda, spirituality, Hinduism, Indian food and brand India picking up. This leads to the fact that increased brand promotion activities would help the Indian trade relations enormously.

Czech companies are already assisting India primarily in the Defence sector with supply of assault rifles, winter clothing and even trucks for carrying Prithvi missiles. Czech Republic is further willing to share technologies including nuclear technology with India. Currently, heavy engineering plants and industrial machineries have been built with earlier Czech Republic, and other companies like Skoda and Tatra have sizeable presence in India. However, with bureaucratic delays in most of the states, few companies including Skoda are considering the option of withdrawing investments from India and setting-up more units in China.

Last year 135 Indian companies were present in an International Trade fair in Czech Republic, where Anand Sharma, Indian Commerce Minister, was invited to be the chief guest. Similarly in March 2013, 31 Czech companies visited India through various delegations. The Czech Prime Minister is expected to visit India in November 2013 for further discussions on upgrading the trade commission to ministerial level.

Hungary

Hungary has a significant potential to be a major trade partner for India and this can be explored through technical co-operations and partnerships. Hungarian companies already have presence in India in specific sectors like pharmaceutical, defence and IT. However, currently there seem to be a dearth of liquid cash for further investments in India.

Technologically, CE10 countries, including Hungary, offer a much advanced platform for investors. With tax and regulatory structures being streamlined for smooth running of businesses and flow of goods, Indian companies may gain market access and advantages to the above stated by acquiring and forming JVs. Indian investments in Hungary have been witnessing an upswing in recent years and investment flows are spread over several sectors such as IT, pharmaceuticals, power equipment, auto-components and food processing. TCS, Genpact, Sun Pharma, Crompton Greaves, SMR, Bakony Wipers, Orion, Hema Engineering and COSMOS are the major Indian investors with footprints in Hungary. Indian investments in Hungary are in the range of US$ 1.3 billion employing more than 8,000 people in Hungary.

It was also mentioned by the interviewees that though the Governments are making arrangements/programs for collaboration across countries, perhaps industry bodies like CII and similar outfits in Hungary could facilitate delegations more often and vice versa in order to strengthen “Brand India” in Hungary. Organising road shows and carrying out other activities would also be helpful in this direction.

Poland

With imports soaring to US$1.2 billion and exports resting at US$0.6 billion (2012), Poland is facing a

problem of trade imbalance at an overall country level. India is an important trade partner of Poland and exports to India registered a growth of 57% during 2011.

There are number of Indian companies, majority of them in the BPO sector, already having establishments in Poland, which are serving European markets with a majority of their talent pool comprising Swedish, Dutch and Polish professionals. As such these companies are creating better job opportunities in Poland. Although Indian investors like Lakshmi Mittal/Ranbaxy have invested around US$80mn in Poland, more investments are required.

Even India is one of the favoured investment destinations for the Polish investors and ranks second after Singapore in terms of investments from Poland. Polish companies had invested about US$180 million in India by the end of 2011. Some of the key Polish projects in India are Canpack in Aurangabad (makes cans for coke), Bella Premiere in Tamil Nadu (manufactures hygiene products), Luxus India (makes slide doors for wardrobes) and Polmer (fabricates steel frames for train batteries).

Further, there have been some notable developments on the external trade front in last decade as Poland joined NATO in 1999 and EU in 2004. As for its involvement in India, Polish Prime Minister visited India in 2010 followed by its Finance Minister in 2011. Similarly, “Brand India” has been garnering eminence in Poland in the recent years with growing interest of business delegations coming to India. Recently two polish delegations visited India in January to March 2013. India’s competitor on the global economic front, China, has been aggressively engaging in trade activities with Poland. Chinese Prime Minister and numerous delegations have already visited Poland. Also, there is a special ongoing program to boost Poland-Chinese trade named “GO CHINA”. Competing with China’s marketing initiative has been difficult for India and as such India has not been able to establish a strong foothold as yet. However, Indian exports stand a great opportunity and advantage due to their high quality. Also, India’s unclear policies and entry barriers are inhibiting stronger trade ties.

Romania

Romania joined EU in 2007. Its cost of living is not as high as that of other West European countries, thus resulting into lower cost of operations. Romania serves as a connection between the Central and Eastern Europe through Black sea. Its main port Constanza is linked by Danube River, which further reduces the cost of transportation. Also many businesses have production facilities in Romania to facilitate sales in the European markets. What further attracts the business community is the absence of custom duty and tariff barriers.

India’s trade relations with Romania were not much affected by the economic slowdown in last few years. Romanian exports to India comprise heavy machineries, automotive components, chemicals, fertilisers and wood products, while raw materials, minerals, textiles, pharmaceuticals and agro products constitute the imports from India. Investments by Romania in India are very limited with a company (URB) dealing in bearings and recent investment from Renault. Lakshmi Mittal, Ranbaxy, WIPRO, Genpact are the Indian companies who have invested in Romania. However, with the total investment ranging between US$700 million to 1 billion, India does not fall in the first 50 countries in terms of making investments in Romania. Romania draws its maximum percentage of the investor pool from Netherlands, Germany, Italy, France, Cyprus, Hungary, Turkey, etc.

Slovakia

Slovakia enjoys a unique locational advantage in Central Europe as it is not far to the west and comparatively close to east Europe. It enjoys a stable currency and is the only country in the region with a positive growth (over 3%). It is well-equipped with strong infrastructure like airports, Danube River and highways, which make it an ideal transport and storage hub. Slovakia has historical expertise of over 100 years in the automotive sector and has an advantage in terms of lowest labour costs (even lower than India). Also, due to Slovakia’s unique location, car parts can be stored/produced in the country to give players a flexibility to serve markets in Europe and at the same time ensure connectivity with the suppliers. In addition, other Japanese firms have also established production units to manufacture trucks here.

In Slovakia, sovereign funds are made available on a case-to-case basis, mainly to encourage upcoming

sectors from a growth perspective. Slovakian government/industry cabinet has shown a keen interest in investing in India in energy (specifically clean energy), automotive machinery, food industries, distilleries and breweries. Also, there is a huge potential in the Defence sector as suppliers to Indian army.

Slovakia is a small country with an estimated population of 5 million. Domestically, tourism sector can be explored by Indian hotel chains from a wellness, adventure and heritage perspective. Additionally, Slovakia can offer good opportunities to set-up a base to serve the larger European markets. Indian players can look at setting-up high-tech industries (with their expertise), call centres and BPOs (players like HP, IBM and Dell already have presence) for serving European clients. Healthcare is another sector that can be potentially explored. Due to cost issues and locational benefits, Slovakia is expecting patients from high cost countries like UK to come to Slovakia for treatments.

Though Slovakia is dealing with larger civil matters like safety, legislation issues and judicial framework, India has a huge potential for trade with Slovakia. Slovakian companies are also concerned about the quality of goods supplied by the Indian entrepreneurs. It is suggested that Indian government should develop a mechanism wherein complete information about Indian companies is displayed on an online portal such that before engaging with these companies, their background and status can be assessed. The portal should help them identify tax defaulters, companies charged with a criminal case or forgery and details about the actual owners, etc., to negate bad experiences. Indian companies need to revisit their approach strategy in order to reach out to Slovakia.

Slovenia

Slovenia, initially a part of Yugoslavia, capitalises on availability of resources. It also boasts of specialised skills in underground mining. There are number of Slovenian companies currently working in India including a machine manufacturing company in Chennai, a pharmaceutical company and an industrial line for bakery in Bangalore, and some other joint ventures with companies in Coal and Solar energy sectors.

Slovenian Prime minister has visited India along with business delegations, during which Slovenia signed a number of MOUs with India.

Switzerland

Switzerland is the largest Central European trading partner of India as we have already discussed in the earlier sections. Switzerland has also shown a positive growth in the area of innovation. Top areas of investment in Switzerland are technology, R&D, outsourcing, banking and manufacturing of precision and medical equipment/devices. Other attractive sectors of this country are primarily food processing and chemicals. Small & medium companies form roughly 99% of Switzerland's trade and investment base i.e. companies with less than 250 employees dominate the economy.

With straight forward and less complex administrative procedures, minimal bureaucracy and corruption, low interest rates and easy funding options, there are multiple opportunities for Indian business communities for mergers & acquisitions with small firms doing niche businesses in the space of manufacturing. Indian companies can also explore the possibility of getting more outsourced businesses from the Swiss companies. However, this also makes it very important for the Indian investors to identify the right partners in Switzerland for successful trading.

Concluding remarks

This section discussed the natural inclination of Indian investors towards four big countries in the Central Europe, namely, Austria, Czech Republic, Poland and Switzerland. However, it also shows that there are number of opportunities in countries like Slovakia or Hungary, where even few initiatives from the Indian Government or Industry organisations will lead to tremendous growth in trade and investment activities.

The segment highlighted key factors like technological advantages, cost effectiveness, market demand and availability of resources as influencers for investors to make further investments in Central Europe and India. However, one cannot rule out the possibility of certain challenges/barriers in free flow of trade such as geo-political risks including political instability, currency fluctuations, cultural differences and government-imposed trade barriers etc. Apart from highlighting key concerns, the analysis also draws certain suggestions in order to overcome these challenges and enhance the trade activities. The most prominent suggestion is in respect of creation of a platform for further interactions between the two business communities and to increase pace of bilateral events and brand promotion activities across countries in order to facilitate identification of right partners for business expansions. It can be observed that although the Central European countries have initiated a number of events and trade fairs along with delegations visiting India on numerous occasions, India is yet to reciprocate in the same manner..

The section also discusses specific potential sectors, which have a potential for adding significant value to the trade and investment relations between India and Central Europe and hence need to be targeted with focused efforts in the coming years. Additionally, some of the sectors are particularly popular in specific countries, which have been highlighted in the country-specific observations towards the end of the section. On a broad level, one can say that with most of the Central European countries having rich heritage and a strong base of technology, it will be helpful for India to tie-up with companies that can provide the desired technological edge and access to the European market in other industries including pharmaceuticals and raw materials for manufacturing.

In all, the analysis concludes that there are enough opportunities for trade and investment enhancement for India in this region and vice-a-versa, provided adequate efforts are taken in order to reach the potential that lies in these relations.

6. Competitiveness analysis of various sectors

Introduction

After studying the theoretical aspects of trade and investment relations between India and CE10 countries and analysing the practical aspects through empirical evidences, this section will focus on future opportunities for trade enhancements. The inferences drawn in the section are based on the statistical analysis of historical export and import data and relevant trade patterns of each country. Here we would also discuss competitive advantages available to India as well as Central European countries based on their individual export competencies.

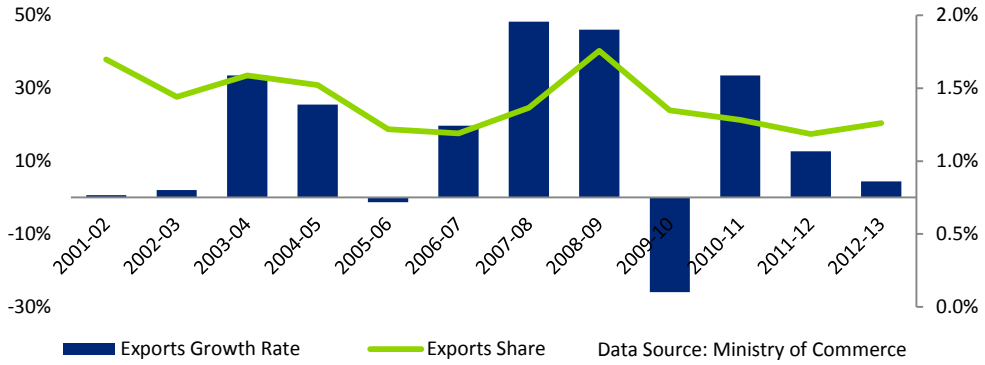
This chapter analyses various sectors relevant to these economies and tries to identify those specific sectors, which can play an important role in enhancing the trade relations keeping in mind the trade patterns, particularly the export patterns of the said countries. Initially the section will track the export and import growth between the two regions and then go on to discuss their share of trade, finally depicting the integration between the external sectors of both India and the CE10 economies. Furthermore, by calculating different trade indices such as the Trade Intensity index, the Regional Hirschman index and the Complementarity index, the India–CE10 trade relations will find a representation in the context of India's trade patterns with other major economies such as the US and China.

Both India and the CE10 economies have experienced relatively stable growth rates in the last decade and have focused on diversifying their trade in terms of commodities as well as partners, which has shown credible results. India has consistently shifted its focus from the exports of primary goods towards that of services as well as manufactured goods. At the same time, it has also ventured into newer territories by increasing trade with different partners apart from its traditionally major partners like the USA, China, UAE etc.

Similarly, the CE10 economies have focused more on diversifying their exports among services, manufactured goods and agricultural products. The efforts made by them for increasing trade with different economies outside the EU have paid rich dividends. In such a scenario, the regions are well-placed to enhance their trade relations. With the increasing need for investments and imports for priority sectors like infrastructure, energy and education along with consistent demand for consumables as well as capital goods in both regions, the scope of trade and investment has certainly improved. There are remarkable opportunities in India to get involved in infrastructure and energy sectors through FDI and export of machinery and equipment to India with the service industry as an ever viable option. The endless demand in India for consumer and primary goods is a promising situation for the CE10 economies, thus pushing them to channelize their exports to India. Thus, a rise in trade activity between the two regions can definitely be seen as a boon in the efforts to increase their contribution to the global trade.

Patterns observed in Export growth & export share

Figure 15: India's Exports to CE10



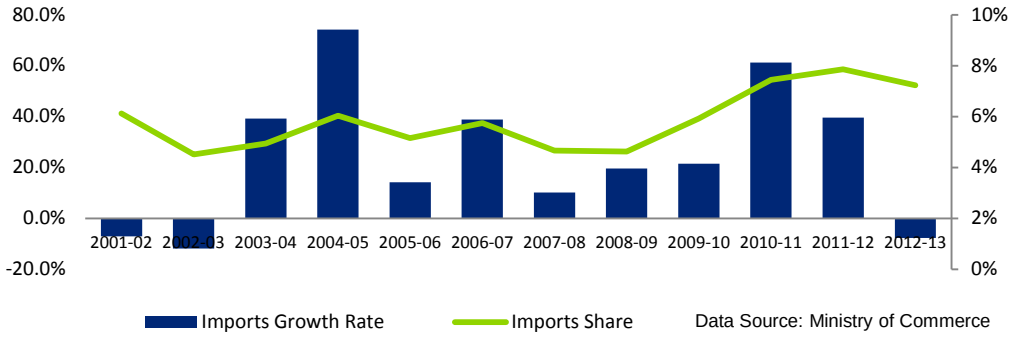
The above graph in figure 15 plots year on year growth in volume of India's exports to CE10 countries. It also reflects the contribution made by CE10 countries to India's total exports. Growth figures in exports have seen high degree of fluctuation hitting lows in 2005-06 and 2009-10. In 2005-06, half of the economies in CE10 recorded negative growth in imports from India.

India's global exports, apart from services, are predominantly dominated by primary goods and exports to the CE10 economies are no exception. India's export basket to CE10 economies mainly comprise of the primary goods such as garments and textiles, fabrics, yarns and footwear, etc. Although dominated by these products, there has been a recent shift of exports towards secondary sector products such as chemicals, pharmaceuticals and auto-parts, amongst others.

The corresponding dip in the share of exports is in accordance with a dip in the export growth. Year 2009-10 saw exports contracting by a decade-low figure of negative 26%. Hit by the financial crisis, exports struggled across economies due to a lack of global demand. Being one of the worst hit areas due to the EU crisis, demand further contracted, thus depicting a dip in India's exports to the CE10 economies. In 2009-10, all of these economies, except Slovenia and Croatia, recorded negative growth in imports from India. India's exports to CE10, however, saw a partial recovery in the post-crises era with a significant growth in exports to Switzerland, Poland and Czech Republic.

Patterns observed in import growth & import share

Figure 16: India's Imports from CE10



The above graph in figure 16 plots year on year growth in volume of India's imports from CE10 countries. It also reflects the contribution made by CE10 countries to India's total imports. Imports from this region have experienced a high degree of volatility during the pre-crisis era. However, they displayed a consistent growth in the post-financial crisis regime, reaching the highest ever import figures of US$36 billion in 2011-12. Among the CE10 economies, the most important import partner is Switzerland consistently contributing more than 80% of Indian imports from the region. The volatility of imports is predominately affected by the volatility in imports from Switzerland.

With a more evolved, matured and dominant industrial sector, exports to India from CE10 economies are dominated by industrial and manufactured goods. In general, the CE10 economies have witnessed an export-oriented growth with the industrial sector at the helm of the rise in production and output. Typically India's import basket from CE10 economies include machinery and equipment, iron and steel, auto-components equipment for energy sector, pharmaceutical products and gold.

Export and trade intensity indices

The export and trade intensity indices provide us with an indication of the intensity of the trade relationship between two countries/regions. The Export Intensity Index indicates whether a country's exports are more (as a percentage) to a particular destination as compared to other parts of the world or not. It is defined as the ratio of two export shares. The numerator is the share of the destination of interest in the exports of the region under study (the source country) while the denominator is the share of the destination of interest in the exports to the world as a whole. The trade intensity index is the ratio of the total trade share of a country/region to that of world trade with a partner. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade. Thus, as opposed to export intensity index, this index also accounts for the import flows between the trade partners. Both the indices take values between 0 and infinity and a value greater than 1 for both implies that the source country exports/trades more (as a percentage) to/with a particular destination as compared to the rest of the world on an average.

Export intensity index[6] is the ratio of export share of a country (or region) to the share of world exports going to a partner. It is calculated as:

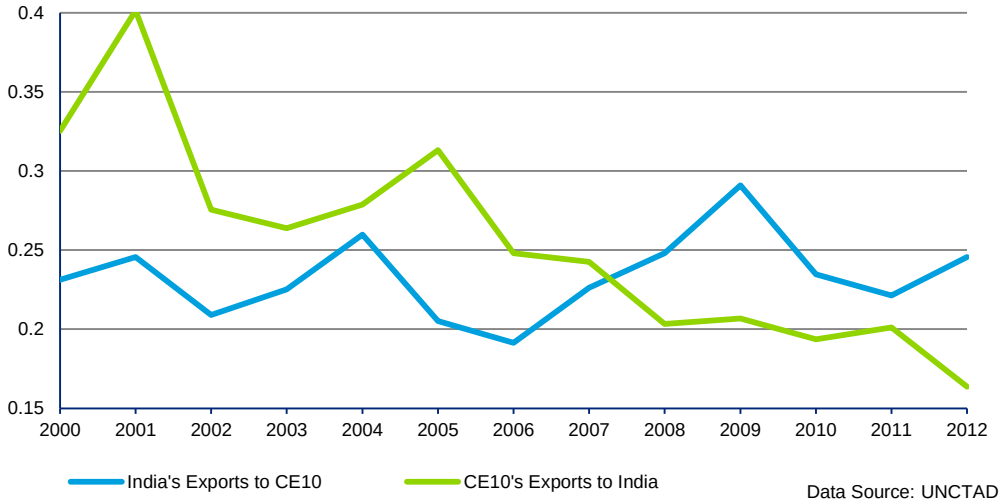
$XII_{ij}=(X_{ij}/X_{iw})/(X_{wj}/X_{ww})$

Where;

- X_{ij} is the dollar value of exports of country(or region) i to country(or region)j,
- X_{iw} is the dollar value of the exports of country(or region) i to the world,
- X_{wj} is the dollar value of world exports to country(or region) j, and
- X_{ww} is the dollar value of world exports.

An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in the world trade.

Figure 17: Export Intensity Indices



Data Source: UNCTAD

[6] The data for this analysis has been considered from the United Nations Conference on Trade and Development (UNCTAD)'s website. URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

The above graph in figure 17 depicts the intensity from both an Indian and CE10 perspective from 2000 to 2012. The index 'India's Exports to CE10' economies indicates the volume of Indian exports to the CE10 economies as compared to the exports by the world to CE10 economies, while Index 'CE10's Exports to India' plots the quantity of exports made by CE10 economies to India as compared to the exports by the world to India. These indices have been computed after averaging the individual indices for each of the CE10 countries and India.

As seen in the graph in figure 17, both the indices are much below 1. This indicates that the average global exports to CE10 economies and India are much higher than exports among the two. USA, China and Russia constitute central exporting partners for CE10 economies, whereas, USA and UAE together constitute close to 23% share of India's exports. This shows that both India and CE10 have more prominent export partners in the form of USA, UAE and China as compared to each other.

The data captured for recent years depict that the Index of India's Exports to CE10 economies, at 0.25, is higher as compared to the export Index of CE10 economies' to India, 0.16, as recorded in 2012. This indicates that the intensity of India's exports to CE10 economies is much higher than that of CE10 economies to India. However, intensity of Indian exports to the CE10 economies has remained around 0.25 over the decade, which holds an opportunity for India to boost exports to this region. Amongst the CE10 economies, export intensity of Indian exports is highest with Slovenia, followed by Switzerland, having the highest intensity historically. However, it has declined significantly in the recent years.

On the other hand, intensity of CE10's export to India seems to have depleted over the past decade as it slipped to 0.16 in 2012 as compared to 0.40 in 2001. This signifies that India now prefers other destinations for import over the CE10 economies. Among the CE10 economies, Switzerland, with its major exports of gold, chemicals and machinery, displays the highest export intensity towards India followed by Romania and Austria.

Trade intensity index[7] is the ratio of trade share of a country (or region) to that of the world trade with a partner. It is calculated as:

$TIIij=(Tij/Tiw)/(Twj/Tww)$

Where;

Tij is the dollar value of trade of country (or region) i with country (or region)

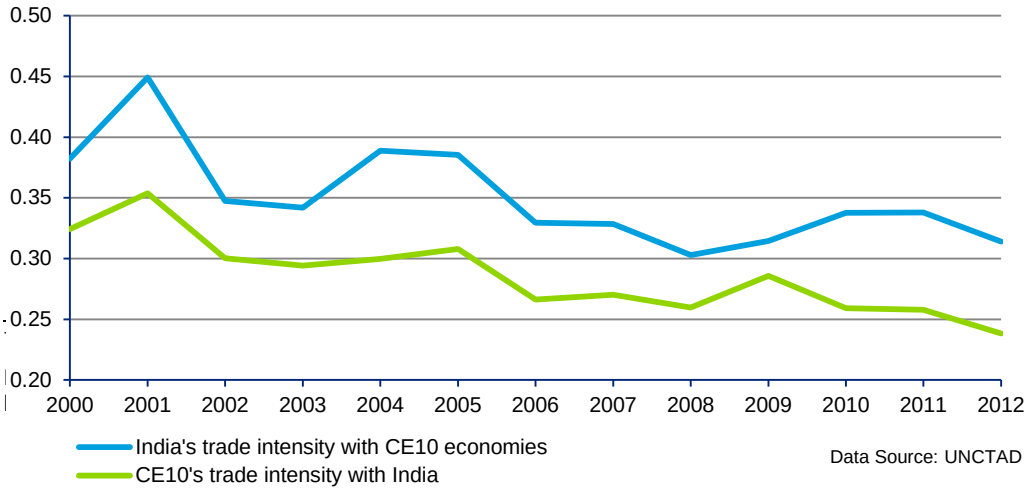
Tiw is the dollar value of the trade of country (or region) i with the world,

Twj is the dollar value of world trade with country (or region) j, and

Tww is the dollar value of world trade.

An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade.

Figure 18:Trade Intensity Indices



Data Source: UNCTAD

As seen in the above graph in figure 18, the Trade Intensity Index for both India's trade with CE10 economies and CE10 economies' trade with India is much below 1, corroborating the findings of Export Intensity Indices that India and CE10 economies have higher trade activities with other countries as compared to trade activities with each other.

The above intensity indices depict that both, India and CE10 economies, are currently not prominent trade partners with each other. However, given the scope of bilateral trade agreements between India and EU in general and with Central Europe in particular, trade can be expected to pick up in the near future to fulfil the potential.

Concentration Index - Herfindahl-Hirschmann Index[8]

Concentration index, also named Herfindahl-Hirschmann index, is a measure of the degree of market concentration. This index is normally calculated for all trading partners, but it can be broken down by specific trading partners for more detailed analysis. Therefore, bilateral concentration index enables user to specify the group of countries as destination/origin. It has been normalised to obtain value ranking from 0 to 1 (maximum concentration), according to the below mentioned formula.

The Sectoral Hirschman index is a measure of the sectoral concentration of a region/country's exports. It tells us the degree to which a region or country's exports are dispersed across different economic activities. High concentration levels can be interpreted as an indication of vulnerability to economic changes in a small number of product markets. An increase in the value of the index over time implies that the country's exports to another region/country are becoming concentrated in fewer products rather than spreading across a broad range of product portfolio.

The index provides information on the number of exported/imported products and concentration indices by country. The concentration index shows how exports and imports of individual countries or group of countries are concentrated on several products or otherwise distributed in a more homogeneous manner among a series of products. The index is defined as the square root of the squared shares of each industry in the total exports of a country to a particular region/country. The index takes a value between 0 and 1 with higher values indicating concentration of exports in fewer sectors.

It is calculated according to the following formula:

$$H_{jk} = \frac{\sqrt{\sum_{i=1}^{n} \left(\frac{x_{ijk}}{X_{jk}} \right)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}}$$

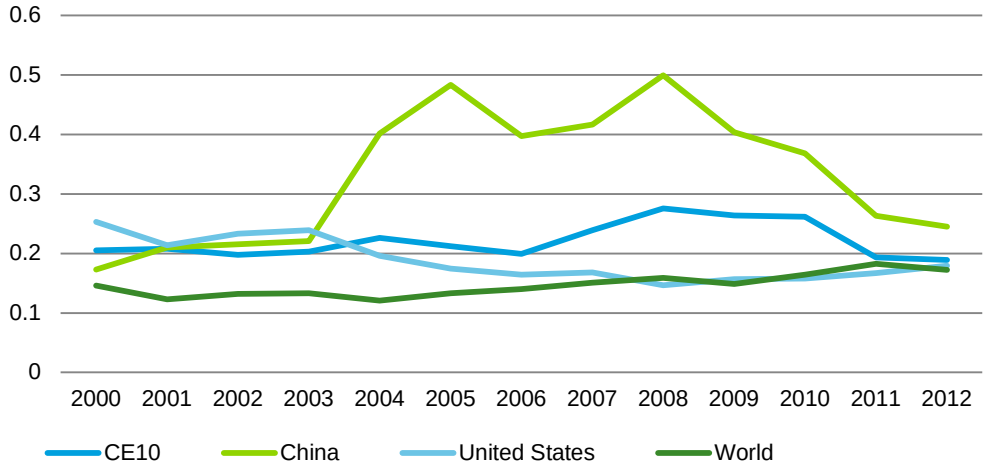
with

$$X_{jk} = \sum_{i=1}^{n} x_{ijk}$$

where
Hjk = concentration index of country or country group j exports to / imports to partner country group k
xijk = exports or imports of product i for reporter country j and trading partner k
Xik = total value of exports/imports for country j to/from country k and product i
and
n = number of products (SITC Revision 3 at 3-digit group level)

[8] The data for this analysis has been considered from the United Nations Conference on Trade and Development (UNCTAD)'s website. URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

Figure 19: Concentration Indices



Data Source: UNCTAD

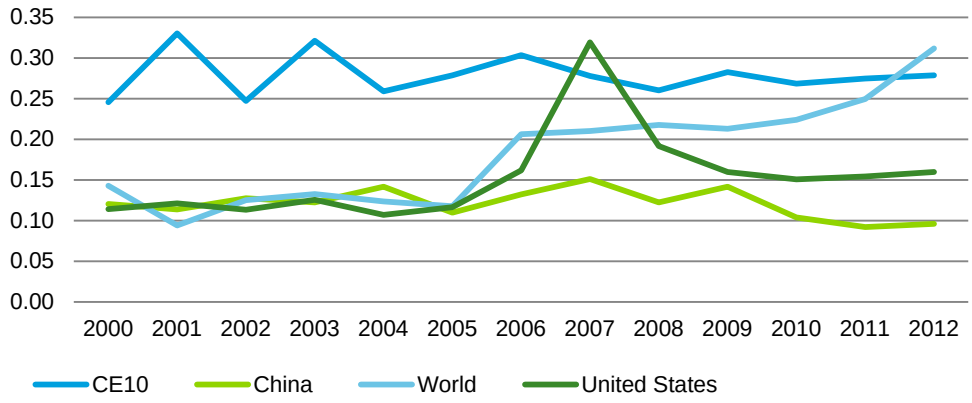
This table provides information on number of exported/imported products, concentration and diversification indices by country. The concentration index shows how exports and imports of individual countries or group of countries are concentrated on several products or otherwise distributed in a more homogeneous manner among a series of products. The diversification index signals whether the structure of exports or imports by product of a given country or group of countries differ from the world's product structure.

The above graph in figure 19 plots the Sectoral Hirschman index for India's exports to CE10 economies, China, USA and the World. The trade diversification initiatives taken up by the Indian government are seen to pay rich dividends with a low index for all the economies except for China. Exports to China are still highly dominated by mineral ores. However, the index has been decreasing over the last few years. The index for CE10 depicts diverse exports from India, as India has a versatile export basket containing commodities like textiles and garments, pharmaceuticals, chemicals, steel electrical goods etc. The CE10 index is just above the global index, depicting the extent of diversification of India's exports to the CE10 economies. This further showcases presence of some room for diversification of products exported to CE10 economies. This specifically suggests that Indian exports to these economies are not dependent on any particular commodities and hence are not significantly susceptible to changes in any particular industry/sector.

Further, amongst the CE10 economies, Slovakia, Slovenia and to some extent Romania, in years prior to 2011, show higher concentration of trade products. The exports to these economies include food products, beverages and tobacco, vegetal products, wood paste, paper and cardboard and its scrap, articles made of stone to petroleum oils, heterocyclic compounds with Nitrogen hetro-atoms, ferro-alloys, diodes, transistors and semiconductor devices, electrical transformers, static convertors, antibiotics, and textile items.

After analysing the concentration of Indian exports, let us look at concentration of Indian imports -

Figure 20: Concentration Index - Indian Imports



Data Source: UNCTAD

The above graph in figure 20 plots the Sectoral Herfindahl-Hirschmann Index for India's imports from the CE10 economies, China, USA and the World. Similar to its exports, India's imports also vary over a wide range of commodities. The most diverse imports are from China with a concentration index as low as 0.10 in 2012. The rise in bilateral trade between the two countries is also complimented by the diversification in trade with the declining concentration indices for both, India's exports as well as imports. Among the economies under consideration, the concentration of Indian imports from the CE10 economies is relatively high however; it is lower than the global average with an index of 0.28 in 2012 as compared to the global index of 0.31 in 2012. The concentration index has been on a steady decline indicating that Indian imports have been bifurcating from the initial concentration of industrial and manufactured goods comprising automotive, machinery, pharmaceuticals etc. These products, however, still play an important role in trade between the two regions.

This is explained by the fact that among the CE10 economies, the highest degree of import concentration is from Croatia and Hungary. The chief imports from these countries include, electrical machinery, turbines, electrical equipment, measurement and control instruments, pharmaceuticals, heating and cooling equipment, machinery as well as nuclear reactants, steel and iron and chemicals.

Complementarity Index[9]

The complementarity index measures the degree to which the export pattern of one country matches the import pattern of another. A high degree of complementarity is assumed to indicate more favorable prospects for a successful trade arrangement. Changes over time may tell us whether the trade profiles

$$Se_j m_k = 1 - \frac{\sum_i \left| E_{ij} - M_{ik} \right|}{2}$$

of countries are becoming more or less compatible with each other.

Notes:

Formula: Sum of the absolute value of the difference between the import shares and the export shares (as 3-digit SITC, Rev.3) of the countries under study, divided by two.

[9] The data for this analysis has been considered from the United Nations Conference on Trade and Development (UNCTAD)'s website. URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

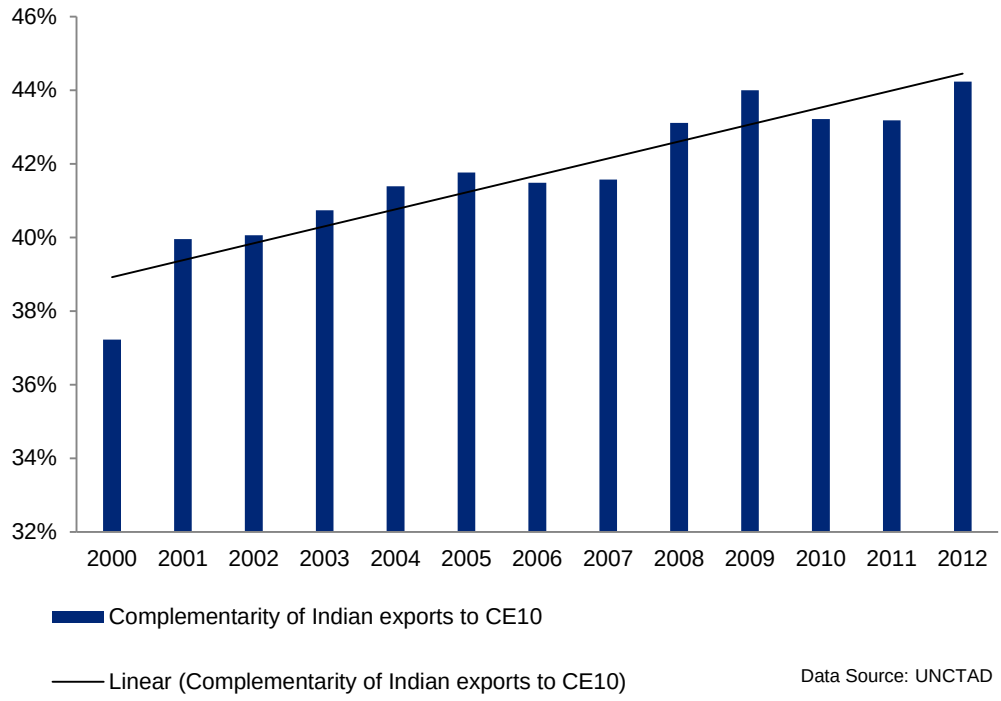
Where,

- Se_jm_k = the index of trade complementarity of exporter j with importer k
- i = goods in three digit SITC Rev.3
- j = exporter (country or country group)
- k = importer (country or country group)
- E_{ij} = the share of goods i in country j's total exports to the world
- M_{ik} = the share of goods i in country k's total imports from the world

It has potential values between 0 and 1 with zero indicating that there is no correspondence between country j's export structure and country k's import structure and one indicating a perfect match in the export/import pattern. The index is calculated for all potential combinations of exporters and importers (including country groups). Hence, it includes the combination of the same exporter and importer.

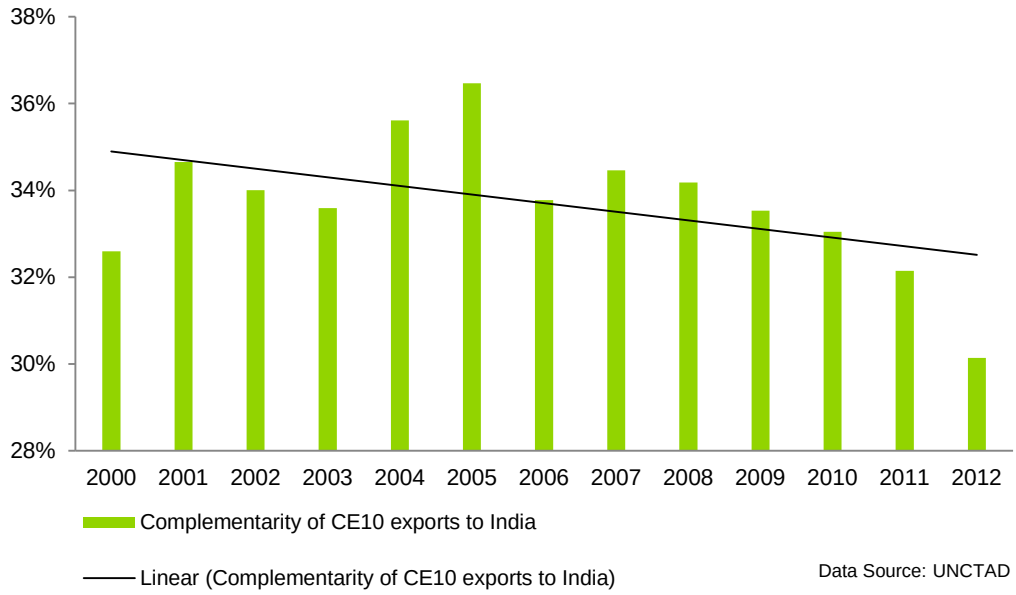
High complementarity indices may be misleading if the size difference in the economies is large (i.e., a match in percentage terms does not imply a match in levels).

Figure 21: Complementarity of Indian exports to CE10



Data Source: UNCTAD

Figure 22: Complementarity of CE10 exports to India



Data Source: UNCTAD

As seen from the above graphs in figures 21 and 22, the complementarity index for exports in both the situations is quite low, ranging between 30% to 40% and indicates poor correspondence of exports and imports of both India and CE10 economies. Among the two, complementarity of Indian exports to CE10 economies is higher than the other indicating that exports from India matches European demand in a better way. Further, the increasing trend in the complementarity in exports from India to CE10 economies suggest that even more opportunities can be taken in the future to promote greater amounts of exports from India to this region. The downward trend displayed by the exports from CE10 economies specifies that exports from the region are not currently meeting demand expectations from India and hence may need to revisit their sectoral distribution.

Revealed Comparative Advantage (RCA)[10]

The above indices and their analyses suggest that there is a potential in the trade enhancement in India and Central European countries. Usually, the sector in which a country has a comparative advantage in production will benefit from the free trade and has a natural edge in that particular sector. For instance, if India has a comparative advantage in manufacturing pharmaceutical products as compared to the CE10 countries, and a CE10 country has a comparative advantage in manufacturing electronic products, India will specialize in producing and exporting pharmaceutical products, whereas, the CE10 country will specialize and produce electronic products and export those to India. Therefore, identifying the comparative advantage by sector will shed some light on the sector-specific impact of the Indian and Central European Trade. The following section strives to identify specific sectors, which can be focused by respective countries in order to boost further trade relations between these countries.

We now analyse the competitiveness of the exports of some of the key sectors of the Indian and Central European economies vis-à-vis other major exporters of the world using the RCA index. The sectors in the table below have been considered for the analysis:

Merchandise	Services
Primary Goods	**Service Industry**
Pearls, precious stones and non-monetary gold	Transport and travel
Agriculture	Construction
Sugar	Insurance and Financial services
Coffee, tea, cocoa, spices, and manufactures thereof	Communication
Manufactured Goods	Computer and Information
Chemicals and related products	Other business services
Pharmaceutical and Medicine	
Machinery	
Automobile Industry	
Textile	
Metallic Manufacturing	
Non-Metallic Minerals	
Miscellaneous Manufacturing Industry	

These sectors have been selected considering the overall trade trends of India and Central European countries as well as the format in which international trade statistics are organised in the website of Standard International Trade Classification, Rev.3 (SITC).

[10] The data for this analysis has been considered from the United Nations Conference on Trade and Development (UNCTAD)'s website. URL: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en

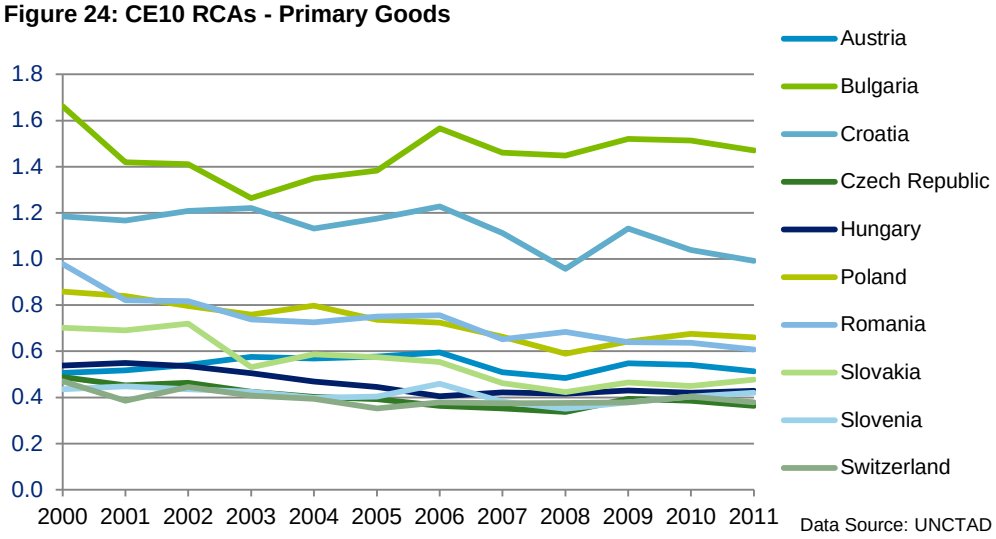
The following table outlines the exports of India and CE10 economies in these sectors –

Merchandise / Services	World's export, 2011 (Million $)	India's export, 2011 (Million $)	India's share of world exports %	CE10's export, 2011 (Million $)	CE10's share of world exports %
Primary Goods	**5,763,920**	**102,846**	**1.8%**	**176,594**	**3.1%**
Pearls, precious stones and non-monetary gold	389,690	33,035	8.5%	6,908	1.8%
Agriculture	543,616	13,970	2.6%	27,687	5.1%
Sugar	56,723	2,152	3.8%	3,093	5.5%
Coffee, tea, cocoa, spices, and manufactures thereof	106,194	3,276	3.1%	7,056	6.6%
Manufactured Goods	**11,491,281**	**151,735**	**1.3%**	**879,236**	**7.7%**
Chemicals and related products	1,982,687	31,257	1.6%	158,464	8.0%
Pharmaceutical and Medicine	497,782	9,503	1.9%	81,526	16.4%
Machinery	5,818,449	41,921	0.7%	423,592	7.3%
Automobile Industry	1,621,627	18,959	1.2%	125,446	7.7%
Textile	304,118	15,340	5.0%	12,758	4.2%
Metallic Manufacturing	1,303,914	21,097	1.6%	105,598	8.1%
Non-Metallic Minerals	327,761	34,771	10.6%	16,353	5.0%
Miscellaneous Manufacturing Industry	1,903,584	40,026	2.1%	147,832	7.8%
Service Industry	**4,353,400**	**137,678**	**3.2%**	**283,293**	**6.5%**
Transport and Travel	1,941,800	34,995	1.8%	133,117	6.9%
Construction	107,000	838	0.8%	4,876	4.6%
Insurance and Financial Services	412,000	8,807	2.1%	27,330	6.6%
Communication	105,000	1,672	1.6%	6,019	5.7%
Computer and Information	250,000	43,634	17.5%	10,316	4.1%
Other business services	1,125,400	39,524	3.5%	47,666	4.2%

In this study, we have used the Revealed Comparative Advantage (RCA) index to arrive at the competitiveness of each sector for a chosen set of countries. The RCA index of a country for a particular sector is defined as the ratio of the export shares between them. The numerator is the share of the exports of a particular sector out of the total exports of the country while the denominator is the share of the particular sector's exports out of the total world exports. RCA indices use the trade pattern to identify the sectors in which an economy has a comparative advantage, by comparing the concerned country's trade profile with the world average.

The index can take a value between 0 and infinity. A country is said to have a revealed comparative advantage if the value exceeds unity. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity/industry. Thus, in case of a sector where a country has an RCA of greater

Figure 24: CE10 RCAs - Primary Goods



than 1 and is higher than other countries, it can be concluded that the particular country has a comparative advantage in the particular sector. As a result a trade opening in the sector would be beneficial for the country. Decreasing RCA can be interpreted as a sector losing its comparative advantage.

The following is the comparative analysis of India and CE10 countries. We start by looking at a broader level of Primary sector goods, which leads us to looking at exports of Pearls, precious stones and non-monetary gold etc. apart from agricultural products, with specific focus on export of coffee, tea, cocoa, spices, and manufactures, thereof. Then we move on to the exports of various manufactured goods i.e. chemical products (with specific focus on Pharmaceutical products), machinery & transport equipment (with specific focus on Automobile industry), textiles, metallic manufacturing, non-metallic minerals and miscellaneous manufacturing. We end by analyzing the services sector with specific focus on transport and travel, construction, insurance and financial services, computer and information services and other business services.

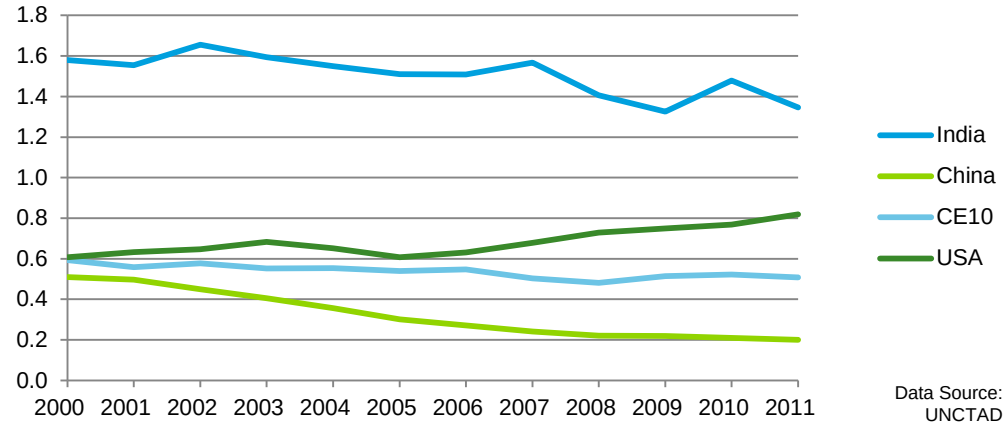
As depicted in the graphs, India has a distinctive advantage in industries belonging to primary sector and does not lag behind in the secondary sector, as far as exports are concerned.

Primary goods

Primary goods include goods such as food items, agricultural raw material, beverages, ores and metals etc. but excludes fuels. As seen in the above graph in figure 23, with Indian RCA figures being consistently above 1, India has been enjoying a distinct advantage in the primary goods sector, as compared to even most advanced economies. With its wide base in agriculture and agriculture-allied activities as well as other segments of the primary sector, India has always had an advantage in the primary goods sector. Primary goods have long formed an important part of India's export basket, although with diversification of various export products, competitiveness of primary goods has declined over last few years.

Amongst the (CE10) economies,depicted in the graph above in figure 24, Bulgaria and Croatia have distictively higher competitive edge as compared to other economies. In both the economies, agriculture and allied sectors play an important part. Recently, Bulgaria has gained a comparative advantage even over India. Similarly, other economies with a sizeable contribution of agriculture in the economic output, namely, Poland and Romania have had RCA closer to 1, which seems to have declined in the last decade. Accordingly, India may benefit by laying emphasis on exports of primary goods to countries other than those specifically mentioned above with better comparative advantage as compared to other economies.

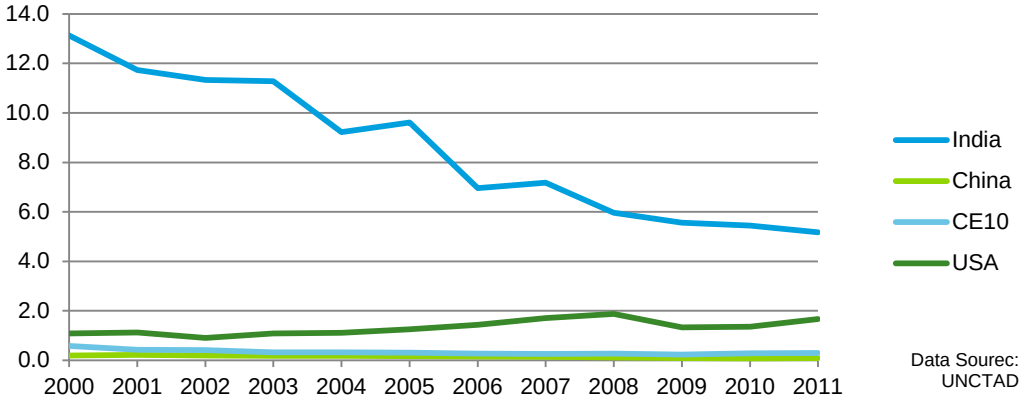
Figure 23: Global RCAs - Primary Goods



The following section will delve into different commodities under the primary sector that reflect the fact that India has a comparative advantage in most of them.

Pearls, precious stones and non-monetary gold

Figure 25: Global RCAs-Pearls, precious stones and non-monetary gold

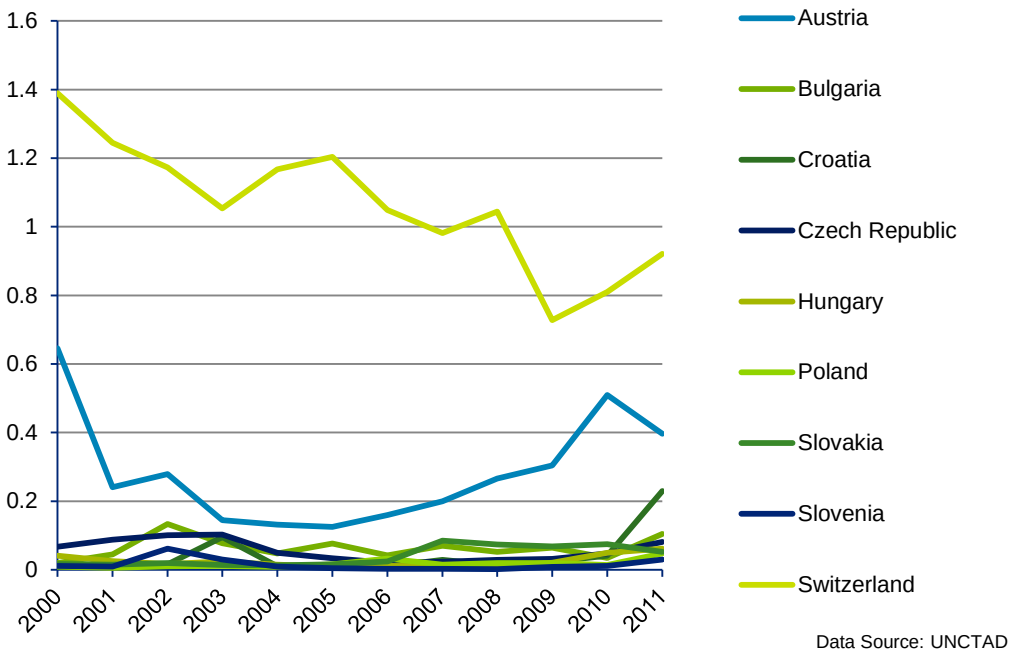


Although not a prominent commodity in the global trade, India still has a very high comparative advantage in the export of pearls, precious stones and non-monetary gold. This segment has historically formed an integral part of India's exports, which later faded away with product diversification efforts. India has an advantage in this segment due to its low cost of production, highly skilled and low cost artisans and the recent government initiatives in the form of SEZs for this sector. As seen from the graph above in figure 25, although decreasing at a great pace, India still has a distinct comparative advantage over all the economies under consideration. Although the US had better RCA figures of 1.67 in 2011, CE10 economies and China have shown remarkably low RCA of 0.30 and 0.09, respectively.

Among the CE10 economies, surprisingly, Switzerland has a high comparative advantage. Precious metals form a key part of the total exports of Switzerland and bullion is an integral part of the country's exports to India. The RCA index for Switzerland, however, has decreased from 1.39 in 2000 to below 1 at 0.92 in 2011. All other economies, except for Austria, have very low RCA figures during the period of 2000 to 2011, ranging on average between 0.02 to 0.06.

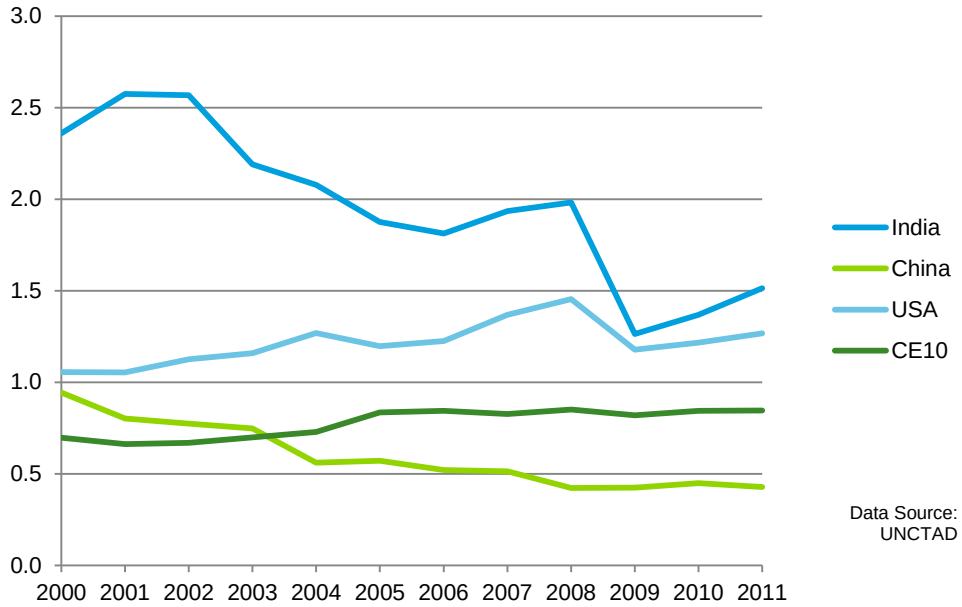
Agricultural and related products

Figure 26: CE10 RCAs-Pearls, precious stones and non-monetary gold



Data Source: UNCTAD

Figure 27: Global RCAs- Agriculture and related products



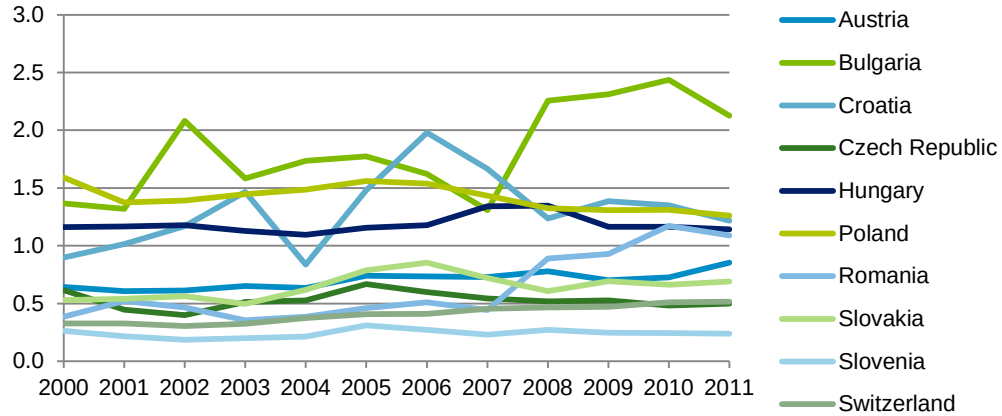
Data Source: UNCTAD

Being one of the largest agrairian economies, India holds a distinct comparative advantage when compared with the industrialised economies. The Indian Agricultural sector has done remarkably well with a contribution of around 15% over the last decade. As seen in the above graph in figure 27, India has always been above the global average. However, its comparative advantage has been diminishing considerably with its RCA index dropping from 2.36 in 2000 to 1.51 in 2011. The recent surge in comoditiy prices seems to have helped the US agricultural sector as it closely follows India with an RCA index of 1.27 in 2011. China lags far behind when compared with India, even though it is one of the largest producers of agricultural products, perhaps because of enormous amounts of exports of other commodities. RCA of CE10 economies have risen in the last decade and are now constant at around 0.85, indicating moderate competitiveness, even if not as high as India or the US.

Taking into account the primary goods market of the CE10 economies, Bulgaria, Poland and Croatia have an evidently high comparative advantage, which is depicted in the above graph in figure 28. There has been a recent surge in the RCA index for Romania indicating the rise in its comparative advantage in agricultural activities. Bulgaria enjoys a favorable climate for crop cultivation and with a long tradition in agricultural activities and a rich educational base; Bulgaria has achieved high degree of productivity in the agricultural with the implementation of modern technology. With EU as its export partner for agricultural products like grapes, oriental tobacco, tomatoes, apricots and other agricultural products, Bulgaria has witnessed high growth in agricultural exports. Poland is the leading producer of potatoes and rye in Europe and is one of the world's largest producers of sugar beets and triticale, rapeseed, grains, hogs and cattle. Poland is a net exporter of processed fruits and vegetables, meat and dairy products. Again, RCA of these economies being close to that of India, it might be more helpful for India to focus on other economies with lower RCAs.

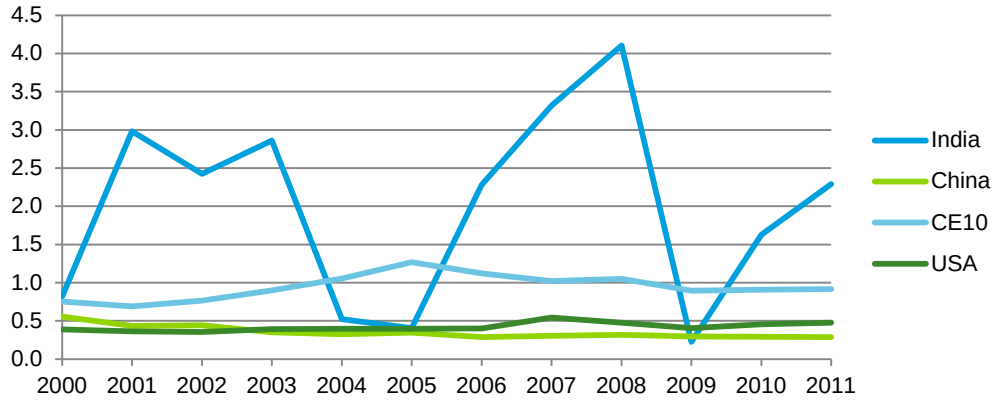
Sugar

Figure: 28 CE10 RCAs- Agriculture and related products



Data Source: UNCTAD

Figure 29: Global RCAs- Sugar

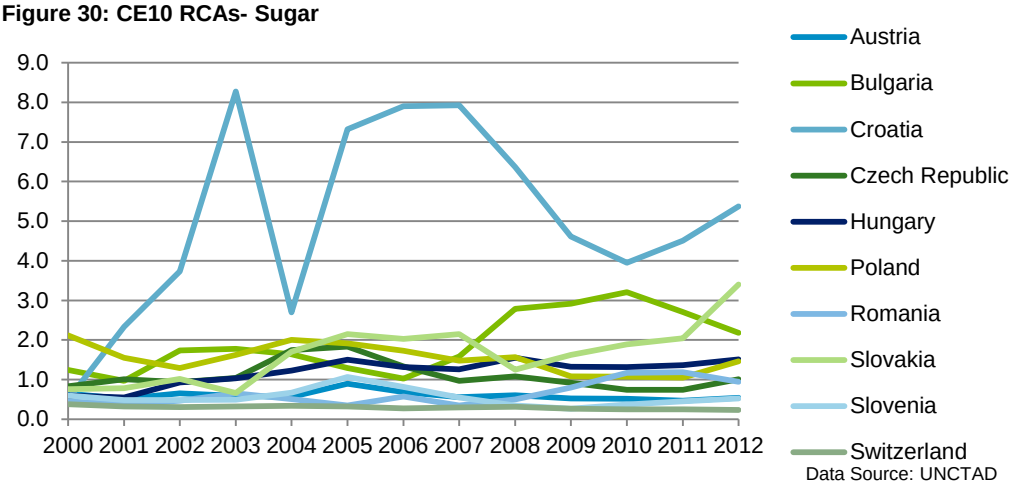


Data Source: UNCTAD

As has been already established, India enjoys a definite comparative advantage in the primary sector. Being a predominantly agrarian economy, Indian agricultural products have carved a niche for themselves in the global market. Currently India is the second largest producer of sugarcane in the world. Its share in global sugar production has gone up from 5% to 15% in the last five decades[11].

However, with high dependence on monsoon and an ever fluctuating global demand, the RCA index of sugar production for India is extremely volatile. As can be seen from the graph in figure 29, the index has gone up to as high as 4.11 in 2008 only to drop to 0.23 in 2009. Nonetheless, such high levels of RCA indices indicate great potential for India to export Sugar. Also, the last four years have seen a consistent rise in the index. The RCA index for India in 2012 was 2.55. With high sugar imports for domestic production and comparatively lower rate of productivity, China lags behind among the economies under consideration with an RCA index of 0.31 in 2012. CE10 economies, however, also have stable and robust RCA for the Sugar industry just below unity.

Figure 30: CE10 RCAs- Sugar



Data Source: UNCTAD

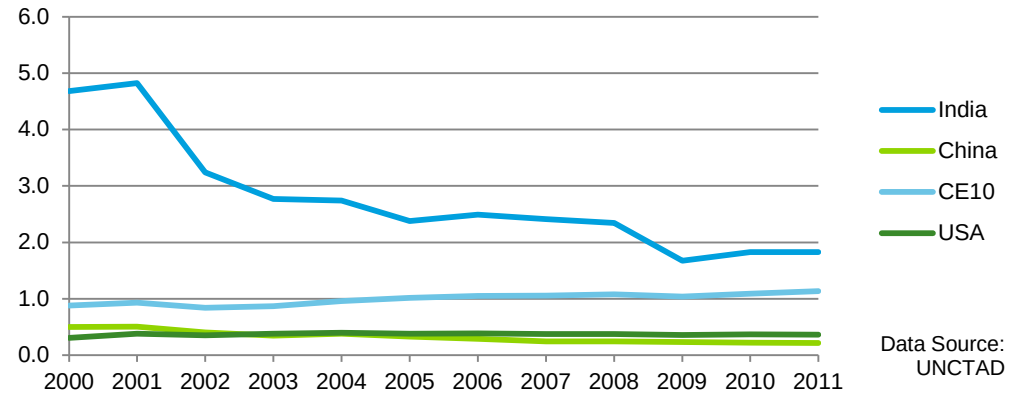
Among the CE10 economies, Croatia has enjoyed a distinct comparative advantage in the last decade with the RCA index predominantly above 1 as seen in the above graph in figure 30. Croatia is self-sufficient as far as sugar production is concerned giving it an edge in the global market. Sugar production and investment in the sector is one of the top priorities under the ambit of the government's larger plan for food industry development. Similar to India, basic nature of the product, dependence on monsoons and fluctuating global demand, has led to an equally volatile RCA index of sugar production for Croatia. During the period of high global growth, Croatia enjoyed a high comparative advantage in sugar production with the RCA index as high as 8.27 in 2003. It did experience a dip; however, it continues to enjoy a high degree of comparative advantage with as RCA index of 5.37 in 2012. Even other CE10 economies like Bulgaria, Slovakia and Hungary have RCA indices well above unity showing comparative

[11] 'India's Sugar Policy and the World Sugar Economy' – Report of FAO International Sugar Conference, Fiji, 2012

advantage over other countries.

Coffee, tea, cocoa, spices, and manufactures thereof

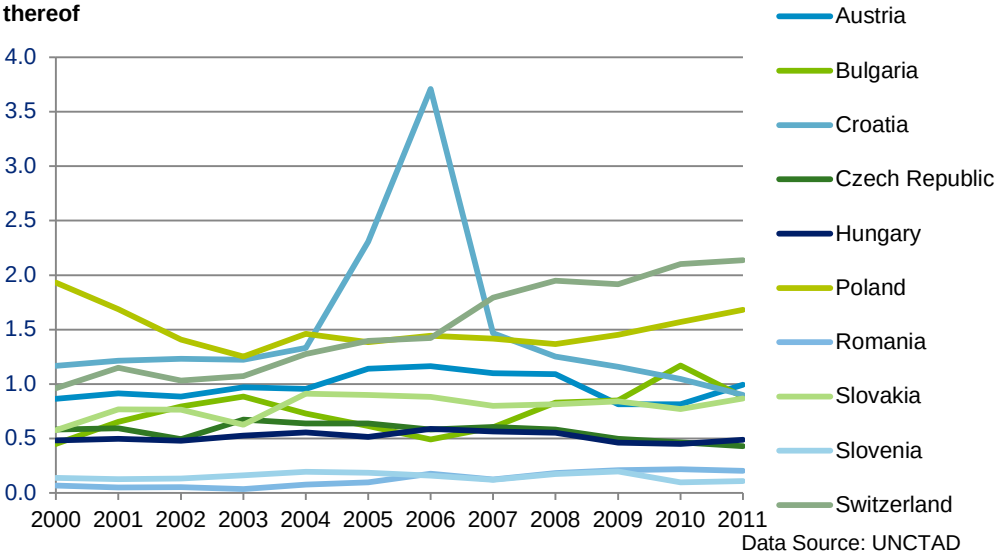
Figure 31: Global RCAs- Coffee, tea, cocoa, spices and manufactures thereof



Data Source: UNCTAD

In continuation with the dominance seen in primary goods, specifically agricultural, the above graph in figure 31 also shows that India has a predominant advantage in exports of coffee/tea/spices etc. and currently dominates trade in this category. India is the world's largest producer and exporter of spices. One of the main advantages is the variety of spices available in India making it the most sought after destination for imports of spices. India is one of the world's leading producers of tea having 23% share in the global volumes. However, India's comparative advantage has been decreasing rapidly in the sector. The index from being as high as 4.68 in 2000 has slipped to 1.83 in 2011. It will be pertinent to note here that in this particular sector, CE10 countries are not much behind India in terms of RCA unlike the US and Chinese RCA, which lies well below India and CE10 economies.

Figure 32: CE10 RCAs- Coffee, tea, cocoa, spices and manufactures thereof



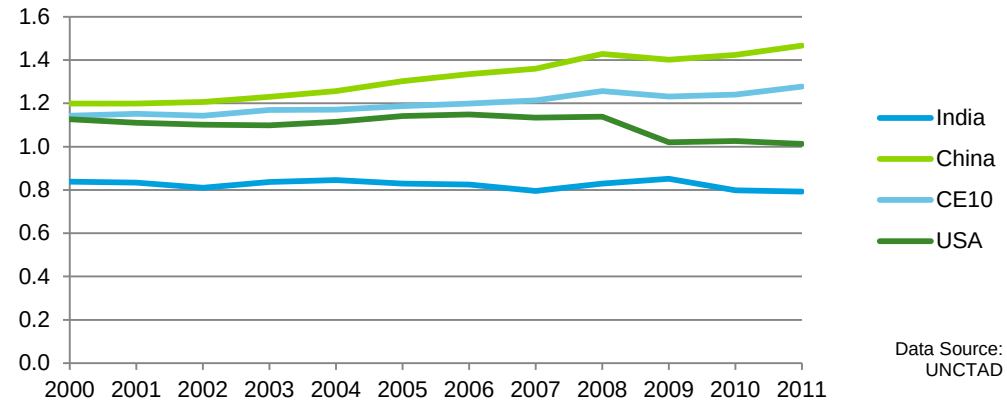
Data Source: UNCTAD

Among the CE 10 economies, currently Switzerland has the high comparative advantage in this segment and has even overtaken India since 2009 as can be seen in the above graph in figure 32. With growing exports Poland seems to be improving as well.

Now let us turn to the 'Manufactured goods', signifying the comparative advantage in sectors of industrial production.

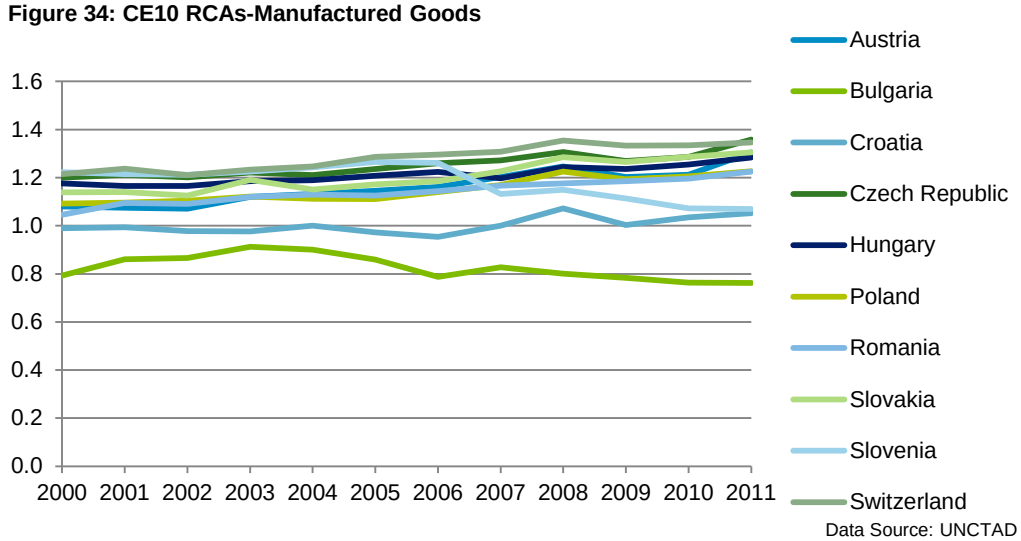
Manufactured Goods

Figure 33: Global RCAs- Manufactured Goods



In terms of global trade in manufactured goods, India has always had a comparative disadvantage over the rest of the economies. As seen from the graph in figure 33, India lags far behind as compared to the economies under consideration. The RCA index for India in 2011 was 0.79 while that of China, its key competitor amongst the developing nations, rested at 1.47. Most of the Central European economies as well as USA, on the other hand, had a distinct comparative advantage as compared to India. However, with the recent rise in domestic and external demand and government's efforts in providing a suitable manufacturing eco-system for domestic and international players, the manufacturing sector is poised for immense growth in the future.

Figure 34: CE10 RCAs-Manufactured Goods



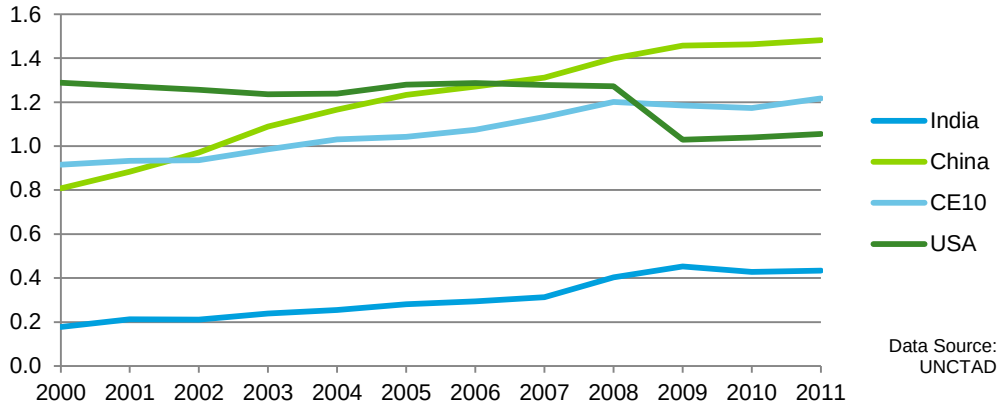
In the manufacturing sector, all CE10 economies perform well, with most having a high comparative advantage, as compared to the global average which is depicted in the graph in figure 34. Apart from Bulgaria, the RCA index for all the other economies is above 1, depicting a comparative advantage in exports. With a well-established infrastructure, high performing machinery and chemicals sector and relevant government incentives, Switzerland leads the pack in the manufacturing sector. This is closely followed by the Czech Republic. With its improving infrastructural facilities and robust growth of the automotive and electronic industries, Czech Republic is an important economy among the CE10 in the

manufacturing industry. Overall though, all the economies of CE10 are well-placed and have a comparative advantage when compared to the global average. Bulgaria lags behind when compared to the CE10 average. With a dominant primary sector due to higher share of agriculture, the Bulgarian economy is dominated by sectors with low and medium-low technology intensity. This is reflected in the graph with the RCA index for Bulgaria at 0.76 in 2011, which is much lower as compared to the rest of the economies.[12]

After getting an idea about how India fares broadly on the manufacturing front, let us take look at some important sectors/industries in manufacturing to analyse if India has comparative advantage in any of these industries.

Machinery

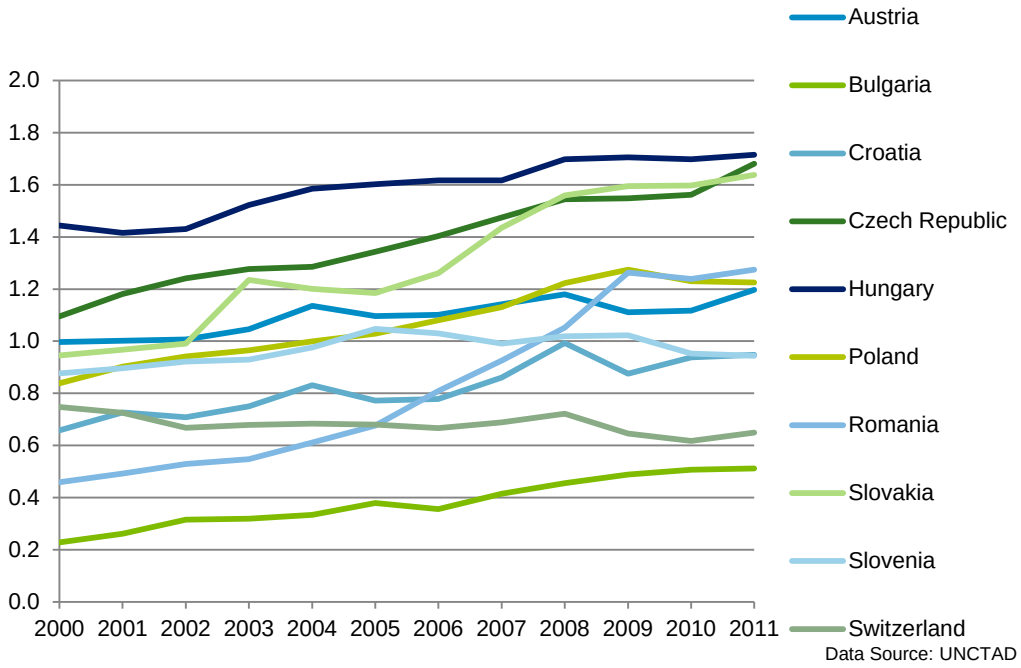
Figure 35: Global RCAs- Machinery



When compared to developed and more matured economies, India definitely lags significantly behind in the machinery industry with huge differences in RCA. One of the key segments required for persistent industrial growth is the machinery sector, which is evidently much better in advanced industrialised economies. As seen from the graph in figure 35, India lags behind all the economies under consideration with its RCA below 1 (at 0.43 in 2011), which clearly indicates a comparative disadvantage with CE10 and USA having RCA index of 1.22 and 1.06 respectively in 2011. Rise of China from comparatively low RCA at the start of the millennium to even greater than the advanced economies is astounding and establishes the significance of export of machineries from China to rest of the world. Despite low figures, there have been improvements in the recent past with the latest survey indicating that India stands 12th in production and 7th in consumption of machine tools in world[13]. With the current rise in the manufacturing sector, this segment is also expected grow in the near future. Currently, however, when compared to the developed and developing economies, India has a long way to go.

[12] European Commission – Report on Industrial Competitiveness 'Monitoring progress in the Member States'
[13] Indian Machine Tool Industry - Indian Machine Tool Manufacturers' Association

Figure 36: CE10 RCAs-Machinery

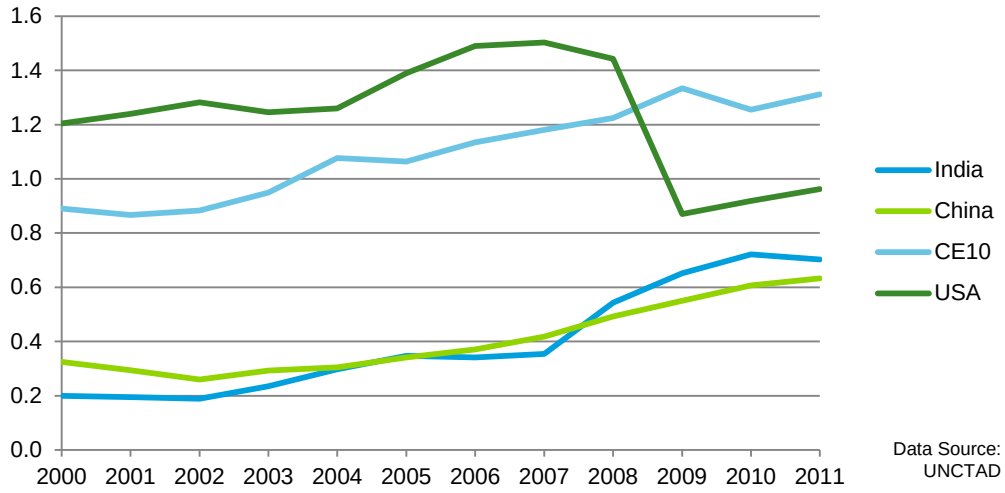


Data Source: UNCTAD

As compared to India, all the economies included in CE10 have a clear competitive advantage. The RCA index for Bulgaria, the lowest among the CE 10 economies, at 0.51 in 2011 comes close to India's RCA index of 0.43 in the same year, which can be seen in the graph in figure 36. With an ever improving manufacturing sector and the robust growth in automotive industry, Hungary's machinery industry has been impacted in a positive way and leads the pack among the CE10 economies with an impressive RCA index of 1.71. Its chief export commodities to India are plant and machinery, thus having a comparative advantage in this segment. Hungary is closely followed by the Czech Republic, whose comparative advantage in the machinery segment has been on a steep rise and its RCA index in 2011 stands at 1.68. With similar conditions as that of Hungary, and an even greater growing prominence of the automotive sector, the machinery segment has assumed great importance for the economy and its comparative advantage has grown at a rapid pace in the last five years.

Automobile industry

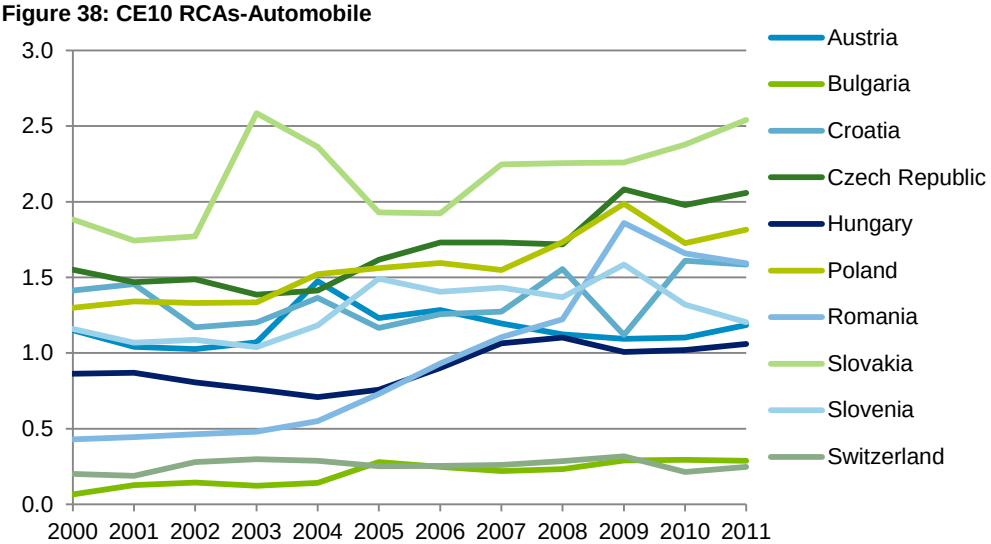
Figure 37: Global RCAs- Automobile



Data Source: UNCTAD

The above graph in figure 37 depicts the global RCA indices of the automobile sector. With greater market liberalisation, openness and increased investment in the automobile sector, the CE10 region has grown steadily and currently leads the pack with an RCA index of 1.31 followed by the USA with 0.96. The US automobile industry was badly hit during the financial crisis as can be seen by the dip in the RCA index in 2008-09. The entire automotive industry suffered as a result of the global economic recession in 2009. As vehicle production and sales declined, production and sales of parts concurrently decreased as most of these components were being designed for new vehicle production[14]. The US automobile sector has managed to climb out of this slump, as depicted by the steady rise in the RCA index, which climbed to 0.97 in 2011. India, along with China, lags far behind with a RCA index of 0.70 and 0.63 respectively in

Figure 38: CE10 RCAs-Automobile



Data Source: UNCTAD

2011. However, with recent developments in the fiscal policies and increased investment in the sector, the Indian automobile sector is expected to perform much better, which is also evident from the steep rise in RCA since 2007. The Indian small and light commercial vehicle segment is expected to double by 2015-16 and grow at a compound annual growth rate (CAGR) of 18.5 per cent for the next five years[15].

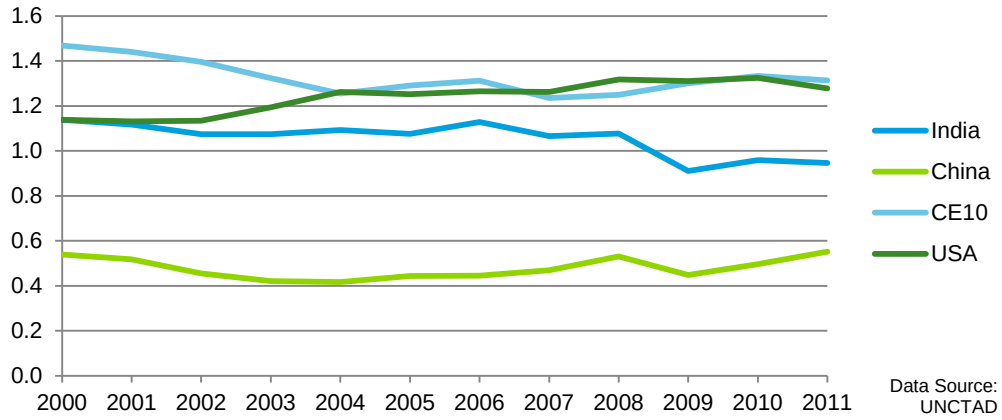
Among the CE10 economies, Slovakia dominates the automotive sector in terms of comparative

[14]On the Road: U.S. Automotive Parts Industry Annual Assessment 2010 – Report by the Office of Transportation and Machinery U.S. Department of Commerce
[15] Automobile Industry in India – Sector Report, IBEF

advantage and been performing consistently well in the last decade. This is depicted in the graph above in figure 38. Being the third largest manufacturer in central Europe, it is also one of the fastest growing markets in Europe. After experiencing a dip during 2004 and 2005, it has managed to recover in the recent years with a RCA index of 2.54 in 2011, depicting considerable comparative advantage for Slovakia in the automobile industry. All other CE10 economies, with an exception of Bulgaria and Switzerland, have comparative advantages with RCA greater than unity in the recent years. Surprisingly, with a relatively small automotive industry with no domestic independent car manufacturer of any notable size Switzerland lags way behind in the automobile industry with an RCA index of 0.27 in 2012.

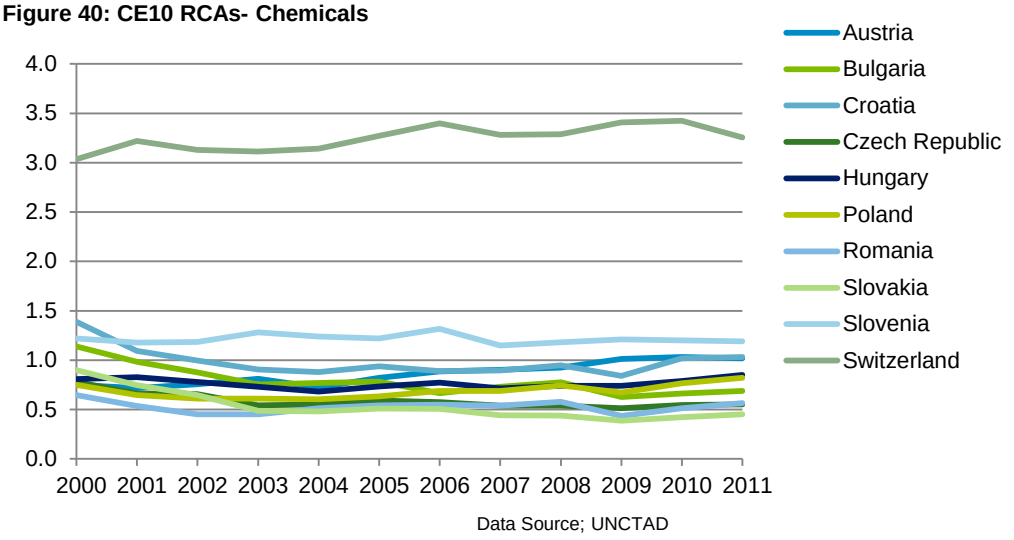
Chemical industry

Figure 39: Global RCAs- Chemicals



The Chemical industry is one of the core industries of any economy as it is linked to key sectors. As per the growth trends, the Indian chemical industry, has been on a consistent rise and is one of the key industries of the Indian economy. In terms of volume, India is the third-largest producer of chemicals in Asia, after China and Japan. In India, the chemical sector accounts for about 14 per cent of the overall Index of Industrial Production (IIP), 11 per cent of total exports and about 7.2 per cent of total imports. When compared on a global scale of exports, it lagged behind many of the developed and developing nations, which can be seen in the graph in figure 39. The total FDI in Chemicals (excluding fertilizers) was US$ 7.3 billion from April 2011 to March 2012. The comparative advantage for India in this sector is on a steady decline with its RCA index dropping from 1.14 in 2000 to 0.95 in 2011, which is perhaps on account of diversification of export products by India. As per the average, the CE 10 economies lead the pack with an RCA index at 1.31 in 2011 closely followed by the USA whose comparative advantage has been on a steady rise and registered a RCA index of 1.28 in 2011.

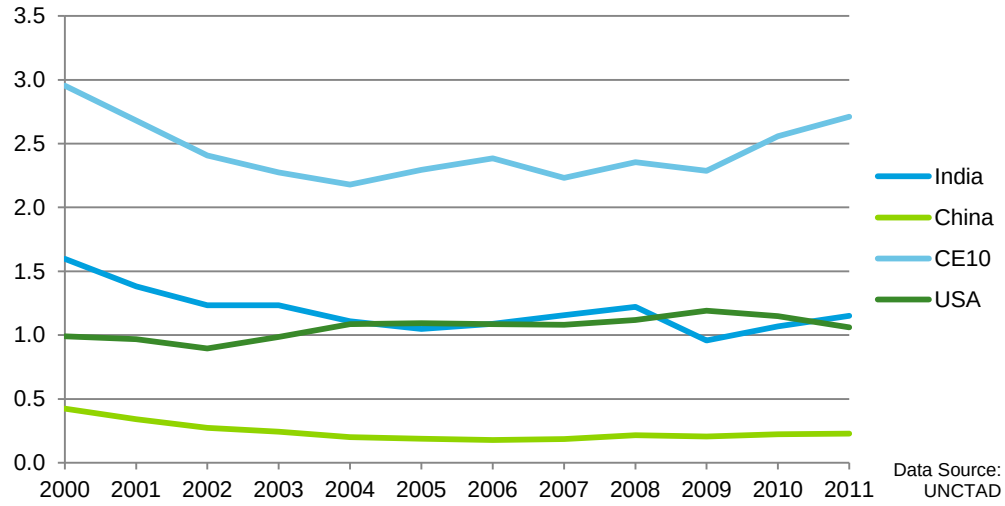
Figure 40: CE10 RCAs- Chemicals



Amongst the CE 10 economies, Switzerland has a distinct comparative advantage when compared to the rest of the economies. The RCA index has consistently been above the 3 with RCA index of 3.26 in 2011 depicting a clear comparative advantage as seen in the graph in figure 40. Being an export dominant economy, particularly the chemicals and pharmaceuticals sector are important commodities of Switzerland's exports basket. With exports of CHF74.6 billion and imports of CHF37.4 billion in 2011, the chemical industry emerged as the biggest contributor to the country's export surplus. All other CE10 economies demonstrated moderate comparative advantages with Slovenia leading the pack with RCA of 1.19 in 2011, followed by Austria and Croatia.

Pharmaceutical Industry

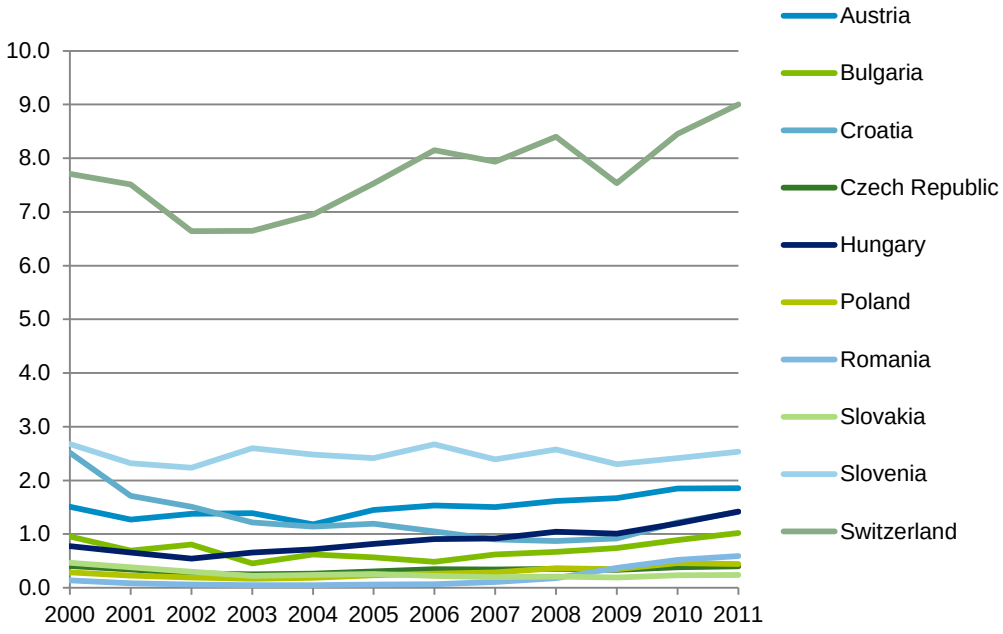
Figure 41: Global RCAs- Pharmaceuticals



Data Source: UNCTAD

The CE10 economies hold a distinct advantage in this industry; however, as will be seen in the next graph, it is largely due to Switzerland, and its dominance in this industry. The above graph in figure 41 shows the Global RCA index of the pharmaceutical industry. RCA index of CE10 economies is followed by India and the US, albeit with a significant gap. The Indian pharmaceutical industry has been growing

Figure 42: CE10 RCAs-Pharmaceuticals



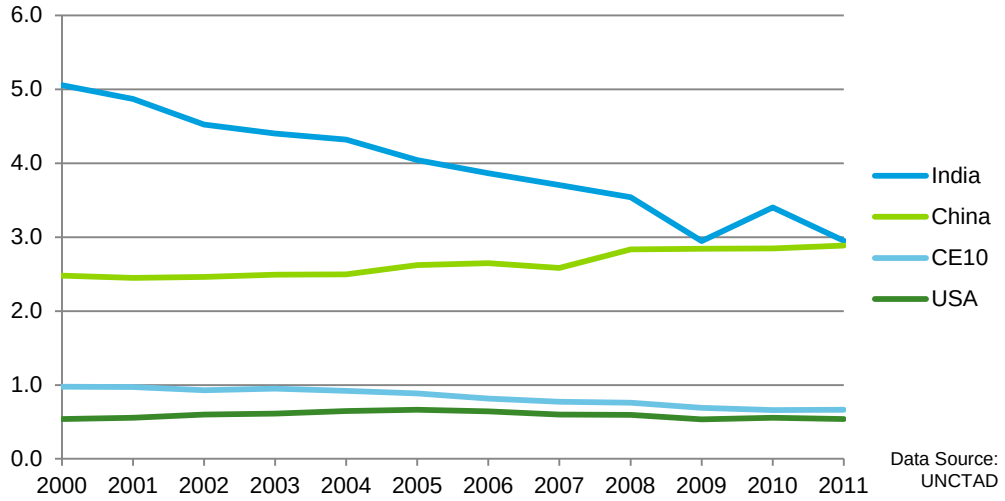
Data Source: UNCTAD

at a compounded annual growth rate (CAGR) of more than 15 per cent over the last five years. Another notable fact is that pharmaceutical exports from India grew at a rate of 30% in 2011. China has been consistently holding comparative disadvantage in the pharmaceutical sector as compared to other economies.

Among the CE10 economies, whose RCA index is depicted in the above graph in figure 42, Switzerland has consistently dominated the market in this industry. The chemical and pharmaceutical industry – accounting for over 4% of the Gross Domestic Product (GDP) - is the second most important industry after engineering, in case of Switzerland[16]. The chemical and pharmaceutical industries export close to 85% of their output produced in Switzerland. With large infrastructure, investment in R&D and the presence of large MNCs such as Novartis, La Roche etc., Switzerland is well-placed with RCA index being consistently above the 6 mark. It peaked in 2011 with a RCA index of 9.0.

Textile Industry

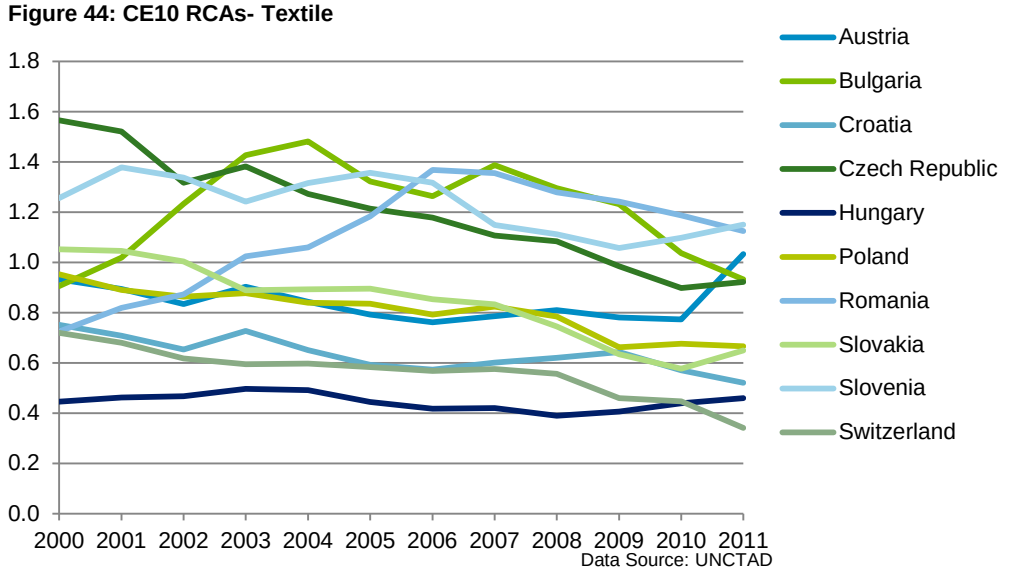
Figure 43: Global RCAs- Textile



The Indian textile industry was always well-placed in global trade. It is one of the largest producers of textiles and garments and in terms of growth, this sector has experienced a steady rise in domestic and external demand. Further, with a contribution of 17% to the country's export earnings; it is an integral part of country's trade. The sector contributes about 14 per cent to the industrial production and 4 per cent to the gross domestic product (GDP). As seen in the graph above in figure 43, India has a distinct advantage in this sector although like many other sectors, the comparative advantage is diminishing and India currently is very close to China whose RCA index in 2011 was 2.88 as compared to that of India at 2.95. India seems to be losing the comparative advantage with its efforts on export product diversification i.e. as India continues to diversify its product portfolio, ratio of export of textile products to total exports declines and there is a consequent decline in RCA for the textile industry.

[16] Swissinfo.ch – International Service of the Swiss Broadcasting Corporation

Figure 44: CE10 RCAs- Textile



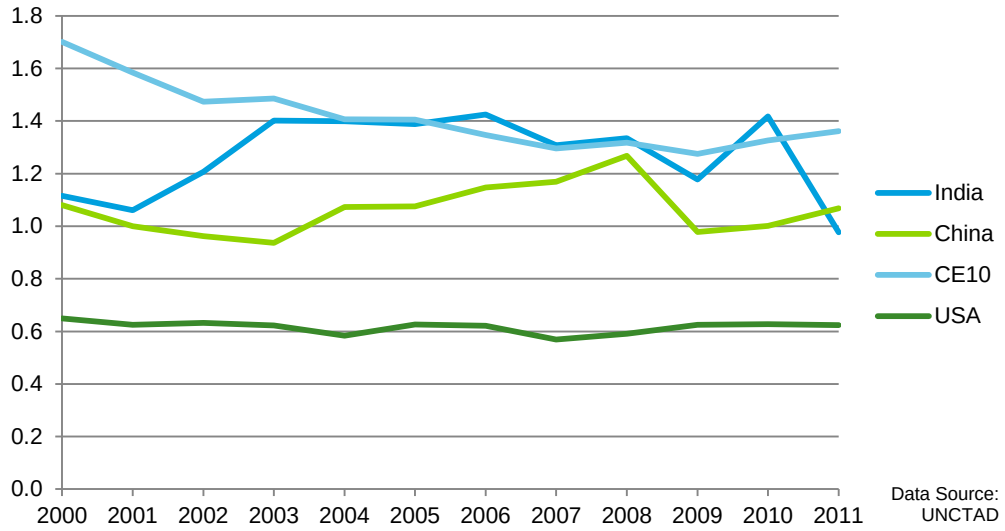
Data Source: UNCTAD

The above graph in figure 44 depicts the RCA index for the CE10 economies. Among the CE10 economies, Slovenia and Romania lead the pack with a RCA index of 1.19 and 1.16 in 2011 respectively. Both these countries have a competitive advantage in this industry, with specialised skilled labor in the textile industry, low labour costs and efficient use of high-tech tools and machinery. Being one of the key commodities in the Indian export basket, the textile sector in Romania forms an integral part of the total exports. These two countries are closely followed by Bulgaria with an RCA index of 0.99 in 2011. The textile industry has become one of the cornerstones of Bulgarian Exports. With low cost of production and a rich history, the Bulgarian Textile industry has emerged as a preferred destination for foreign investors. It leads the pack for exports in textile in the Eastern European region.

Metallic manufacturing

Metallic manufacturing industry primarily includes manufacturing of metals like iron, steel and other ferrous and non-ferrous metals.

Figure 45: Global RCAs- Manufacturing

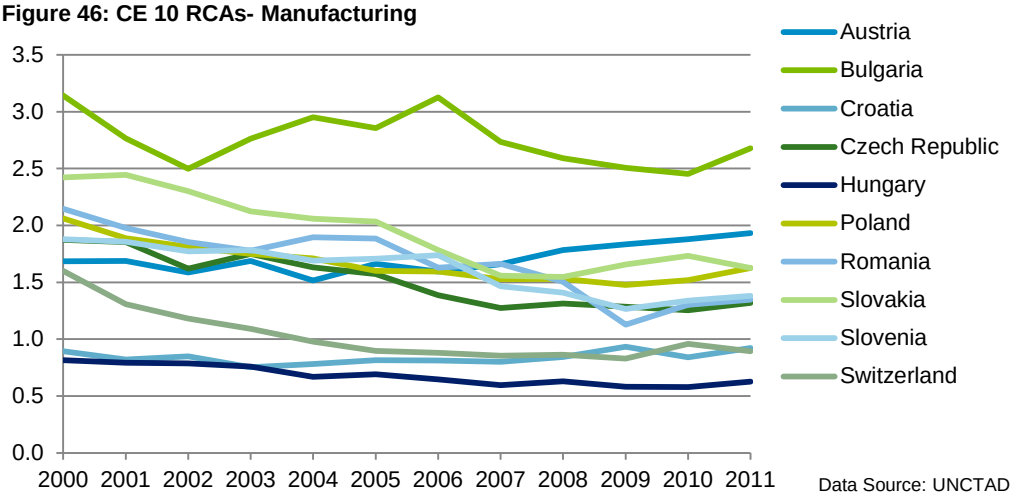


Data Source: UNCTAD

As seen in the graph above in figure 45, CE10 economies have a distinct comparative advantage in the field of Metallic manufacturing. With a prominent industrial base, the CE10 economies have continued to perform well in this industry. The RCA index has consistently been above 1. The CE10 economies are followed by India. Although leading at one stage, India has lost its comparative advantage to the CE10

economies and has in fact was overtaken by China with an RCA index of 1.07 in 2011. The iron and steel industry in India, a part of the larger metallic manufacturing industry, has been consistently doing well. Currently, ranked the world's fourth largest crude steel capacity, India is expected to become the second largest producer of crude steel in the world by 2015-16. Indian crude steel production is estimated to grow at a compound annual growth rate (CAGR) of around 10 per cent during 2010-2013[17]. The USA lags behind in this industry with an RCA index of 0.62 in 2011.

Figure 46: CE 10 RCAs- Manufacturing



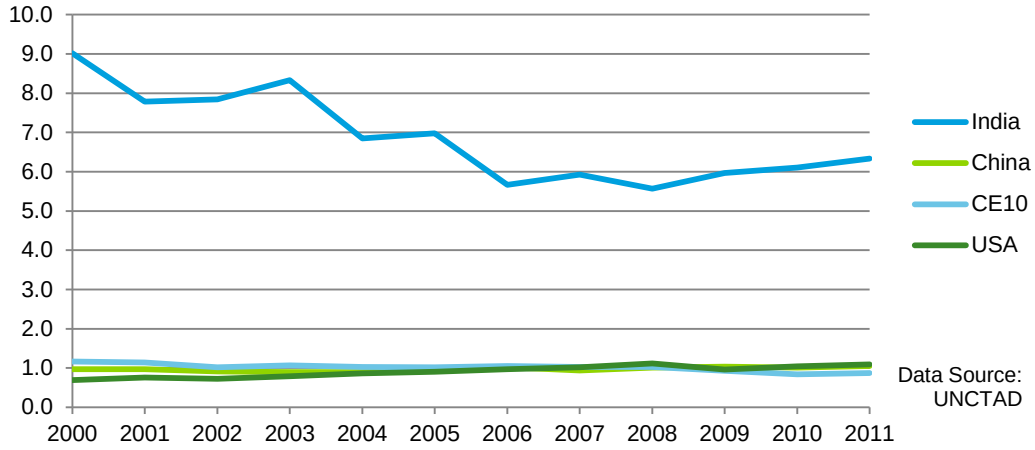
Data Source: UNCTAD

The above graph in figure 46 depicts the manufacturing RCA index for CE10 economies. Among the CE10 economies, Bulgaria holds a distinct advantage in this industry with an RCA index of 2.68 in 2011. Bulgaria has a wide variety of metallic and non-metallic mineral resources. Lead-zinc and copper deposits are sufficient to support large non-ferrous metallurgical works, notably at Kurdzhali and Pirdop. Several significant gold deposits exist and have attracted foreign investors. Bulgaria is followed by Austria with an RCA index of 1.93 in 2011. Austria is one of the leading countries for machinery, industrial plant engineering and industrial equipment. The sector expertise is contributing to the ongoing modernisation of many industrial sectors including metallurgy, plastics processing and mining.

[17] Steel Industry in India – Sector Report, IBEF

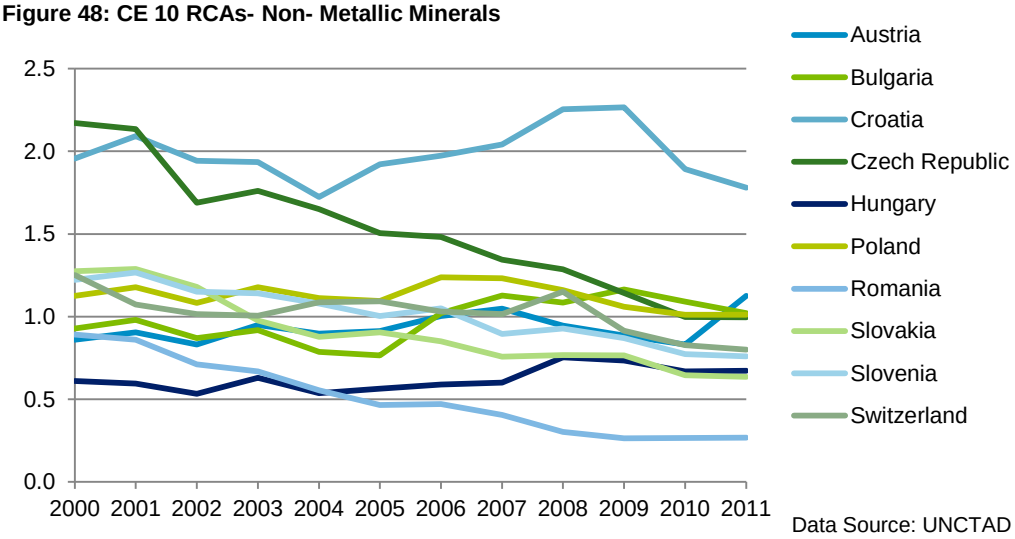
Non-Metallic minerals

Figure 47: Global RCAs- Non- Metalic Minerals



The abundance of mineral resources available in India has given it a distinct advantage in the mineral and mining industry. As seen in the graph in figure 47, India has had a distinct comparative advantage and still dominates the global market. However, a decline in comparative advantage can be vividly seen in the graph with the RCA index dipping from 9.02 in 2000 to 6.33 in 2011.Currently, achieving a dynamic balance between supply and demand for minerals, good governance and environmental management, economic and social stability and intra-generational and inter-generational equityare some key challenges being faced by India in developing its mineral sector[18]. Even then, India continues to enjoys a comparative advantage in this sector as compared to China, the US and CE10 economies, which have RCA values ranging between 0.88 to 1.09 in 2011.

Figure 48: CE 10 RCAs- Non- Metallic Minerals



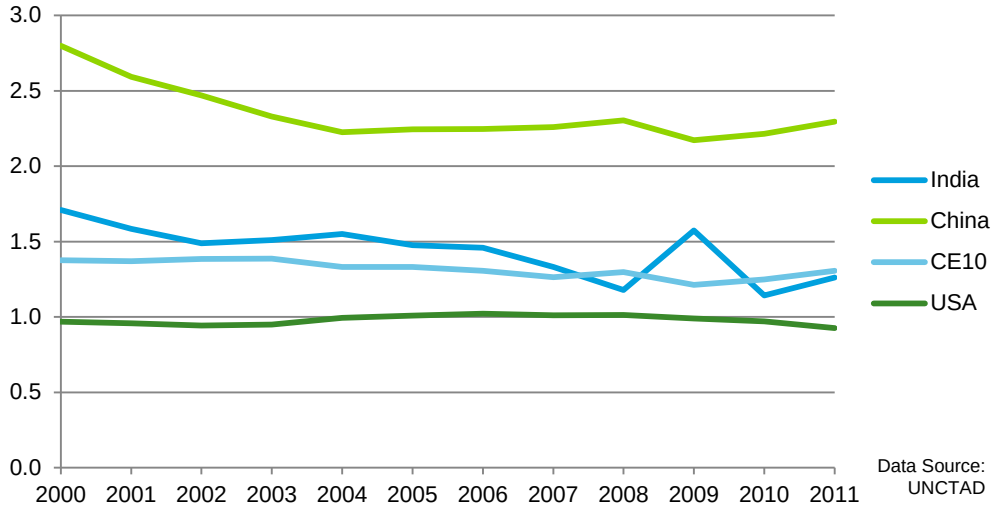
The above graph in figure 48 illustrates the Non-Metallic Minerals' RCA for CE10 economies. With large petroleum extraction and refining, the mineral industry in Croatia enjoys a distinct comparative advantage among the CE10 economies. Croatia is expected to remain a modest producer of mineral commodities, although increases in the production of industrial minerals could take place as infrastructure is modernized[19]. Romania lags far behind in this industry with an RCA index of 0.27 in 2011 as compared to 1.78 in Croatia. Perhaps, lack of efficient use of mineral resources, inefficacy in extraction and lack of improvement in infrastructure and execution of public works has resulted in Romania struggling in this sector.

[18] Sustainable Development - Emerging Issues in India's Mineral Sector May 2012 – Report by Institute for Studies in Industrial Development (Sponsored by Planning Commission Government of India)
[19] Minerals Yearbook CROATIA [ADVANCE RELEASE] - U.S. Department of the Interior, U.S. Geological Survey January 2013

Miscellaneous manufacturing articles

This section covers items such as Furniture, Travel goods including handbags, footwear, watches and clocks etc., which are not covered in the above listing.

Figure 49: Global RCAs-Miscellaneous Manufacturing articles



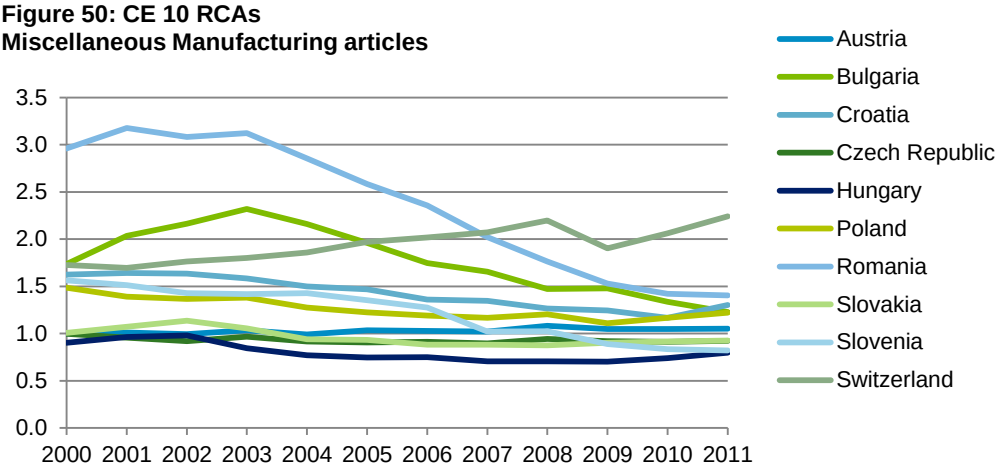
With varied reasons like high national competitiveness due to abundant supply of labour, recent structural reforms in the industry, state policies, improving domestic market and sustained investment, China leads the pack in this sector with an RCA index of 2.30 in 2011, which can be seen in above graph in figure 49. China is followed by India and the CE10 economies with USA lagging behind. With a recent surge in reforms for the manufacturing sector, things are looking up for the Indian manufacturing industry.

Owing to the positive growth figures, the Government had devised the National Manufacturing Policy (NMP) in 2011, with an aim to enhance the share of manufacturing in India's GDP to 25 per cent and add at least 100 million jobs by 2025. India is poised to become the second largest economy in manufacturing by 2017[20]. Currently India lags behind China with an RCA index of 1.26 in 2011 and remains close in comparison to the CE10 economies, having RCA value of 1.31 in 2011.

The graph below in figure 50 depicts the RCA index of misc. manufacturing articles' RCA among the CE10 economies. Among the CE10 economies, there has been a reversal in trend with Romania's and Bulgaria's comparative advantages declining over the last decade and that of Switzerland displaying an upswing. The RCA index for Romania has dipped from 2.96 in 2000 to 1.40 in 2011, whereas, the RCA index for Switzerland has risen from 1.73 in 2000 to 2.24 in 2011. All other CE10 economies fared in the range of 0.80 to 1.30 during 2011, being close to RCA value for India.

[20] Manufacturing Sector in India – Sector Report, IBEF

Figure 50: CE 10 RCAs
Miscellaneous Manufacturing articles



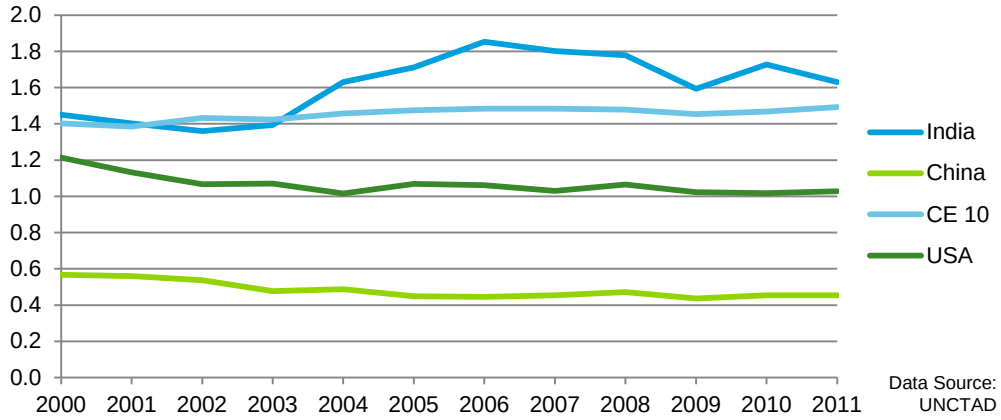
Data Source: UNCTAD

Now let us turn to the service sector, which accounts for more than 60 per cent of India's GDP. Indian economy's orientation has been changing for a long time from being a manufacturing/agriculture-dominated to a knowledge-based one, wherein, modern technologies and high value-added services are significantly contributing to the country's gross domestic product (GDP). Some of India's top services in terms of exports are software, back-office support and banking services.

Services sector

The Service sector comprises a huge basket with numerous sub-industry-segments like financial, educational, telecom, digital (including internet), travel & tourism, construction, consultation, IT etc. The Service sector with its growth and increasing workforce is now one of the central pillars in the Indian economic growth story.

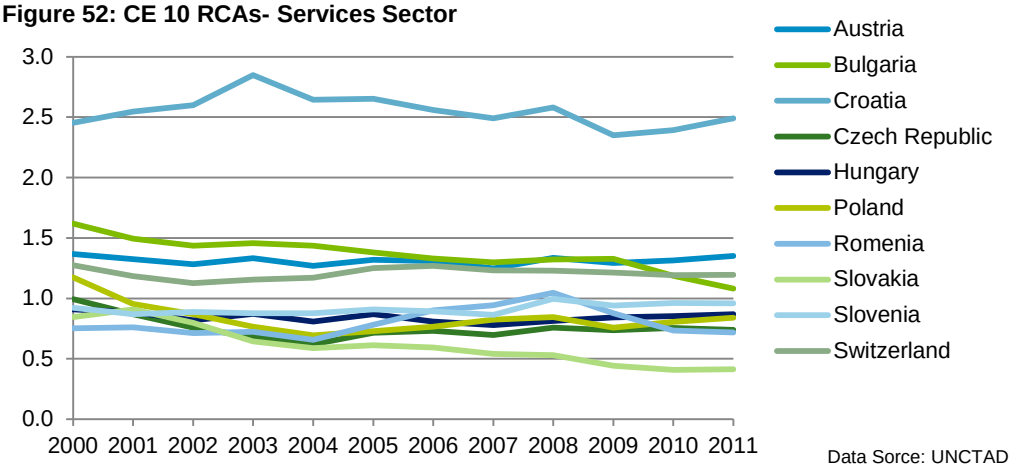
Figure 51: Global RCAs- Services Sector



Data Source: UNCTAD

As can be seen in the graph in figure 51, India has a sizeable comparative advantage in case of overall services sector over other economies. Although the RCA values dipped in 2009, it was predominantly due to the financial crises, which further led to overall sluggishness in the external demand. India is closely followed by the CE10 economies with an RCA in index of 1.49 in 2011, while that of India rested at 1.63. Another point to note here is that India & CE10 economies have consistently displayed a significant advantage over the US and China in the services sector.

Figure 52: CE 10 RCAs- Services Sector



Data Sorce: UNCTAD

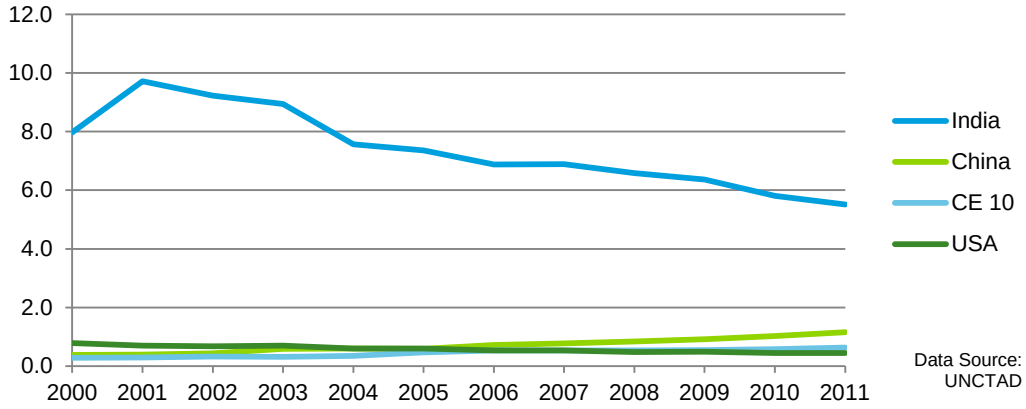
Among the CE 10 economies, whose RCA is depicted in above graph in figure 52, Croatia has a distinct advantage in the services sector with its RCA index above 2. The services sector represented 66% of Croatia's GDP in 2010 with tourism as its predominant industry. Croatia has a flourishing tourism industry with close to 7 billion tourists visiting the country annually and close to 25% of the workforce dependent on the tourism industry. Furthermore, the government has taken initiatives to improve the transportation and travel segments, which have paid rich dividends. These two segments have given Croatia a greater comparative advantage among the CE 10 economies. Austria and Switzerland, which have flourishing tourism industries as well and follow Croatia in the services sector competitiveness.

The following graphs present a detailed comparative analysis of various services industry sub-sectors to identify exactly which of the services are giving India & CE10 economies such competitive edge over other economies.

Computer and Information Technology

This is one of the key industries responsible for India's current dominant position in the global service industry, as reflected in the graph below in figure 53 for overall services.

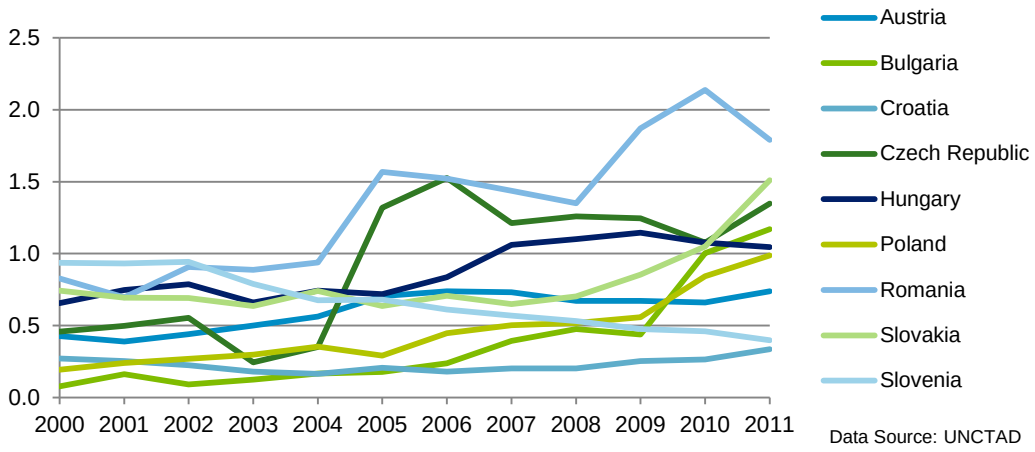
Figure 53: Global RCAs- Computer and Information Technology



Data Source: UNCTAD

As a consistent growth driver, this industry has greatly contributed to the recent Indian economic growth story. India's IT and BPO sector exports are expected to grow by 12-14 per cent in FY14 to reach US$ 84 87 billion, according to Nasscom. IT spending in India is projected to reach US$ 71.5 billion in 2013, an increase of 7.7 per cent as compared to US$ 66.4 billion in 2012, as per a report by Gartner. All these factors are vividly depicted in the above chart, which shows a clear comparative advantage for India in this industry. There is a considerable gap in the RCA indices of India and the rest of the economies with the index for India at 5.52 in 2011 followed by China at 1.16, CE10 economies at 0.63 and USA at 0.44, respectively. Although decreasing, India has enjoyed a fairly significant advantage in this industry for whole of the last decade.

Figure 54: CE 10 RCAs- Computer and Information Technology

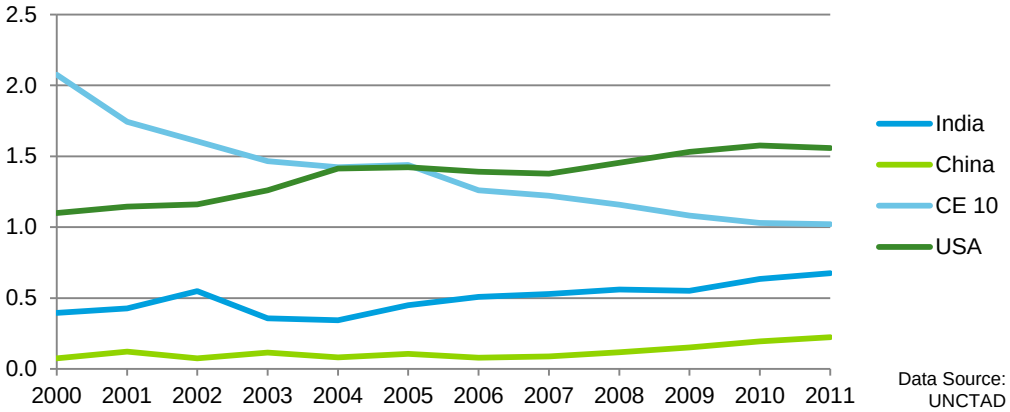


Data Source: UNCTAD

The above graph in figure 54 plots the RCAs for 9 of the CE10 economies, excluding Switzerland, due to unavailability of data. Amongst these CE10 economies, Romania has achieved a distinct advantage in this industry since 2008. The Computer and information industry has grown by leaps and bounds in the recent years as Romania has now transformed itself into an IT hub for outsourcing work in Eastern Europe. With low cost of production, and highly skilled labour, Romania has a distinct comparative advantage in this industry. Slovakia is another such economy with similar economic conditions that is making waves in this industry. However, even with a RCA index of 1.79 in 2011, the highest among the CE10 economies, Romania lags far behind India with an index of 5.52, depicting the distinct comparative advantage that India enjoys in this industry.

Insurance and Financial Services

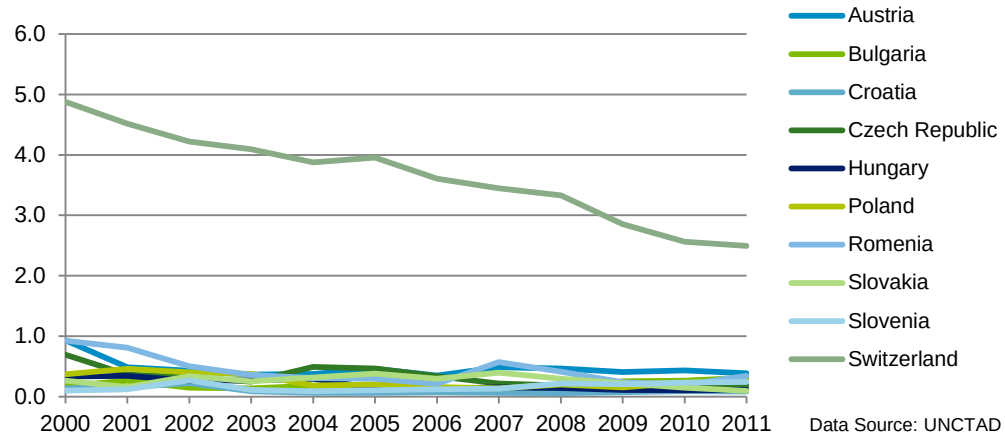
Figure 55: Global RCAs- Insurance and Financial Services



Data Source: UNCTAD

Constituted with primary markets, FDI, alternate investment options, banking, insurance and asset management segment, the Indian financial services market happens to be one of the oldest and most robust across the globe. It is also a preferred destination for investment due to its high saving rate (25% plus). This sector consistently attracted FIIs to India. However, when compared on a global scale, this sector still has long way to go, which is evident from the graph produced above in figure 55. India lags behind the advanced economies including CE10 economies and the US in this particular industry, though shows comparative advantage over China.

Figure 56: CE 10 RCAs- Insurance and Financial Services

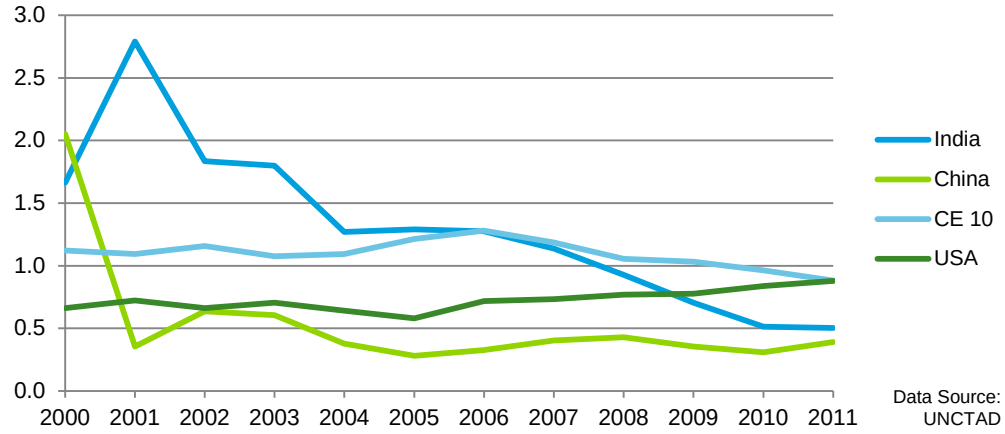


The CE 10 economies have struggled in this industry with all the economies except Switzerland having an RCA index below 1 depicting a comparative disadvantage as shown in the above graph in figure 56.

The high RCA index depicted by the CE10 economies is predominantly due to Switzerland. Hence, with its developed and matured financial and banking sector, Switzerland has one of the best comparative advantages in the world in the financial services sector. Switzerland's financial services industry, especially banking, holds a prominent position in the international market. The financial sector, which has the major contribution in the GDP of the country (6.2% of GDP), accounts for 10.3% of value added in Switzerland (CHF59.4 billion).

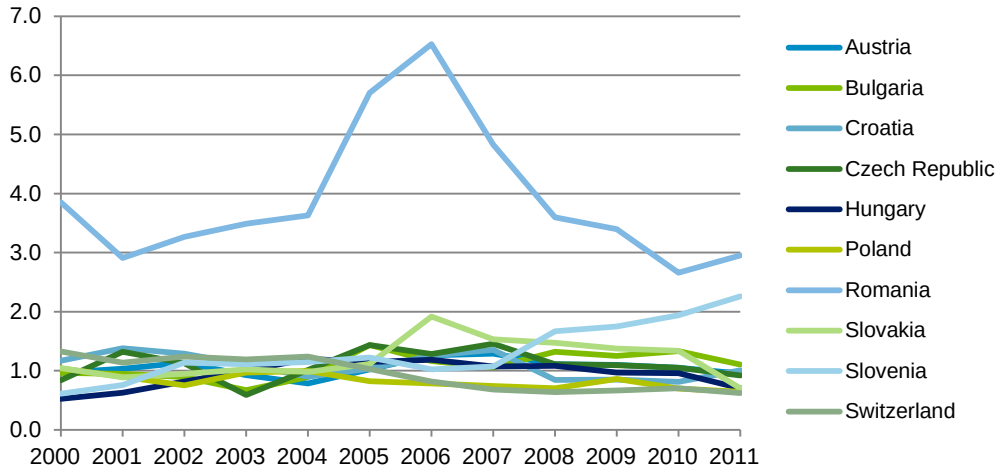
Communication

Figure 57: Global RCAs- Communication



The Communications industry plays an important role in any economy due its potential for growth and vast consumer base. The above graph in figure 57 depicts that India had a high comparative advantage in this industry but has diminished with the consistent decline in exports. As is observed from the data, exports increased consistently till 2008 but have declined since 2009 and have remained stagnant over past few years. The RCA index has declined from 2.79 in 2001 to 0.50 in 2011. However, with a large consumer base and with India being the third largest in the world in internet usage, the growth in this sector has predominantly been oriented to the domestic market thus leading to higher FDI inflow into the economy. Currently the USA with a more export-oriented industry and CE10 economies lead the pack with an RCA index of 0.88 each in 2011 with China lagging behind with an RCA index of 0.39 in the same year.

Figure 58: CE 10 RCAs- Communication

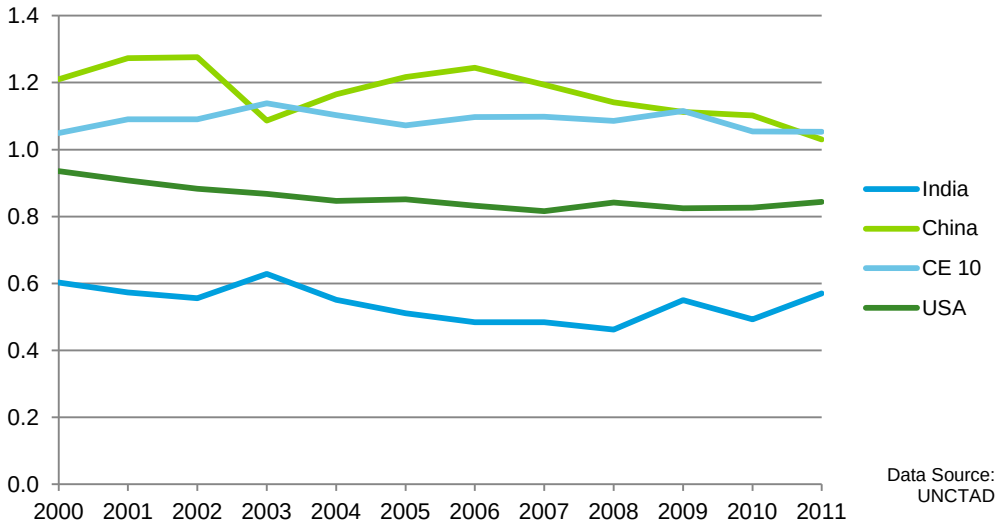


Data Source: UNCTAD

The above graph in figure 58 illustrates the RCA index of the communications industry among the CE10 economies. Among the CE10 economies, Romania has a very high comparative advantage with its RCA index consistently above 1 by some margin. The comparative advantage has been diminishing in recent years with RCA index dropping from 6.53 in 2006 to 2.95 in 2011 but still it enjoys a distinct advantage among the CE10 economies. Romania has made significant investments in all the Information and Communications Technology (ICT) subsectors, including basic telephony, mobile telephony, Internet and IT. However, policy bottlenecks and laggard implementation of projects have led to lower growth rates within most of the sub-sectors in this industry in recent years. Slovenia with a well-developed ICT infrastructure has, in recent years, increased its comparative advantage with the RCA index climbing from 1.02 in 2006 to 2.26 in 2011. Revenues generated by companies in this industry were EUR3.1 billion and exports were EUR0.8 billion in 2011.

Travel & Transport

Figure 59: Global RCAs- Travel & transport



Data Source: UNCTAD

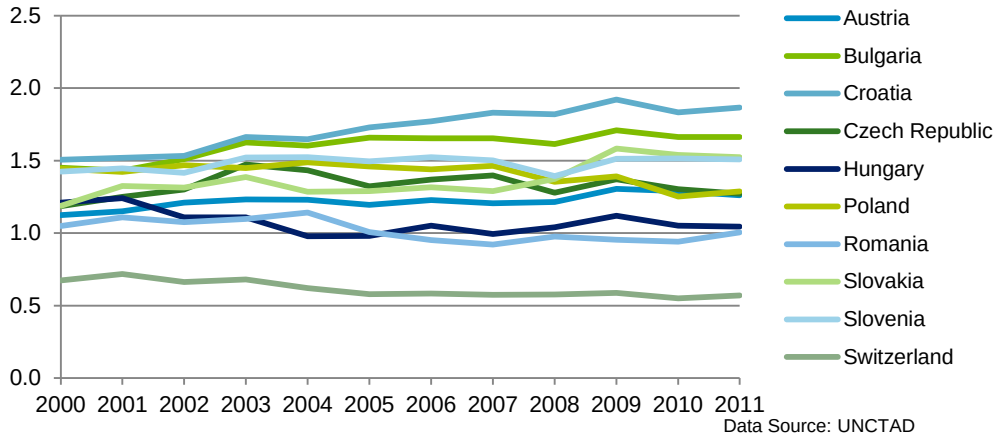
The above graph in figure 59 depicts the global RCA index of the travel and transport industry. With inefficient infrastructure, India lags far behind when compared to the US, China and the CE10 economies. China and CE10 have consistently had a comparative advantage in this segment with their respective RCA indices being consistently above the 1 while USA has its RCA slightly under 1. Interestingly, the RCA index of China in 2011 was 1.03, which is overtaken by the CE10 economies with a RCA index of 1.05 in the same year.

The above graph in figure 60 depicts the RCA index of the travel and transport industry of CE10 economies. Among the CE10 economies, most of the economies have their respective RCAs above the unity, along with a rising trend, signifying their comparative advantage over the world. Croatia and Bulgaria have led the pack with RCA indices of 1.87 and 1.66 respectively in 2011. With an export-oriented growth in the larger gamut of tourism, both countries have made great strides in the segment of transport and travel. Surprisingly, Switzerland has the lowest RCA amongst CE10 countries. This can be attributed to its lower dependence on the Travelling sector for exports as compared to other countries.

Construction

The above graph in figure 61 illustrates the global RCA index for the construction industry. Growth of the Indian construction sector has always been marred by the issues of capital expenditure deferrals by the private sector due to dwindling business confidence, policy stalemates, red tapism and issues of land acquisition etc. This has led to a sluggish growth of the construction industry. This is reflected in the

Figure 60: CE 10 RCAs- Travel & Transport



Data Source: UNCTAD

export-oriented activities of this sector with India clearly having a comparative disadvantage among the concerned economies. China with is investment-based growth leads the pack in this sector with its comparative advantage on a rapid rise. China's RCA index was at 3.28 in 2011, whereas, India lagged behind with an index of 0.25 in the same year. However, during the latest five year plan of India, the construction sector has been given top priority with large funds allocated for improving efficiency and decreasing red tapism pointing towards a more optimistic environment in the future.

Figure 61: Global RCAs- Construction

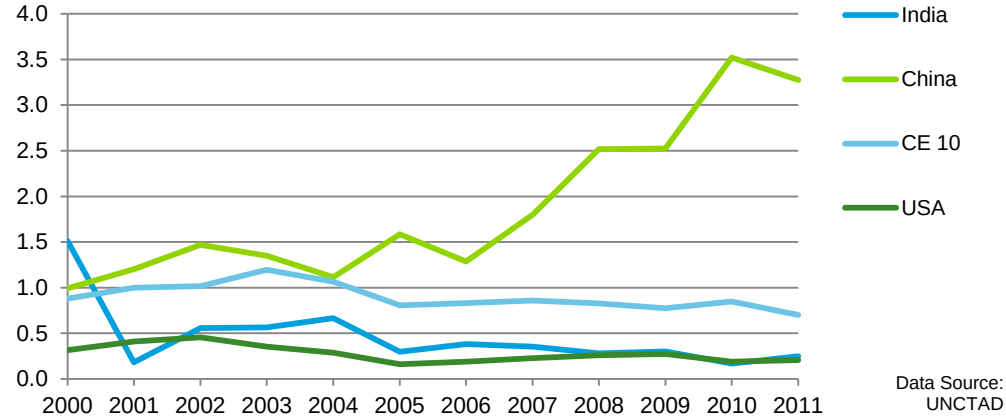
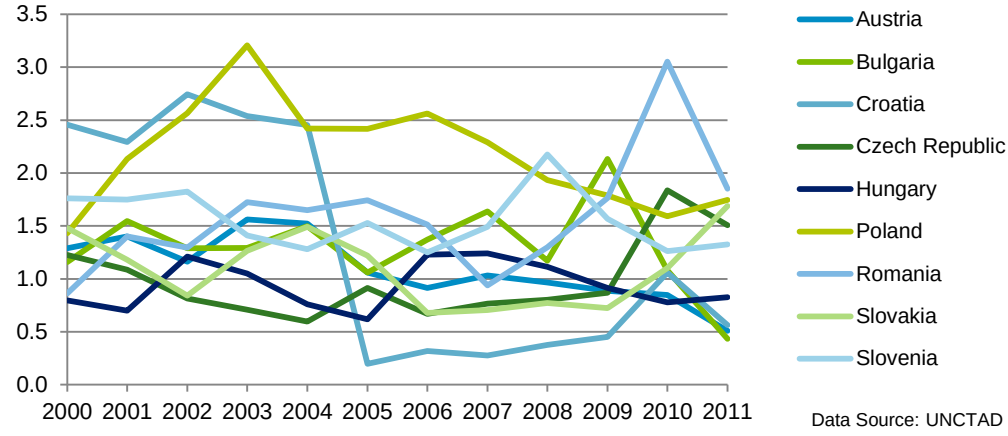


Figure 62: CE 10 RCAs- Construction



The graph in Figure 62 plots the RCAs for 9 of the CE10 economies, excluding that Switzerland due to absence of data. With one of the largest markets for new commercial property investments, Romania leads the pack among the CE 10 economies in this industry. New commercial property investments in SEE (South East Europe)—amounted to US$425 million in 2011, which was 32% more than the 2010 figures. Romania has greatly benefited from it. With construction as one of its central industries, Poland closely followed Romania. Both these economies have a slight comparative advantage when compared with the rest of the economies with Romania having a RCA index of 1.85 in 2011 and Poland with an index of 1.75 in the same year.

Concluding remarks

As seen in the analysis above, with the differing geographies, economic practices, government policies, and dynamic geo-political structures, different industries from varied economies under consideration have distinct outputs, productivity, trade as well as comparative advantages. The overall analysis broadly depicts the fact that the Indian economy as whole has a strong hold on the primary sector industries and the services industry, with the CE10 economies more dominant in the industrial and manufacturing sectors. A closer look at the economic structure, government policies and future plans of these economies, however, show that both the regions have tremendous opportunities to enhance their trade and investment relations and emerge as mutually beneficial partners.

The government policy for most of the CE10 economies is focused on improving business and investment climate as well as trade in key sectors such as infrastructure, energy, Greenfield projects, R&D, as well as service industries such as banking, retail, telecommunications etc. Both regions have

introduced a slew of measures, in shape of tax benefits and opening up of different sectors for foreign investments, in an effort to make their economies more investor-friendly and conducive for growth. As a result of this, both regions hold a strong potential of becoming important trade partners and investment destinations for one another.

India, due to its vast geographies and favourable climate for production holds a distinct advantage in the primary sector, which includes agricultural and ancillary products like sugar, coffee, pearls and precious stones. Furthermore, India holds a niche position as a producer in the global market with its rich history and high degree of expertise in these products. Although the agricultural and ancillary industry is well established in economies like Bulgaria and Croatia (and in some cases even Poland and Switzerland), none of them can match the production levels of India, with an aging farmer population and majority of focus on the industrial sector. A more fruitful partnership can evolve between the two regions with India exporting agricultural goods and importing machinery and technical know-how in mechanized farming, a well-established practice in the CE10 economies, to increase its own productivity.

Within the industrial sector, the situation between the two regions is quite contrasting as compared to the primary sector. With high degree of factor endowment, expertise and matured production houses, the CE10 economies hold a key edge especially in the automobile, machinery and other manufactured goods industries. Indian economies have consistently lagged behind most of the CE10 economies (with the exception of Bulgaria) in terms of comparative advantage. India has a high consumer base for all these products and can become a lucrative importing partner for the CE10 economies. However, India also stands to gain a great deal from this arrangement. The recent policies by India are aimed at increasing domestic industrial activity, push investments in various sectors and improving the infrastructural sector. India can look forward to import machinery, technology and technical know-how that can help in improving the issues of capital formation required for uptrend of economic activity and infrastructure. Countries like Hungary and Czech Republic, which have a distinct advantage in exports of machinery, can help the cause of the infrastructure sector in India. Thus, although at a comparative disadvantage India can still gain from increased association with CE10 economies in these industries by gaining in terms of intangible benefits, particularly, technical know-how. There is also scope for overseas investment by India in the field of infrastructure in the form of public private partnership (PPP) with economies like Austria, Bulgaria, Croatia, Czech Republic and Slovenia focusing on the growth of the this sector by attracting foreign investments. However, it is also important to note here that India holds a very decisive advantage in the fields of textiles and minerals, which need to be explored further in order to boost exports to Central Europe.

Moving to the services industry, India has a much larger role to play in terms of active contribution. The services sector is the largest contributor to growth in India and is rich in factor endowment, capital, technical expertise and established and mature market. India has a very high comparative advantage in the computer and information industry. It can certainly look at economies like Slovenia, which aims to improve its IT infrastructure and Croatia, striving to improve its business services to enhance trade activities. The computer and information industry is a key ancillary to any set-up and with most of the CE10 economies trying to invest in heavy industries such as infrastructure, communications sector; retail industry and R&D facilities. There are vast opportunities for India to increase its exports of this industry as the demand for all the ancillary industries is expected to grow in the future. On the other hand, sectors such as insurance and financial services, in which CE10 economies have a rich advantage, can be looked at by India as a potential market to increase its export. For example, greater focus can be given to Austria as it wants to improve its banking and retail sector. One of the most critical segments to improve trade ties within the services industry is that of the communications industry. The government policies in a majority of the CE10 economies including Austria, Bulgaria, Poland, Slovenia and Switzerland are focussing on improving the infrastructure, increasing growth or liberalising the sector for foreign investment. The Indian communications sector is vast and well-developed. However, with a large consumer base and a conducive environment, the growth in this sector is mostly limited to the domestic markets. A shift towards a more export-oriented growth can help India in capturing the market in all the aforementioned economies.

7. Brand India

Introduction

India is one of the fastest growing emerging economies and the third largest in the world in terms of purchasing power parity (PPP), which makes it an attractive destination for the investors. India draws its strong mid-term growth prospects from factors like favourable demographics, resilient economic structure, stable democratic institutions, and continued infrastructure investment. Also, approximately, 65 per cent of the total population falls in the age group of 15 to 64 years, which gives a demographic advantage for growth in the long term. Further creating a favourable fiscal/investment outlook are the key structural changes like reduction in fuel subsidy, targeted cash delivery of subsidies, proposed introduction of Goods & Services Tax (GST), further divestment of the Public Sector Units(PSUs), amendment in the Banking Regulation Act and Companies Act and liberalisation of certain key sectors like multi-brand retail, insurance, pensions, domestic airlines and broadcasting. The country's domestic demand-driven growth model, bolstered with an emerging middle class, cost competitiveness and presence of a skilled and abundant workforce, have been serving as a collective pull for attracting foreign investments to the country. India ranks number four in terms of the number of FDI projects. The number of FDI projects in India increased to 932 (recording a 20 per cent hike) in 2011, which created an estimated 255,416 jobs. In FY 2011-12, the country attracted FDI of approximately US$ 46.8 billion in various sectors. According to UNCTAD's World Investment Prospects Survey 2012–2014, India is the third-most attractive destination for FDI in the world.

The country's growth averaged 8.4 per cent between FY 2006 and FY 2011, even in the face of a severe and persistent global slowdown and is expected to rest between 5.5 to 6.0 per cent in 2012-13. The growth is further spurred by the country's commitment towards steady structural reforms. Some of the recent initiatives in this regard include FDI of up to 51 per cent in multi- brand retail, 100 per cent in single brand retail, up to 49 per cent in civil aviation and 49 per cent in power exchanges and Cabinet's approval for FDI in insurance and pension sectors. The country has also introduced major initiatives in the capital markets to bolster growth. Some of these initiatives include developing the Corporate Bond Market, having dedicated trading platforms for small and medium scale enterprises, reducing transaction cost in securities markets, providing Qualified Foreign Investors (QFI) access to Indian Equity Markets,

offering corporate bonds and mutual fund debt schemes, providing tax exemption to 'Angel' investors investing in start-up companies, and extending the lower rate of withholding tax to funds raised through long-term infrastructure bonds in addition to borrowing under a loan agreement.

In terms of global rankings, India ranks at 56 among 142 countries, according to the Global Competitive Report 2011-12. The country ranks higher than many countries in key parameters such as market size (3rd) and innovation (38th). It also has a sound financial market, which ranks 21st in the world. In addition, India has great resilience to adverse economic situations. The country has a high debt tolerance, with a large pool of domestic savings and developed local capital markets. The government debt is also largely denominated in local currency and has a long maturity profile. India's net external creditor status is supported by foreign investment, an expanding and competitive export sector, and among the strongest remittance inflows globally. The combined effects have enabled India to build increasingly larger external liquidity buffers than peers and insulate the economy from an adverse global environment.

Consumer spending in India grew from US$549 billion to US$1.06 trillion between 2006 and 2011. India's consumption is expected to rise 7.3 per cent annually over the next 20 years and by 2040, nine out of every ten Indians will belong to 'the global middle class group,' with daily expenditures ranging between US$10 and US$100 per person, as per the current purchasing power parity status. The rise of India's "new middle class" is globally significant as fundamental changes in the form of innovation in the production, distribution and delivery of goods and services necessitated by this burgeoning class will be relevant for countries across the globe. Innovations, such as the US$ 2,200 Nano car by Tata Motors, the inexpensive hand-held electrocardiogram (ECG) machine from GE Healthcare, and a mobile phone application called 'Nokia Life Tools' by Nokia for rural consumers to access agricultural, educational and entertainment content are few examples of frugal engineering, primarily aimed at the Indian market, but likely to find buyers in many other parts of the world as well.

These and many other such aspects can take "Brand India" to a new high in the global markets. It is very important for any country to present a stable and a market-friendly status of the economy in order to attract more funds in the form of investments or foreign trade. These are critical to ensure inclusive growth, sustain the global competition and achieve domestic prosperity. In order to present a holistic overview of India's forward-looking approach and outline the possible areas of association between India and the CE10 economies, the section below captures key brand building initiatives being taken by the Government to gain an economic advantage in this region.

Brand building initiatives/strategy

The Indian government constantly engages with its counterparts across the globe in an effort to promote trade and cultural exchange, and strengthen bilateral relations. The collaboration spans across multiple fields, including trade, education and health.

Promoting education in India and abroad, the Indian Culture and External Affairs ministry in 2012 unveiled four Scottish-India education initiatives. Additionally, four Memoranda of Understanding (MoU) were also signed between India and the US on promoting community colleges and education at large. The Indian government, actively seeking knowledge and information sharing for the common good of the people, recently signed a MoU with the UK government in the field of health sector.

India also took some significant initiatives to promote the health sector. It was the Focus Country at CPhI Worldwide event held in Madrid in 2012, which is the largest pharmaceutical trade exhibition across the globe. India also launched a Brand India Pharma campaign to highlight the value proposition that the Indian pharmaceutical sector holds for the global market at large.

India also partnered with the United States government to promote knowledge sharing in the fields of health, technology, energy and sustainable development, and training of human resources. The Indo-US partnership is an extension of the on-going Indian contribution to the US economy. As per India Brand Equity Foundation (IBEF), the Indian industry contributed US$153 billion to the US economy and supported as many as 314,000 jobs over the period 2004-2009. The Indo-US collaboration extends to the field of energy, with a dedicated summit on energy called 'Indo-US Energy Partnership Summit' held each year to find ways towards a sustainable future.

The collaboration on research and innovation extends to other geographies, with India partnering with Australia in the field of medicine. Both the countries pledged a collective amount of US$65 million on the Australia-India Strategic Research Fund dedicated to critical crop protection, food security and advanced genomics. Further, to encourage bilateral trade relations with the Australia, India hosted 2012 Australia-India CEO Forum. The second meeting of the forum sought practical ways to enhance trade and investment cooperation, including specific proposals on the transport sector, skills development and infrastructure projects. India also seeks to establish strong ties with its counterparts in Central Europe, in view of which it participated in the 2012 International Engineering Fair held in Czech Republic.

Apart from these aforementioned strategic initiatives to promote “Brand India”, both India and Central European countries have taken explicit efforts to increase economic, social, cultural, political and defence ties.

The following section lists down the economic partnership shared by these two regions. The India government has taken considerable steps to enhance co-ordination with the CE10 economies. We shall now focus in brief on each the CE10 economies and highlight their equation with India.

Austria

India and Austria have always shared good ties through a host of geo-political and economic initiatives. Both the countries have made conscious efforts to enhance mutual trade and investment activities over the last decade. In 2005, the then minister of commerce and industry Kamal Nath, during the 10th session of the India-Austria Joint Economic Commission stressed on the need to enhance co-operation in a wide spectrum of fields such as tourism, railways, energy, steel, agriculture, civil aviation etc. in an effort to double trade in the future. Both regions did set out on these goals and have made prolific progress in the same. In December 2007, the two countries signed an agreement on Science and Technology co-operation. The agreement was signed by delegations headed by Kapil Sibal, Minister of Science and Technology and Earth Sciences, and Dr Johannes Hahn, Austrian minister of Science and Technology. The agreement provided for exchange of scientific and technological information, documentation and publications, exchange of scientists and experts and implementation of bilateral-projects of mutual interest. It also provided for exchange of scientists and experts for consultations, symposia and special studies, support to joint scientific-telelogical events and other scientific programmes such as joint workshops, seminars, etc.

Spanning through different sectors, both the countries have entered into a variety of agreements. Both these countries have further improved their ties with many such important and successful agreements. More recently India has signed two agreements with Austria in the field of infrastructure and heavy industries. In February 2012, an Indian delegation headed by Dr. C.P.Joshi, Minister of Railways and the Minister of Road Transport & Highways and visiting Austrian delegation headed by Doris Burse, Federal Minister of Transport, Innovation & Technology of Austria, signed a MOU for strengthening long-term relationships and bilateral cooperation on road infrastructure and road transportation technology matters. The aim was to support more activities on the lines of already existing deals like, Starbag, a construction major, who secured a contract worth EUR83 million from Delhi Metro Rail Corporation. The company along with its Indian counterpart Afcons have jointly being awarded the Rohtang Pass Tunnel project worth EUR250 million. Likewise, an Austrian company is designing a railway arch bridge in Jammu & Kashmir. India and Austria signed another MoU on technology cooperation in the shipping and ports infrastructure in October 2012. The MoU was signed by G. K. Vasan, Minister of Shipping with Doris Bures, Austrian Federal Minister for Transport, Innovation & Technology in New Delhi. Austria is using more than 300 km stretch of Danube River for navigation purpose with a well-developed and regulated inland waterway system. Their expertise in the field of Inland Water Transport would be beneficial for developing the Indian capacity on similar lines.

Bulgaria

With a rich heritage in agriculture and both India and Bulgaria being predominantly agrarian economies, ties in the agricultural sector have always been strong. In 2004 during a delegation dialogue, Mahabir Prasad, Minister of Micro, Small & Medium Enterprises assured his Bulgarian counterpart, Mehmed Dikme, about the capability of India to assist in development of the small scale sector of Bulgaria in many

ways including policy formulation, undertaking techno-commercial feasibility studies, facilitation of entrepreneurs, organisation of expositions, supply of projects on turnkey basis, providing training to technicians/entrepreneurs and assisting Bulgaria in the creation of infrastructural facilities. This has provided a fruitful market for Indian agricultural investment.

However, steps have been taken in the right direction in recent years with India signing an agreement with Bulgaria for promotion and protection of investments in 2009. This decision enabled Bulgaria to comply with its obligations as an EU member state. Post these efforts to increase ties, there have been increased activity between the two countries with a slew of agreements aimed at benefiting both countries through improved ties. In April 2010, a protocol was signed to identify key sectors for increased cooperation between the two countries. The protocol aimed at improving bilateral trade and investments in sectors such as, food, textiles, leather, pharmaceuticals, science and technology, SMEs, energy especially NRE, engineering goods and tourism, agriculture and Information Technology. India's competence in e-governance, software technology parks, and ICT led education and learning offers another area for greater cooperation with Bulgaria. Both sides agreed to pursue specific tangible and mutually beneficial opportunities with defined timelines.

Focusing on the different sectors, important agreements were signed between the two countries most recently. For instance, in November 2011, India and Bulgaria signed a MoU in health and medicines. Ghulam Nabi Azad, Union Minister of Health and Family Welfare signed MoU with Dr. Stefan Konstantinov the Minister of Health of the Republic of Bulgaria. The form of cooperation through this agreement includes medical services; public health and prophylactics; medical science and training of medical personnel; medical education and research; drug regulation and pharmaceuticals and medical tourism and health legislation. It further includes exchange of medical and scientific information; exchange of experience on priority issues; participation of scientists in scientific medical activities organized in each country; short-term exchange of medical personnel or joint projects on subjects of mutual interest. With large degree of investment and social capital required, this agreement can go a long way in social and economic development for both the countries.

Croatia

With increased agreement in economic as well as social fields, such as relaxation in visa procedures for diplomats, India and Croatia have improved ties in recent years. The growth in ties has predominantly been through the health, medicines and science and technology segments. One of the key developments that enhanced the ties between the two economies was the visit of Kapil Sibal, the then Union Minister for Science & Technology and Earth Sciences, to Croatia in 2007. A joint declaration was signed between Kapil Sibal and Dragan Primorac, the Croatian Minister of Science, Education and Sports, in Zagreb. The agreement entailed the following aspects:

- The Parties shall further strengthen bilateral cooperation in scientific R&D, by intensifying and developing cooperation in the following fields: environment, oceanography, biotechnology, pharmacology, nanotechnology and shipbuilding.
- With a view to effectively pursue the above objective, the Parties agreed to establish a Joint Fund of one million Euros, for which each Party will make an equal contribution.
- Both Parties agreed to work out joint projects for FP7 Programme of EU.
- Indian Party agreed to the participation of its scientists in peer reviews/evaluations of Croatian national R&D projects. Indian Party will provide to the Croatian Party a list of Indian experts/institutions for this purpose.
- Both Parties agreed to collaborate for use of GIS technologies, especially in applications in coastal areas.
- The Parties shall develop and adopt appropriate plans of action and cooperation, to effectively implement the objectives of this Declaration.

Furthermore, both the countries also signed an agreement for strengthening scientific and technological cooperation. This agreement can have far reaching effects for both the economies in the future as it focused on heavy industries, infrastructure, medicine as well as R&D. In 2010, M. Hamid Ansari, the vice

president of India, led a delegation to Croatia. In an effort to increase bilateral trade, an agreement was signed between the two, during the visit, to increase cooperation in the health and medicine segments. Thus, in recent years, both countries have taken credible steps to improve bilateral trade, investment and cooperation.

Czech Republic

India has friendly, cordial and cooperative relations with the Czech Republic. The relationship covers political, economic and commercial fields as well as cooperation in technology and culture exchanges. Both countries have made a conscious effort to increase bilateral ties. In 2004 during the 6th Session of the Joint Czech-Indian Economic Commission, which was led by S.N. Menon, Commerce Secretary of India and Dr. Miroslav Somol, Deputy Minister of Industry and Trade, Czech Republic, an agreement was signed in which both sides agreed to inculcate efforts to increase exports in non-traditional/emerging/niche product groups such as engineering items, software/ information technology, electro-technic and electronics, plastics, packaging, chemicals, pharmaceuticals, medical equipment and food processing, etc. The Czech side suggested more possibilities for exporting machine tools, presses, textile and leather processing machines and equipment, printing machines, agriculture tractors, components and spare parts, hospital berths and other medical equipment like measuring and control equipment, furniture, sports equipment etc.

With such initiatives, trade and investment between the two regions has thrived and there have been further steps taken to improve them. In 2010, the vice president of India led a delegation to Czech Republic along with Sachin Pilot, Minister of State for Communications and Information Technology and four members of the Parliament. During the visit the talks mainly focused on three issues, (i) Agreement on Economic Cooperation (ii) Social Security Agreements and (iii) A Protocol on Amending the Bilateral Investment Promotion and Protection Agreement.

In 2011, Czech Republic during its various diplomatic visits reflected interest in the Indian coal and power sectors. Similarly, an Indian delegation led by Sriprakash Jaiswal, Union Minister of Coal met Martin Kocourek, Trade & Industry Minister, Czech Republic, in 2011 in Prague to explore the scope for technical cooperation between the two countries in the areas coal mining. This included deep coal mining, lignite mining and clean coal technologies covering the areas of coal mine methane extraction, underground coal gasification etc. Indian side also proposed technical cooperation in manufacturing of mining machinery for underground mining and lignite mining.

Hence, India and Czech Republic have a lot to offer in terms of trade, investment and overall cooperation. With the recent statement made by Anand Sharma, Minister of Commerce and Industry, inviting more investment from Czech Republic in the manufacturing sector, acknowledging their expertise in the field of engineering and automobile sectors, things are looking positive for both countries in the near future.

Hungary

India and Hungary too share a cordial equation with healthy economic, social and political ties. In the last decade, before venturing into the industrial and services sectors, India and Hungary did focus on the primary and agricultural sector. In 2008, the Indian delegation which was led by Sharad Pawar, Union Agriculture Minister met the Hungarian team led by Jozsef Graf, Minister of Agriculture and Rural Development of Hungary, to discuss the scope of improved relations between the two in the field of agriculture. The Agreement provided for cooperation in agricultural research and technology, agricultural production, food processing and economic cooperation between the two countries through joint activities. Joint activities will be carried out in the field of agricultural research, agricultural production including horticulture, post- harvest management, agro processing, agricultural marketing, animal husbandry, dairying, aquaculture and phytosanitary issues relating to trade in plant and animal genetic resources.

Post this period, both the countries have tried to diversify their cooperation to different sectors with increased focus on the industrial and services sector. In 2010, Anand Sharma, Union Minister for Commerce and Industry, held meetings with Gordon Bajnai, Prime Minister of Hungary, Istvan Varga, Minister of National Development and Economy and Viktor Orban, the leader of opposition & former

Prime Minister of Hungary, during his visit to Hungary. The Union Minister stressed on the importance of increasing cooperation in varied sectors such as energy, medical equipment, agro-processing, dairy plants, water management, waste management and waste water purification. Both sides agreed to increase the level of trade to US $ 1 billion by 2012. The chambers of the two countries also signed an agreement on arbitration.

In accordance with the aim of diversifying, in 2011, Dr. Ashwani Kumar, Minister of State for Planning, Parliamentary Affairs, Science & Technology and Earth Sciences, lead a high level parliamentary delegation to Hungary. During the visit, both governments identified various areas of co-operation including collaboration in R&D, electronics, water and solid waste management, defence, IT and higher education. It was also agreed to activate a joint fund of Euro 2 million for joint research projects in science and technology. The agreement was made in lieu of the broader economic visions of the two countries. Europe 2020 vision is dedicated to competitiveness and innovation and India has declared the current decade as Decade of Innovation.

Hungary and India thus share a very prosperous equation with one another with a further scope of improving bilateral ties.

Poland

India and Poland have enjoyed flourishing bilateral trade with Poland being India biggest trade partner among the CE10 economies. With treaties such as Agreement on Economic Cooperation between India and Poland (19 May 2006, Warsaw), Agreement on Cooperation in the field of Health Care and Medical Science (April 2009, Warsaw) and Agreement on Cooperation in the field of Tourism (April 2009, Warsaw) in place, bilateral trade has always been beneficial for both the economies. Both countries have realised the potential for growth in cooperation between the two and are taking the required steps to exploit this potential. In 2011, during his visit at the India-EU Broad bases trade and investment agreement (BTIA), Anand Sharma stressed on the same point and encouraged Polish companies to take a closer look at opportunities unfolding in India in infrastructure development.

Poland and India have a vast export and import basket in the bilateral trade, which includes commodities like, food processing, IT, heavy industry, defence and education. In 2012, Ambika Soni, I&B Minister and B. Zdrojewski, Minister of Culture and National Heritage of the Polish Government, signed the Audio Visual Co-production Agreement to Enhance Bilateral Cooperation in the Films Sector. The signing of the Agreement ensures better partnership and collaboration between enterprises and institutions, which produce, distribute and disseminate films.

The more recent diplomatic exchanges include India visit of Radoslaw Sikorski, Foreign Minister of Poland, in July 2011. He held discussions with S.M. Krishna, External Affairs Minister, and Anand Sharma. Similarly Sriprakash Jaiswal, Indian Minister of Coal, visited Poland in June 2011, where he held discussions with Waldemar Pawlak, Deputy Prime Minister and Minister of Economy of Poland.

Hence, both countries can aim at increasing the intensity as well as diversification of trade and investment cooperation.

Romania

India and Romania experienced stagnation in trade activities in the beginning of this decade but have since then shot up. In 2005 Kamal Nath, the then Union Minister of Commerce and Industry, stressed on the importance of increasing trade between the two countries. He attended a bilateral meeting, with his counterpart, Varujan Vosganian, Minister of Economy and Finance. Trade and investment relations have seen a steep rise in the last few years. Economic cooperation between Romania and India dates back to 1948, when diplomatic relations were established between the two countries. Since then, both the countries have signed at least 22 bilateral agreements. Previously, in 2004, Mani Shankar Aiyar, Indian Minister for Petroleum & Natural Gas, led a delegation to Romania to explore new opportunities for the Indian hydrocarbon sector and Indian industry at large. After delegation-level discussions between the Indian Petroleum Minister and the Romanian Minister of Economy & Commerce, the two Ministers identified the following specific areas for bilateral cooperation:

- Cooperation in the area of research and development: Given that large tracts of India have remained un-explored on account of their unique geological configuration, it was agreed that Romania, with its substantial knowledge base, would function as a major partner in this new exploration effort.
- The Indian Minister invited Romanian companies to invest in India's new refinery projects. At the same time, he said, Indian companies would be happy to invest in Romanian refineries to generate new capacities for export of petroleum products to different parts of Europe.
- Cooperation in third countries: The two Ministers noted that, given the considerable domestic capabilities that exist in India and Romania, the coming together of their companies as joint venture partners would make them effective role players in projects in different parts of the world.
- Transnational oil and gas pipelines: The two sides noted that each of them is actively pursuing transnational oil and gas pipelines in its region. It was felt that Indian and Romanian companies could set-up joint ventures to pursue these projects.
- Hence, with agreements in heavy industries such as petroleum, there was vast scope of improvement in the bilateral trade.

Recently, in 2012, Jyotiraditya M. Scindia, Union Minister of State for Commerce & Industry, led the 17th Joint Economic Committee (JEC) at Bucharest in Romania and signed the protocol with his counterpart Minister. Jyotiraditya stated that, Romania is actively looking at diversifying its economy and Indian corporates can play a significant role as enablers in this process. A business delegation with diverse interests like oil and natural gas, power equipment, IT, alternative energy, textiles, pharmaceuticals, supply chain management, tourism, electric buses accompanied the Indian Minister. The JEC, which met after a hiatus of 8 years, resolved to promote investments and JVs in areas of supply of equipment for metallurgy and energy industry, cooperation between micro, small and medium enterprises, transport, infrastructure, IT and ITES projects, cooperation in technical textiles and Tourism.

Slovakia

Indo-Slovak relations have always been free of bilateral issues or problems. Further improvement in co-operation in recent years, with Slovakia supporting permanent membership for India in United Nations Security Council (UNSC) as well as its waiver of NSG guidelines to enable international cooperation with India in civilian nuclear energy, have laid the foundation for a healthy and prosperous relation between the two. With agreements like Economic Cooperation Agreement signed in 2004 and Bilateral Investment Promotion Agreement signed in 2006 already in place, the trade between the two countries has been free flowing without any problems. In 2006, during the 6th meeting of the Indo-Slovak Joint Committee for Economic and Commercial Cooperation (ISJEC), a protocol was issued to increase bilateral trade and cooperation in areas like pharmaceuticals, chemicals and petrochemicals, textiles and to finalise programs for cooperation in forestry, science and technology, energy, IT, agriculture and defense.

Furthermore, CII had organised an 'Enterprise India' trade exhibition in Bratislava in October 2005, which saw participation of 35 Indian Companies. Also a five-member delegation from the Pharmaceutical Export Promotion Council visited Slovakia in 2006 both under the auspices of the Indo-Slovak Joint Business Council.

Hence, with such initiatives and increasing trade in a variety of commodities such as leather, footwear components, garments, bed/table linen, drugs and pharmaceuticals, vehicles/spare parts, machinery/components can prove prosperous for both countries.

Slovenia

As compared to the rest of the CE10 economies, the bilateral relations between India and Slovenia still have a long way to go. However, bilateral trade between Slovenia and India has been growing steadily over the years. Both countries have signed many bilateral agreements. The trade basket is quite diverse with commodities such as vacuum pumps, antibiotics, flat rolled products of stainless steel, other bars and rods of alloy-steel, hydraulic turbines, plastic plates, sheets and films, electrical apparatus, prepared binders for foundries, petroleum oils, heterocyclic compounds with Nitrogen hetro-atoms, ferro-alloys, diodes, transistors and semiconductor devices, electrical transformers, static convertors, antibiotics,

textile items and artificial staple fibre. Hence, there is ample scope to enhance bilateral trade and investment relations. One of the key developments in recent years was the visit of the Slovenian delegation, led by Darja Radic, Minister of Economy of the Republic of Slovenia, to India in 2011. She expressed her keenness in collaborating with Indian MSMEs especially in the IT sector. She further informed that Slovenia, an EU member, can offer a gateway to the Indian MSMEs for entire Europe. She also made a case that it is a very good opportunity for the Indian MSMEs to partner with Slovenian counterparts to capture the European markets.

Bilateral relation between the two in the primary sector has consistently improved over time. In 2013, a delegation led by Radovan Zerjav, Deputy Prime Minister and Minister of Economic Development and Technology, further stressed on the ample scope of coordination in the MSME sector. He expressed his keenness in collaborating with Indian MSMEs in energy sector, energy efficient houses, automotive industry, technical solutions in IT sector, mechanical engineering and tourism.

Hence there has been increased cooperation between the two economies in the primary sector. With India having an edge over most of the CE10 economies in the primary sector, increased cooperation can give it a further push.

Switzerland

Relations between Switzerland and India go back to 1948 when the two countries singed their first bilateral agreement. After that, there were many agreements signed between both the countries. In the last decade, economic relations between the two have increased by leaps and bounds. In 2004, during the 9th meeting of the Indo-Swiss joint Commission, both countries emphasised their commitment to increase bilateral trade in the years to come. Important issues like intellectual property rights, market access in different sectors, promotion of investment as well as cooperation in the field of IT and biotechnology were discussed. The Indian delegation was led by Abhijit Sengupta, Additional Secretary, Ministry of Commerce and the Swiss delegation by Ambassador Jörg Reding, Head of Bilateral Economic Relations.

Furthermore, in 2006 both countries signed a protocol amending the Air Services Agreement (ASA). The central features of the agreement were,

- Both countries shall now have the right to designate as many airlines as they wish.
- Aviation safety and security clauses have also been added for revocation and suspension of operating authorisation by either country.
- Issues relating to aviation security, aviation safety and tariffs have been redrafted as per model standard clauses.
- Now the designated airlines of both sides may use leased aircraft from any company including other airlines subject to stipulated aviation security and safety provisions and according to its national laws and regulations.

This agreement was signed with an aim to spur greater trade, investment, tourism and cultural exchanges between the two countries, besides bringing the agreement in tune with the developments in the international civil aviation. To handle the key issue of Intellectual Property Rights (IPR), Kamal Nath, the then Union Minister of Commerce and Industry and Doris Leuthard, Federal Councillor, Department of Economic Affairs of the Swiss Confederation, signed a MoU on intellectual property in 2007. A joint committee was set-up under the MoU for Exchange of views. It entailed information and experiences regarding the protection of intellectual property at the national level, starting of a dialogue related to international issues concerning intellectual property and serving as a forum for consultations to address specific issues in the area of intellectual property in the bilateral relations of the Parties. This agreement greatly helped in improving trade ties resulting from increased trust between the two.

Both countries, through different agreements, have made a conscious effort to strengthen trade and investment ties by improving economic, political as well as social relations between the two. For instance, in 2010 the two countries signed an amended Double Taxation Avoidance Agreement (DTAA). The salient features of these agreements were;

- There is a specific provision to ensure that information will be exchanged even if there is no domestic interest.
- There is a specific provision for providing banking and ownership information.
- The new provision will be applicable only for prospective information and not for past information.

Hence, with an already flourishing trade, with Indian imports from Switzerland dominating trade activities among India and the entire CE10 region, and the steps taken to strengthen relations by improving market access, transparency etc., bilateral ties between India and Switzerland are expected to better the equation between the countries in the years to come.

However, despite of all these efforts, it is important to note that there are still a number of untapped opportunities for Indian businesses in the Central European region, which are not identified because of lack of awareness of “Brand India” and absence of aggressive promotional events and brand building activities. Also, it is to be noted that many initiatives are being taken by the Central European countries in the form of visits of delegations and trade fairs etc., which need to be correspondingly responded back by India to further develop the trade relations. This calls for immediate and proactive action by the Government or Industrial organisations in India. These measures are critical to ensure diversified and stable growth for both economies in the coming years.

Appendix A
Country Profiles

Austria
Investment Opportunity

1. Overview of the Economy

From being among the poorest nations during the World War II, Austria today is one of the richest nations in the world. The driving factors for this progress include economy being a state-owned industry, social partnership, Austria's entry into the European Union (EU) in 1995, opening up of the former Eastern Bloc and the expansion of the EU to Eastern Europe.

Real GDP growth decelerated to an estimated percentage of 0.4% in 2013 from 0.9% in 2012 and is expected to recover a little to 1.4% in 2014 and will further grow by 1.7% on average from 2015, as per forecasts from the Economic Intelligence Unit (EIU). According to state supported Austrian Institute of Economic Research (WIFO) and the Institute of Advanced Studies (IHS), Austria's economy is expected to increase to 0.8% or 1% in 2013. The research also highlights that the 1% growth rate will be one of the driving forces in the euro area. The effects of the global economy dynamics have resulted in stagnated exports since mid-2011. However, domestic demand has been stable compared to the 2009 crisis. The weak international economy in 2013 is expected to decrease the inflation rate to 2.1% (WIFO) and 1.8% (IHS) as compared to 2.4% and 2.5% in 2012. Unemployment rate is expected to increase in 2013 and is expected to remain high in 2014. The Eurostats has estimated unemployment rate to be at 4.6% in 2013 as compared to 4.3% in 2012.

Political System

Austria is a representative democracy. It is founded on democratic principles and the separation of powers. The highest state representative is the Federal President, whose term of office lasts for six years. The Austrian Parliament consists of two chambers—the National Council (lower house) and Federal Council (upper house). The Federal Chancellor is the head of the Federal Government.

Austria is a federation made up of nine federal provinces. These include Burgenland, Carinthia, Lower Austria, Salzburg, Styria, Tyrol, Upper Austria, Vienna and Vorarlberg. Each of the nine provinces is led by a provincial government, headed by a Governor.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wages
2.6 %	46,570	0.9%	225.7	213.0	4.4%	No national minimum wage

Policies

During 2013-2017, economic policy will focus on measures to stabilise public finances and to support competitiveness in the Austrian economy. Towards this, the government intends to do the following:

- Promote entrepreneurship and upskill the workforce
- Focus on stabilising the banking sector, although the Austrian banking sector is only modestly exposed
- Continue to promote research and development in universities, private business and invest in education, environment and infrastructure
- Invest EUR100 million to promote thermal insulation and EUR26.7 billion for infrastructure (specifically railways) during 2013-17

Food and Energy Security

Food Security

Austria was placed at the 1st position in the Global Food Security Index 2012 (GFSI 2012) in the average food supply category and placed at the 6th position with an overall score of 85.6 points. The statistics from GFSI 2012, which encompassed 105 countries globally, revealed that food availability in Austria is equivalent to 3,819 calories per person per day.

To ensure adequate supply of safe and nutritious food in the country, the three agencies, namely, Austrian Agency for Health and Food Safety (AGES), International Association for Cereal Science and Technology (ICC), and AgrarMarkt Austria (AMA) have formed a Food Security consortium.

Energy Security

The Austrian Government has formulated an Austrian Energy Strategy to develop a sustainable energy system as energy security is an area of concern in Austria. The energy system aims to make energy services available for private consumption as well as for businesses in future while implementing EU rules. The objectives of the Austrian Energy Strategy include security of supply, environmental compatibility, cost effectiveness, social compatibility, and competiveness. Further, Austria's 2020 energy targets include:

- 34% share of renewable energy
- 16% reduction of greenhouse gas emissions in the non-ETS sectors
- Target for final energy consumption in Austria in 2020 is 1,100 petajoules (PJ)

Austria's Energy Strategy framework is in line with EU's Climate and Energy Policy 20/20/20 targets. These include:

- Reduction in greenhouse gas emissions of at least 20% below the 1990 levels
- Twenty percent energy consumption to be attained from renewable resources
- Increase in energy efficiency by 20% by 2020

The Austrian Energy Agency is the national centre of excellence for energy. Austria's oil and gas reserves play an important part in security of supply. In 2011, about 7%of the oil and 20% of the natural gas required by Austria is produced domestically. Relative to consumption, the country already has the largest gas storage capacity in Europe. It is expected to grow in the next few years.

Further, Austria has signed an agreement on the gas pipeline project "South Stream" with Russia. The agreement was signed between the two gas companies—Russian gas monopoly Gazprom and Austrian oil and gas company OMV in 2010. The pipeline is expected to be operational in 2015 and will have an annual capacity of 63 billion cubic meters, or will cover about 35% of Russia's total annual natural gas exports to Europe.

3. Infrastructure

Road Transport

The Austrian federal road network, with a total length of 1,999 km of road network, consists of 1,645 km motorways and 354 km express roads. Of the total, 160 km of this network are tunnels and 200 km of it are bridges. The representative authority, Austrian Federal Road Administration (Department of Roads), is part of the Ministry of Transport, Innovation and Technology. It is responsible for legal and technical requirements.

Rail Transport

Austria has a per capita rail track investment of EUR230 for every citizen and the country leads the position among the European countries. The Austrian Federal Railways (OBB) plans to invest about EUR12.8 billion by 2016 to extend, maintain and improve the Austrian rail network as well as construct and modernise railway stations. The expansion plan will make travel more competitive and strengthen the country's position as an investment destination. Further, the OBB aims to make railway travel as the most popular means of travel, connecting the largest cities in Austria and in a 500-km radius of neighbouring foreign countries.

Air Transport

At present, 140,000 international flights take off from Austria for 165 airports in 61 countries every year. Of the total, 14 of these routes are to cities of more than 10 million people and 73 routes are to international conurbations. The demand for air transport services is expected to double by 2030. Of the 40 most important airports within the EU, Vienna Airport stood at the 9th position measured by volume of flight movements in 2008. The Federal Government, as per its Road Map for Aviation to 2020, plans to maintain productive and competitive air transport infrastructure. According to the road map, the aviation industry is expected to be supported through attractive cost

and fee structures and become more competitive. It will link domestic airports even more efficiently to intermodal transport systems on the ground. For instance, Vienna Airport will be directly linked to the high-ranking Westbahn and Südbahn rail networks via the capital's Hauptbahnhof central station from December 2014.

Water Transport

Austria is situated on a waterway which links the river systems of the Rhine and Danube via the Main-Danube Canal and extends from the North Sea to the Black Sea. The National Action Plan for Danube Navigation (NAP) is a dynamic instrument of the Austrian shipping policy.

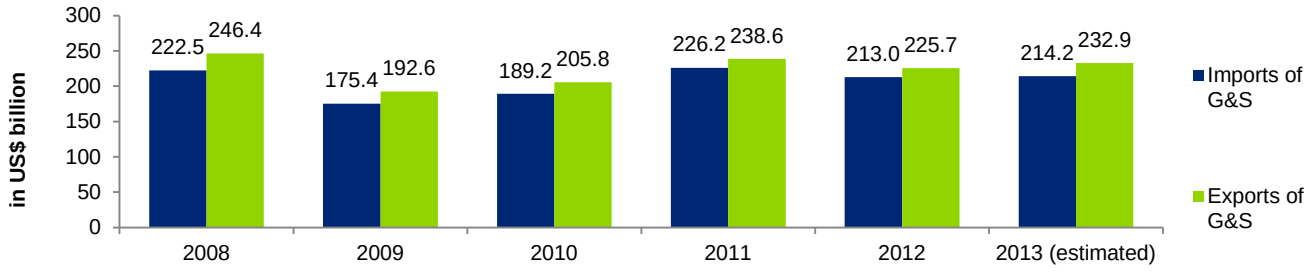
Telecommunications

Austria's mobile market experienced slower than expected growth in H112 as the weaker domestic economy weighed on consumer spending and made operators' low-cost "no frills" services more appealing than ever. The post-paid user base contracted slightly as a result and was buoyed only by the higher value service from 3 Austria. Market saturation also has a role to play in the slowdown of growth and operators must work harder to extract more value from the customers they already have. This leaves some interesting opportunities in the MVNO space, and Tele2 and UPC appear to be ready to move in on the converged services opportunity.

According to RTR (Rundfunk und Telekom Regulierungs GmbH), the total number of telephones (main lines in use) was about 2.7 million in Q3-11 while the total number of SIM cards in use was 13.4 million in Q3-12 in Austria. The general assessment of the telephone system in Austria is highly developed and efficient. There has been a decline in the fixed line subscriptions since the mid-1990s with the mobile cellular subscriptions increasing by the late 1990s. The fibre optic network is very extensive in the country. All telephone applications and internet services are available.

4. Foreign Trade

Austria's trading activities experienced a boost in 2011. Exports rose by 15.9% and imports also increased by 19.6% as compared to the previous year. Imports and exports are expected to reach US$214.2 billion and US$232.9 billion in 2013.

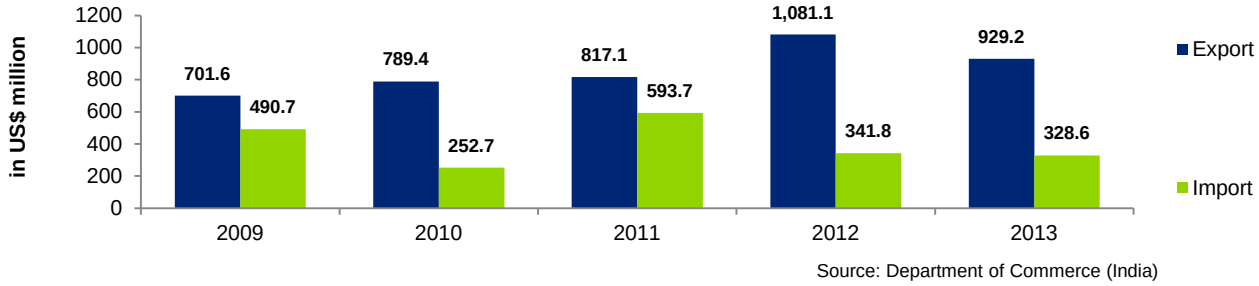


Source: Economic Intelligence Unit

Austria-India Trade

Austria's exports to India remain on a constant growth path. Exports witnessed an increase by 7.3% year-on-year during 2009-2013, with total export volume crossing the billion marks in 2012 and amounting to US$929.2 million in 2013. In 2013, Austria imported a volume of US$328.6 million from India.

Austria's Trade with India

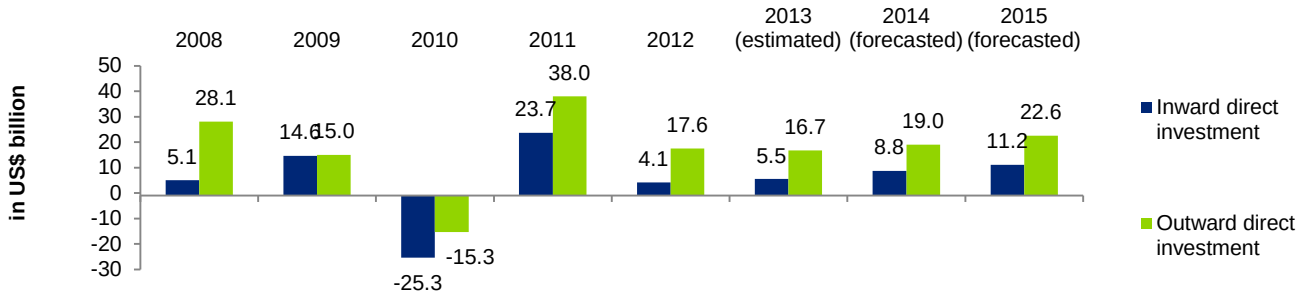


Source: Department of Commerce (India)

Austria's main exports to India include machinery and equipment including projects goods; newsprint; paper and paper products; iron and steel products; professional instruments, etc. Meanwhile Austria's imports from India include garments, textiles and accessories including yarns, fabrics, leather and leather manufactures including footwear, carpets, chemicals and pharmaceuticals, auto ancillary products, electrical power instruments, computer software, handicrafts, spices, coffee, tea, etc.

The increase in export is due to the increase in exports of textile yarn, fabrics, apparels and clothing accessories and footwear, all of which account for more than 40% of India's total exports to Austria in the period. Under the category machinery and transport equipment, which accounts for 26.6 % of total exports, exports of power generating machinery experienced accelerated growth. On the other hand, machinery and transport equipment remained the most relevant group of Indian imports from Austria as it represents about half of total imports. Under this category, imports have increased in power generating equipment and electrical machinery sub- categories. Iron and steel continues to register momentous growth levels and registers about 100% increase, representing now almost 20% of total Indian imports from Austria.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

Austria is open for foreign investment. Austria's strategic location, a favourable tax regime, an educated workforce, and world-class research and development (R&D) facilities make it an attractive destination for investors. Direct investment in Austria does not require any approval; however, there are some restrictions on the acquisition of real estate (residential and rural property and to non-EEA citizens and vary by region). Further, there are no limits on foreign equity investment. Foreign companies as well as domestic companies are subject to same rules in terms of planning, permission, licensing of certain activities and environmental permits (including rules on site clean-up and carbon dioxide emissions quota).

Investment Incentives

Tax Incentives

Austrian Government allows incentives as well as research and development (R&D) subsidies for foreign direct investment (FDI) that involves a substantial transfer of important technology and creates job opportunities. These are required to further conform to the European Union policies on regional investment and state aid. Austria provides low corporate tax rate to attract foreign investors and provides tax incentives and R&D training.

Cash Grants

- Austria offers cash grants up to 70% for later-stage R&D activities by companies—including those undertaken by foreign-owned enterprises—with pre-seed and seed financing options for start-ups as well.

Indian Investments in Austria

- Bajaj Auto acquired a minority stake in the Austria-based KTM Power Sports (Europe's second largest sports motorcycle manufacturer) in 2007.
- Shilpa Medicare, the Karnataka-based pharmaceutical company, acquired LOBA Finchemie in 2008 in an all-cash deal.
- Wipro acquired NewLogic (semiconductor design services company having IP cores for wireless applications) in 2005.

6. Key Industries

The Austrian economy is dominated by small and medium enterprises (SMEs). The most important sectors and key regional sectors of the Austrian economy are as follows:

Agriculture and Forestry: The agriculture and forestry industries constitute an important export-oriented part of the Austrian economy. The total agricultural technology revenues in 2011 were EUR1.85 billion of which exports were approximately EUR1.21 million.

The diverse foreign markets with varying needs and a demand for ever more modern and innovative technologies present an on-going, interesting challenge for the industry. The wide range of high-performance, top-quality Austrian exports of agricultural and forestry technology include:

- Sowing machinery

- Harvesting machinery
- Fertilising machinery
- Stable and stall fittings
- Biogas plants
- Ensiling and feeding technology
- Weather stations
- Logging technology
- Harvesters

Food and Drink: The Austrian food and drinks manufacturers are known in the European and international markets for their individuality and highest quality. Key factors for the success of the industry are constant innovation in products and methods, well trained staff and professionally managed brands. The largest share of agricultural exports is from the food and drinks industry. The Austrian food and drinks industry is responsible for 56.9% of total agriculture exports. Leading export areas are energy drinks, carbonated drinks and iced teas, along with pastries, cakes and other sweet Austrian delicacies.

Mechanical and Steel Engineering: Austria is one of the leading countries for machinery, industrial plant engineering and industrial equipment. The sector expertise is contributing to the on-going modernisation of many industrial sectors including metallurgy, plastics processing and mining.

Chemical: The chemical industry is one of the largest industries in Austria. Almost two-thirds of production is exported. Further, the Austrian paint and varnish industry is a key pillar of the Austrian chemical industry. Factors such as an attractive business environment, proximity to the growth market of Eastern Europe and the excellent staff training provide Austrian companies an ideal base for research, development and production. The majority of companies in the Austrian chemical industry are medium-sized and employ around 150 staff. According to the Association of the Austrian Chemical Industry, total revenues for the chemical industry were EUR14,393 million in 2011, while the total imports accounted for EUR18,917 million and the total exports were EUR18,881 million in 2011.

Automotive: Austria has a small internal automotive market that develops technically advanced products for the global market. The strengths of the Austrian automotive industry include high technical capability and flexibility of the small scale companies. With its high export value, the automotive supply and production industries have become a key economic contributor for the country. The total production in the industry was estimated to EUR12.5 billion in 2011 and the total export quota amounted to about 90% in the same period.

Electrical Engineering and Electronics: The Austrian electrical engineering and electronic industry (EEI) is worth EUR12.7 billion (2011) and employs a workforce of over 60,000. It has around 300 companies. The industry is

responsible for the modernisation and development of various infrastructure segments among others. It uses local infrastructure and infrastructure connections on the international markets.

Wood, Pulp and Paper: The Austrian wood industry is considered to be one of the largest employers in the country. These wood companies are small-medium enterprises (SMEs) and mostly privately owned. The production value of the wood processing industry was worth EUR6.87 billion in 2010 and the export quota amounted to about 73%. Demand for high-quality Austrian paper is high in the market. The companies have made advances in product innovations as well as ecological and social responsibility. The production value of paper and cardboard was estimated at around EUR3.040 million in 2010 and the export quota was about 85.2%. Austrian producers of machinery for wood processing have a well-established presence in the international market. They are characterised by their innovative ideas and offer a broad range of products including processing plants, sawing machines, rounding and bending machines, drilling and mortising machines, lathes, choppers and crushers, milling, and moulding machines.

7. Industrial Park

- Austria has set up an eco-industrial park, Ecopark Hartberg, in the country. It is supported by the municipality, government and EU. It has three producers, two decomposers and several consumers. The role of an eco-industrial park is to promote sustainable development that has received considerable policy interests.

8. Tax System

Overview

Austrian Government levies some principal taxes such as the corporate tax, income tax, municipal tax, real estate tax, value added tax (VAT), social security contributions, and customs and excise duties. The government does not levy branch profits taxes, excess profits tax or alternative minimum tax.

Corporate Income Tax Rate

The corporate tax rate in Austria is 25% for 2013. Public and private limited companies and certain other entities, such as cooperative purchasing societies and mutual insurance companies are subject to corporate income tax at 25%.

Companies incurring a tax loss or earning small profits must pay a minimum tax of EUR1,750 (limited liability company) EUR3,500 (joint stock company) or EUR5,452 (banks and insurance companies). Non-resident companies are not subject to a minimum tax.

Tax loss carry forward is generally possible for corporations for an unlimited period of time. Such tax losses can generally be utilised in later years at an amount of up to 75% of the annual tax profit (some exemptions with the possibility to utilise the tax loss at an amount of up to 100% of the annual tax profit exist).

Capital Gains Taxation

- Corporate capital gains are usually taxed as ordinary corporate income and taxed at the standard 25% corporate income tax rate. However, under the international participation exemption, there is no taxation of gains on the sale of shares in a non-resident corporation in which the Austrian parent company holds at least 10% for at least one year.
- It is possible to opt out of the international participation exemption, resulting in capital gains becoming taxable and capital losses relating to subsidiaries covered by a participation exemption must be amortised over seven years for tax purposes.
- There is generally no adjustment for the inflationary component of gains (except to some extent for real estate transactions under certain circumstances).
- Capital losses do not enjoy any special tax breaks. Losses resulting from certain participations (attributed to non-current assets) have to be amortised over seven years for tax purposes.
- Gains resulting from mergers, if any, are generally tax-free if the reorganisation tax act is applicable.
- Non-resident corporations are subject to tax at corporate tax rates on the gain on equity stakes in Austrian corporations that have been at least 1% at any time in the previous 5 years before the disposal. The tax is waived under most tax treaties.

Double Taxation Relief

Unilateral Relief

Austria prevents the double taxation of income either by unilateral provisions or under the provisions of an applicable double tax treaty. Unilateral relief is provided either by an exemption or ordinary foreign tax credit. Foreign tax paid may be credited against the Austrian tax, but the credit is limited to the amount of Austrian tax payable on the foreign income.

Tax Treaties

Austria has a broad tax treaty network in effect, with most treaties following the OECD model treaty and providing for either credit for foreign tax paid or an exemption of the foreign income. Austria has implemented OECD-compliant exchange of information provisions.

A reduced rate of withholding tax under a treaty may be applied directly at the time the payment is made if the income recipient completes specified forms and submits those to the Austrian income payer.

9. Labour Environment

Labour Code: Labour law is considered to be one of the complex areas of the Austrian legislation. Some of the important laws include the Workers' Constitution Law, the White Collar Law, the Labour Contract Adjustment Law, and the Employee Liability Law.

Regular Working Hours: The statutory maximum work week is 40 hours. The statutory maximum working day is eight hours, but it may be extended up to 10 hours by collective agreement.

Salaries and Benefits: In Austria, collective agreements are widespread and there is no minimum wage; it is, however, considered illegal to pay less than the wage set by a collective agreement. Thus, the government has set a benchmark of EUR1,000 for all negotiations. It has been incorporated in some collective agreements and has been a part of the platform of some political parties.

Pensions: The pension policy requires employers and employees to contribute to the state pension. An employee is required to contribute 10.25% of the salary up to a maximum of EUR455.10 per month while an employer is required to contribute 12.55% up to a maximum of EUR557.22 per month. The salary ceiling for all social security contributions in the country is EUR4,440 per month based on the gross income.

Social Insurance: For white collar employees, the employer is required to contribute 3.83% and the employee is required to contribute 3.82% of the salary for health insurance. They also pay 3% towards unemployment and 0.5% towards a housing fund. The employer pays an additional 1.95% for miscellaneous contributions. The employee generally pays an additional 0.5% for the compulsory membership in the Chamber of Labour. The contribution towards the compulsory superannuation is the largest of the social security contributions. The health insurance contribution for blue collar employees is at a slightly higher percentage. In addition, many Austrian companies also operate occupational pension schemes for their employees and pay additional fringe benefits negotiated through a collective agreement.

Employee Provision fund: Furthermore, the employer has to pay 1.53% to the Corporate Staff and Self-Employment Provision fund.

10. Education

Austria has a diverse education system with a range of different school types. A specific feature of the Austrian education system is the four-year primary/elementary education followed by secondary education that is split up into two four-year periods. Austrian children begin their schooling with the kindergarten at the age of three and continue with primary school at the age of six. After four years of primary schooling, students have the option to continue with a lower secondary school or with a secondary academic school (mostly grammar school).

Compulsory education ends after nine years of schooling, usually at the age of 15. At the secondary upper level, there is a broad choice of different secondary academic, technical and vocational schools.

The division is made according to the ISCED (International Standard Classification of Education) classification of the UNESCO. The Federal Ministry for Education, Arts and Culture coordinates important tasks such as education and training of teachers and maintenance of schools; the Federal Ministry of Science and Research assumes the governance of the higher education system.

Bulgaria
Investment Opportunity

1. Overview of the Economy

Before the economic crisis (after 2007), Bulgaria, a former communist country that entered the EU on 1 January 2007, had experienced macroeconomic stability and strong growth. Since the major economic downturn in 1996 that led to the fall of the then socialist government, the public policy became committed to economic reform and responsible fiscal planning. Minerals, including coal, copper, and zinc, play an important role in industry. In 1997, macroeconomic stability was reinforced by the imposition of a fixed exchange rate of the Lev against the German D-mark—the currency is now fixed against the euro—and the negotiation of an IMF standby agreement. Low inflation and steady progress on structural reforms improved the business environment. In 2009, Bulgaria's GDP shrank by 5% which was mainly the result of the decline in foreign direct investment due to the global economic crisis. Before that the country's economy enjoyed a steady growth of over 6% for four consecutive years. In 2012, Bulgaria had growth of around 0.8%. In 2013, Bulgaria's GDP is expected to be at 0.6%.

Political System

According to the Constitution of Bulgaria, adopted by the Great National Assembly on 13 July 1991, Bulgaria is a parliamentary democratic republic in which the sovereign power belongs to the people who exercise it through their representative bodies, elected by direct and secret ballot. Every Bulgarian citizen over the age of 18 has the right to elect or to be elected.

The National Assembly, elected for a period of four years, is the supreme body of state power. The National Assembly enacts, amends and rescinds the laws; appoints and dismisses the Government and Directors of the Bulgarian National Bank; draws up the state budget; adopts resolutions for holding referenda; and constitutes, transforms and abolishes ministries.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wages
3.0%	7,000	0.8%	34.0	35.8	11.1%	EUR 153

Policies

To improve the business environment and competitiveness of the Bulgarian economy, the Programme for Better Regulation 2010-2013 was implemented. It is a strategic document that sets guidelines for implementing policies to improve the administrative regulation. The programme sets the impact assessment of regulations as a major tool of the legislative process.

The Bulgarian policy highlighted the following areas:

- Better infrastructure – better connectivity to Europe, sustainable and competitive cities providing for accessible services and better connectivity to the less developed regions, preservation and development of the Bulgarian natural, cultural and historical wealth
- Competitive youth – reducing the share of early school leavers, increasing the number of young people with higher education, promoting young scientists, and full realisation of the potential of young people in Bulgaria
- The best business environment in the EU – lowest tax burden for business and households in the EU, higher employment, more investments (including in R&D and innovations), fiscal stability, and euro area membership
- Higher confidence in the state institutions – efficient judicial system and ensuring the supremacy of law, protection of the interests of citizens and business, social justice and security

Food and Energy Security

Food Security

Bulgaria was placed in the 51st position in the Global Food Security Index 2013. As per the Index, Bulgaria's strengths are:

- Access to financing for farmers
- Nutritional standards
- Food safety
- Less proportion of population under global poverty line
- Agricultural imports tariffs
- Proteins quality
- Presence of food safety net programmes

On 10 February 2011, the European Commissioner of Health and Consumer Protection John Dali and the Bulgarian Minister of Agriculture and Food Dr Miroslav Naydenov officially launched the Bulgarian Food Safety Agency (BFSA). BFSA follows the best European practices in the implementation of high standards in monitoring the safety and quality of food, food additives and beverages, veterinary medicine and animal welfare, plant protection and fertilizers, pest control, feed, border inspections, and others. BFSA experts are performing strict control throughout the food chain from the field and the farm to the table.

Energy Security

The EU quota on renewables for Bulgaria stipulates that renewable energy should account for 11% of gross energy consumption after 2010 and 16% after 2020. Bulgaria has taken major legislative steps to meet the quota, leading to a boom in entrepreneurial interest and stated intentions for over 10,000MW in renewable energy projects. This is more than three times Bulgaria's installed capacity in renewables in the beginning of 2008 and much higher than what is needed for Bulgaria to meet its quota.

Long-term renewable energy development plan: In January 2013, Bulgaria's Cabinet approved a long-term renewable energy development plan, setting out targets for 2020 and a series of measures to meet those goals, and authorised the start of a tender for drilling rights on a large section of its Black Sea shelf. The renewable energy national plan sets a goal of 16% of domestic energy consumption coming from renewable sources, the same one set in the EU's 2020 plan to reduce reliance on fossil fuels and encourage the use of renewables.

By 2020, Bulgaria should produce 20.8 percent of its electricity and 23.8 percent of its heating/air conditioning from renewable energy, which should also account for 10.8 percent of transport use, according to the plan passed by the Government.

Incentives for renewable energy sources (RES) projects, under the Renewable and Alternative Energy Sources Act, are:

- Mandatory purchase at preferential prices of the electricity generated by renewable energy sources
- Feed-in tariffs set by the State Energy and Water Regulatory Commission
- Connection with priority to the electricity grid
- Certificates of origin
- Eligible for incentives under the Investment Promotion Act (above)

3. Infrastructure

Bulgaria's transport infrastructure is reasonably well developed, but has suffered from low spending and poor maintenance in the post-communist period. Gradual improvement in communication routes should arise from two factors: first, the development of European transport corridors (four of which are set to pass through Bulgaria); and second, investments aided by an influx of EU funds (EUR6 billion is to be invested in transport under the infrastructure programmes for 2007-2015).

Road Transport: Bulgaria had 37,300 km of roads in use at end-2001—an increase of 400 km since end-1994. All but 3,000 km were hard-surfaced, with motorways accounting for 324 km. At the end of 2009, there were 19,435 km of roads rated above Category IV, 418 km of which are motorways. Development plans focus on upgrading and on investments—especially in motorways—to integrate the country's road system with the international network, although implementation has so far been slow due to policy and legal disputes. An infrastructure strategy adopted in 2006 envisages the construction of 717 km of motorways in the 2006-2015 periods.

In 2011, Bulgaria's government planned a total investment of about BGN1.7 billion in infrastructure, including construction of roads and highways, and in municipal infrastructure projects. Currently the government is emphasising on the construction of Trakia, Lulin, Maritsa and Struma highways. The construction of 120 km of new highways is in progress.

Rail Transport: Rail is a significant domestic mode of transport for freight, although road transport now accounts for a larger (and increasing) share of the total. In 2009, there were 4,150 km main lines (of which 68.3% were electrified). Investment planned is at around EUR1.2 billion in 2007-2015. It will focus on the continuing overhaul and repair of existing infrastructure, on upgrading rolling stock, and on modernisation work, such as further electrification of track and double tracking.

Air Transport: Air is the least significant mode of freight transport. Currently there are five air carriers engaged in state aviation. Bulgaria Air (the carrier that emerged from the sale of national carrier Balkan Airlines) handles most business. Recently it bought four new airplanes aiming to improve its image. Sofia airport has undergone a EUR210 million upgrade, providing modern facilities that are needed to deal with the expected rise in demand for international air travel. Bulgaria has two other major airports: Varna and Burgas. A EUR400 million investment across both airports is planned to cope with an expected rise in passengers from 2.7 million passengers in 2004 to 8 million in 2040. In response to the demand for both cargo and tourist-oriented low-cost passenger transport, the government added Gorna Oryahovitsa and Rousse (in northern Bulgaria) to its list of airports able to accept international air traffic.

River and Sea Transport: Bulgaria has five main ports. The largest are Varna and Burgas, both on the Black Sea; Varna mainly handles containers, grain and bulk goods while Burgas manages crude oil and some bulk commodities.

The three sizeable ports on the Danube are Ruse, Lom and Vidin along with 24 smaller sea and river ports. Of all modes of transport, sea transport has declined the least since 1989, perhaps because it is the least dependent on the vagaries of the domestic economy. The geographic position of the ports is their key advantage.

Most ports need to be modernised if the sector is to become more internationally competitive. Varna has ambitions to rival Romania's port of Constanta; its plans include the costly relocation of Varna East port and the construction of three new terminals. Lom already upgraded its south pier and is seeking to exploit its position on the EU's north-south Corridor IV by investing in two new terminals. A system of 25- or 30-year concessions is intended to play an important role in upgrading ports and terminals, with concessions on a few of the country's smaller ports already awarded or in the pipeline.

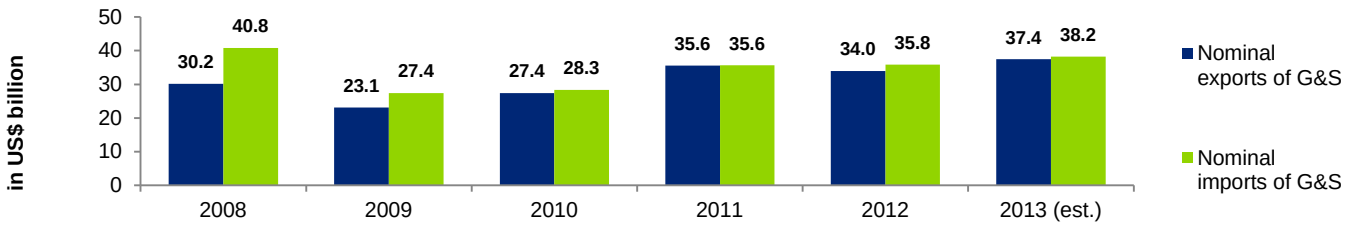
Telecommunications: Bulgaria entered the post-communist era with one of the highest densities of analogue fixed telephone lines in the former Soviet bloc. The fixed-line monopoly of the Bulgarian Telecommunications Company (BTC) ended in 2005, when alternative fixed-line operators were given access to its network. Mobile penetration has risen rapidly in recent years, with subscriber numbers at over 10.5 million at end-2010, compared with 0.7 million at end-2000 and 4.73 million at end-2004. The penetration rate was 80% at end-2005 and in 2010 it was reported to have risen to 140% (greater than the average for the EU). Each of the three mobile operators has a licence for universal mobile telecommunications service (UMTS, or "third-generation" mobile). Leading foreign firms are playing an increasing role in Bulgaria's telecoms sector.

The Internet: Internet penetration is rising and has already reached half of the country's population. Of the people aged between 16 and 74, 40% use the Internet regularly (every day or once in a week). More than 20% of the employees in companies used computers in their workplace at the end of 2009. The shift from dial-up connections to high-speed local area networks (LANs), cable networks, and asymmetric digital subscriber line (ADSL) connections is supporting higher Internet usage. In the coming years, increasing digitalisation of the network, better regulation, increased competition and higher foreign investments should improve the country's ability to take advantage of the Internet.

4. Foreign Trade

In 2012, the value of Bulgarian nominal exports of goods & services (G&S) decreased by 4.5% to reach US$34.0 billion, and the value of nominal imports of G&S increased by 0.6%to reach US$35.8 billion.

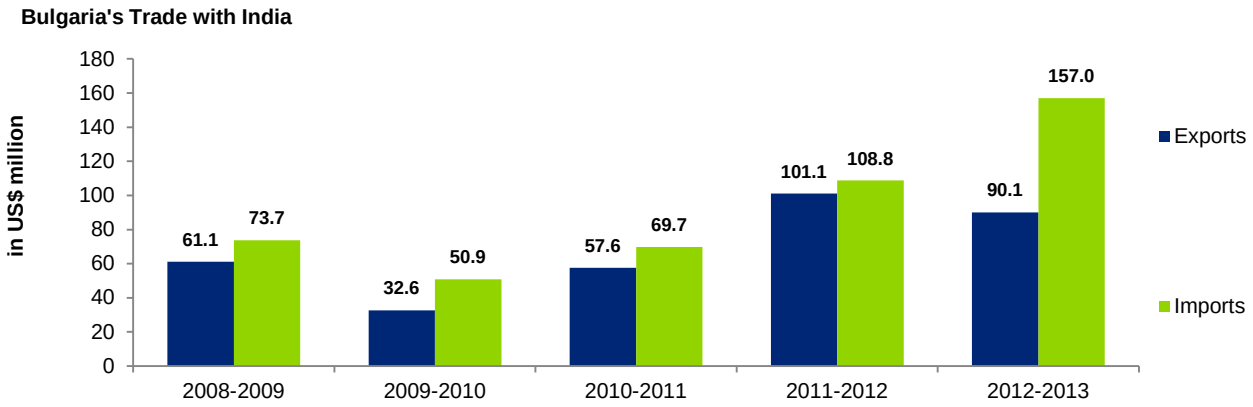
The country's main trade partners are Germany, Romania, Italy, and Belgium.



Source: Economic Intelligence Unit

Bulgaria-India Trade

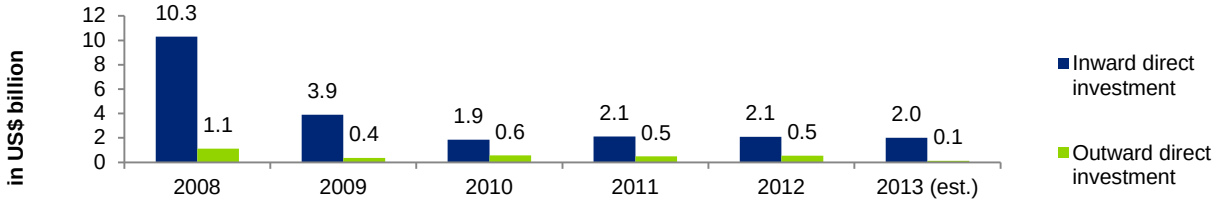
Diplomatic relations between Bulgaria and India were established in 1954 and ties between the nations have traditionally been close and friendly, with 27 important bilateral treaties and agreements between them.



Source: Department of Commerce (India)

The chief exports from Bulgaria to India include inorganic chemicals and related products, machines and transport equipment, manufactured goods, derivatives of hydrocarbon, iron scrap, copper and aluminium waste. Bulgaria, on its part, imports vegetables & fruits, coffee, tea, cocoa & spices, sugar, sugar preparations & honey, feeding stuff for animals, textile yarn, fabrics, made-up articles, and pharmaceuticals from India.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

After 2007, Inward Direct investment has dropped sharply from US$13.2 billion in 2007 to US$1.9 billion in 2010 due to the financial crisis. In 2012, Foreign Inward Direct investment reached US$2.1 billion.

Investment Incentives

There are two classes of eligible investment for investment support, depending on the investment amount:

- Class A: minimum BGN20 million (EUR13.8 million)
- Class B: minimum BGN10 million (EUR6.9 million)

The minimum amount of investments eligible to receive a class certificate are lower in specific situations, such as investment in high technology activities of the industrial sector of the economy and investments in administrative municipalities where the level of unemployment is higher than the average unemployment level for the country

(class A – BGN7 million (EUR4.8 million), class B – BGN4 (EUR2.7 million), investments in high technology activities of the services sector (class A – BGN4 million (EUR2.7 million), class B – BGN2 million (EUR1.4 million).

The incentives depend on the investment class and include:

- Financial aid for construction of physical infrastructure elements for Class A
- Personalised administrative services for Class A
- Financial aid for training aimed at attainment of professional qualification by the hired staff for both Class A and Class B
- Faster administrative services for both Class A and Class B
- Possibility to acquire ownership or limited real rights over private state or municipal property in the location of the investment without conduct of an auction for both Class A and Class B

Investment Incentives for Priority Investment Projects: Priority investment projects have been introduced with the latest amendments to the Investment Promotion Act. Priority investment projects are investment projects which are related to all sectors of the economy in accordance with the requirements of Regulation (EC) No. 800/2008 and are particularly important for the economic development of the Republic of Bulgaria or for the regions in Bulgaria.

One or more of the following criteria should be met by the priority investment projects:

- The investment amount must exceed at least three times the threshold amount for Class A investment
- The investment must create employment through investments in disadvantaged regions or high technology activities
- The investment must envisage the development of industrial zones with the technical infrastructure necessary for attracting investments under the conditions and according to a procedure specified in the Regulation for Application of IPA
- The investment shall envisage development of high technology parks with the technical infrastructure necessary for attracting of investments in scientific research and/or education and/or information technologies, including innovative activities for technological renovation of production products and technologies under conditions and according to a procedure specified in the Regulations for Application of IPA

Investment Incentives for Industrial Zones: Different type of transactions between the investor and the legal entity established for the purposes of construction and development of industrial zones.

Tax Incentives: Providing incentive for manufacturing activities in high unemployment municipalities and for large investment projects.

The amount of the annual corporate income tax due by entities on their profits from manufacturing may be partly or fully reduced if the activities are carried out in municipalities with high unemployment. There are a number of specific eligibility conditions for applying the incentive (including conditions imposed under the EU state aid rules).

Entities investing in a large investment project (i.e., exceeding approx. EUR5 million) can benefit from a faster recovery of VAT and self-charge of VAT on importation of certain goods. There are a number of specific requirements for applying the VAT incentive, including the need of obtaining authorisation from the Bulgarian Ministry of Finance. The government is also offering citizenship to foreign investors with investment of US$650,000.

Indian Investments in Bulgaria

Indian businessmen have evinced interest in sectors like wine, pharmaceuticals, textiles, food-processing, steel, IT and education franchise. The Bulgarian Government has been promoting investments from Indian companies.

On 15 August 2005, India's Global Steel Holdings Ltd (GSHL) acquired Finmetals Holding, owner of 71% of Sofia-based Bulgarian largest steel factory, Kremikovtsi. This is the single largest Indian investment in Bulgaria. The Pramod Mittal Group also acquired the biggest and most famous football club of Bulgaria "CSKA" in 2006. Other investments are:

- Ranbaxy started operations in 2005
- Elder Pharma established a wholly owned subsidiary Elder Biomeda EDA, which acquired 100% stake in three Bulgarian pharma companies in 2008
- Ispat Industries took over Bulgaria's largest steel producer Kremi Kovtzi in 2005

According to news (published on 16 October 2012), two large Indian companies, namely, Sutherland Global Services and Wipro—who already have a presence in Bulgaria—are planning to increase their operations in the country.

6. Key Industries

Agriculture

Bulgaria had 5.3 million ha of utilised agricultural land in 2005, down from 5.7 million ha in 1999. Of this, 3.1 million ha was classified as arable. Land prices in Bulgaria are far lower than those in the European Union. The average price per decare in 2012 was BGN547 (Approx.EUR280). Bulgaria's chief grain crop is wheat, grown mainly in Dobrudzha in the north-east. The country's harvests of barley and maize are also substantial. Major industrial crops include sunflowers, tobacco and sugar beet. Tomatoes, cucumbers and peppers are important exports. Apples and grapes are significant fruit crops, but production continues to suffer from the long-term effects of post-communist neglect of many orchards and vineyards. Grapes are used mainly for wine, a major export oriented

mostly to European markets and Russia. Europe represents a potentially promising market for poultry and other meat exports, but difficulties in meeting EU sanitary regulations remain a constraint.

Agriculture is dominated by the private sector. The private sector includes a sizeable number of co-operatives operating on privately owned land. According to official statistics, the labour force in agriculture (including fisheries and forestry) averaged 801,900 in 2005, with the sector accounting for a little less than one-quarter of total employment. Those employed under labour contract, however, accounted for only 8.4% of the total—a reflection of the continued importance of small family farms. Currently over 60% of the people working in the sector are over the age of 55.

Mining and Semi-Processing: Bulgaria has a wide variety of metallic and non-metallic mineral resources. Lead-zinc and copper deposits are sufficient to support large non-ferrous metallurgical works, notably at Kurdzhali and Pirdop. Several significant gold deposits exist and have attracted foreign investors. Proven deposits of more than 50 non-metallic minerals exist, among them refractory dolomites, quartzite, kaolin, marble, refractory clay and gypsum.

Bulgaria’s mining industry grew slightly faster than the country’s economy in 2010, as both continued to emerge from deep contractions. Europe’s poorest country by GDP per capita has a relatively small mining sector, which it hopes will play an important part in its export-led recovery. According to BMI research, the Bulgaria's mining industry value to grow at an annual average rate of 1.5% from 2012 levels, reaching US$941million in 2017.

If the country’s plans to boost nuclear energy beyond its existing 35% contribution to its energy mix come to fruition, Bulgaria will be able to free up larger proportions of coal for export over the long term.

The government intends to build two new reactors either at the stalled project site in Belene or at Kozloduy, where it also plans to extend the life of two 1,000 MW reactors beyond 2017 and 2019.

Construction

Until 2009, the sector was undergoing a boom with housing, industrial and commercial construction all growing strongly. The financial crisis put an end to this leaving many small construction firms struggling to survive. Worst affected was the construction of buildings, primarily due to lack of investment. Infrastructure projects, financed by the state, are becoming a significant part of the contribution sector and are likely to become more important in the next couple of years.

As per the National Statistics Institute, the total production is reduced by 15% (year on year) during 2009-2012.

Tourism

Bulgaria provides recreation and tourism potential with its 102 resorts, 34 of national importance (five mountainous and 10 on the Black sea coast) and 68 of local importance (spa, forest and seaside).

According to Bulgarian National Bank, the revenues from international tourism for a calendar year 2012 was EUR2.9 billion (2.2% up compared with 2011 level for the same period).

Financial Services

Until 1996, the banking system was weak. As part of the programme of reforms linked to the introduction of the currency board in 1997, the Bulgarian National Bank (BNB, the central bank) introduced stronger banking supervision and tighter prudential rules. A bank privatisation programme was executed with buyers being mostly respectable international groups and, till the end of 2004, the state controlled only one bank with negligible market presence.

Process of banking consolidation was completed in 2003. The share of foreign banks in the domestic credit market has increased from 38% in 1999 to over 80% 2011. Currently, Bulgaria FSI market, although still developing and vulnerable, remains relatively stable.

The banking market, however, is still fragmented and is expected to consolidate further. The macroeconomic outlook is that the economy will continue to struggle but is still growing, while unemployment rate will remain stable and not that high. Having no problems with liquidity, the banking sector will return to the growing mode as soon as the economy turns back to the rates as observed before the crisis—of 6% and above.

The insurance market is still relatively underdeveloped, but is growing quickly. Foreign involvement was severely limited until a Western-style insurance law passed in mid-1997 opened up the market. The gap in penetration of life insurance sector remains as large as it was before. After reaching 2.4 billion in 2008, the private pension funds dropped to 1.6 billion at the end of 2009 to recover to 2.5 billion at mid-2012. The capital market is small and is likely to remain so. With the increased attractiveness of the market around EU accession, in late 2006–early 2007, the market experienced a boom. Initial Public Offerings (IPOs) became a viable source for fund-raising and many local companies turned to it. It has shrunk significantly; however, following the crisis, no signs for real recovery are currently observed. The total market capitalisation remains low about 16% to GDP and the average daily traded volume is around 1.5 million.

7. Industrial Park

The demand of industrial plots close to major cities and/or major motorways is several times higher than the supply. Because of its economic importance the major interest is for plots around Sofia where a number of international companies and manufacturers are building productions and warehouse facilities for their Bulgarian and regional operations. Most plots around the round ring (the Sofia M25) are already acquired by various companies, and the market is looking at the western parts around the capital, as well as poorly developed northern surroundings of Sofia. Most attractive seem to be the areas around the motorways going south towards Greece and north-west towards the Serbian border. The decrease in the construction activity as a result of the economic downturn, however, has lowered the interest for industrial plots.

Besides the capital city, the most dynamic Bulgarian industrial property markets are the cities of Stara Zagora, Plovdiv with the new Kuklen industrial zone, and Russe with the options for cheap transportation along the River Danube.

Given its strategic geographical location, Bulgaria attracts many companies that have their distribution centres in the Balkans. Warehouses occupancy varies between 50-70% for the old warehouses and 95-97% for the newly built ones. In Sofia, only 2% of the warehouses are not occupied and the average rent is EUR5/sq. m.

8. Tax System

A Snapshot

10%	**Corporate income tax** • 10% withholding tax on interest, royalties, service fees, capital gains and certain other income accrued to non-resident entities. • 5% withholding tax on interest and royalties to EU related parties • 5% withholding tax on dividends distributed to non-EU residents • 10% one-off tax on certain expenses
10%	**Personal income tax** • Up to 31.4% mandatory insurance contributions on a capped base (BGN2200) • 10% one-off tax on interest, royalties, services fees, capital gains and certain other income payable to non-resident individuals • 5% one-off tax on dividends and liquidation quotas
20%	**Value added tax** • Reduced rate of 9% for hotel accommodation • 0% for exports and certain other activities • Refund of input VAT within three months (regular term) • Faster refund within one month if certain requirements are met
	Other taxes, duties and fees • 0.01%–0.45% annual real estate tax • 0.1%–3% transfer tax for immovable property, motor vehicles and donations • Taxes and fees on vehicles, inheritance, etc. • Annual fee for refuse collection, haulage and disposal, and public areas sanitary maintenance • Excise duties on energy, fuels, alcohol and tobacco • Customs duties on import of goods from outside the EU

Corporate Income Tax Rate

Under the Corporate Income Tax Act (CITA), all companies and partnerships (including non-incorporated partnerships), carrying out business in the country, are liable to a corporate income tax at the rate of 10%. Bulgarian resident entities are taxed on a worldwide basis. Foreign entities are taxed on their Bulgarian-source income. Companies are considered to be tax residents if they are registered in Bulgaria. Companies that are non-residents in Bulgaria, but operate in Bulgaria through a branch, office, agency or other form of a permanent establishment are only liable to tax on the profits generated through their Bulgarian establishment.

Annual tax profit must be declared no later than 31 March of the year following the taxable year. Generally, the taxable profit is determined in accordance with the financial result reported in the Profit and Loss Account (P&L) adjusted for tax purposes.

Tax Exemption for Manufacturing Businesses

Manufacturing companies enjoy 100% exemption of the corporate income tax for manufacturing in depressed regions, in case they meet the following conditions:

- The manufacturing is carried out exclusively in depressed regions
- As of the year-end, the company does not have any outstanding public liabilities subject to collection procedures
- The company meets the requirements for de minimis state aid or regional investment aid

Under CITA, "depressed regions" are municipalities with unemployment exceeding 35% of the country average for the previous year and enumerated in a list annually approved by the Minister of Finance.

Manufacturing is the process of creating a new product through mechanical, physical or chemical transformation (processing) of resources and materials with the aim of further use, as well as biological transformation of living animals or plants.

Additional conditions should also be met, e.g., in case of regional investment aid:

- The tax credit should be invested for acquiring new fixed assets, necessary for creating new or expanding existing activity within a period of three years following the year for which the tax credit was used
- The investment should be made in depressed region(s)
- Certain sectors are not eligible, such as shipbuilding, coal industry, steel industry
- The value of the acquired intangible assets should not exceed the value of the tangible assets
- The intangible assets should be used exclusively in the activity of the company for at least 5 years
- Minimum 25% of the value of the assets must be financed by the company`s own funds, including loans

If a municipality is excluded from the above mentioned list following a lower than expected unemployment rate, the company could exercise the tax exemption for the next four years.

Double Tax Treaties

Bulgaria is a party to 68 bilateral double tax treaties (including with India) which provide for a relief of tax or a reduced rate of tax. Applying relief under a Double Tax Treaty (such as exemption from withholding tax or a reduced rate of withholding tax) may be subject to issuance of a decision for clearance by the Bulgarian revenue authorities.

9. Labour Environment

Regular Working Hours: Eight hours a day. Employees are entitled to an interrupted rest between 2 working days of at least 12 hours. The regular working week is 5 working days in which case the employees are entitled to rest of 2 consecutive days, where one of them is normally Sunday.

Annual Paid Leave: Not less than 20 working days.

Retirement: An individual is entitled to Bulgarian pension for insurable length of service and age if he/she attains the statutory age (for 2013: 63 years and 48 months for men and 60 years and 48 months for women) and the statutory length of service (37 years and 4 months for men and 34 years and 4 months for women). The statutory age increases by 4 months every year to reach 65 years for men and 63 years for women. Similarly, the statutory length of service increases by 4 months every year to reach 40 years for men and 37 years for women. Alternatively, entitlement to pension may be acquired with 15 years insurable length of service and attainment of the age of 65 years and 4 months (both for men and women). The statutory age increases by 4 months every year to reach 67 years.

Minimum Monthly Gross Salary: BGN310

Social Security: Individuals working in Bulgaria and in certain cases working abroad are subject to Bulgarian statutory insurance contributions unless the EU regulations or a bilateral social security agreement provide otherwise. The EU regulations on the coordination of social security systems apply with respect to citizens of EU/EEA/Switzerland, as well as to eligible third-country nationals in a cross-border situation. Also, Bulgaria has a number of bilateral social security agreements with other countries. The statutory insurance contributions are calculated on the basis of the gross remuneration received by the employee subject to a maximum earnings cap of BGN2,200 per month (BGN24600 annually). The aggregate rates of statutory insurance contributions are split up between the employer and the employee in a certain proportion.

For 2013, the following rates apply for statutory social security and health insurance contributions.

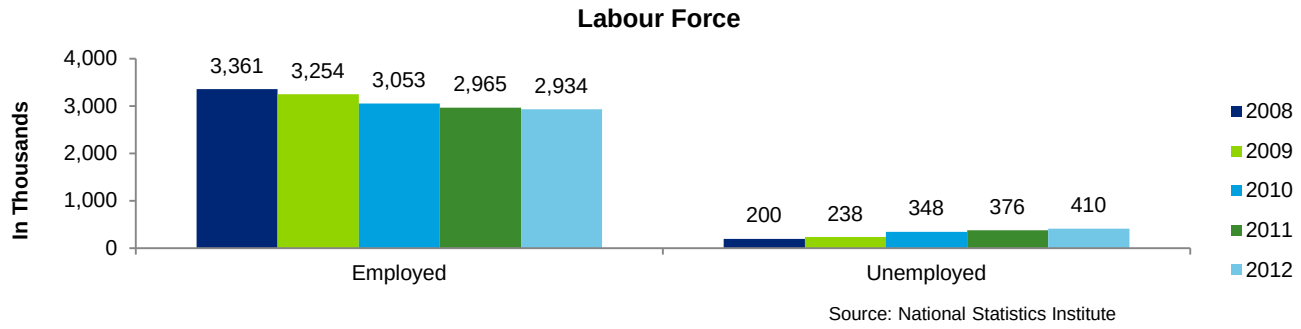
Type of contribution	Employer	Employee	Overall rate
Pension Fund Contribution*	7.1%	5.7%	12.8%
Universal Pension Fund*	2.8%	2.2%	5.0%
Labour Accident and Occupational Diseases Fund**	04.%-1.1%	-------	04.%-1.1%
Common Illness and Maternity Fund	2.1%	1.4%	3.5%
Unemployment Fund	0.6%	0.4%	1.0%
Health Insurance	4.8%	3.2%	8.0%
Total***	17.8%-18.5%	12.9%	30.7%-31.4%

* The Pension Fund Contribution for employees born before 1960 is 17.8% split between the employer and the employee as follows 9.9%: 7.9% and no contribution to Universal Pension Fund is due.

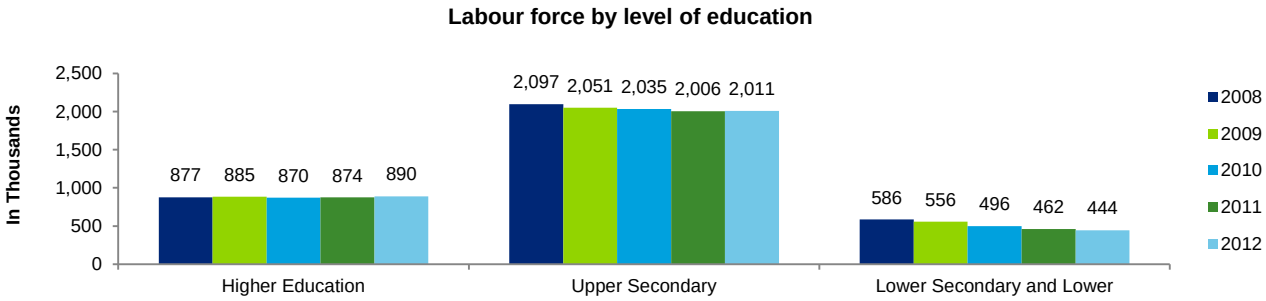
**The rate for Labour Accident and Occupational Diseases Fund varies between 0.4% and 1.1%, depending on the type of the economic activity performed.

***Additional employer contributions may be due for certain hazardous professions: for State Pension Fund (3%) and for Professional Pension Fund (7% or 12%).

Labour Contracts: According to the Labour Code, the employment contract may be concluded for an indefinite period or, alternatively, as an employment contract for a fixed term. An employment contract is considered to be concluded for an indefinite period unless explicitly agreed and stated otherwise. An employment contract concluded for an indefinite period may not be changed to a fixed-term contract unless explicitly requested by the employee and stated in writing. An employment contract concluded for an indefinite period can be transformed into employment contract with a fixed term only by mutual consent of the employer and the employee.



Source: National Statistics Institute



Source: National Statistics Institute

Currently, a new Employment Strategy of the Republic of Bulgaria for 2013-2020 is being developed, which should be adopted by the end of 2012. It will outline the major policies that will be adopted by the government in order to reach the 2020 national targets. Public discussions are focused on achieving an appropriate policy mix between short-term expenditure-based measures and long-term structural policies on the labour market.

10. Education and Talent

As of 2 January 2011, the Population census results show 1,348.7 thousand persons with tertiary education, or each fifth person (19.6%). With upper secondary education are 2,990.4 thousand persons (43.4%). The proportion of persons with primary or lower education is 13.9% (or every seventh in 100).

The educational system, traditional in style, has generally been considered a national asset. However, inadequate funding and low teacher morale in the post-communist period have led to some erosion in its quality. Furthermore, the shortage of Western-style business education, particularly in finance and marketing, has generally been more serious than in the more advanced transition countries, although this is progressively being corrected. The country's elite foreign-language secondary schools, especially the English-language schools of Sofia and Plovdiv, have produced a steady supply of fluent and well-educated linguists for foreign companies and have provided much of the country's political elite.

The number of teaching staff has gradually declined, dropping from 126,048 in the system as a whole in the 2000-2001 educational years to 102,488 in 2012-2013. A further drop can be expected: teachers have been involved in pay disputes with the Ministry of Education and Science in recent years, and gradual pay rises are to be accompanied by a restructuring programme. The number of students in technical colleges and institutions of higher education rose considerably in the post-communist period, from 183,500 in 1990-1991 to 285,000 in 2011-2012.

The annual number of university graduates rose strongly up to 2002 when there were around 45,500 graduates, and then fell back to 41,500 in 2005. Since then there was a sharp increase with the number. Private education at primary and secondary levels, although not significant in numerical terms, is growing fast. In 2010, there were 68 private schools, with 6,179 pupils. In 2006-2007, the share of computers with Internet access in the Bulgarian schools was 85.2% while in 2010-2011 the percentage reached 94.1%.

Croatia
Investment Opportunity

1. Overview of the Economy

Croatia is characterised as an upper-middle-income country, with a functioning market economy that has been opened up to global markets through the World Trade Organisation (WTO) and the Central European Free Trade Agreement (CEFTA) membership. The country's structural reforms, such as the streamlining and simplifying of the legal framework for doing business have made the country more attractive to investors. Croatia became the member of the European Union in July 2013.

Croatia has a population of 4.3 million, a GDP of US$56.4 billion and a GDP per capita of US$ 13,225.7. Principal export destinations are Italy, Bosnia and Herzegovina, Germany, Slovenia, and, Austria while the main import sources are Italy, Germany, Russia, Slovenia, and Austria. In 2009, the economy was seriously affected by the global financial crisis, with a GDP decline of 7%, followed by a further 2.3% contraction in 2010. According to the Economic Intelligence Unit, Croatia's GDP is expected to experience 1% contraction in 2013.

The average annual inflation rate grew from 1.1% in 2010 to 2.3% in 2011. Weak domestic demand was the reason behind mild annual growth rates of consumer prices throughout 2011. As for the long-term overview, the average CPI indices show satisfactory price stability, which amounts to 3,1% annual inflation growth rate as of January 1999, expressed through CPI. In addition, core inflation during the same period has amounted to 2.3%. In 2013, the average annual inflation rate is expected to be at 2.3%.

Compared to the EU average, Croatia also has a relatively high unemployment rate, with significant regional differences. The average unemployment rate remained high and increased from 17.8% in 2011 to 19.1% in 2012.

The country's external debt has been rising over the past decade, increasing from 67.8% of GDP in 2002 to about 101.5% of GDP in 2011,. Croatia experienced a current account deficit of 5.2% of GDP in 2009, 1.1% of GDP in 2010 and 0.5% of GDP in 2011. Croatia's budget deficit and high external debt represent its main financial challenges at present.

Political System

The Republic of Croatia is a parliamentary democracy. The President of the Republic is the Head of State, directly elected for a five year term. The President acts as the Commander in Chief of the Armed Forces and participates in foreign and national security policy decision-making as well as in the appointment of the heads of the intelligence services. The current Parliament has 151 seats with 140 deputies elected from the political party's lists

in 10 constituencies, three deputies elected by districts for Croatian citizens living abroad (the Diaspora district) and eight deputies elected as representatives of national minorities. Members are directly elected by popular vote and serve four year terms. The constitution of the country was amended in November 2000 and the semi-presidential system was transformed into a pure parliamentary system.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment	Minimum Wages
3.4%	13,640	(2.0%)	24.5	24.1	19.1	EUR 375

Policies

- The Croatian Government will focus on adherence to an agenda of European Union (EU)-mandated reforms. Croatia is expected to enter the EU on 1 July 2013.
- The government aims to reduce deficit as its priority due to the increased importance of budget sustainability for the EU.
- It has reformed its tax policy and is expected to levy a property tax in April 2013.
- The government plans to reduce 15,000 public sector jobs by 2014.

Food and Energy Security

Food Security

Croatia is a country with a rich experience and tradition in the development of agriculture, both in terms of research and training and in actual food production. Agriculture is one of the important industries in the Croatian economy due its impact on food security, vulnerable population and the employment it generates. Croatia has sufficient facilities for the production and processing of strategic agricultural products and is one of the countries that meet its food requirements. The Croatian Government pays particular attention to food security for its entire population and to the supply of adequate quantities of quality foodstuffs to the market.

The government believes that sufficient quantities of quality food can be secured only by increasing production per unit of area. The increase must be achieved by applying an ecologically-balanced technology, to preserve the natural potential, and within an environment of sound competition and social justice, to make food accessible to all.

- Croatia, in cooperation with FAO, has formulated a strategy for sustainable agricultural development. The strategy aims to promote efficient production and marketing of agricultural products for the benefit of both farmers and consumers. Thus, contributing to the growth of the Croatian economy, protecting the natural resources of the Republic of Croatia, and providing for competitiveness of Croatian agriculture in the international market.

Energy Security

The country has implemented a strong programme of market liberalisation, reorganisation and privatisation in the energy sector. Croatia is working to enhance regional cooperation and interdependence, thereby increasing the security of energy supply and competition for the whole region and the EU.

- Croatia finished an energy efficiency master plan, the National Energy Efficiency Action Plan (NEEAP). and adopted an Act on Energy End-use Efficiency in 2008. NEEAP was prepared to comply with the requirements of the EU directive on energy end-use efficiency and energy services.
- The Croatian Government adopted the Energy Development Strategy in 2002 pursuant to Article 80 of the Constitution of the Republic of Croatia and Article 5, Section 3 of the Energy Act ("Official Gazette" No. 68/01, 177/04, 76/07, 152/08). It focuses on three objectives—security of energy system, competitiveness of energy system and energy development sustainability.
- Croatia has also adopted a national indicative energy savings target of 9% of final inland energy consumption by 2016. The intermediate target in 2010 was 3%.
- A specific purpose fund—the Environmental Protection and Energy Efficiency Fund—is now established to fund projects to improve energy efficiency and promote renewable energy, with a number of projects active under international cooperation.
- In renewable energy, Croatia introduced obligations to purchase all electrical energy output from privileged energy producers. It aims to increase the share of renewable sources (without large hydro-electricity plants) from 0.8% to 5.8% of total electricity consumption from 2004 to 2010.

3. Infrastructure

Croatia has a comparatively developed infrastructure. As tourism is one of Croatia's main sources of revenue, transportation facilities for tourists (a developed network of roads, railroads, and airports) play an important role in making the tourist industry efficient. In 2012, the Croatian Government had announced investment plans for the development of modernisation and rehabilitation projects on pan-European transport routes. The government plans to make substantial investments in railway infrastructure. Moreover, Croatia has drafted projects, valid for 2012-2013, worth EUR982 million per year for the modernisation, rehabilitation and construction of new lines. The country will receive investment worth EUR350 million per year from the European Union (EU).

Road Transport

Since the majority of tourists arrive in Croatia by road, construction of highways is the highest priority for the government. In the last decade, Croatia has extensively invested in motorway construction, which resulted in more than 1254 km of high quality road infrastructure. In 2011, the European Investment Bank (EIB) provided two loans in Croatia: EUR60 million for the extension of the motorway along Corridor Vc highway and EUR25 million to develop community infrastructure in coastal areas of the country.

Rail Transport

The country has a total of 2,772 km of railway lines. Starting 2011, Croatian Railways and the owners of old industrial lines have launched a new plan for building new industrial line over the next few years. Croatia has more than 364 such railways with a total length of 500 km that are not operational. The authorities plan to invest more than EUR1 million in the plants Agrokor from Zadar and Vupik factory in Vukovar. HZ Infrastruktura, Croatian state-owned railway infrastructure operator, announced its plans in 2012 to carry out railway projects with investments promoted by the government and local authorities to encourage cross-border railway traffic. They plan to develop a railway connection between Rijeka Port and the Hungarian border with an investment of around EUR6 billion. They also carried out rehabilitation of the line along the Vinkovci-Serbian border, part of Corridor X, with an investment of EUR31 million allocated by the European Investment Bank (EIB). The total cost of the project was worth EUR65 million. The double line is 33 km long and will permit local and international transport operations. The country aims to invest more than EUR2 billion until 2013.

Air Transport

Croatia has about 21 civil airports and 2 military airports. There are international airports in the main cities of Croatia like Zagreb, Zadar, Split, Dubrovnik and Rijeka (on the island of Krk). The largest airport, Airport Pleso in Zagreb, is in the process of modernisation and expanding its capacity, which will make it one of the largest in the region. As the air traffic is increasing in Croatia, the European Bank for Reconstruction and Development (EBRD), in 2011, provided EUR47 million loan to Croatia for modernisation of air navigation equipment in Croatia. The loan was given with a sovereign guarantee to the national air navigation service provider Croatia Control Limited (CCL). This project will enable CCL to meet the standards set by the Single European Sky initiative (which coordinates the design, management and regulation of airspace in the European Union) both technically and operationally.

Water Transport

The Croatian coast is 1,777.7 kilometres long, and the total length including island coast is 4,012.4 kilometres. The major transport sea ports in the country include Pula, Rijeka, Zadar, Šibenik, Split, Ploče and Dubrovnik and major inland waterway ports include Vukovar (on the Danube), Sisak (on River Sava), Slavonski Brod (on the Sava), Zupanja (on the Sava), Osijek (on River Drava).

Telecommunications

Telecommunications services in Croatia are highly developed. The Croatian mobile market continued to contract in Q1-12 due to market saturation, a difficult macroeconomic environment and regulatory measures. In the first three months of 2012, there was a net loss of 110,000 mobile subscribers as total subscriptions declined to 5.036 million, equating to a penetration rate of 114.6%. The net loss in Q1-12 was the fourth successive quarter of net subscriber losses that have seen the market contract by a total of 1.41 million (largely due to the regulatory change introducing the 90-day active subscriber definition). The penetration rate at the end of March 2011 was 145.4%. According to BMI research, the performance is expected to improve relative to the past year; however, growth will

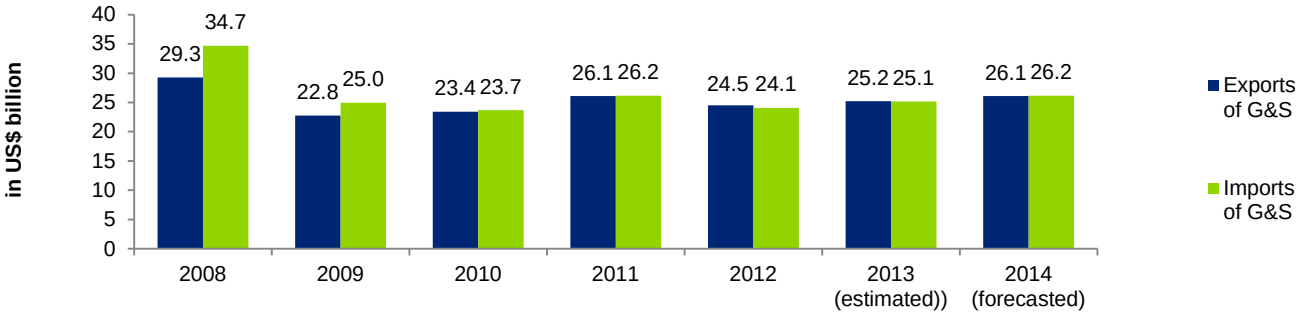
be limited by the on-going macroeconomic challenges. They forecast 5.297 million subscriptions by 2016, with a penetration rate of 121.7%.

The fixed-line market also experienced marked decline in recent quarters, with total subscriptions down 14.1% y-o-y to 1.603 million in Q1-12, according to data from the Croatian Post and Electronic Communications Agency (HAKOM). The rate of decline is expected to further decelerate over the duration of the forecast period with total subscriptions falling to 1.548 million and a penetration rate of 35.6%.

The broadband market in Croatia has outperformed mobile and fixed line in recent quarters, with total subscriptions increasing 0.8% y-o-y to 1.146 million at the end of 2011, according to HAKOM. The fixed broadband market has continued to grow strongly while the mobile broadband market declined 12.3% y-o-y. The decline in mobile broadband is the result of the macroeconomic environment, the expansion of fixed broadband service penetration and subscribers leaving the service after the end of introductory promotions. Meanwhile, fixed broadband subscriptions grew 6.1% y-o-y to 858,020 in Q1-12.

4. Foreign Trade

The major export commodities include transport equipment, machinery, textiles, chemicals, foodstuffs and fuels. Meanwhile, the main imports include foodstuffs, machinery, chemicals, fuels and lubricants, and electrical equipment.

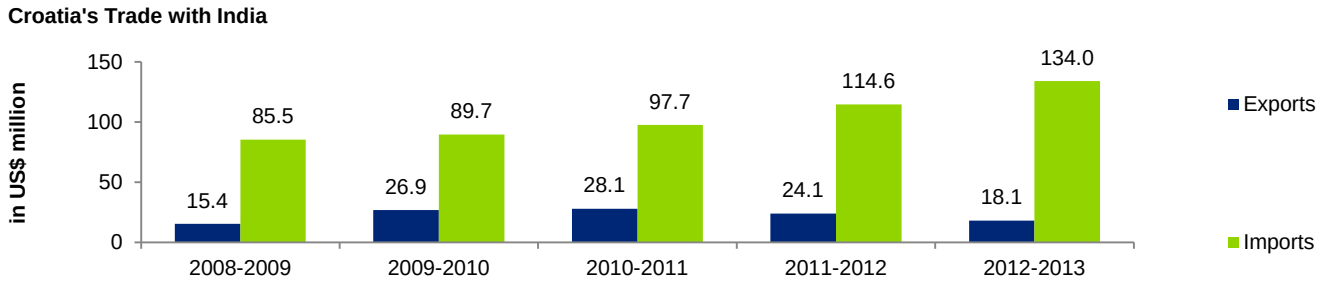


Source: Economic Intelligence Unit

Croatia-India Trade

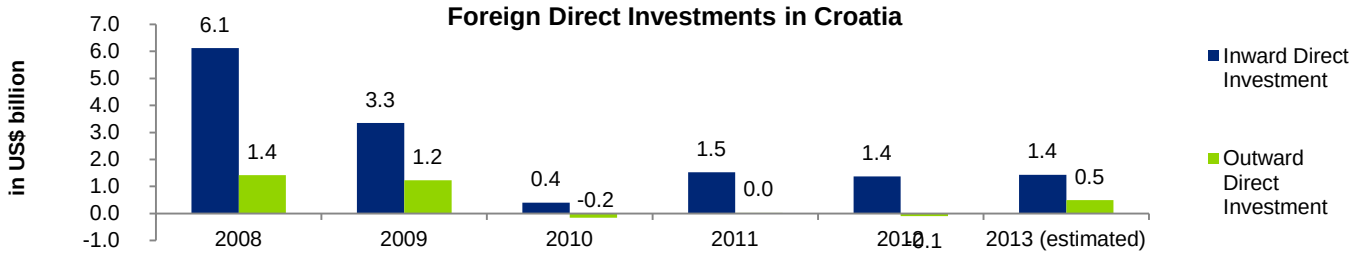
Croatia and India signed the Joint Committee on Trade and Economic Cooperation in March 2009. The agreement enabled the two countries to expand trade and economic cooperation.

The two-way trade in 2013 amounted to US$152.01million. Exports from Croatia to India include electrical machinery, turbines, electrical equipment, measurement and control instruments, pharmaceuticals (antibiotics), heating and cooling equipment, and machinery. Imports from India consist largely of textiles (yarn, linen, cotton fabrics and readymade garments), leather and footwear products, coffee, tobacco, organic/inorganic compounds, carpets and floor coverings, crude minerals, antibiotics and spices, tractors, passenger vehicles and auto spare parts.



Source: Department of Commerce (India)

5. Foreign Direct Investment



Source: Economic Intelligence Unit

According to the Economic Intelligence Unit, Croatian Foreign Direct investment (FDI) fell sharply after 2008 crisis to US$0.4 billion in 2010 from US$6.1 billion in 2008.

Investment Incentives

The Croatian Government adopted the Act on Investment Promotion and Improvement of Investment Environment (OG 111/2012) in 2012. This act replaced the previous Investment Promotion Act (OG, no. 138/2006, 61/2011).

Investors can use tax incentives, employment and training incentives and incentive measures for capital costs of investment projects. Some of the major changes include the following:

- Reduce the minimum initial investment amount along with the introduction of special conditions for micro-entrepreneurs to EUR150,000 (all categories of investment) and EUR50,000 (for micro-entrepreneurs)
- Introduce new investment category—investments in high value-added activities
- Increase financial aid intensity for each new job opening
- Focus on investment projects with more than 100 new jobs
- Implement method of calculating the amount of the initial investment

Tax Incentives

The thresholds for reduced rates of income tax are lowered. The main changes include the following:

- 50% reduced taxable base for a period of 10 years, provided that the value of investments is up to EUR1 million, and 5 new employees are hired in connection with the investment
- 75% reduced taxable base for a period of 10 years provided that the investment amounts to EUR 1million to EUR 3million and 10 new employees are hired in connection with the investment
- 100% reduced taxable base for a period of 10 years provided that the investment is above EUR 3million and 15 new employees are hired in connection with the investment

Cash Grants

Cash grants are provided for measures related to initial and capital expenses of the investment project.

- Cash grant in amount of 10% of the eligible costs of investments for construction of the new factory, production facility or tourist facility or buying of new machines. This includes production equipment (maximum amount up to EUR0.5 million with the condition that part of the investment in machines/equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology)
- Cash grant in amount of 20% of the eligible costs of investments for construction of the new factory, production facility or tourist facility or buying of new machines. This includes production equipment (maximum amount up to EUR1 million with the condition that part of the investment in machines/equipment equals at least 40% of the investment and that at least 50% of those machines/equipment are of high technology)

Indian Investments in Croatia

Indian investments in the Eastern European countries are mainly in the manufacturing and mining sectors. In Croatia, there is a potential for Indian companies in sectors such as financial intermediation, transportation and logistics, and communication services. Indian companies have the opportunity of investing in a public private partnership (PPP) model for developing logistics infrastructure in the country.

6. Key Industries

Agriculture: In Croatia, agriculture today accounts for 3% of the country's GDP as compared to almost 20% two decades ago. Croatia's agricultural sector is particularly vulnerable to climate change, where one-fourth of the Croatian economy or almost EUR10 billion of Croatian GDP is vulnerable to current climate variability and likely future climate change impacts. The main agricultural products include arable crops (wheat, corn, barley, sugar beet, sunflower, rapeseed, alfalfa, clover); vegetables (potatoes, cabbage, onion, tomato, pepper); fruits (apples, plum, mandarins, olives), grapes for wine; livestock (cattle, cows, pigs); and dairy products.

Chemicals: In reference to the country's export, the chemical industry is an important and growing sector in Croatia. The country accounted for exports of chemical products worth EUR1049 million, while imports amounted to EUR2189 million in 2012.

Food and Beverages: The food and beverage industry in Croatia accounts for about 21% of the overall manufacturing sector, as per the Croatian Chamber of Economy. According to research by Business Monitor Group, the Croatian food and beverage market is expected to witness a slow growth in the near future due to high unemployment, ingrained price-consciousness of the Croatian consumer and the struggling economy. The per capita food consumption is estimated to be valued at 0.9% in 2013 and the forecasted compounded annual growth rate (CAGR) till 2017 is estimated to be 2.4%. Similarly, alcoholic and soft drinks consumption is estimated to be valued at 0.8% and 0.3%, respectively, and the forecasted CAGR till 2017 is estimated to be 2.6% and 4.9%, respectively.

Tourism: Croatia attracts over 10 million foreign tourists annually. Tourists are estimated to contribute almost EUR7 billion annually and generate enough employment opportunities, resulting in the country being able to decrease its unemployment at an annual rate of 7%.

7. Industrial Park

- **Industrial Park of Nova Gradiska** – The industrial park is located in the city of Nova Gradiska in western Slavonia, with a population of 60,000 inhabitants. The economic potential of Nova Gradiska is significant due to the available human and natural resources and its outstanding geo-traffic position. The aim of the industrial park is to build the business infrastructure, incentives and facilitate investment, loan programmes and professional support to artisans and small entrepreneurs. Nova Gradiska also provides incentives for new investments.

8. Tax System

Overview

The taxation system in Croatia is equal for residents and non-residents. The Croatian tax system includes corporate income tax (profit tax), personal income tax, value added tax, special taxes—excise duties (on mineral

oil and mineral oil products, tobacco products, alcohol, soft drinks, beer, coffee, passenger cars and other motor vehicles, vessels and aircraft, luxury goods), tax on liability and comprehensive road vehicle insurance premiums, real estate transfer tax, games of chance tax, county and municipal/city surtaxes as local self-governing units' revenues.

The income tax rate is 40% and the corporate tax rate is 20%. Other taxes include value added tax (VAT) and excise taxes. The overall tax burden equals 21.4% of GDP. Government spending amounts to 41.4% of total domestic output. Public finance management has deteriorated significantly, and the deficit has widened, averaging around 5% during the past three years.

Corporate Income Tax Rate

The corporate tax rate in Croatia is 20%.

- An entity is a resident if it is incorporated and registered in Croatia or if it is controlled and managed in Croatia. An entity may also become a resident by carrying out business activities in Croatia that meet the criteria for a permanent establishment.

Capital Gains Taxation

Capital gains are taxable income and are taxed at the standard rate of 20%. Tax losses are allowed to be carried forward for up to 5 consecutive years. They are not allowed to be carried back.

Double Taxation Relief

Unilateral Relief

Croatia has signed contracts for avoiding double taxation with 38 countries. Croatia has signed agreements for both income and capital tax with Albania, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, the Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Iran, Ireland, Israel, Italia, Korea, Macedonia, Moldova, the Netherlands, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Swiss, Ukraine, the United Kingdom, and Yugoslavia (a legal inheritance is assumed for the successor states Serbia and Montenegro). Meanwhile, the country has signed agreements for income tax only with Chile, China, Estonia, France, Jordan, Latvia, Lithuania, Malaysia, Malta, Mauritius, San Marino, South Africa and Turkey.

Tax Treaties

Croatia has concluded a total of 53 tax treaties with several countries across the world.

9. Labour Environment

The Croatian Government has recently adopted new labour market measures, which ensure that unemployed youth will receive health and pension insurance as well as EUR220 per month. The government has invested EUR61 million in 2013 for these measures (about EUR12 million more as compared to 2012). The move has been initiated to reduce the 21% unemployment rate in the country, highest since 2003.

The measures also include employer subsidies, tax relief and self-employment support. They focus on raising employment opportunities for special social groups including the disabled, the elderly, war veterans and Roma. Employers are subsidised to provide professional training. The 2013 budget also envisages salaries for public workers.

Labour Code: Employment in Croatia is governed by the Croatian Labour Act, the Constitution, collective bargaining agreements and individual employment agreements, as well as international conventions and treaties. The Labour Act is the main source for labour law in Croatia, and it regulates leaves, wages, and strikes as well as prohibits discrimination.

Regular Working Hours: In general, the regular working hours in a week may not exceed 40 hours. Overtime may be worked only under special circumstances, and then only up to eight additional hours per week.

Salaries and Benefits: Employees are paid wages at regular intervals, but not less than once per month.

In January 2013, Croatia along with 20 of the EU's 27 member states and Turkey had implemented a national legislation setting a minimum wage by statute or by national inter-sectoral agreement. As per the legislation, Croatia (included in the first group) has set the lowest minimum wages between EUR100 and EUR500 per month. The levels and ranking of minimum wages expressed in euro are affected by the values of the minimum wages in national currencies and by exchange rates.

The minimum salary in Croatia was EUR385 per month in 2010. It was one of the highest amongst the transitional states. According to the Croatian Bureau of Statistics, the average net monthly salary in Croatian companies in May 2012 amounted to HRK5,529 (EUR1 = HRK7.5032).

10. Education and Talent

- Education in Croatia is defined as a constitutional right with primary education as mandatory and free, while secondary and higher education as equally available to all. **Pre-school** – It includes education, training and care for pre-school children through programmes such as health care, nutrition and social care for children from six months to school age. As pre-school is not mandatory, children are allowed to be enrolled from the first year. The country has over 600 public and private pre-school institutions.
- **Primary Education** – Croatia's education system offers compulsory eight years of elementary education to students aged six (or seven) to fifteen. It is applicable to children who are permanent residents in Croatia regardless of their citizenship. It consists of two education cycles: the first is from first to fourth grade (organised through the classroom teaching) and the second cycle is fifth to eighth grade (through subject teaching).
- **Secondary Education** – Secondary education allows everyone under the same conditions and according to his/her abilities after completing primary education, to acquire knowledge and skills for work and continued education. The two main types of secondary schools in Croatia are high schools and vocational schools.

Secondary education is compulsory in Croatia and after completing high school, a student receives a Certificate/Diploma called "Certificate of Graduation".

- **Higher Education** – Higher education in Croatia is provided through two types of tertiary institutions—universities and polytechnic schools. The Croatian higher education system comprises six universities, art academies, and schools of professional higher education; five polytechnics; six independent schools of professional higher education; and nine private accredited schools of professional higher education.

Czech Republic
Investment Opportunity

1. Overview of the Economy

On 1 January 1993, Czechoslovakia underwent a non-violent spilt to form two different nations: the Czech Republic and Slovakia. The Czech Republic is one of the most stable and prosperous of the post-Communist states of Central Europe. Growth is supported by exports to the EU, primarily to Germany, and a strong recovery of foreign and domestic investment since 2010. Accession to the EU gives further impetus and direction to structural reform. Intensified restructuring among large enterprises, improvements in the financial sector, and effective use of available EU funds should strengthen output growth.

Political System

The Czech Republic is a parliamentary democracy with a bicameral Parliament.

The Chamber of Deputies has 200 seats and is elected by popular vote under a direct representation system with a 5% entry threshold. Aside from legislative powers, the Chamber of Deputies gives and rejects confidence to the cabinet and approves the state budget.

The Senate has 81 seats and is elected by a majority system for six-year terms with one-third of the Senators being replaced every two years. It approves laws proposed by the Chamber of Deputies.

The formal head of state is the President, who is largely a ceremonial figure, but has the power to appoint the Governor of the National Bank and members of the Constitutional Court. The President is elected by direct popular vote. The head of the executive is the Prime Minister, who is appointed by the President. The Constitutional Court can rule on the unconstitutionality of laws or other legislation.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wages
3.3%	18,640	-0.9%	153.3	142.3	6.8%	EUR311

Policies

The economic policies of the Czech Republic focus on promoting growth, reducing unemployment and increasing the economy's competitive edge. During 2005, the Czech Government defined their strategy in two strategic documents: the Economic Growth Strategy for 2006 to 2013 and the National Reform Programme.

Economic growth Strategy for 2006 to 2013 highlighted five priority areas:

- Institutional Business Environment

- Sources of Financing
- Infrastructure
- Human Resource Development—Training and Employment
- Research, Development, and Innovation

The National Reform Programme, produced within the process of EU economic policy coordination, focuses on measures promoting competitiveness and overcoming obstacles to growth.

Food and Energy Security

Food Security

Placed 23rd in the Global Food Security Index 2013, which encompassed 105 countries, the country's ranking reveals the efforts taken towards food programmes. According to the Index, the Czech Republic's strengths are:

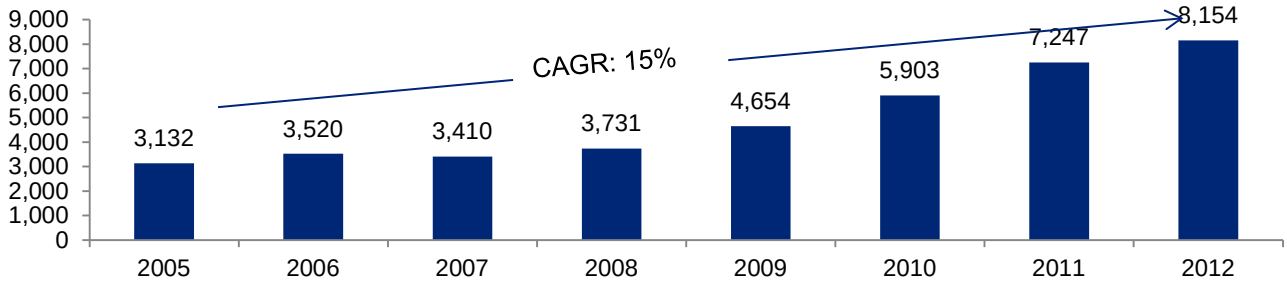
- Less proportion of population under global poverty line
- Presence of food safety net programmes
- Access to financing for farmers
- Nutritional standards
- Food Safety
- Sufficiency of supply
- Agriculture imports tariffs

The Ministry of Agriculture is responsible for agriculture, food and for issues of veterinary care, phytosanitary care, and animal protection. Czech Agriculture and Food Inspection Authority (CAFIA), a subordinate of the Ministry of Agriculture, is responsible for controlling safety and quality of food products. CAFIA inspects foodstuff and raw materials. The objective of these inspections is to monitor and protect the economic interests of both consumers and the state—consumers' protection from foodstuffs that are unsafe, misleadingly labelled, sold despite their expired use-by-date or of unknown origin.

Energy Security

The Czech Republic has introduced incentives to promote the generation of energy from renewable sources. The Parliament introduced Act No. 180/2005 (Renewable Energy Act), which regulates incentives provided to investments in this field. This act provides a dual pricing system offering a choice of either fixed feed-in tariffs or green bonuses under strictly defined conditions.

Czech Republic's electricity production from renewable sources (GWh)



Source: World Bank

The production of energy from renewable source was increased by 23% in 2011 and 13% in 2012. This increase in production is the result of increase in investment in the renewable energy sector, a result of the incentive programme by the government. High cost, mainly for Photovoltaic, is still a major concern.

3. Infrastructure

Road Transport

The Czech Republic already has the best road network in the region. The central government has administrative authority for developing and maintaining motorways totalling 734 km and 422 km of speedways (rychlostní silnice), as well as 5,832 km of national highways. Regional governments are responsible for secondary and local roads, which amount to 14,635 km and 34,129 km, respectively (2011 data).

The State Transport Infrastructure Fund spent CZK40 billion on new investments in 2011 (including EU money). Electronic tolls for vehicles over 3.5 tons is already effective—provided by Kapsch, an international Road Telematics, Information Technology and Telecommunications Company —covering some 1,300 km of roads. The expansion of the toll system is planned but will most likely work as a hybrid of microwave and satellite technology.

Rail Transport

The Czech transport and communications system is good by east European standards but below the quality commonly found in Western Europe. The railways are an important means of transport, with a network of 9,470 km.

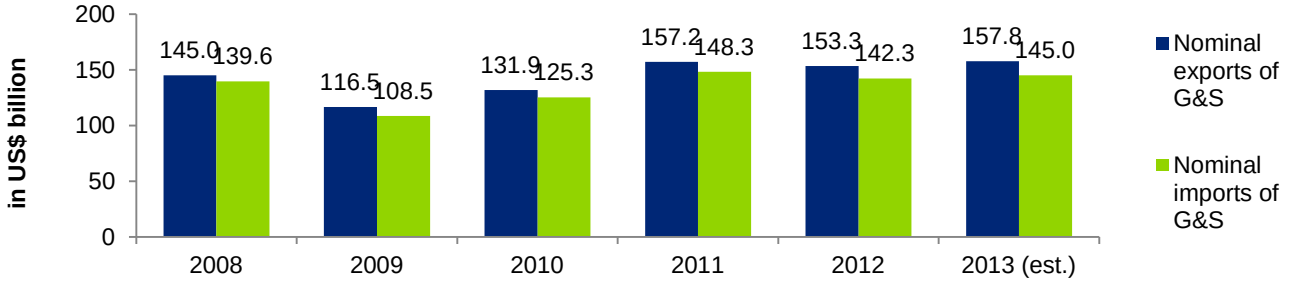
Shipping & Air Transport

River transport, along the 303 km of rivers that are navigable, is comparatively unimportant; its main use is for the internal movement of goods on the Vltava and Labe River, north of Prague. The national air carrier, Czech Airlines (4,480,000 passengers in 2011), has similarly small domestic significance, given the country's compact size. The company merged in to a holding with Ruzyně Airport (11,789,000 passengers in 2011) to form stronger entity. Both companies are planning for privatisation.

Telecommunications

The number of fixed telephone lines peaked in 2001-2002 and is steadily decreasing, counting 2,200,000 participants in 2011. Mobile phone penetration is more than 1 active sim card per citizen = 14,224,611 in 2011. There were 22.1% of people with broadband Internet access in 2011 and 60% had a computer.

4. Foreign Trade

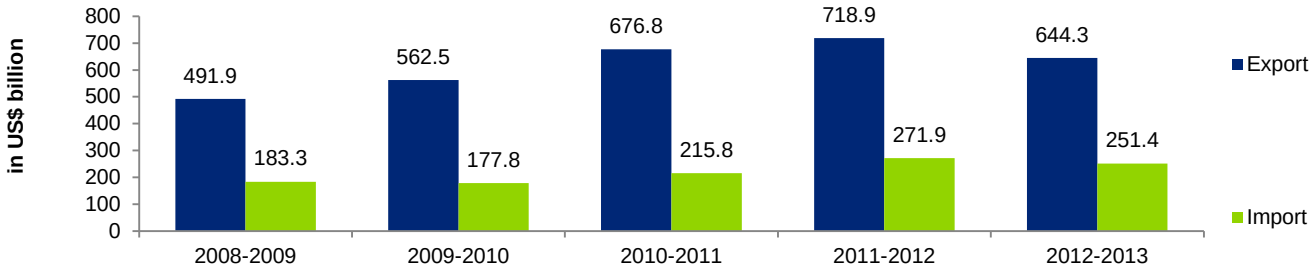


Source: Economic Intelligence Unit

In 2012, the value of Czech Republic's nominal exports of goods & services (G&S) went down by 2.5% to reach US$153.3 billion, and the value of nominal imports of G&S decreased by 4.1% to reach US$142.3 billion. The country's exports and imports are improving after the downturn in 2009 and started to make recovery since then.

Czech Republic-India Trade

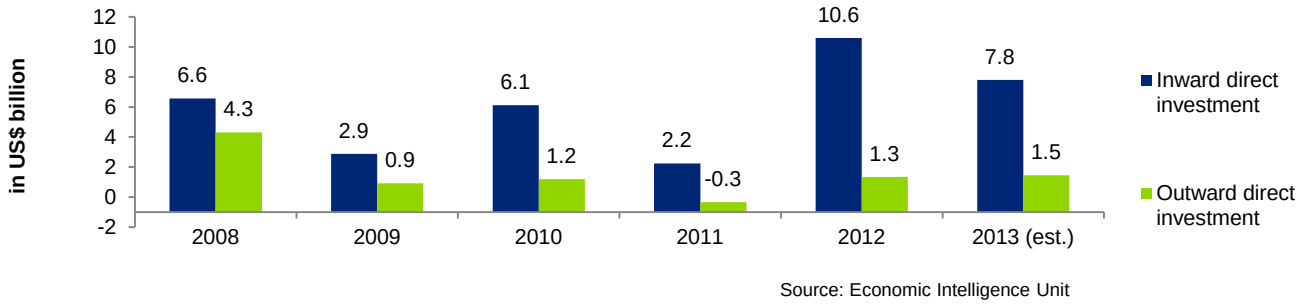
Czech Republic's Trade with India



Source: Department of Commerce (India)

Relations between India and the Czech Republic have been warm and friendly, with several bilateral agreements between the two countries. Diplomatic relations were established in 1993 after the dissolution of Czechoslovakia. The Czech Republic mainly exports auto components, machine tools, textiles, printing machinery and equipment for the energy sector to India. Its imports from India include textiles, steel, chemicals, pharmaceuticals and electrical goods.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

The Czech Republic always has positive inward investment. After tremendous growth in 2012, oreign Inward Direct investment expected to decrease by 26.4% to fall at U billion in 2013 and Outward Direct investment expected to increase by 15.4%. Germany is the main trading partner for the Czech Republic.

Investment Incentives

The Czech Republic introduced investment incentives for the manufacturing sector, technology centres and strategic service centres that are available to domestic and foreign investors. The Act on Investment Incentives came into force in May 2000. A new amendment became effective as of 12 July 2012. The investment incentives provided before the amendment came into force remain unchanged. The available incentives are:

- Ten-year full corporate income tax relief for Greenfield investments and ten-year partial tax relief for Brownfield investments
- Provision of industrial property on discount
- Financial support for the creation of new jobs
- Financial support for the re-qualification of employees

The total amount of investment incentives is determined separately for each investment project in accordance with valid EU rules. For the Czech Republic, investors satisfying the conditions set out above (among other criteria) are eligible for public support of up to 40% of eligible investment costs. Eligible investment costs are calculated as the fixed assets for production or as the payroll costs of the new jobs incurred with respect to the project during the 24-month period after filling the vacancy for technology centres and strategic service centres. The investment /job places must be retained during the utilisation of investment incentive for at least five years.

Indian Investments in Czech Republic

- Mittal Group acquired Nova Hut (steel operations) in 2003
- Alok Industries acquired 60% of the Mileta (textile entity) in 2007
- Tetley Group of Tata Tea acquired Czech Tea in 2007
- Spentex Industries (yarn manufacturer) acquired Schoeller Litvinov in 2007
- Ashok Leyland acquired the Truck Business Unit of Prague-based AVIA in 2006
- Infosys set up a 400 seat BPO facility in 2007

6. Key Industries

Agriculture: Agriculture accounts for approximately 3% of GDP and employs nearly 4% of the active population. The country's major products are beets, sugar, potatoes, wheat, barley, and hops. The key buyers of these products are wholesale dealers and food processing companies.

New entrants may be put off by the costs of machinery and land required to work a large-scale farm, which are high and provide a significant barrier to entry. Furthermore, due to the spiralling costs of oil and price increases in phosphate fertilizer, farmers are facing increasing operational costs.

Automotive Industry: The automotive industry has been the most important production sector of the Czech Republic. It already accounts for 20% of manufacturing output and employs over 260,000 people. Some of the key players in the Czech automotive industries are major OEMs that significantly boost all automotive output in the republic. Skoda—Czech brand owned by the German VW Group—has a major production facility in Mlada Boleslav. A significant portion of its output goes to the local and Central European markets. Other car producers are the TPCA (Toyota-Peugeot-Citroen Automobile) and Hyundai Motors The most important players among the automotive suppliers are subsidiaries of multinational companies, such as Bosch, Continental, Magna, SAS Autosystemtechnik and many others. In 2012, total 1.2 million vehicle were produced (0.5 million in 2000).

Electrical and Electronic Industry: The growth of the electrical and electronic industry since the second half of the 1990s in the Czech Republic was based on the growth of both domestic consumption and export. In 2000, revenues from the sale of their own products and services in all branches reached CZK185 billion. In 2004, the revenues totalled CZK436 billion which, in current prices, amounts to more than a redoubling of the volume of production. In that period, the workforce in the electrical industry increased by 35,000 (i.e., 22%). Domestic consumption of electrical industry production reached, in accordance with new methodology, CZK328 billion in 2000 and, in 2004, grew up to CZK428 billion, i.e., more than a 30% growth. Traditionally, the largest share of consumption was accounted for by heavy-current technology and by electronic components. The largest accumulation of consumption was observed in electronic components.

The electrical industry is primarily marked by:

- The complementary character of its production in creating prerequisites for the competitiveness of other branches of the manufacturing industry and power industry
- A high proportion of imported materials, components and parts for production and assembly
- A wide range of technological processes
- A high proportion of supranational capital in new investment projects, especially in connection with the introduction of advanced technologies
- The use of logistic networks of supranational companies
- A high proportion of science and research used in the production of computational and digital communications technology and the need for highly-qualified employees in research and in production

Financial Services: The core of the commercial banking sector comprises three large banks that had their roots in the communist era, with three of the four hived off from the Czechoslovak State Bank's enterprise lending operations in 1990. Together, the three—Komercni banka (KB), Ceska sporitelna (CS) and the former foreign-trade bank, Ceskoslovenska obchodni banka (CSOB)—accounted for 80% of all banking sector assets in 1994. These banks inherited a large volume of non-performing loans from the communist period (including foreign-trade credits to developing and Soviet-bloc countries, and domestic credits for private and co-operative housing construction). Successive governments led by the Civic Democratic Party (ODS) in 1992-97 resisted their full privatisation owing to fears that, once in private hands, they would cease to support domestic enterprises.

Sizeable stakes were sold during voucher privatisation, but the resulting ownership structures were not conducive to restructuring. The banks controlled investment funds, which, in turn, controlled large parts of the formerly state-owned enterprise sector. The result was a non-transparent web of cross-ownership and continued insider lending that helped large enterprises avoid restructuring while adding to the state-owned banks' bad-loan portfolios.

Currently the Czech Republic has a stable financial system. This was confirmed by the International Monetary Fund in its Financial System Stability Assessment Update of 4 April 2012. It stated that banks in the Czech Republic not only have ample capital and liquidity, but also solid profitability; they were able to overcome the effects of the global financial crisis relatively unscathed and that stress test results show that Czech banks are resilient against substantial shocks.

Construction: As with the rest of the economy, construction was almost entirely state-controlled under communism and has quickly been returned to private ownership. By 1996 more than 99% of all construction enterprises were in the private sector, which grew rapidly from 1990 both as a result of privatisation and through the establishment of new, often small, firms. However, the construction of larger apartment blocks fell dramatically with the end of the centrally planned system, hitting larger enterprises, and output contracted by almost 50% during the latter half of the 1990s. The sector's share dipped from 11.5% in 1990 to 6.3% in 2004. The decline bottomed out with the demand for construction of Greenfield production facilities, benefiting larger firms. Overall construction output in 2009 was 9.7% in 2009; which slipped to 8.4% in 2011due to continuing crisis and lower state investments.

Retail: Following privatisation, Czech-owned companies consolidated a large number of small outlets into retail chains. However, as Czech investors lacked marketing and management skills, and their shops were often not in prime locations, they soon succumbed to foreign competition. Several European retail chains have invested heavily in the Czech retail market. Foreign companies have also spearheaded the move from small outlets to larger department stores and out-of-town hypermarkets. The retail market worth US$86.8 billion (estimated) in 2013 and is forecast to reach value of US$96.1 billion in 2017.

Most consumer goods are manufactured locally. The local industries making consumer goods, especially the sectors producing white goods and personal computers (PCs), have received huge foreign investments in the past decade.

7. Industrial Park

Owing to a considerable inflow of FDI into the country in recent years, the availability and choice of office space has improved significantly. Most projects in the country are open-field constructions, with the exception of some reconstructions of existing objects in cities.

The Czech Republic boasts an excellent network of over 150 industrial zones, which are located on the outskirts of virtually every town of regional importance.

8. Tax System

Principal taxes in the Czech Republic are:

- Personal income tax
- Corporate income tax
- Value added tax

Current tax rates are:

Corporate income tax	19%
Personal income tax	15%
Value added tax	Standard rate: 21% Reduced rate: 15%
Real estate transfer tax	3%

Those liable to pay corporate income tax are all legal entities, including foreign companies with permanent establishment (mostly branches) in the Czech Republic. A company is treated as a resident if it has a registered office or place of management in the Czech Republic. Resident companies are liable to tax on worldwide income. A company that has neither a registered office nor a place of management in the Czech Republic is treated as a non-resident. Non-resident companies are subject to Czech corporate income tax only if they receive income or gains from Czech sources and provided that the Czech Republic has the right to levy taxes in terms of an applicable double taxation convention.

Czech entities are entitled to deduct expenses that are incurred to generate, assure and maintain the income of the entity. Particular expenses are disallowed or may be deductible up to a limited amount.

A tax loss may be carried forward for offsetting against taxable profits, but no later than the fifth subsequent taxable period.

A withholding tax at the rate of 15% is levied on dividends paid to both domestic and foreign participants. This tax may be reduced under the terms of the relevant double taxation treaty binding for the Czech Republic. A withholding tax at the rate of 0% is related to dividends paid out by a subsidiary company, which has its place of business in the Czech Republic, to the parent company in any EU member state, Switzerland, Norway or Iceland.

Dividend distributions between two Czech companies are exempt from tax under similar conditions. Further, the rate of 0% is related to the dividend income of the parent company, which has its place of business in the Czech Republic, derivable from a subsidiary company in any EU member state. For all these exemptions, certain conditions have to be met (e.g., shareholding of at least 10% for the period of 12 months). From 2008, dividends arising to a Czech tax resident company and to a company that is a tax resident in another EU member state, Norway or Iceland are also exempt if paid by a subsidiary that is a tax resident in a non-EU country with which the Czech Republic has concluded an effective double taxation treaty; has a specific legal form; satisfies the conditions for the dividend exemption under the EC Parent-Subsidiary directive; and is subject to a home country tax comparable to Czech corporate income tax at a rate of at least 12%.

Double Taxation Treaties

The Czech Republic has concluded a considerable number of double taxation treaties. In most cases, the double taxation treaties concluded by the Czech Republic follow the OECD model. The Czech Republic, as a legal successor to Czechoslovakia, has adopted treaties concluded by Czechoslovakia in its legislation.

9. Labour Environment

Employment Market: The Czech Republic has a highly skilled workforce, particularly in technology and engineering. Educational and literacy levels are high. Companies report few difficulties in recruiting skilled and unskilled workers, particularly in industrial areas where unemployment is highest. Finding workers is difficult only in Prague and parts of western Bohemia, where the unemployment rate hovers around 8.2%. There is also a dearth of individuals with management and financial expertise.

Employees' Rights: The employment relationship governed by Czech law is regulated by Labour Code that came into effect on 1 January 2007. The Czech labour law generally grants more legal protection to the employee and endeavours to achieve a more equal position of the parties in the employment relationship. Since 1 January 2012, an important amendment to the Labour Code has been effective. These changes should result in simplification of the wording of the Labour Code.

The new Labour Code complies in general with EU norms. It contains the basic definitions for discriminatory and anti-discriminatory rules, sexual-harassment provision, equal treatment of EU national and Czech individual employees, and specific EU rules on trade unions. These questions have been also regulated by a separate Anti-discrimination act in 2009. The Labour Code prohibits rules that repeatedly closed fixed term employment contracts by employers, as these are forbidden under EU law; it allows temporary-employment contracts to be renewed after a maximum of 3 years for up to two times and in maximum length of three years per each renewal. Once this threshold has been met and the employment continues, the contract would automatically become indefinite (that is, the position would be made a permanent one). The minimum annual holiday is four weeks.

Regular Working Hours: The official work week is 40 hours. The Labour Code sets strict limits on overtime work; the total overtime work may not exceed 8 hours per week in average in the period lasting no longer than 26 weeks

(52 weeks in case this is agreed in the collective bargaining agreement), not including the overtime work for which compensatory time off was provided. Employees must be paid the achieved wage and plus a bonus of at least 25% of the average earnings or time off in lieu of the 25% bonus for overtime work.

Salaries and Benefits: The minimum-wage law is set out in Government Order 567/2006 Coll and amounts to CZK8,000 per month or CZK48.10 per hour since 2007. The minimum wage is set at subsistence level; actual wages paid are much higher. The minimum wage is paid to only 1% of employees in the business sector, according to the Ministry of Labour and Social Affairs (Ministerstvo prace a socialnich veci), but it is important for calculating minimum bases for health-insurance and social-security contributions. Some trade unions (for example, agriculture and construction trade unions) negotiated higher minimum wages directly with their employers.

The average monthly wage in year 2011 amounted to CZK24,319. Monthly wages paid by foreign-owned companies averaged much more at over CZK30,000.

10. Education and Talent

The Czech Republic has a highly skilled workforce, particularly in technology and engineering. Educational and literacy levels are high with 91% of the adults aged 25-64 have earned the equivalent of a high-school degree.

The Czech Republic combines a good level of general education with strong science and engineering disciplines. For generations the Czech education system has generated high class, technical problem-solving skills in environments where standard solutions were impossible.

School education is compulsory from ages 6 to 15 (elementary and lower secondary school). After 9 years, students may continue at three basic types of upper secondary school: vocational training centres, secondary schools and grammar schools (gymnazia). Undergraduate and graduate studies are offered by colleges (offering 3- to 4-year bachelor programmes).

The Czech education system has a very strong position in upper secondary education, which serves as the foundation for advanced learning and training opportunities, as well as preparation for direct entry into the labour market. The percentage of adult population that had completed at least secondary education in the Czech Republic is permanently among the highest in all OECD countries. According to Czech Statistical Office (CZSO), 81% of the Czech population aged 15 and over had completed at least upper secondary education in 2011.

Vocational education and training are thoroughly integrated into both secondary and higher education institutions, and enrolment in vocational education is exceptionally high by OECD standards.

The Czech Republic also has a very good position in tertiary education. There has been an increase in university-level skills in the adult population, as measured by educational attainment.

While public universities offer programmes ranging from economics, statistics and public administration to finance, accounting, international relations and marketing, a number of private institutions specialise in business administration courses. Several institutions and universities offer high-quality MBA programmes and are affiliated with foreign universities and colleges.

The Czech Republic provides free and flexible choice in continuing education. Private training providers and non-profit organisations co-exist and complement secondary schools and universities. According to recent research,

the most frequently taught courses include use of PCs, accounting, management, finance, marketing and foreign languages.

Hungary
Investment Opportunity

1. Overview of the Economy

Making the transition from a centrally planned to a market economy in 1989, Hungary continued to demonstrate strong economic growth and acceded to the European Union in May 2004. Foreign ownership of and investment in Hungarian firms are widespread, with cumulative foreign direct investment totalling more than EUR48 billion since 1989. Hungarian sovereign debt was upgraded in 2000 and together with the Czech Republic held the highest rating among the Central European transition economies; however, ratings agencies have expressed concerns over Hungary's unsustainable budget and current account deficits. Hungary was severely hit by the financial crisis, with the budget deficit becoming extremely difficult to finance, and the Hungarian forint quickly losing value.

The country received EUR20 billion credits from the IMF which helped stabilise the situation at the end of 2008. As stipulated in the agreement with IMF, the government introduced severe austerity measures in 2009 to reduce the budget deficit to required levels, and the budget situation has been stable since then. In 2012, the GDP shrunk by 1.7% and inflation was 5.7%. Unemployment has persisted around the 11% level, but Hungary's labour force participation rate is one of the lowest in the OECD. Policy challenges include increasing the current slow rate of GDP growth, job creation and orchestrating structural reforms in the public sector.

Political System

Hungary is a parliamentary democracy with a unicameral Parliament, called the National Assembly (Orszaggyules). The National Assembly has 386 seats, and it is elected by popular vote for a four-year term by a direct proportional system with a 5% threshold. It is the highest organ of state authority and initiates and approves legislation sponsored by the Prime Minister.

The President, elected by the National Assembly for a 5-year term, has a largely ceremonial role, but presidential powers include appointing the Prime Minister and choosing parliamentary election dates. The Prime Minister selects cabinet ministers and has the exclusive right to dismiss them. Each cabinet nominee appears before one or more parliamentary committees in consultative open hearings and must be formally approved by the President. The Constitutional Court has the power to challenge legislation on grounds of unconstitutionality.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wages
5.7%	12,720	-1.7%	118.0	108.8	10.7%	EUR 309

Policies

The Hungarian Government carried out the following important changes:

- Tax inspections were strengthened for efficiency with the merger of the two main tax authorities into a single institution in 2011.
- Personal income taxes and employer social contributions were lowered by 6.5% in 2009-2010. In 2011, flat-rate personal income tax method was adopted with additional tax relief for families with children.
- The unwelcome dissolution of the second pillar of the pension system in 2011 incidentally diminished expected replacement rates, and the statutory retirement age will increase from 62 to 65 years by 2022.
- Stronger vertical separation and price deregulation were introduced in the energy sector in 2007 and 2009.
- A 2008 referendum abolished tuition fees for tertiary education to improve the education sector.
- One-stop shop creation is under process and will soon be introduced. Also preparations for rationalising hospitals and schools have also started in 2011.

Food and Energy Security

Food Security

Placed 28th in the Global Food Security Index 2013, which encompassed 105 countries, the country's ranking reveals the efforts taken towards food programmes. According to the Index, Hungary's strengths are:

- Presence of food safety net programmes
- Nutritional standards
- Food Safety
- Less proportion of population under global poverty line
- Diet diversification
- Sufficiency of supply
- Agriculture imports tariffs

The findings of the study to assess the food safety situation in Hungary—initiated by the inter-ministerial Food safety Advisory Board in 2000—revealed the worsening food safety situation. It was manifested in reported food intoxication and infection statistics as well as microbiological food analyses. To overcome this unfavourable situation, the board launched a comprehensive National Food Safety Programme in 2004, which is under revision. The Hungarian Food Safety Office and the Hungarian Academy of Science are working towards the food safety goal.

Energy Security

According to the December 2010 National Renewable Energy Action Plan, the Hungarian Government has forecast that electricity demand will grow by around 25% by 2020. Hungary outlined its policies in the New

Szechenyi Plan which was adopted in January 2011. Under the plan, energy—development of green economy—is one of the seven programme areas for future growth. Detailed action is planned in the following six areas:

1. Energy policy for economic growth and job creation

- Revising the competitiveness of the electricity and gas market along with the regulatory system
- Creating a stable regulatory and investment environment
- Promoting regional energy sector integration favouring the interests of domestic players
- Forming a comprehensive energy efficiency programme
- Defining and promoting potential growth sectors of the energy industry.
- Concentrating on technological progress and research and development
- Defining the Price policy

2. Security of supply and diversity of resources

- Ensuring balanced diversity of resources
- Focusing on diversity of acquisitions
- Setting up storage facilities at strategic locations
- Increasing the production and use of renewable energy sources
- Developing infrastructure will be the central role of the government
- Ensuring energy diversification of local governments by improving their energy efficiency

3. Decreasing dependence on energy imports

- Reducing gas consumption by rationalising and trimming discounts on natural gas
- Supporting efforts towards energy efficiency
- Endorsing renewable energy projects that would replace natural gas in heating systems
- Maintaining funding for renewable energy based electricity production

4. Focused encouragement of the production and use of renewable energy sources

- Revising the discounts on fossil fuels (e.g., discounts on gas consumption, carbon tax, etc.)
- Overhauling of the actual support system (revision of investment support, preference of domestic added value, introduction of a green certificate)
- Facilitating renewable energy producers' network connection

5. Climate change, mitigation and adaptation

- Reducing greenhouse gas emissions and promoting climate friendly investments
- Promoting projects which increase social acceptance and awareness of environmental protection issues

6. Nuclear energy

- Implementing an open information policy about the utilisation of nuclear energy
- Examining the possibility of prolonging the Packs nuclear power plant's operation licence, paying special attention to the intransigent enforcement of security requirements
- Considering, for the medium and long term, the building and operation of new nuclear reactors for power plants

3. Infrastructure

With four major European transportation corridors traversing through the country, Budapest is the central hub in Europe. In coming years, Hungary intends to upgrade and integrate its infrastructure network with Europe.

Road Transport

Hungary plans to augment its road infrastructure 6.8 km of roads per 1,000 sq. km of land area to 27 km by 2015, approaching the average among current EU members. The total length of roadway lines is 160,057 km. There are 858 km of motorways; however, the density of the motorway network is low by international comparison. The routes forming a part of European transport corridors are given preference.

Plans to construct additional motorways have received a setback due to budgetary restrictions. The emphasis is on building high-quality roads, but the financial viability of such highly ambitious construction plans has been questioned. Nonetheless, a new funding scheme based on public-private partnerships takes much of the costs off-budget.

The motorways running south-west and south-east from Budapest (towards Croatia and Serbia, respectively) were developed in the near past, as were several bridges over the Danube and Tisza, and non-motorway inter-city roads and ring-roads. The road network is extensive, but only around half of Hungary's roads are paved.

Rail Transport

Hungary's railway network not only covers the whole country, but it is well connected to the international railway network. The state run domestic railway system, operated by MAV, the Hungarian State Railway, is widely used for industrial cargo shipping. Lately road transport has replaced railways as the primary form of freight transport, reflecting both improvements in arterial road provision and lack of investment in the state-owned railway network. The total length of railway lines is 8,057 km.

Of the measure of goods shipped domestically in 2009, about 90% went by road and 10% by rail (these data also include pipeline deliveries, which accounted for 3.6% of the total). When international traffic is included, however, the modal split is slightly more even between road and rail, at 65% and18%, respectively, with pipeline deliveries accounting for 12% of total freight traffic.

Air Transport

In recent years, air traffic has grown rapidly, particularly passenger transport. This increase occurred after the introduction of the discount airlines, which the Hungarian airport authorities were forced to allow due to non-discriminatory terms upon EU accession. In 2010, air travel accounted for roughly 80% of the total international long-distance passenger traffic. Hungary has several domestic and international airports built throughout the country. The largest one is in Budapest named Ferenc Liszt International Airport. Budapest is striving to build the second biggest airport among the countries in the region in terms of the number of the passengers. Larger Hungarian cities maintain airports for private aircraft and for domestic fights as well.

Water Transport

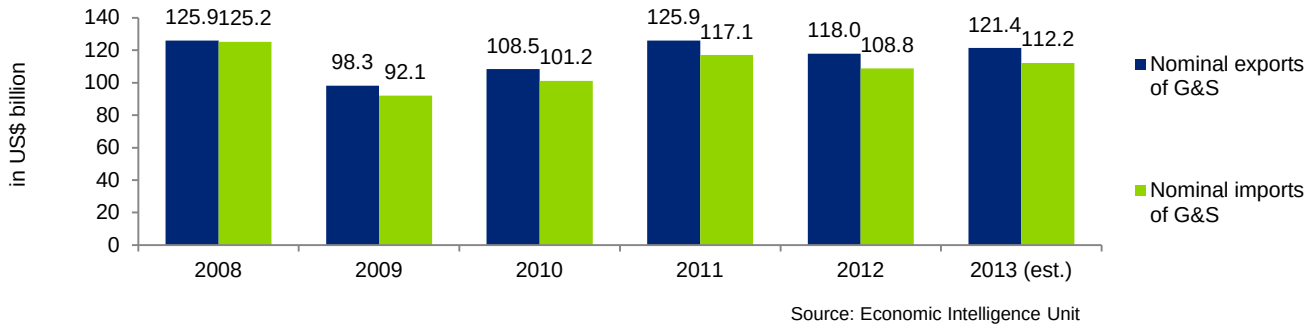
Hungary is landlocked but has access to the Black Sea and the North Sea via the River Danube. Major ports are located in Győr-Gönyü, Budapest, Dunaújváros and Baja. The opening of the Danube-Rhine-Main channel in 1992 has promoted export-import traffic with countries along the Rhine and with the maritime ports in the North, too. At the end of the 1990s Freeport Budapest followed the direction of the European economy and transformed into a logistical collection and distribution centre.

Telecommunications

With investments from foreign investors in the telecom infrastructure sector, Hungary has one of the best telecoms systems in the region. At the start of the 1990, Hungary had one of Europe's least-developed telecoms networks. With an installed base of less than 1million main lines, a penetration rate of only nine lines per 100 inhabitants, and a call completion rate of less than 40%. The country's incumbent telecom provider, Magyar Telekom, now controlled by Deutsche Telekom (Germany), still dominates the scene and is the largest carrier not only in fixed-line services, but also in mobile telephony and the Internet.

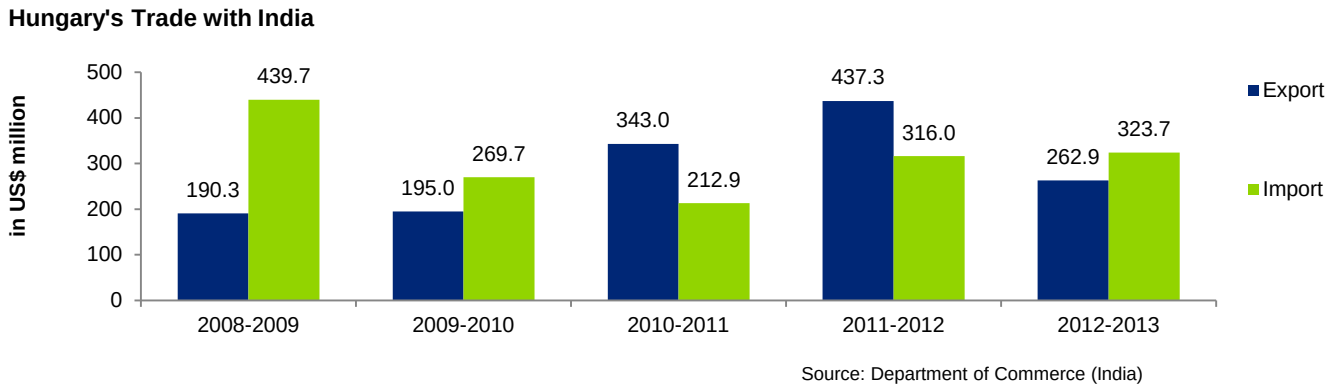
4. Foreign Trade

In 2012, the value of Hungarian nominal exports of goods & services (G&S) decreased by 6.3% to reach US$118.0 billion, and the value of nominal imports of G&S decreased by 7.1% to reach US$108.8 billion. The country's exports and imports were improving till 2011 after the downturn in 2009.



Source: Economic Intelligence Unit

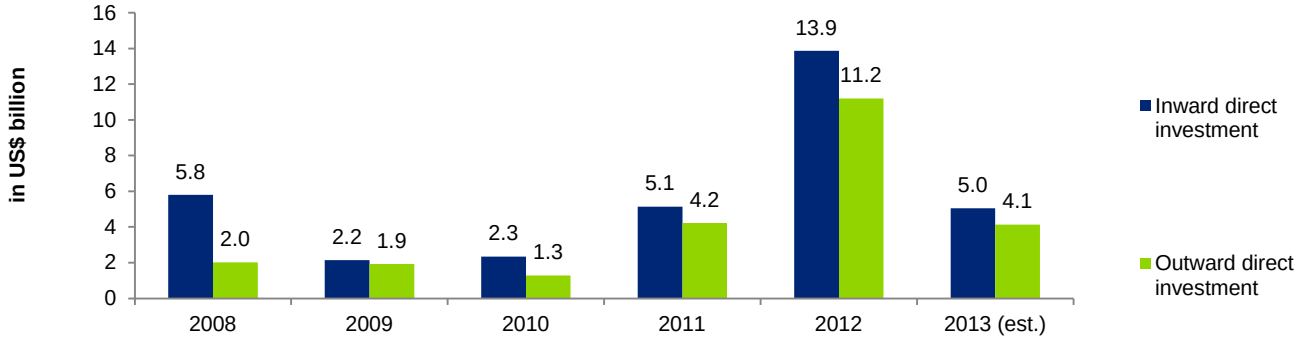
Hungary-India Trade



Source: Department of Commerce (India)

Economic cooperation between India and Hungary goes back to 1949 when the two countries signed the Rupee Trade agreement, which operated through the negotiation of annual protocols—fixed the products to be traded and the amounts thereof—with the trade being canalised through government agencies. Since then, both the countries share a multi-faceted and substantive economic relationship. Hungarian exports to India include electrical machinery and equipment, nuclear reactants, steel and iron, chemicals, and pharmaceutical products while imports from India mainly include vehicle parts, chemicals, footwear, and pharmaceutical products.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

Hungary always has positive inward investment. In 2012 Foreign Inward Direct investment increased by 169.8% to reach US$13.9 billion and Outward Direct investment increased by 164.5% to reach US$11.2 billion. As per EIU (Economic Intelligence Unit), in 2013, Foreign Inward Direct investment and Outward Direct investment are expected to reach US$5.0 billion and US$4.1 billion, respectively.

Investment Incentives

Tax Incentives

Development Tax Allowance (DTA): Hungary welcomes foreign direct investment (FDI) and implements policies to encourage it. Development tax allowance, whereby up to 80% of the corporate income tax payable every year

for a period of 10 years can be foregone, could be made available. If the amount of DTA would exceed the amount that could be available based on EU rules for a project with EUR100 million of eligible expenditure, the company would need to apply for the approval of the Hungarian Government and the European Commission. For a project with less than EUR100 million of eligible expenditure, the DTA could be obtained automatically in so far as all conditions set out in the law are met. However, if the eligible expenditure of the project for which the DTA is applied for exceeds EUR100 million even if the volume of DTA would remain below the amount that could be available for a project with eligible expenditure of EUR100 million, the decision of the Hungarian Government is required.

DTA can be available under various grounds including:

- Investments over HUF3 billion (approx. EUR10.3 million)

  **Investment over HUF1 billion (approx. EUR3.4 million), the investment has been installed and operated in preferred regions (northern Hungary, the northern and southern Great Plains, the central and southern Transdanubian planning/strategic region).

  For both grounds, the taxpayer shall either increase the number of employees by at least 150 (or 75 in underdeveloped regions), or increase the wage costs by at least 600 times (or 300 times in underdeveloped regions) the annual minimum wage.

  **Investment over HUF100 million (EUR345,000) if used for environment protection (self-contained investment), certain broadband Internet service, provision of food-hygienic conditions, film and video making, as well as basic research, applied research, or experimental development.

  **Job creation investments (irrespective of the number of jobs created or the location of the investment within Hungary).

- Investments of small- and medium-sized enterprises (SMEs) over HUF500 million (EUR1.7 million) if the enterprise within the next four years adds another 20 employees for a small-sized enterprise and 50 for a middle-sized enterprise, or increases the wage costs by at least 50 times for a small-sized enterprise and by at least 100 times the annual minimum wage.
- R&D investment (experimental development, applied research or fundamental research) over 100 M HUF (EUR345,000)
- Investment over 100 M HUF (EUR345,000) for film or video-making
- Investment over 100 M HUF (EUR345,000) for energy efficiency as certified by a specific certificate
- Investment over 100 M HUF (EUR345,000) in so-called free entrepreneurial zones (list of less developed areas), which, beyond the tax allowance, could also result in other benefits

Investment volumes are to be understood at present values.

Processing and distributing agricultural products may also benefit from certain investment incentive based on the provision of the government decree.

Tax allowance for small- and medium-sized enterprises: Small- and medium-sized corporate tax payers are supported by a special tax allowance. Taxable income may be reduced by the value of investments in assets. Deduction is limited to the amount of profit before tax and also to HUF30 million (EUR111,000). In all, 40% of the

interest on an investment loan (including financial leasing) is deductible from the corporation tax payable (limited to HUF 6million/EUR21,000 per year).

R&D Tax Incentives: Hungarian tax system provides more tax saving opportunities for companies to encourage their R&D activity. The direct costs of R&D activity decreases the tax base in corporate income tax and, in local tax, furthermore, the R&D related wage costs of FY2011 could decrease the CIT payable until FY2014

Cash Grants

Beyond tax incentives, various non-refundable cash grant opportunities exist either from funds provided by the EU to Hungary, or from Hungarian budgetary sources.

- Cash grants from EU co-financed funds
- Government Decision based (VIP) Cash Grant, Training Grant, Job Creation Grant—the VIP Package
- Other national grants

Maximum regional aid intensity ratios: The volume of tax benefit is capped by the maximum intensity ratio defined in EU regulation minus all other forms of state aid (i.e., cash grant). Maximum intensity ratios defined by regions (until 31 December 2013):

- 10% in Budapest
- 30% in Pest County and in Western Transdanubia
- 40 % in Central Transdanubia
- 50% in all other regions of Hungary

For a large project (with eligible expenditure in excess of EUR50 million within a period of 3 years), aid intensity ratio is calculated as follows:

- Up to EUR50 million eligible expenditure – the regional aid intensity ratio applicable
- For the part of eligible costs falling between EUR50-100 million
  - 50% of the maximum aid intensity ratio is applicable
- For the part above the EUR100 million of eligible expenditure
  - 34% of the aid intensity ratio applicable

Indian Investments in Hungary

- India's biggest IT and software company Tata Consultancy Services (TCS) has set up a European Software Development Centre (SDC) in Budapest
- Satyam (now Mahindra Satyam) opened an office in Budapest in November 2004
- A Calcutta based company M/s Bharat McNally Engineering Ltd acquired 90% of the equity of a Hungarian company called M/s Eroterv Wagner Biro Ltd
- An Indian company Technocraft Industries (India) Ltd acquired Danube Knitwear Ltd in Baja, Hungary

- Sun Pharma acquired the U.S.-based pharmaceutical company Valeant (formerly Alkaloida) in Hungary in August 2005
- Crompton Greaves (CG) through its Belgian subsidiary, Pauwels International, purchased two Hungarian companies, viz., Ganz Transelektro Villamossági Zrt (GTV) and Ganz-Transverticum Kft (TV), for an enterprise value of 35 million euros in 2006
- In August 2006, Thapar Group bought Dunakiliti canning factory
    - PMP Auto components (P) Ltd [a Piramal Group company] acquired Bakonyi Wiper-Systems Ltd

6. Key Industries

Agriculture: Agriculture and viticulture have traditionally played an important role in the economy, as Hungary has a favourable climate and fertile soil. Hungary has nearly 5.9 million ha of agricultural land, or 63% of the country's total surface area. Including forests, total productive land area rises to 7.7million ha; about 75% of productive land is now privately owned. It is self-sufficient in most agricultural product groups and exports show a consistent and substantial surplus over imports.

Major crops include wheat, maize and barley; sunflower seeds; sugarbeet; and a variety of vegetables and fruits. Animal husbandry and dairy production are also important. Numerous small family operations are expected to join a new wave of co-operatives, or exit commercial farming for practical purposes. Ironically, even as the viability of small, inefficient farms is called into question with EU membership, the implementation of the CAP has resulted in an increase in the number of registered farmers to approximately 300,000 from 218,000 earlier. This is a result of the CAP's more generous fixed subsidies, which are provided per hectare of arable land, even on small plots.

Automotive Industry: Starting almost from scratch at the beginning of the 1990s, the vehicle manufacturing sector has become a vital source of foreign investment, accounting for 19.4% of industrial output in 2007. Three major Greenfield investments account for Hungary's output of passenger cars and automotive components: Audi Hungaria (owned by Germany's Volkswagen) and Magyar Suzuki (Japan), Mercedes-Benz Manufacturing Hungary (owned by Daimler AG). Audi Hungaria, the country's largest exporter, has been the main engine supplier to the Volkswagen Group since 1994.

In 2010, Audi initiated the extension of its production facilities which will amount to EUR900 million of investment. Upon completion of these plans, Audi is aiming to produce—entirely in Gyor —125,000 passenger cars every year. Magyar Suzuki the second biggest manufacturer produced over 140,000 vehicles at its Esztergom plant in the years before the crisis of 2008. Opel Hungary (owned by General Motors, USA) previously produced passenger vehicles, but now concentrates on transmissions and components and is investing EUR500 million during 2011-2014 to double its capacities thus becoming the number one GM manufacturing site in Europe for new generation small- and mid-sized petrol and gasoline engines. Premium segment German car maker Mercedes-Benz also launched a EUR800 million Greenfield investment in Kecskemét and recently started producing A and B class (medium segment) cars. The Mercedes factory has the capacity to manufacture over 100,000 cars per year, providing employment to over 2,500 people.

With the advent of vehicle manufacturing in Hungary, a thriving network of suppliers and components manufacturers have also developed, including many from the EU, the U.S., and Japan. Heavy vehicles also have a strong production base in Hungary although firms in this segment have experienced difficulties, including a dramatic weakening of the U.S. dollar during the credit crisis and the following recession. Raba, a domestically owned firm based in Gyor, an important supplier of heavy-duty axles worldwide, is constantly increasing its market share in the former Soviet Republics. Nabi, a bus manufacturer, once hailed as a success story, is struggling to make a comeback from financial difficulties. Stadler, the Swiss railway maker, plans to increase its existing workforce and continue to invest in railway manufacturing.

Manufacturing: Hungarian manufacturing has transformed radically in the transition period. Formerly characterised by large, heavy industrial plants, dependent on cheap energy imports and sheltered from competition, Hungarian industry today is largely modern and efficient, thanks to the early entry of foreign investors. Industry suffered a major decline in output during the 1990s. Manufacturing output declined to a severe 54% in 1989-92, and entered strong and sustained recovery only in 1997, after economic stabilisation measures introduced in 1995 showed positive effects.

Hungary ranks first in electronics manufacturing in the Central-East–European region and is well placed globally, having thus the biggest growth potential among industries in Hungary. This is led in part by segments brought to Hungary by foreign investors as Greenfield investments such as mobile telecommunications and other high-technology equipment for which Hungary has become the hub.

The electronics manufacturing industry has the biggest growth potential among Hungary's industries and contributes at least 15% of Hungary's GDP, including spill over effects on other GDP generating sectors. Transport equipment is the second most significant manufacturing sector led by the automotive industry. Other manufacturing sectors with high export levels have a longer tradition in Hungary, such as the chemicals and food industries although these two have gone through major restructuring and modernisation. The pharmaceutical sector is strong showing a good mixture of successfully transformed Hungarian, as well as some of the world's largest pharmaceutical companies.

Information and Communication Technology: The availability of comparatively cheap, technically skilled labour and nearby EU markets has attracted a number of leading electronics and software firms to Hungary. The country has become a major European manufacturing centre for mobile telephone handsets, led by output at the Komarom factory of Nokia (Finland) and at contract manufacturers Elcoteq (Finland) and Flextronics (Singapore). Nokia has also chosen Budapest for its largest software development centre outside Finland, encouraging similar moves by other mobile and electronics producers.

Among indigenous firms, specialists such as Graphisoft, which has become a major world supplier of architectural software, are generally perceived to have a more stable future than those competing directly with major multinationals. Over 95% of information technology (IT) production is exported.

In spite of incidents that were seen as calling investor confidence into question, the restructuring of global production capacities often works in Hungary's favour. There are signs that an increasing number of Asian companies, including Chinese firms, are relocating some electronics production to Hungary to serve EU markets.

Pharmaceuticals: Hungary inherited an important pharmaceutical industry from the communist period. The country's pharmaceutical companies have their own research and development (R&D) activities, but are generally too small to run research programmes on a scale that can reliably generate new proprietary drugs.

However, Hungary has become an important low-cost production base for patented compounds manufactured under license, as well as for high-quality branded generic substitutes for out-of-patent drugs. The largest pharmaceutical company and the only major manufacturer not controlled by a foreign investor, Richter Gedeon, is a leading producer of generics and active ingredients, and is one of the most important foreign drug suppliers to the Russian market. Its active ingredient production has led to extensive exports to the U.S. and Japan.

The French pharmaceutical company Sanofi-Aventis, French owned Egis, Israeli-owned Teva, one of the world's largest generic pharmaceutical company, as well as GSK— all have significant production capacities in Hungary, and, most of them, have continued to invest hundreds of millions of euro in Hungary even during the economic crisis in recent years.

Although Hungary's pharmaceutical market is of a sufficient size to have attracted leading international producers, political interference in pricing has been a regular occurrence under both left- and right-of-centre governments, significantly adding to business risk.

Chemicals: The chemicals sector was already a major industry before Hungary's transition, and the two largest companies— Borsod-Chem and TVK—have complementary buyer-seller roles. TVK, now controlled by the Hungarian oil and gas company MOL, is more closely linked to the oil and petrochemical value chain, as a major supplier of polyethylene, polypropylene and other products. BorsodChem, which makes PVC resin and higher value-added Isocyanides, is fully owned by Wanhua Industrial Group, which is the world's 3rd largest isocyanides producer. Both Borsod-Chem and TVK—key European players in the markets they serve—have completed coordinated, large-scale investment programmes. Chemicals account for 4.8% of total industrial production and 5.4% of Hungary's exports in 2012.

Financial Services: After an early recapitalisation programme followed by comprehensive privatisation that brought in foreign strategic partners, Hungary has one of the region's most advanced banking sectors. Privatisation of the major banks began in the mid-1990s, and most had been sold to foreign investors by the end of 1996. The largest Hungarian Bank OTP, the National Savings Bank, is more than 90%-owned by foreign investors. The trend of declining state shareholdings has been accompanied by a corresponding increase in foreign ownership, from 14.9% in 1994 to above 85% in direct and indirect foreign ownership by 2010. The financial crisis hit Hungary hard since half of its household and public debt has been denominated in foreign currencies, resulting in the country being highly leveraged and susceptible to volatilities in the global economy.

7. Industrial Park

Hungary offers the widest selection of industrial parks in the region. Investors can choose from more than 209 (according to data from 2009) operating industrial parks on the basis of their business, professional, or cultural demands. Establishing a business is facilitated by highly favourable conditions, including management that is

familiar with local circumstances, support from municipalities, and various tax benefits. Another important point is that investments are usually implemented in a fairly short period of time (a few months).

Industrial parks in Hungary:

- Several large multinational companies have some part of their operations in industrial parks in Hungary
- Up to the present, HUF2,574 billion capital has made its way to these parks
- The parks produce 51% of industrial exports, accounting for HUF4,100 billion
- The productivity of activities performed in industrial parks is over 70% higher than the industrial average and just 15% less than the average productivity in the European Union
- Nearly half of the industrial parks are situated by motorways and investors can expect professional logistics services almost everywhere

8. Tax System

Overview

The main national taxes are the corporate income tax, local business tax, values added tax (VAT), and innovation contribution and a special surtax on certain companies (e.g., the financial, energy, retail, and telecommunications sectors). Hungary's corporate tax rate is competitive in the region although the relatively low corporate rate is balanced by high business taxes levied by the municipalities. Other taxes include transfer tax and real property tax.

No withholding tax is levied on dividends, interest or royalty payments made to foreign entities. The absence of withholding tax, combined with the participation exemption available for capital gains on qualifying shareholdings and the 50% exemption for royalty income, makes Hungary an attractive location for holding and licensing companies. Dividends received by a Hungarian company are exempt from corporate income tax.

Corporate Income Tax Rate

Hungarian resident entities are subject to tax on their worldwide income. The taxable income of both resident and non-resident corporate taxpayers is based on pre-tax profits, calculated in the profit and loss statement and adjusted with certain items. Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules. Registered branch offices and non-registered permanent establishments are taxed under the same regime applicable to Hungarian-registered firms. The corporate income tax is 10% up to HUF500 million tax base, and 19% on the excess.

Capital Gains Taxation

Gains derived from the sale of assets are treated as ordinary business income. Thus, capital gains are included in the corporate tax base and taxed at the 10%-19% rate unless the participation exemption applies. Under the participation exemption, capital gains realised on the sale of (Hungarian and foreign) participations is exempt from corporate income tax if the following requirements are met:

- The participation represents at least 30%

- The taxpayer has held the participation for at least one year
- The taxpayer has reported the acquisition to the Hungarian tax authorities within 60 days of the acquisition

Similar participation rules are applicable to the capital gain realised on the sale of qualifying intellectual property that was reported to the Hungarian tax authorities within 60 days from the acquisition and was held at least one year.

Double Taxation Relief

Unilateral Relief

Foreign-source income is taxable in Hungary, with a credit granted under domestic law for foreign tax paid, even if there is no treaty with the country of source.

Tax Treaties

Hungary has a broad tax treaty network, which generally follows the OECD model treaty. Hungary's tax treaties provide for credit for foreign tax paid or an exemption of the foreign income. Hungary has implemented OECD-compliant exchange of information provisions.

No special procedural requirements apply to obtain benefits under Hungary's tax treaties (but Hungary does not levy withholding tax on dividends, interest or royalties under its domestic law). Based on the Hungary-India double tax treaty, withholding tax on dividend, interest and royalty payments from India to Hungary is limited to 10% (in case the recipient is beneficial owner).

9. Labour Environment

Unemployment in Hungary is still below the European Union average; the national average rate of unemployment was steady around 6% till it rose to 11% in 2011(attributed to the financial crisis in Europe), according to the Hungarian Central Statistical Office. The government and the National Bank of Hungary (the central bank) have expressed confidence that the economy still has reserves of idle labour, particularly in underdeveloped regions like the country's north-east and south-west. Activity rates are still low, but as the demand for labour grows, persons who are now economically inactive can be expected to enter the labour force.

Labour Code: Act I of 2012 (the Labour Code) is the basic legislation governing labour law in Hungary. The present Labour Code is modelled on EU practice and aligns legislation with EU regulations.

Regular Working Hours: The statutory number of daily working hours is 8; this may not exceed 12 hours, including overtime. Employees are entitled to two non-working days per week, one of which must be Sunday.

Salaries and Benefits: The Labour Code sets a basic minimum salary in hourly and monthly terms for all types of work, and the monthly minimum salary requirement must be adhered to. The prevailing minimum salary is around HUF95,000 per month in 2012.

10. Education and Talent

General standards of education are high, but a substantial share of the working-age population have educational and vocational skills that do not meet market needs.

Educational attainments are comparable to those of Western Europe. A high standard of general education has been important in attracting foreign employers to Hungary, especially in new-technology sectors. However, some foreign investors in the manufacturing sector have complained that the systems in place for training skilled industrial labour are weak. Governments have often focused on higher education at the expense of primary and secondary schooling, with state spending continuing to hover at around 5% of GDP.

Schooling is compulsory for children between the ages of 6 and 16, and in broad terms the structure of the educational system remains little changed from the pre-transition period. General elementary or primary school is usually followed either by “vocational school” (for the training of skilled workers), “vocational secondary school” (which offers a mixture of vocational and academic study), or the purely academic “gymnasium”. The gymnasium remains the primary feeder of students to universities, although various types of universities often accept students from vocational secondary schools.

In 1990-1991, 44% of secondary school students were in vocational schools; but by 2003-2004 this had fallen to 23%. The percentage of secondary students in vocational secondary schools increased from 33% in 1990-1991 to 43% in 2003-2004, and the percentage to gymnasium rose from 24% to 34%.

University and college education expanded rapidly in the 1990s. Enrolment rates are fairly high for the region: in 2001, according to Eurostat (the EU’s statistical office), there were 25% more students in tertiary education in Hungary; however, the number of students has decreased recently. According to Hungarian Central Statistical Office, the number of students in tertiary education in 2012 was more than 338,467.

Poland
Investment Opportunity

1. Overview of the Economy

After joining the EU in May 2004, Poland became the 10th EU economy in terms of nominal GDP. Since then, growing at an average rate of 4.6%, it progressed to the ninth biggest EU economy with nominal GDP of US$512.96 billion in 2011. In the year of the global recession in 2009, Poland was the only EU economy registering positive GDP growth (1.7%) fuelled by domestic consumption and public investments. The former was attributed to continued wage growth in line with labour productivity, while the latter came as a result of EU structural funds, of which Poland is the biggest beneficiary among the new EU members. After February 2013 EU "Budget Summit", Poland was granted 73EUR billion of EU Funds for years 2014-2020.

The global crisis underlined microeconomic dichotomy in Poland, where private enterprises displayed strong growth, profits, employment and investments; while state-owned organisations underperform in terms of productivity, overpaid labour, and financial losses.

Weakening of global FDIs and financial investors' confidence was substituted by expansion of IPOs and privatisation via the Warsaw Stock Exchange, which became one of the best performing market in the EU. Also, the financial sector in Poland did not face a single bankruptcy or deleveraging problems that were widespread in other EU economies.

Political System

- The system of government of the Republic of Poland is based on the separation of and balance between the legislative, executive and judicial powers. Legislative power is vested in the Sejm (lower house of Parliament) and the Senate; executive power is vested in the Prime Minister and the Council of Ministers, and judicial power is vested in the courts and tribunals.
- Polish public administrative system is based on the division into central and regional (self-government) administration. According to a cardinal principle included in the constitution, authorities are elected by citizens. The structure of the Polish local self-government consists of 2478 communes, 379 counties and 16 voivodeships (a high-level administrative subdivision of Poland).

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wages
3.7%	12,720	21.%	227.7	226.5	12.8%	EUR345

Policies

The Polish Government has taken measures to attract foreign direct investment with a view to modernising the economy and increasing capital intensity.

Some of the reforms implemented are:

- **Reduce public ownership and lower barriers to entrepreneurship:** The state has kept controlling stakes in strategic energy producers. Starting a business remains costly and is slow.
  - **Actions taken**: A privatisation programme encompassing 800 firms, launched for 2009 and 2010, was expected to generate receipts of about 2% of GDP. The government has announced further privatisation projects for 2011 to 2013. Barriers to entrepreneurship were also lowered with the creation of one-stop shop policy.
- **Improve the efficiency of the education system:** Pre-school children facilities are insufficient at a number of places. Public higher-education institutions lack quality control and have little financial autonomy as they are not allowed to levy tuition fees. Access to student loans is restricted.
  - **Actions taken**: A law promoting attendance in public pre-schools for five-year old children was passed in 2009.
- **Reform the tax and benefit system:** The tax wedge in Poland is relatively slightly higher. Early-retirement schemes cover a considerable number of employees of the police and armed forces and those who lost their jobs prior to retirement.
  - **Actions taken**: A cut in personal income tax rates in 2009 reduced the tax wedge. The government significantly tightened access to early retirement (bridge pensions) resulting from difficult work conditions.

Food and Energy Security

Food and energy security have been high in the Polish Government's overall development strategy.

Food Security –

Placed 26th in the Global Food Security Index 2013, which encompassed 105 countries, the country's ranking reveals the efforts taken towards food and energy programmes. According to the Index, Poland's strengths are:

- Presence of food safety net programs
- Access to financing for farmers
- Nutritional standards
- Food Safety
- Less proportion of population under global poverty line
- Sufficiency of supply
- Agricultural imports tariffs
- Proteins quality

Since 2004, the government has launched several policies and programmes to achieve food security and sustainable agriculture. Among them are:

- Rural Development Plan (RDP) for 2004-2006
- Sectorial Operational Programme “Restructuring and modernisation of food sector and rural development 2004-2006”
- National Strategic Plan for 2007-2013
- Rural Development Programme for 2007-2013

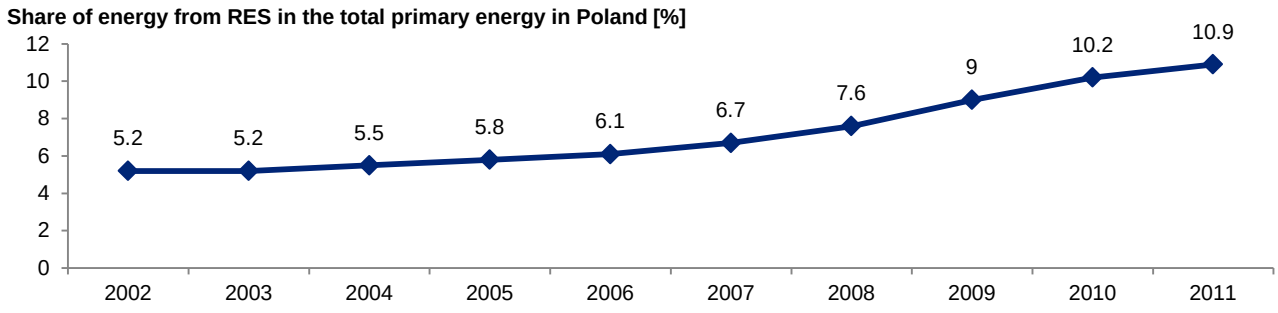
The measures incorporated through these programmes are

- Agri-environmental actions—sustainable and organic farming
- Increasing animal welfare
- Restructuring and modernisation of food sector and rural development 2004-2006—improving the processing and marketing of agricultural products; improving the sanitary, hygiene and veterinary conditions in production; refining the quality of products and introducing or modernising production technologies
- Investing in agricultural holdings to improve the sanitary and hygiene conditions in production
- Modernising agricultural holdings through financial support to projects aimed at improving food safety
- Increasing the added value of basic agricultural and forestry production—upgrade production conditions for existing or newly introduced standards
- Ensuring farmers’ participation in food quality schemes for improving production quality, increasing the consumption of high-quality food and support for farmers producing high-quality food

Energy Security

According to the Polish Economic Chamber of Renewable Energy, the share of energy from renewable sources in final energy consumption in 2011was 10.9% Development of renewable energy sector is one of the priorities for the Polish Government. The directive 2009/28/EC (European Commission) requires that all EU members gradually increase the share from renewable energy sources in the final energy consumption and in the transport sector.

The specific objectives of the Polish Energy policy are to increase the share of energy from renewable sources in final energy consumption up to 15.5% by 2020 (19.3% for electricity, 17% for heating and cooling, 10.2% for transportation fuels).



Source: Central Statistical Office of Poland

Achieving these objectives requires investments in new generation capacities. Wind energy and biomass utilisation are currently the most dynamically developing renewable energy sources. The government is applying measures to achieve better results in accordance with strategy. This includes several incentives provided to renewable energy source producers.

Companies such as Iberdrola, RWE, E.ON, Dong Energy, Gamesa, Acciona, EDP, Martifer Renewables, GDF Suez, Dalkia, Aufwind Schmack, Poldanor, and CEZ are the most active players on the market.

Poland is also gradually becoming an attractive destination for investments in manufacturing of devices used in energy generation. More than 200 production companies are working for renewable energy sector (Institute for Renewable Energy data).

3. Infrastructure

Situated in central Europe, Poland has the advantage of convenient road, railway and air connections with every European country. There are three basic sea ports to the north of Poland, which are used as sea routes to connect with ports across the globe. With the addition of airports, railway stations, railroads, motorways, roads and seaports, Poland's integrated transport network matches to European standards.

Road Transport

Poland's road network is over 380,000 km. As on October 2011, the total length of motorways was approximately 950 km, and express roads about 525 km.

Rail Transport

Poland has one of the most compact railway networks in the world. Stretching over 20,660 km (2009), railroads criss-cross the entire country.

One of the advantages of Polish railway network is that it includes broad-gauge railway, enabling connectivity with Russia and countries like Ukraine and Belarus to the east of the Poland. The longest broad-gauge railway, almost 400 km, connects Sławków with the Polish-Ukraine border in Hrubieszów. Thus, the broad-gauge network allows for transportation of goods from European countries through Poland to the east European counties, which are not members of the European Union.

Air Transport

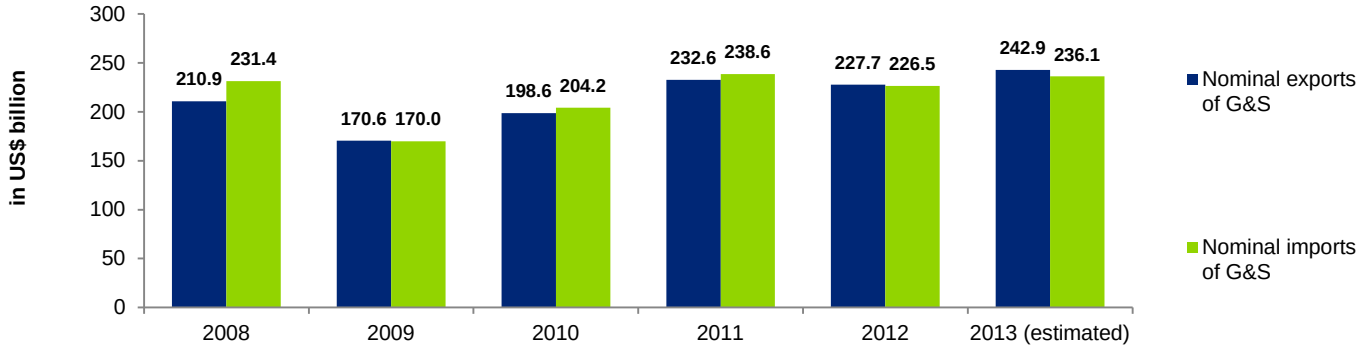
The Warsaw Chopin Airport, located in the capital city Warsaw, operates almost 90 foreign airlines from all over the world and 10 local Polish airlines.

River and Sea Transport

The rivers flowing through Poland are Wisła, Odra, Warta and Noteć which give the country a river network of 3,700 km. Besides, Poland has direct access to the Baltic Sea and the country's coastline is approximately 530 km.

4. Foreign Trade

According to data from the Economic Intelligence Unit, in 2012, the value of Polish nominal exports of goods & services (G&S) decreased by 2.1% to reach US$227.7 billion, and the value of Nominal imports of G&S decreased by 5.1% to reach US$226.5 billion. Poland's main imports are machinery and transport equipment, manufactured goods (particularly consumer electronics), chemicals and mineral fuels. Among the biggest Polish exporters are the local units of Fiat (Italy) and Opel (Germany); both of these manufacturers of passenger cars have major exporting production facilities in southern Poland. Copper and coal producers are also among the biggest exporters.

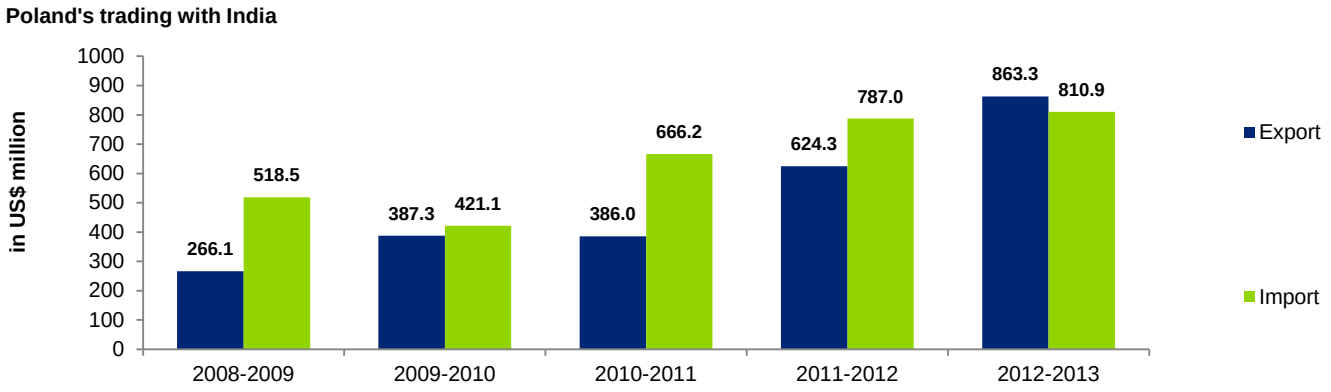


Sources: Economic Intelligence Unit

Poland-India Trade

Poland is India's biggest trading partner in Central Europe. The key bilateral treaties and agreements signed between the two nations are:

- Agreement on Promotion and Protection of Investments (7 October 1996, Warsaw)
- Agreement on Avoidance of Double Taxation (21 June 1981, Warsaw)
- Protocol on Foreign Office Consultation (1996, Warsaw)
- Agreement on Cooperation in Science and Technology (12 January 1993)
- Agreement on Cultural Cooperation and subsequent Cultural Exchange Programmes (CEP) – (March 1957, New Delhi)
- Agreement on Cooperation in Combating Organised Crime and International Terrorism – (February 2003)
- Agreement on Defence Cooperation (February 2003)
- Extradition Treaty (February 2003)
- Agreement on Economic Cooperation between India and Poland (19 May 2006, Warsaw)
- Bilateral Agreement on Shipping (1960)
- Agreement on Cooperation in the field of Health Care and Medical Science (April 2009, Warsaw)
- Agreement on Cooperation in the field of Tourism (April 2009, Warsaw)



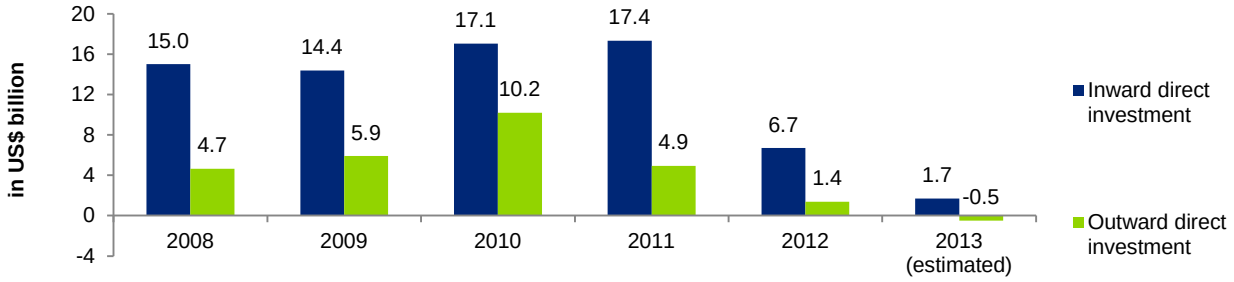
Source: Department of Commerce (India)

According to Vijay G. Kalantri, President, Indo Polish Chamber of Commerce & Industry (IPCCI), trade and investment between India and Poland has increased even fivefold in some select sectors such as food processing, IT, heavy industry and defence. Education is one sector which has a great potential for cooperation.

Free Ports and Special Economic Zones

There are 14 special economic zones (SEZs), mainly in southern Poland. The zones provide tax exemptions and reductions that are attractive to investors. By locating in one of these zones, a company may qualify to receive benefits. To get these benefits, an investor must obtain a permit to operate in a special economic zone. The permit specifies the conditions the investor must meet, for example, value of the planned investment, size of the workforce and start date of the business. Investors can locate their businesses in an already-existing zone, or they can apply for a zone extension to cover private land where the planned investment is to be based.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

In 2012, foreign Inward Direct investment decreased sharply by 61.5% to reach US$6.7 billion.

In terms of attractiveness for FDI projects, Poland ranked 19th worldwide in 2013 according to A.T. Kearney's report.

Investment Incentives

Poland offers investors ready access to a market of over 450 million people in the European Union. The central location of the country, young and well-educated society, competitive (inexpensive) labour costs and investment incentives make Poland one of the prime locations in Europe where overseas investors can enjoy profitable business and improve their business performance.

State Support

Incentives available to inward investors in Poland consist of tax and non-tax investment incentives such as investment grants, R&D grants, training grants, tax incentives (including tax exemptions) and many others. As Poland is a member of the EU; incentives must be in line with EU state aid regulations. Generally, various combinations of state aid in the territory of Poland cannot exceed 50% of investment value.

Tax Incentives

The following tax incentives are the most frequently offered incentives in Poland.

- Income tax exemption
- Local tax exemption

Income tax exemptions can be availed if you are operating in one of the 14 special economic zones (SEZ). Investors making an investment of at least EUR100,000 are exempted, within limits applicable, from income tax on income generated from business activity (manufacturing and services) conducted in the special economic zone and listed in the permit on functioning therein. Investment sites in SEZ are well prepared for launching investment projects and are offered at a competitive price (in case of large investments it is possible to include premises chosen by investor into SEZ as well). Local tax exemptions are exemptions from real estate tax.

Financial Assistance

The Polish Government offers cash grants for strategic investors.

Indian Investments in Poland

In recent times, the Indian investments in Poland include ArcelorMittal, Videocon, Escorts Ltd, Strides Arcolab, Reliance Industries, Ranbaxy, Essel Propack, Zensar Technologies Ltd, Tata Consultancy Services, HCL Technologies and Infosys.

- ArcelorMittal invested PLN4.8 billion in 2004-2013, employing 11,000 people in six plants in Poland
- Videocon invested US$7 billion in a liquid crystal display (LCD) plant in Poland
- Escorts Ltd acquired Polish company, Farmtrac Tractors Europe Sp.zo.o (FTES), in 2005
- Strides Arcolab acquired sterile manufacturing facility in 2007
- Ranbaxy set up business in 1997, currently employing 90 people
- Essel Propack established plant in 2007
- Zensar Technlogy invested US$2.75 million (approx.) crore to set up a 60-people delivery centre in 2006

- TCS set up an outsourcing centre in 2006
- Infosys has its BPO subsidiary Infosys BPO Poland Sp.z. in Poland
- HCL started its Polish operations in 2007

6. Key Industries

Manufacturing: Following the system-change recession in 1989-91, the manufacturing sector led the economy's recovery. The sector briefly weakened in 2000-01 in Poland's first conventional cyclical downturn, but then began to grow strong from mid-2002, on the back of rising exports.

Within manufacturing, heavy industry (and especially steel) has generally found it difficult to adapt to new market conditions, but some sectors have seen notable success. These include the motor industry and the furniture sector. The production of construction materials is also a success story, even if domestic construction is only now emerging from a prolonged downturn. The food and drinks sector is the largest branch of manufacturing.

Remaining state ownership in manufacturing is concentrated in the sectors of defence equipment, shipbuilding and branches of the chemicals sector. The state also retains a considerable stake in oil refining.

Automotive Industry: Poland is well on its way to becoming a major car manufacturing centre, with several components manufacturers setting up plants in the country. Fiat of Italy is the major western investor in the industry; it has had a presence in Poland for many years as a producer of small cars from its base in Bielsko-Biala in the south-west of Poland. Skoda (owned by German Volkswagen) and Renault of France, although they have no production in Poland, are also prominent on the domestic market. Opel/General Motors of the U.S., which built a Greenfield assembly plant in the Gliwice special economic zone (SEZ) in Silesia, is another leading producer and its success has contributed to the unexpected resilience of the Katowice region. The VW Group has a significant presence in western Poland and is also a notable car producer.

Total investment in Polish automotive sector amounted to US$28 billion. Automotive industry consists of nearly 900 companies, of which over 300 are foreign shared. There are 400 suppliers, including Delphi, Eaton, Bridgestone, Hutchinson, TRW, Isuzu, Lear and Pilkington. Poland is the 3rd largest bus manufacturer in Europe with plants of Solaris, Scania, Man and Autosan. It is expected that in the coming months Poland will experience a growing interest from producers and parts suppliers of electric cars.

Agricultural Production: Although agriculture generated a small percentage of GDP (3-4%), it still accounts for around 14.8% of employment. The high level of agricultural employment (even if much of it is, in effect, hidden unemployment) relative to agriculture's share in GDP shows that substantial scope for restructuring exists. It also demonstrates the immense problems facing the rural economy and rural society in general in Poland. There are around two million farms, all privately owned, and most of them very small (the average farm size is only 8 ha), poorly equipped and often run by elderly farmers. Farms exceeding 15 ha account for almost 10% of all farms and cover almost half of total agricultural area. Around half of all farms are run on a subsistence basis, yielding little or no produce for the market. Poland is the leading producer in Europe of potatoes and rye and is one of the world's

largest producers of sugar beets and triticale, rapeseed, grains, hogs, and cattle. Poland is a net exporter of processed fruit and vegetables, meat and dairy products.

Construction: In the second half of the 1990s, commercial construction activity was concentrated in a handful of major cities—notably Warsaw, Poznan, Gdansk and Krakow—as these cities and their surrounding regions attracted the majority of inward investment, as well as a substantial share of new hotels, offices and housing developments. Construction activity was weaker elsewhere, as other regions missed out on inward investment.

Construction slowed sharply from 1999, as high interest rates discouraged corporate investment. Despite the strong growth of the economy as a whole in 2004, the construction sector has been slow to recover, with signs of sustained growth only emerging in the first half of 2005. In 2006-2007, the construction sector was developing fast due to both Euro 2012 and EU funded investments in infrastructure and growing housing market. This was significantly limited by the 2008 financial crisis, though production of construction materials is now growing stronger, suggesting that the real level of construction activity, taking into account the grey economy, may be more robust than the official figures suggest.

The cement industry was privatised in the first half of the 1990s and is dominated by a German-Belgian group, Heidelberger/CBR; the Lafarge Group of France; the Dyckerhoff and Miebach companies (both German); and Rugby and Readymix of the UK.

Financial Services: The financial services sector in general is well regulated. The banking sector is mostly in private hands and survived the economic downturn in 2008-2009, although currency depreciation and inter-bank money market standstill brought sector breakdown. In 2009, most toxic derivatives have been either settled or expired, and the system enjoyed higher liquidity. Overall, the financial services sector has so far escaped the crises that severely hit some other post-communist economies.

2009 was difficult for the entire financial services industry in Poland. Banks operating in Poland recorded total revenues of PLN50 billion and profits of almost PLN9 billion (compared to PLN13 billion in 2007). Q1-12 banking income reached PLN14.86 billion. Some banks (AIG, GMAC) made changes in ownership, while others (Noble, Getin and Fortis) implemented consolidation to cut costs. In 2010, Irish AIB sold its profitable Polish subsidiary, BZ WBK, to Santander Bank. The latter is planning to acquire Kredyt Bank.

Banking groups from Germany, France, Italy, the Netherlands and the U.S. have a strong presence in Poland. For many Western institutions, the route into Polish banking was through buying stakes in the state-owned regional banking network. Subsequent consolidation in the west European banking market has led to a wave of mergers of their Polish subsidiaries.

Traditional Industries

Steel Production: Output of crude steel fell sharply from 20 million tons in the late 1980s to just 9.7 million tons in 2008 (7.2 in 2009), but the amount had been systematically rising against up to 8.76 million tons in 2011. Some restructuring took place in the 1990s, with a few smaller plants closed on environmental grounds; one major

steelworks, Huta Warszawa, sold to an Italian concern, Lucchini (Huta Warszawa was acquired by Luxembourg's Arcelor in mid-2005).

Steel production is concentrated in the south of the country, with 60% of output coming from two plants: Huta Katowice and Huta Sedzimira, which have been consolidated into a single company, Polskie Huty Stali (PHS). PHS was finally privatised in late 2003. It was sold to the UK-based LNM (now ArcelorMittal Steel). ArcelorMittal Steel, with operations in Romania and the Czech Republic as well as in Poland, has become the major force in central European steel production. In 2010, Alceror acquired Cognor. According to World Steel, the steel production in 2012 was 8.3 million tons.

Mining and Semi-processing: Although Poland remains one of the world's significant coal producers, mining and quarrying output has been falling relatively to total industrial production. Poland's deep-coal mining industry has been under pressure throughout the transition period as demand has fallen. At the same time, the strength of the trade unions in the sector has kept labour costs high, despite the sector's parlous financial state. A restructuring plan backed by the World Bank has led to a sharp fall in employment in the industry. The industry gained a temporary respite in 2004 as world coal and coke prices rose sharply, but a return to more normal market conditions re-emphasised the need for further restructuring.

Today Polish coal mines are important players in the world coal industry. Kompania Węglowa is the second European coal producer (2011 revenue: PLN12,670 billion—a record high). Jastrzębska Spółka Węglowa, which is the first state owned mine listed on the Warsaw Stock Exchange since July 2011, closed 2011 with PLN9.917 billion revenues while Katowicki Holding Węglowy has revenues amounting to PLN4.2 billion.

According to industry experts, the Polish coal mine sector may merge to form a national coal holding able to compete on global markets. The mining market is expected to reach a value of US$4.37 billion by 2014, as compared with US$12.32 billion in 2009. In the long run, Poland is expected to reduce its dependency on coal to the EU CO2 emission limit by cutting current level by 20%.

Apart from coal, Poland also produces significant quantities of copper and silver, which are mined by one enterprise, KGHM Polska Miedz. In 2010, KGHM launched its new strategy which considers adoption of new technologies and mining companies' acquisitions. KGHM now undertakes numerous acquisition projects in Europe and Canada. In 2011, KGHM successfully finalised acquisition of Quadra. The company announced net profit of PLN11334.52 million in 2011 vs. PLN4568.6 million profits a year earlier.

7. Industrial Parks

The pro-development model is increasingly being implemented in Poland, with the setting up of industrial and technology parks, which support research and development facilities that are offered to both Polish and foreign businesses.

Though there are several common factors in the industrial and technology parks (missions, goals, forms of operating, organisation), it is a diversified segment. Each of the parks has its own individual identity, stemming from regional, social, cultural and economic factors, together with the facilities, materials and human resources

available. There is no universal model for the parks, or organisational form for businesses, guaranteeing success. However, considering ownership, the parks can be divided as:

- 100% owned and managed by city
- 100% owned by the city and managed via daughter company
- Private ownership—managed as a limited liability company
- Owned by regional authority

Specific initiatives reflect the differing local environments of science and business, the economic character and industrial traditions, together with cultural factors.

The Poznań Science & Technology Park—established in May 1995—is recognised as the first Polish technology park.

Entrepreneurs that use new technology are offered services in the form of:

- Consultancy in the formation and development of an enterprise
- Transfer of technology
- Transfer of results from scientific research and development work into technological innovation
- Creating favourable conditions for businesses

An industrial and technology park is by contrast a cluster of separate buildings formed with the assistance of local authorities and is aimed at providing preferential conditions for businesses, in particular for small and medium sized firms. The goals for industrial and technology parks are:

- Providing offers of workspace for commercially viable companies that use new technology
- Attracting investors
- Creating jobs

8. Tax System

Basic Legislation

The Polish Government promulgates Taxation Acts, which set the rules for imposing taxes, their rates and duties, as well as taxpayer's responsibilities. The Minister of Finance may be authorised by an Act to decree regulations. All legislation is published in official publications (i.e., the Journal of Laws and the Official Journal of the Republic of Poland). The Tax Ordinance is the most general tax legislation, which defines general taxation rules, tax liabilities of third parties, tax information, tax proceedings, structure of the tax administration, and fiscal confidentiality.

Other relevant legislation includes the Corporate Income Tax Act, Personal Income Tax Act, Value Added Tax Act, Civil Law Activities Tax Act (for capital duties and transfer tax), Local Taxes Act (i.e., real estate tax). Parliament passes tax legislation with a simple majority of votes.

Tax Authorities

Taxes in Poland are administered by:

- Tax office: Units supervising the collection of taxes in their territories. They also issue individual administrative decisions in tax cases
- Fiscal audit offices: Offices that carry out tax and procedural audits of fiscal accounting
- Tax chamber: Supervise the tax offices and review administrative decisions of tax offices and fiscal audit offices
- Minister of Finance: Responsible for Polish budgetary policy and supervision of the entire taxation system

  Taxpayers may appeal to the Tax Chamber against the decisions of the local Tax office or Fiscal Audit office. An appeal against a decision of the Tax Chamber may be directed to the Regional Administrative Court. Taxpayers are also entitled to resort to the Supreme Administrative Court to review decisions of the Regional Administrative Courts.

Principal Taxes

The main taxes in Poland are corporate income tax, personal income tax, tax on civil law transactions, VAT, stamp duty, real estate tax, and excise duties. There is no excess profits tax or alternative minimum tax. In general, foreign companies and individuals pay the same taxes as Polish legal entities and individuals (except where a tax treaty provides otherwise).

Double Taxation Relief

Unilateral Relief

Foreign tax paid on foreign-source income may be credited against Polish tax on the same profits, but the credit is limited to the amount of Polish tax payable on foreign income. Credit for underlying tax related to dividends—received by a Polish resident from an entity resident in a non-EU member state and with which Poland has concluded a tax treaty—may be granted, provided the Polish company holds at least 75% of the payer for at least two years before distribution of dividends.

Tax Treaties

Poland has a broad tax treaty network, with many treaties reducing the withholding tax rates that apply to dividend, interest and royalty payments by Polish companies to non-residents. If the EC Parent-Subsidiary Directive applies, no tax is withheld on dividends payments. Under transition rules in the EC Interest and Royalties Directive, Poland is permitted to impose a 5% rate on interest and royalties until 1 July 2013. The full exemption will apply after that date.

Taxes on Companies

Main taxes applicable to companies	
Corporate income tax	19%
Dividends	19%
Interest	20%
Royalties	20%
Value added tax	23%
Capital duty	0.5%
Tax on civil law transactions	0.5-2%

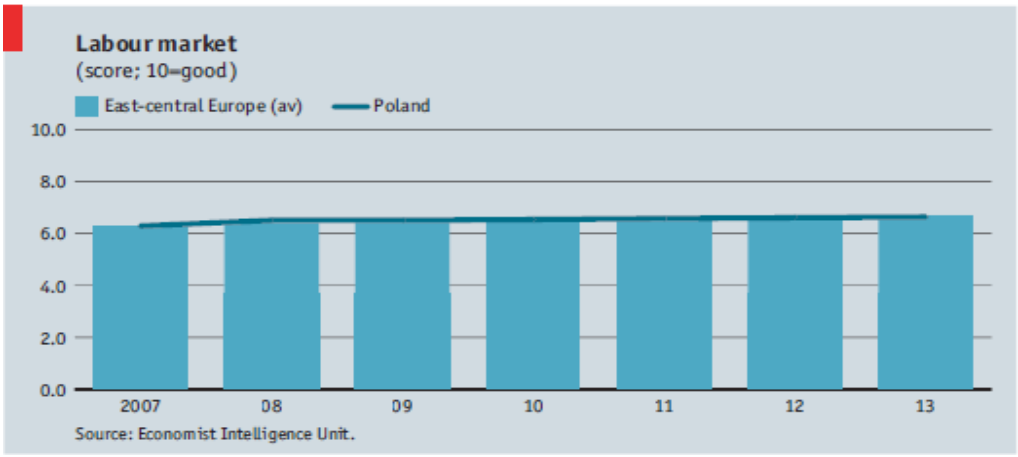
Personal Income Tax (PIT) on Foreign Individuals

Main PIT compliance requirements to be applicable to foreign individuals in Poland	
Tax free amount	PLN 3,091 for 2012
PIT progressive rates (applicable e.g., on employment income or income on dependent services)	18% and 32% for excess over PLN85.528
PIT flat rate (applicable to board members who are Polish tax non-residents and who have fulfilled certain requirements)	20%
PIT flat rate (applicable e.g., on interest, capital gains)	19%
Monthly tax compliance	PIT advances for a given month to be paid by the 20th day of the following month
Annual tax compliance	Annual tax return for a given year to be submitted by 30 April of the year following the given year (with some exceptions)
Competence of the tax authorities	Both the registration form as well as payment of PIT liabilities and submission of the annual PIT return should be made to the tax office that is competent for Polish tax non-residents in the region where a foreign individual stays or alternatively to the Third Warszawa-Śródmieście Tax Office if the work is rendered in the area of more than one region.

9. Labour Environment

Poland's unemployment rate remained high in 2011, as the global economic slowdown prompted companies to cut costs and delay expansion plans. The Central Statistical Office (Glowny Urzad Statystyczny GUS) reported that the unemployment rate increased to 12.5% in December 2011, up from 12.4% at the end of 2010; the number of people without jobs stood at 1.98 million.

Poland boasts a skilled and educated workforce. There are around 1.9 million university-level students in the country, a five-fold jump since the early 1990s. The yearly output of university graduates in Poland is higher than in the UK; consequently, finding local managers is becoming less difficult. The fact that many young people seek better-paying jobs in Western countries since Poland's entry into the European Union has become a cause for concern in some industries. After 2004, when most EU states opened their labour markets for the citizens of the former communist countries that joined the bloc, as many as 2 million Polish workers migrated to West, according to Poland's Ministry of Labour.



Wages and Fringe Benefits

The minimum remuneration for work for full-time employees is regulated by law in Poland. There is only one minimum wage across all sectors, regions and occupations. The government set the gross minimum monthly wage at Zl 1,500 in 2012, up by 8.2% from Zl1,386 in 2011. The average monthly wage in the corporate sector was Zl3,666 in January 2012, up by 8.1% year-on-year, according to the Central Statistical Office. Wages in the private sector are generally far higher than in the public sector. Poles in managerial positions earn salaries comparable to those for expatriate personnel.

Regular Working Hours

The standard average working time cannot be longer than 8 hours per day and 40 hours a week. If it happens that these limits are exceeded, the employee shall be entitled to extra remuneration for overtime. Overtime may not exceed 150 hours per calendar year per worker. Work on Sundays is permitted in certain sectors such as retail. The legal overtime rate is a 100% premium for work at night, on Sundays and on statutory holidays, and a 50% premium for overtime work on any other days.

10. Education and Talent

As the Polish education system was geared to the needs of a centrally planned economy (and, in particular, to heavy industry) it was unable to provide much training in areas such as finance and information technology (IT) that are important to an emerging market economy. As with other public services, the education sector suffered from a sharp fall in pay and status relative to other parts of the economy in the 1990s, although teachers' pay has been improved more recently.

Since 1989, the Polish system of higher education has done much to catch up and broaden its curriculum. The state sector's activities have been complemented by a thriving private sector, as both sectors expanded to meet a rapid increase in demand. The participation rate in higher education has also increased sharply.

There are currently 19 fully accredited traditional universities in Poland, 23 technical universities, 9 medical universities and 5 universities for the study of economics. In addition to these institutions, there are 7 agricultural academies, 18 pedagogical universities, 14 theological academies and 2 maritime service universities. Amongst these are the 8 higher state academies of music. All of these public academic institutions are supplemented by a number of private educational institutions. Altogether there are almost 500 higher education entities, which is one of the top rates in Europe. The OECD's International Student Assessment Programme ranks Poland's educational system as the 23rd in the world, which is close to the OECD average.

Romania
Investment Opportunity

1. Overview of the Economy

Romania entered the 1990s a relatively poor country, even by Balkan standards, largely a result of the failed Ceausescu economic policies of the 1970s. However, the collapse of the Ceauşescu regime in 1989 and Romania's accession to the European Union led to an improved economic outlook.

In 2007, when Romania joined the European Union (EU), it became the second-largest market in Central Europe and the seventh-largest in the EU. With a population of 19 million, it is an emerging economy with one of the highest growth potentials in the region. Romania's adoption of a controversial flat-rate income tax of 16 percent in 2005 has been vital in driving both economic growth and foreign investment. In 2001-2007, economic growth averaged an annual 7%, placing the country among the fastest-growing economies in Europe.

Romania was one of the last EU economies to enter recession. It was also one of the last EU economies to come out of the recession and make a sustained recovery. According to Economic Intelligent Unit, recovery from recession in 2009 and 2010—when real GDP fell by 6.8%and 0.9% (on revised Eurostat data), respectively—has been modest. Real GDP grew by 0.7% in 2012 and expected to grow by 2.6% in 2013.

Political System

Romania's political system is a parliamentary democracy. The Romanian Parliament exercises the legislative powers while the executive powers rest with the government. The president of the republic, who is elected for a five-year term (while the Parliament is elected for a mandate of four years), guards the observance of the Constitution and acts as a mediator between different powers in the state (legislative, executive and judiciary) as well as between the state and society.

The Parliament includes the Chamber of Deputies and the Senate, elected through direct suffrage. The election law establishes the number of deputies and senators. The Parliament passes constitutional laws (which concern the revision of the Constitution), organic laws (endorsed by majority suffrage of each chamber) and ordinary laws. According to article 74 of the Constitution, the Education Act is an organic law.

The national government consists of a Cabinet, headed by the prime minister, who is nominated by the president.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wage
3.3%	7,900	0.7%	67.8	76.5	5.6%	EUR 160

Source: Economic Intelligence Unit

Food and Energy Security

Food Security

Placed 30th in the Global Food Security Index 2013, which encompassed 105 countries, the country's ranking reveals the efforts taken towards food programmes. According to the Index, Romania's strengths are:

- Access to financing for farmers
- Food Safety
- Less proportion of population under global poverty line
- Sufficiency of supply
- Agriculture imports tariffs
- Presence of food safety programs

According to the European Commission report, Romania has five competent authorities to ensure control systems in food safety, animal health, animal welfare and plant health:

- The National Sanitary Veterinary and Food Safety Authority (NSVFSA)
- The Ministry of Health (MH)
- The National Authority for Consumer Protection (NACP)
- The Ministry of Agriculture and Rural Development (MARD)
- The Ministry of Environment and Climate Change

NVFSA is responsible for the State Veterinary Network at the central, county and local level. The National Phytosanitary Agency (NPA), a part of MARD, is the authority responsible for plant health. NPA coordinates monitoring programmes for pesticide residues in foods of plant origin.

Energy Security

Romania's Governance Programme for 2009-2012 established the strategic objective of "Ensuring the country's energy security by means of an efficient system for primary resource procurement, generation, transport, distribution and supply apt to continuously provide energy to all consumers in conditions of accessibility, availability and price affordability, while paying heed to environment concerns".

Actions are directed towards modernising transport and distribution systems; developing interconnections; diversifying importation sources and transport routes for hydrocarbons; encouraging the growth of natural gas storage capacities and extraction capacities from storage facilities; drawing up a long-term programme for the importation of energy raw materials, including liquefied natural gas; securing strategic domestic stocks; promoting regional cooperation with a view to establishing articulate procedures in overcoming energy crisis situations.

The Ministry of Foreign Affairs is directly involved in supporting and promoting energy security objectives by actions such as:

- Monitoring and promoting the array of issues related to energy security

- Supporting the fulfilment of national energy objectives, in direct cooperation with other institutions and governmental structures with powers in the field
- Promoting the concept of energy diplomacy by facilitating, supporting and identifying new opportunities at external level
- Supporting the European Union's objectives and projects related to energy security, to ensure European energy security and develop a stable economic environment, with stress on reducing the effects of climate change
- Promoting the European Energy Strategy concerning energy supply security, growth of internal market competitively and support for sustainable energy as a basis for sustainable economic development
- Following up on the enforcement of decisions of the Prague Summit Declaration, regarding the South Corridor
- Getting involved in the implementation of energy projects important to Central and South-Eastern Europe —the Nabucco gas pipeline and the Pan-European Oil Pipeline (PEOP)—and supporting supplementary proposals such as the Azerbaijan-Georgia-Romania liquefied natural gas transport project (AGRI) and interconnecting the national natural gas transport system with those of neighbouring states

Major projects promoted by Romania:

- Nabucco (proposed natural gas pipeline)
- PEOP (proposed oil pipeline)
- AGRI Project (Azerbaijan-Georgia-Romania Interconnector)
- Interconnecting the national natural gas transport system with those of neighbouring states

3. Infrastructure

The transportation infrastructure in Romania is the property of the state and is administered by the Ministry of Transports, except when operated as a concession, in which case the concessions are made by the Ministry of Interior.

Road Transport

Romania's total road network is estimated to be 198,930 km long with 312 km of highways, 15,680 km of national roads, 34,668 km of county roads, 27,781 km of local roads, and 119,988 km of streets (inside and outside cities), according to the Romanian National Company of Motorways and National Roads.

Having the least developed motorways among all EU member states, the government's priority is to construct 800 km of motorways by 2014.

Rail Transport

Rail network, the chief means of internal transport for passengers and freight, covers 14,217 km. Romania has the fourth-largest railway network in Europe, but only 35% of the system is electrified. Following years of falling volumes, the number of passengers seems to have stabilised at around 500,000 per day.

Annual cargo traffic volumes are about 70 m tonnes, mainly of coal, oil products, common metals, cement, quarry products, chemicals and agricultural items. Caile Ferate Romane (CFR) is the official state railway carrier of Romania. CFR is divided into four separate companies: CFR Calatori is responsible for passenger services; CFR Marfa looks into freight transport, currently in the middle of the privatisation process; CFR Infrastructura manages infrastructure on the Romanian railway network; and Societatea Feroviara de Turism, or SFT, manages scenic and tourist railways.

In 2011 and 2012, Romania launched the most massive railway infrastructure investments in the post-revolution period. EUR3 billion was the estimated value of the projects currently in different tender stages.

Air Transport

Romania's 17 regional airports were built between 1921 and 1972 and upgraded between 1962 and 1980. After 1990, to comply with European standards, the Ministry of Transports and Infrastructure initiated a programme for upgrading and extending the existing infrastructure, financed both from EU structural funds and domestic funds.

In November 2010, Schengen Area evaluation committee experts visited International Airport Henri Coanda in Otopeni, near the capital Bucharest, to assess the country's progress regarding air space.

In 2007, Romania signed an "open sky" agreement, which allows any airline operator from the EU to set up business in Romania. As a result, Tarom, the country's official carrier, is facing growing competition from low-cost airlines. The low cost airlines operating in Romania are Wizz Air, Blue Air, Air Lingus, Air Berlin, Condor, FlyDubai, Germanwings, Vueling, Wind Jet and Flyniki.

Water Transport

The Port of Constanta, the main port, is located on the western coast of the Black Sea at the intersection of trade routes connecting the developed countries of Western and Central Europe. Mangalia and Midia are the two other commercial maritime ports along the Black Sea shore. All ports are directly connected with the Danube-Black Sea channel, which ensures the connectivity between the Black Sea and the Danube.

In Romania, the River Danube has a length of 1,075 km, approximately 44% of its whole navigable length. The Romanian Danube is divided into two structurally different sectors: the River Danube and the Maritime Danube. Several ports situated along the Maritime Danube, namely, Galati, Braila, Tulcea, and Sulina allow the access of both river and maritime vessels, so they serve as international sea trade routes.

Ports are administered by national companies under the authority of the Ministry of Transports and Infrastructure. However, a few ports like Sulina, Turnu Magurele and Zimnicea are administrated by local authorities.

The inland waterway network has a length of 1,700 km and comprises:

- The Danube from Bazias to Sulina
- Secondary navigable branches of the Danube

- Navigable channels

Telecommunications

Romania is one of the fastest-growing IT markets in Eastern Europe. The country has made significant progress in all of the information and communications technology (ICT) subsectors, including basic telephony, mobile telephony, Internet and IT.

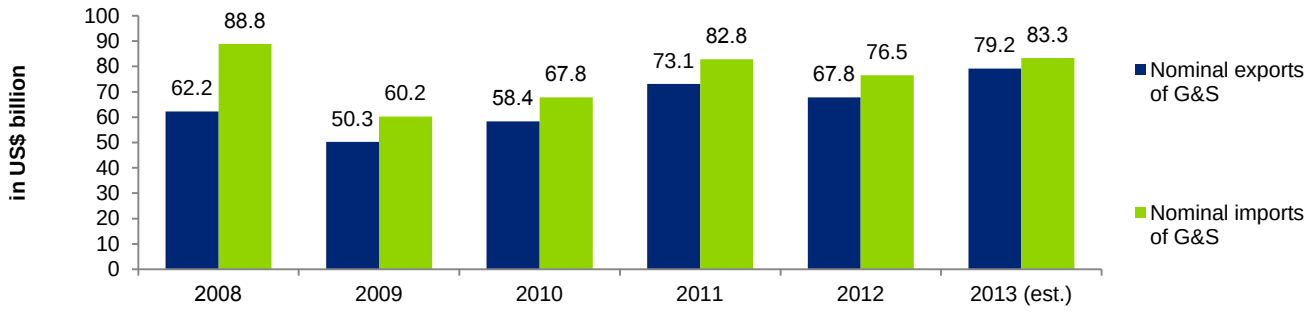
Fixed lines numbered 4.69 million at the end of 2011, representing a penetration rate of 24.6 per 100 people, according to data from the National Communication Authority (ANC). This compares with 25.2 per 100 people in Poland and 17.2 per 100 people in the Czech Republic. Telephone density varies considerably from county to county, ranging from around 50% in the Capital Bucharest to about 10% in Dambovita County.

Strong demand has led to extremely impressive growth in mobile telephony over the past five years. Mobile penetration surpassed fixed-line penetration in 2001, and by the end of 2011, the number of active mobile subscribers reached 23.4 million, representing a penetration rate of around 123%.

In 2011, revenues from mobile telephony services dropped by 16.4%. With 10.3 million customers in Romania, Orange remains the largest network, followed by Vodafone with 8.3 million subscribers. The third position in the mobile telephony market in Romania is held by Cosmote, which ended last year with 6.5 million customers.

Romania's competitive mobile market is served by mobile network operators utilising a mixture of 2G and 3G technologies while investment is continuing to upgrade networks with LTE and HSPA+ frequencies. The concessions for the use of these frequencies will provide some diversity for operators to extend networks in both rural and urban environments.

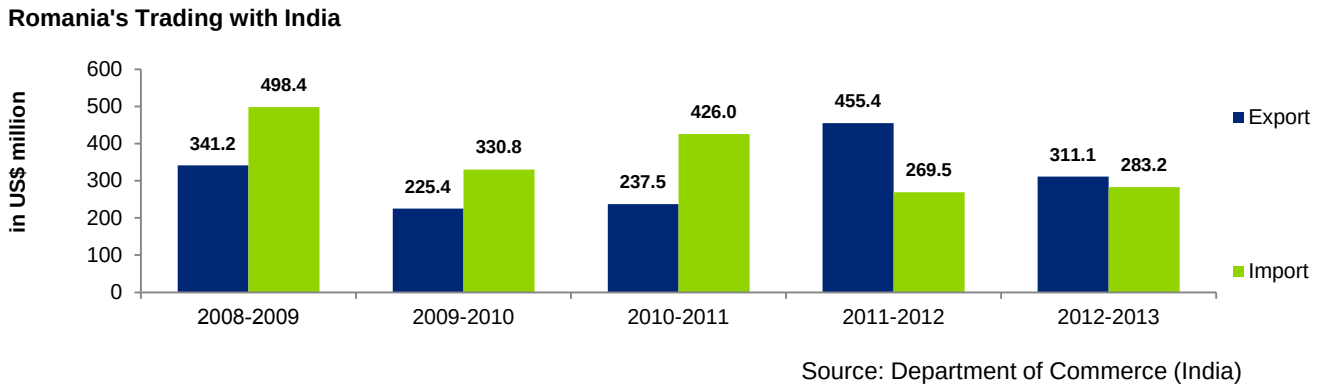
4. Foreign Trade



Source: Economic Intelligence Unit

In 2012, the value of Romanian nominal exports of goods and services (G&S) decreased by 7.3% to reach US$67.8 billion, and the value of nominal imports of G&S decreased by 7.6% to reach US$76.5 billion. There was a downturn in trade in 2009 but it is improving year on year. In 2013, both export and imports are expected to grow by 16.8% and 8.9% respectively.

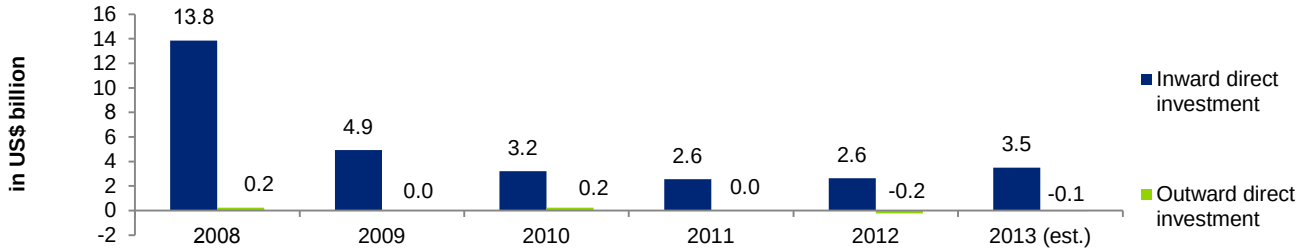
Romania-India Trade



Source: Department of Commerce (India)

Economic cooperation between Romania and India go back to 1948 when diplomatic relations were established between the two countries. Since then, both the countries have at least 22 bilateral agreements between them. The main items of export from Romania to India are common metals, sound and image displayers & recorders, chemical and connected industrial products, plastic, rubber materials, textiles, vegetal products, transport vehicles and mineral products. Romania's imports from India include electric machines, devices & equipment, common metals, chemical and allied industries products, plastic and rubber materials, textiles, food products, beverages and tobacco, vegetal products, wood paste, paper and cardboard and its scrap, articles made of stone, cement, ceramics, glass and optical photographic, cinematographic, medical instruments and devices.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

Since 2008, the volume of Foreign Inward Direct investment remains far below compared to the pre-crisis period (economic recession). In 2012, Inward direct investment increased by 2.8% to US$2.63 billion.

Investment Incentives

A broad range of (both tax and non-tax) investment incentives is available to local and foreign investors. Tax incentives include tax exemption for reinvested profit, special incentives for expenses related to R&D, dividend tax exemption for reinvestments, reduced VAT rate of 5% for the sale of buildings and local tax exemptions for businesses located in industrial parks or scientific and technological parks.

Starting 1 January 2013, the VAT cash system became effective, under which chargeability of tax occurs on full or partial cashing of delivery of goods or rendering of services. The system is applicable to taxpayers who obtained in the last calendar year a turnover up to EUR500,000. VAT cash system applies only to transactions where the place of delivery or the place of supply is deemed to be in Romania.

In addition, there are employment incentives for special categories, as well as state aid schemes for large investments. A private investor in Romania may benefit from business aid from EU funds (structural and cohesion); incentives often take the form of development grants.

Romania has six Free Trade Zones (FTZs), all located in ports with one exception, the newly established Arad-Curtici FTZ. Because of its location, the latter could become one of the most attractive for investors. General provisions include unrestricted entry and re-export of goods and an exemption from customs duties and VAT. The law also permits leasing or transfer of buildings or lands for terms of up to 50 years to corporations or natural persons, regardless of nationality. Foreign-owned firms have the same investment opportunities as Romanian entities in FTZs. Since 1 January 2007, the European Community Customs Code applies to Romania's FTZs.

Indian Investments in Romania

Many major Indian companies like the Tata Group, Ranbaxy, Wipro, Genpact, and Gujarat Heavy Chemicals are already present in Romania.

- Tata Motors has a collaboration with Isotlar Group for distribution of Tata Motors' cars
- Ranbaxy acquired Terapia in 2006 and became the largest independent generic company in Romania
- Wipro opened a BPO unit in Romania in 2006
- Genpact started an operation centre in 2005 and the second one in 2008
- Gujarat Heavy Chemicals acquired 65% of Romania's SC Bega Upsom SA in 2005
- Sidex Galaţi was privatised in 2001 and bought by ArcelorMittal. Other facilities purchased by the steel producer are former Siderurgica Hunedoara, pipe producers in Roman and Iași (Petrotub Roman and Tepro Iași), port operator Romportmet Galați, and the local branch of the construction company ArcelorMittal Construction
- Evalueserve set up a research centre in 2008

6. Key Industries

Agriculture: Romania's accession to the EU in 2007 ushered a new era in the local agricultural economy and rural development. The accession represented the most important pressure factor for fast reform in the industry. Unfortunately, the rural environment, dominated by agriculture, is still poorly integrated into the market economy.

National Institute of Statistics announced that the domestic production of cereals increased by 24.3% from 16.71 million tons in 2010 to 20.78 million tons in 2011.

Romania ranked 5th in the European Union for wheat production and 2nd for corn production.

Out of the 23.8 million ha representing the country's territory, agriculture surface amounts to 61.7%. Thus, Romania ranks 7th in Europe in agriculture area (after France, Spain, Germany, Poland, the UK and Italy) and 5th in tillable area (after France, Spain, Germany and Poland).

Romania's agriculture sector is considered to be the most important beneficiary of EU funding. Bureaucracy and poor access to information have been attributed for the low absorption rate of 7.5 billion euro allocated during 2007-2013 under the Common Agricultural Policy.

Manufacturing: The strategy of heavy industrialisation during the communist era left Romania with a concentration of relatively obsolete plants in the metallurgical, heavy engineering and chemical industries.

Production of sophisticated consumer goods and machine tools was neglected and engineering products failed to meet the quality standards of the world market.

In the 2006-2009 timeframe, the most significant growth rates were seen in the following domains: electric equipment manufacturing, plastic and rubber masses productions, manufacturing of road transport vehicles, metal construction and other metal products (except automobiles, machinery and installations), and wood processing (except furniture).

The Eurozone crisis—coupled with the current political and economic circumstances of Romania especially lack of EU fund absorption that could have been a positive direct as well as indirect contributor to GDP growth—is having a toll on several companies in which investments are either cut or postponed. Moreover, in several cases, new investments are mainly aimed at replacing outdated facilities rather than expanding production capacity. However, exchange rate deterioration is another area of concern for businesses.

Automotive: The automotive industry has attracted the attention of many foreign investors, as one of the most profitable segments of the local industry. In 2011, Romania was the 12th largest producer of cars in Europe. According to statistics of the International Organisation of Motor Vehicle Manufacturers, out of a total of 21 countries in Europe where cars are assembled, Romania alone produced a volume of over 310,000 units.

Around 120,000 people are directly employed in the automotive industry while significant others work for tier-two or tier-three suppliers.

The local market has a wide network of suppliers and components manufacturers, consisting of traditional local suppliers and foreign-owned companies, with the latter producing mainly for export.

The auto market scenario in 2011 decreased by 7.4% compared to 2010. Even though the economic environment was unfavourable, the state programme to stimulate the renewal of the national car park had a positive impact on sales. Approximately 39,000 new cars were sold through this programme, which represent 41% of all sales.

The advantage of setting up manufacturing units in Romania is that the companies benefit from low labour costs and highly skilled and specialised workforce. Another key factor is the country's proximity to main European markets. In 2012, the vehicle production decreased further by 20%.

Pharmaceuticals: In 2012, the Romanian market for pharmaceuticals was estimated at US$3.908 million, . The market is expected to expand at a CAGR of 3% in Romania over the next few years, reaching US$4,583 million by 2017.

The growth rate of the pharmaceutical market may be affected by slow economic recovery. While the large population creates a demand for pharmaceuticals, the low GDP per capita means that patients are unlikely to be able to afford the most expensive drugs and will settle for cheaper alternatives. The prices of both locally produced drugs and imported drugs are controlled by the Ministry of Health, except for OTCs and food supplements. There has been free pricing for OTCs since 2002. Manufacturers should notify the Ministry of Health about the prices of their OTC products on a quarterly basis.

An imported product can only be marketed in Romania once the Ministry of Health has agreed on its price. The authority establishes how much the product costs in other countries, and then matches the lowest price. Importers may make an 8.5% margin, compared with 7.5% for wholesalers, to cover import procedure costs. Pharmacy margins range from 12% to 24%, depending on the wholesale value of the medicine (lower pharmacy margins are applied to expensive products). VAT of 9% is applicable to all medicines. The prices for domestic and foreign drugs are usually revised annually.

According to the statistics office, the FOB exports of pharmaceutical products reached US$1.2 billion in 2012 (up by 23.8% y/y), while CIF imports value reached US$3.4 billion (up by 7.5% y/y).

Real Estate and Constructions: Romania was the largest market for new commercial property investments in SEE (South East Europe)—amounting US$425 million in 2011, which was 32% more than in 2010, according to a Cushman & Wakefield report.

Still, the local real estate market remains sensitive, considering the macroeconomic situation and the scarcity of financing sources. However, some segments seem to recover more rapidly than others. While industrial and retail show clear signs of improvement, the office market remains stable, slightly surpassing 1.84 million sq. m at the end of 2011.

As for the residential market, the forecasts are cautious, as the “wait and see” approach is still on for both buyers and sellers. However, the existent supply in Bucharest continues to be excessive in terms of volume and prices. The gap between developers’ expectations and end users’ actual purchasing power continues to be wide, despite significant drops in prices.

To encourage the local real estate segment, the Romanian Government reduced VAT to 5% for properties under RON 380,000 and in 2009 developed a special scheme for First Time Buyers (Prima Casa). Starting 2013, this programme became focused on newly built properties only, thus encouraging the purchases of new projects.
In 2011, constructions weighted for 10% of Romanian GDP, mainly due to public investments, as private projects registered a dramatic decrease within the last years.

The expansion of retail chains and addition of shopping centres has impacted the non-residential segment of the construction market. The new retail pipeline for 2012 was similar to 2011, when the supply added was comparable to peak years 2007 and 2009, according to market estimates.

On the other hand, residential constructions remain overall frozen and the situation is unlikely to change in the short run. The price for new dwellings is high in relation to the purchasing power of the populace who will focus on renovating old houses or constructing a new one on their own.

The scarce financing in both public and private sector remains the main downward driver for the sector. Prospects for the future, thus, depend on the government's ability to resume infrastructure works and make due payments to constructors, as well as resume bank financing of EU-funded infrastructure projects.

Financial Services: Throughout the 1990s, state banks continued to grant soft credits to loss-making industries, and the financial sector was rocked by a succession of scandals that affected the savings of large numbers of the population.

Privatisation and restructuring of the banking sector started late; in 1998, with the sale of the state's holding in the Romanian Development Bank (BRD) to Société Générale (France), the latter increased its holding further in November 2004.

In a setback to the further reform of the sector, the government announced in December 2006 that it had cancelled plans to sell a 69.9% stake in the State Savings Bank (CEC), as the only bid received was lower than expected.

The banking sector's assets stood at €83 billion, their weight against the Gross Domestic Product (GDP) amounting to 62%. The structure of the Romanian banking sector at the end of 2012 included two banks with fully or majority state-owned capital, three banking institutions with majority domestic private capital, twenty-six banks with majority foreign capital, eight branches of foreign banks and one credit cooperative.

The weight of the assets belonging to banking institutions with foreign capital against total assets of the Romanian banking sector advanced from 83% in December 2011 to 89.8% in December 2012. As regards the origin of the shareholders function of assets, the banks with Austrian capital hold a market share of 37.7%, followed by the banks with French capital with 13.6% and those with Greek capital with 12.2%.

7. Industrial Parks

Industrial parks in Romania have been promoted since July 2002, with the objective to stimulate economic and social development, perform transfer of technology, and induce investment inflows.

Industrial park license may be granted only to companies acting solely in the industrial parks field called the managing companies ("Administrator-Company").

None of the business entity associates that use the utilities and/or infrastructure of the industrial park may hold control, directly or indirectly, over the Administrator-Company. The exploitation of industrial parks may be performed by Romanian legal entities and branches or representative offices of foreign legal entities, based on commercial agreements concluded with the Administrator-Company.

The following benefits are granted for establishing and developing an industrial park:

- Exemption from the payment of fees charged for changing the purpose or for withdrawing the land related to the industrial park from the agricultural circuit, for the partnership holding the title of industrial park.

- The local authorities may grant tax deductions, pursuant to decisions of the local or county councils, for the real estate properties and lands transferred to the industrial park for usage purposes, as well as other facilities, in accordance with the law.
- According to article 257 (1) in the Fiscal Code, no tax is levied on the land inside an industrial park, and pursuant to article 250 paragraph 9 in the Fiscal Code, there is no tax levied on the buildings or facilities inside industrial parks either.
- The initiative was in line with other incentives, mostly fiscal, which Romania has sought to provide to small and medium sized enterprises or to certain types of economic activity in areas identified as disadvantaged or in free trade zones.

In June 2012, Romania housed 58 industrial parks, according to the Ministry of Administration and Interior. More and more companies show interest in such parks because of the variety of fiscal facilities.

8. Tax System

Corporate Taxation

Resident entities are subject to tax on worldwide income. Non-resident companies are taxed only on their earnings in Romania (through branches, permanent establishments or associations, which do not create a new legal entity).

Corporate tax is chargeable at a flat rate of 16% on accounting profits determined according to the Romanian Accounting Standards, adjusted for certain items under tax legislation. Thus, the taxable profit of a Romanian legal entity is calculated as the difference between the income derived from any source and the expenses incurred in obtaining the taxable income throughout the fiscal year, deducting non-taxable income and adding non-deductible expenses.

The non-taxable income expressly includes:

- Dividends received by a Romanian legal entity from another Romanian legal entity or from a European Union member state provided that several criteria are met
- Revenues from reversal or cancellation of provisions / expenses that were previously non-deductible and recovery of expenses that were previously non-deductible
- Non-taxable income expressly provided in agreements and memoranda approved by law
- Income from cancellation of reserves registered as a result of participation in kind to the capital of other legal entities

Capital Gains Tax

There is no separate capital gains tax payable in Romania by companies. Companies record capital gains in the profit and loss account, on which normal profits tax is payable. Foreign companies that sell their interest in Romanian companies may be taxable on any capital gain made. Capital gains obtained by non-residents from the sale of real estate located in Romania or from the sale of shares held in Romanian legal entities are subject to corporate income tax (i.e., 16%).

Tax Treaties

Romania has signed over 82 double tax treaties. Different rates of withholding tax can apply to interest, dividends and royalties, depending on the terms of the treaty with the particular country. The tax treaty provisions are applicable if a certificate of fiscal residence is made available by the beneficiary of the income to the payer by the income payment date.

9. Labour Environment

At the end of 2011, 9.9 million people constituted the economically active population. After a continuous rise during 2005-2008, employment began to decrease in 2009 and reached its lowest value (9.2 million persons) in 2011. Compared to 2010, the y-o-y employment breakdown activity of the national economy shows a slight reduction in agriculture (- 0.6%), industry and construction employees (- 0.6%), and an increase in the number of employees in the Services sector (+ 2.2%).

The ILO unemployment rate, calculated as the share of unemployed people out of the registered economically active population at the national level, was 7.4% in 2011.

Legal Framework: The Romanian employment legal framework is governed by the Labour Code that has laws on labour conflicts, employment and transfer of foreigners in Romania, etc. Also there are collective bargaining agreements concluded at the level of industry, group of employers and employer which are applicable in employment relation.

Regular Working Hours: According to the legal provisions in force, the normal duration of full-time employees' work time is 8 hours per day or 40 hours per week (5 working days). The maximum legal duration of the work time cannot exceed 48 hours per week, including extra hours.

Salaries and Benefits: Starting with 1 January 2012, the national monthly minimum gross base salary guaranteed to be paid, for a full-time working schedule (an average of 169.333 hours per month), is at RON700 (around EUR150). All employees are guaranteed their right to a paid annual rest leave. The minimum duration of the annual paid rest leave is, according to Labour Code, 20 working days.

10. Education and Talent

Romania had the largest non-urban population in the EU in 2011. The rural/urban divide results in wide disparities in educational achievement. Only 16% of the total workforce has had further education, the lowest percentage in the EU. However, the educated workforce has strong linguistic and technical skills.

The general legal framework to organise, administrate and provide education in Romania is established through the Constitution, the Education Law (Law 1/2011, republished, subsequently amended and completed)—organic law (endorsed by the majority suffrage of each chamber), ordinary laws and governmental ordinances. Specific

procedures and regulations are established through Government Decisions and Orders of the Minister of National Education.

Implementation of the legislation and general administration and management of the education and training system is ensured at the national level by the Ministry of National Education. In exercising its specific attributions, the ministry cooperates at the central level with other ministries and institutional structures subordinated to the government.

Universities and other higher education institutions are autonomous and are guaranteed by law the right to establish and implement their own development policies, within the general provisions of the in-force legislation. The Ministry of National Education coordinates the activities of universities and other higher education institutions by complying with the principles of university autonomy.

In 2009, public expenditure on education rose to 6% of GDP, but declined to 3.64% of the GDP in 2012, even though the law states a maximum expenditure of 6%.

The number of teaching staff in higher education has doubled during the transition, but resources have failed to keep pace with demand, so that expenditure per student has halved. This has affected the provision of equipment, including information technology (IT).

Unless concerns about underfunding and low pay are addressed, the crisis in education could deepen. There are already recruitment shortfalls in certain subjects and few graduates are entering the profession. Qualified teachers are turning to private educational institutions or leaving the profession all together in search of better pay and better working conditions.

Slovenia
Investment Opportunity

1. Overview

Slovenia was a part of the Kingdom of Yugoslavia and then a part of the Socialist Federal Republic of Yugoslavia. In 1991, Slovenia split from Yugoslavia and established its independence. Slovenia became a member of the EU and NATO in 2004 and became the first EU entrant to adopt the euro. Slovenia had one of the most stable political and economic transitions in Central Europe.

Government structured reforms were introduced to improve the business environment for better foreign participation in Slovenia's economy. In 2004, Slovenia became a donor partner from a borrower partner at the World Bank. In 2006, Slovenia started the process to join the OECD and became a member in 2012. Despite its economic success, foreign direct investment (FDI) in Slovenia has lagged behind the European average and taxes remain relatively high. Furthermore, the labour market is often seen as inflexible and legacy industries are losing sales to more competitive firms in China, India, and elsewhere.

As all other countries, Slovenia's economy contracted in 2009 due to the global recession. Even though GDP grew in 2010 and 2011, it contracted in 2012 by 2.4%. It is expected to dip further in 2013.

Political System

Parliamentary democratic republic

Executive branch

The **President of the Republic** is the head of state and the Commander-in-Chief of the Armed Forces. He is directly elected for a maximum of two consecutive five-year terms. The President calls elections for the National Assembly, proclaims laws adopted by the National Assembly, proclaims documents of ratification for international treaties, and performs other duties defined by the Constitution.

The **Prime Minister** is elected by the National Assembly, at the proposal of the President of the Republic. Cabinet ministers are also elected by the National Assembly, at the proposal of the Prime Minister. The Council of Ministers as a whole and each cabinet minister are accountable to the National Assembly. **The government** proposes laws, general acts, regulations and state policies to the National Assembly for all socio-economic and political areas, and supervises state administration through ministers.

Legislative branch

Parliament is made up of a single-chamber National Assembly, which has 90 members, elected on a party basis for a four-year term. The National Assembly is the highest legislative body in Slovenia. The Italian and Hungarian minorities each have one seat.

The National Council represents the interests of socio-economic and professional circles and those of local authorities. It has 40 members elected for a five-year term; they give opinions on draft legislation examined by the National Assembly, initiate debates on bills before they are promulgated and forward requests to parliamentary commissions to launch inquiries.

Judicial branch

Judges are independent when performing their functions; they are bound by the Constitution and the law. Courts are divided into local and district courts; higher courts are appeal courts and the Supreme Court is the highest court of the judicial system.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (EUR)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wage per month
2.6%	22,082	-2.4%	34.5	32.4	12.0%	EUR763

Source: Economic Intelligence Unit

Policies

Slovenia's economy has been badly affected by the global recession but is now recovering slowly. Therefore, the government's priority is to improve the country's economic condition.

Food Security

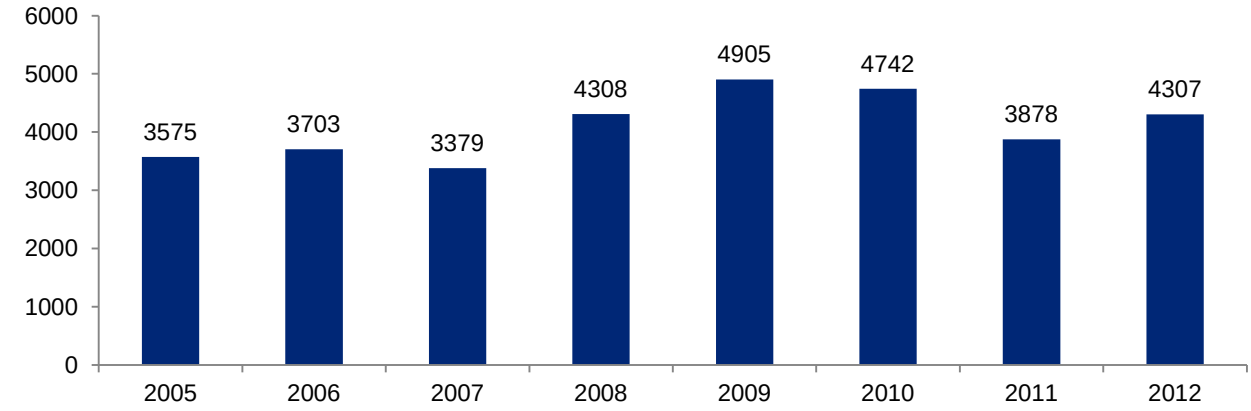
Slovenia assures consumers about health safety by implementing European standards in the field of food and foodstuff safety. The Ministry of Agriculture, Forestry and Food has the responsibility of implementing systems, for traceability of animals from birth through to their slaughtering, which are equivalent to EU standards. The measures are developed in such a way as to inspire the confidence of domestic and foreign consumers in the products produced and processed in Slovenia. The said ministry also works on protection and certification in line with the common European policy on quality adopted in July 2003. In addition, the Ministry of Agriculture, Forestry and Food emphasises on providing information and spreading awareness of food safety measures among consumers by preparing new foldouts and publications each year.

Energy Security

Being a member of the EU, Slovenia has aligned their national energy policies with EU directives and regulations. According to Slovenia's National Renewable Energy Action Plan, energy from renewable source should contribute 25% to the total energy by 2020. To motivate investments in RES, the Slovenian Government offers incentives as:

- RES energy producers can choose to receive either fixed feed-in tariffs or premium feed-in tariffs from the network operators. A Purchase Agreement is concluded to this effect and is valid for 10 years. According to the Law on Energy, the uniform annual prices and premiums are set at least once a year.

Slovenia's electricity production from renewable sources (GWh)



Source: World Bank

3. Infrastructure

National Motorway Construction Programme in the Republic of Slovenia anticipated investment of US$4.1 billion in infrastructure during 2003-2013 (motorways, public roads and railway system).

Road Transport

Slovenia has higher motorway density than the EU-27 average. Slovenia has a good connectivity with other neighbouring EU member states and southeast countries. According to Statistical Office of the Republic Slovenia, Slovenia has 676 km of motorways, 93 km of major roads, 820 km of main roads, 5,149 km of regional roads, 13,451 km of local roads, and 18,796 km of public path in 2012.

Rail Transport

Slovenia has a broad network of railway lines which includes a railway network of 1,209 km. Both freight and passenger service with southeast Europe has grown over the last few years. Passenger and freight, both services are run by the national rail operator, Slovenian Railways (SZ). It also operates railway infrastructure which includes 60,000 m2 of warehouses. It also provides combined transport services, and has container terminals in Ljubljana, Maribor and Celje. Slovenian Railways transported 15.8 million tons of goods and 15.5 passengers in 2012.

Air Transport

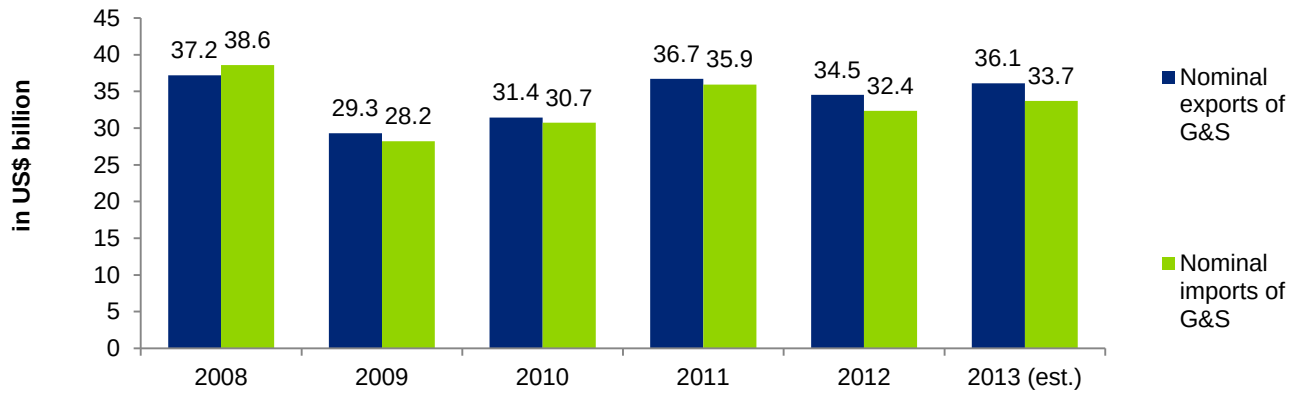
Ljubljana Jože Pučnik Airport, the sixth biggest passenger airport in the new EU-12 members, is the main Slovenian airport for passengers and cargo. It connects passengers to all important European destinations with regular and charter flights. Maribor Airport mostly handles cargo transportation whereas Portorož Airport has

facilities for smaller planes only. The national carrier Adria Airways, member of the Lufthansa Group Star Alliance, boasts a modern fleet of aircraft. In 2012, Slovenian Air transport transported almost most 1 million passenger and 1.4 million tons of goods.

Sea Transport

The port of Koper, the largest Slovenian port, is the southern gateway to international links between Europe and the rest of the world. Koper has the competitive advantage over other northern ports for ships coming from Asia. The port has 11 modern and fully equipped terminals with warehouses for general cargo. Companies can enjoy special advantages in the port's economic zone, which spreads over an area of 4.7 million km2 and features 324,000 m2 of covered and sheltered warehouse facilities and slightly less than 1 million m2 of open-air storage. In 2012, 16.9 million tons of goods was transported via sea.

4. Foreign Trade



Source: Economic Intelligence Unit

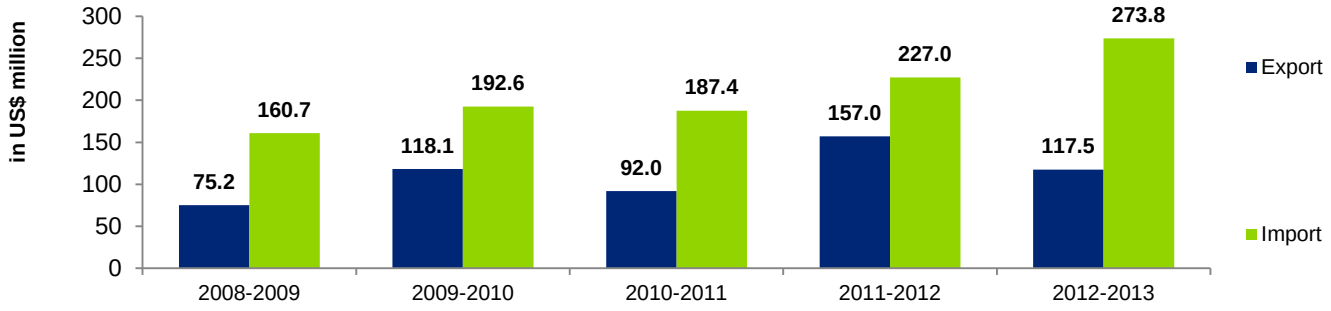
In 2012 exports amounted to US$34.5 billion and have decreased by 6.0% from 2011; imports have decreased by 9.8% (due to weakening domestic demand) and have amounted to US$32.4 billion in 2012. In 2013, exports and imports are expected to increase by 4.6% and 4.0% respectively.

Slovenia's **major exports** are motor vehicles, electrical equipment, pharmaceutical products, steel and steel products and clothes with Germany, Italy, France, Austria, and Croatia as the main destinations. Slovenia's **major imports** include chemical products, coke and refined petroleum products and basic metals; Germany, Italy, Austria, France, Hungary, Croatia, and the Netherlands are the main import sources.

Slovenia-India Trade

Bilateral trade between Slovenia and India has been growing steadily over the years. Both countries have signed many bilateral agreements.

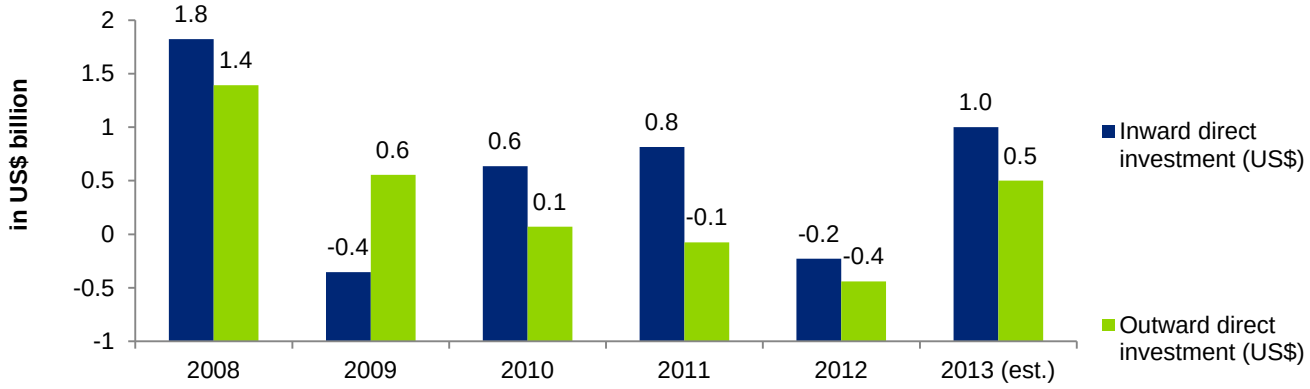
Slovenia's trading with India



Source: Department of Commerce, India

According to the Indian embassy in Slovenia, the major exports from Slovenia to India include nucleic acids and their salts, air or vacuum pumps, antibiotics, flat rolled products of stainless steel, other bars and rods of alloy-steel, hydraulic turbines, plastic plates, sheets and films, electrical apparatus, prepared binders for foundries, etc., whereas the major imports from India include petroleum oils, heterocyclic compounds with Nitrogen hetro-atoms, ferro-alloys, diodes, transistors and semiconductor devices, electrical transformers, static convertors, antibiotics, textile items, artificial staple fibre, etc.

5. Foreign Direct Investment



Source: Economc Intelligence Unit

Slovenia's FDI flow is much less when compared with other European countries. During the global recession in 2009, both inward and outward investment decreased drastically.

In 2013, the foreign Inward Direct Investment is expect to reach US$1 billion whereas Outward Direct Investment will reach US$0.5 billion.

Investment Incentives

Financial Incentives

The Slovenian Government offers financial grants to companies investing in Slovenia. These grants schemes are in line with the national and EU state aid legislation. These grants minimise the cost to the entrants in the manufacturing and service sectors.

Other Incentives

- Local authorities offer different forms of incentives, which are negotiated on a case-by-case basis. These may include easy access to industrial sites, utility connections and holidays from local taxes
- The Slovenian Government also provides special incentives for investment in the Pomurje region
- The Employment Service of Slovenia carries out a series of measures for encouraging employment it advises and supports employers that employ new workers.

6. Key Industries

Agriculture: The agriculture contribution in the Slovenian economy is low with 2.7% contribution to GDP. Slovenia is a net importer of agricultural and food products. Approximately 25% of the total land is utilised for agriculture. It mostly imports cereals, sugar and pork. It exports hops, quality wine and beer and quality beef and meat products.

Automotive: The automotive industry is one of the most important industries in Slovenia which generates one-tenth of the country's GDP and accounts for 15% of its exports of goods. With companies achieving EU green compliances and safety measures, industry is growing at a healthy rate. German carmakers Audi, BMW, Daimler, VW, as well as MAN and Ford in Germany account for some 40% of car component exports, followed by France, Italy, Austria, the UK, and the USA. For the reliability of vehicles—rolling off the assembly lines of Renault, PSA, Brosse, Lombardini, Landini, Fiat and Magna Steyr—credit goes to the suppliers from Slovenia. Revenues generated by companies in this industry were EUR3.3 billion (US$4.5 billion) and exports were EUR2.9 billion (US$3.9 billion) in 2012 (approximate).

Chemical and Pharmaceuticals: Chemicals and pharmaceuticals are some of the major products in exports from Slovenia, with demand in markets like EU member states, Central and South-Eastern Europe and CIS countries. Revenues generated by companies in Chemical and Pharmaceutical industry were EUR4.9 billion (US$6.6 billion) and exports were EUR3.7 billion (US$5.0 billion) in 2012 (approximate).

Electrical and Electronics: The electrical and electronics sector employs around 30,000 employees. Electrical and electronics showed strong performance in exports with nearly 73% revenue earned from foreign markets. Home-grown companies such as Gorenje, Kolektor, Iskra, Hidria and many others displayed greater resilience of their brands through the crisis. Gorenje Group, household appliance maker, outperformed Revoz, car assembly plant, and became the biggest Slovenian exporter in 2011.

Revenues generated by companies in this industry were EUR3.9 billion (US$5.3 billion) and exports were EUR2.9 billion (US$3.9 billion) in 2012 (approximate).

Information and Communication Technology: A well-developed Information and Technlogy (ICT) infrastructure, along with government commitment to boost the sector has helped in the fast development of the ICT sector, which employs approximately 20,000 people. Revenues generated by companies in this industry were EUR3.1 billion (US$4.2 billion) and exports were EUR0.9 billion (US$1.2 billion) in 2012 (approximate).

Machining and metalworking: Slovenia's machining and metalworking sector holds hope for the future as manufacturers commit to more efficient technology practice and green engineering. The sector is widely regarded as being near the top of recession-resistant industries. The fact that some 50,000 people work in over 2,600 machining and tooling companies explains the progress in the development of modern technologies and their application to a lean-manufacturing environment. When forming strategic partnerships, innovating and accessing new customers, the country's location at the doorstep of the fast-growing markets in central and south-eastern Europe is of key importance.

The manufacture of all kinds of fabricated metal products and machined parts accounts for 60.5% of revenue earned in foreign markets and EUR3.9 billion in exports in 2011; the sector generated over 23% of total Slovenian exports of the manufacturing sector.

Revenues generated by companies in this industry were EUR6.4 billion (US$8.6 billion) and exports were EUR3.9billion (US$5.3 billion) in 2012 (approximate).

7. Tax System

General

Foreign exchange control: Bank accounts may be held and repatriation payments made in any currency.

Accounting principles/financial statements: Financial statements must be prepared annually in accordance with Slovenian Accounting Standards (SAS) or International Accounting Standards (IAS/IFRS).

Principal business entities: These are the unlimited and limited liability companies, limited partnership, silent partnership, public limited liability company, European public limited liability company, limited partnership with share capital and branch of a foreign company.

Administration and Compliance

Tax year: Calendar year or any other 12-month period. If the tax period differs from the calendar year, the taxpayer may not change the tax period for 3 years.

Consolidated returns: The ability to file consolidated returns was abolished as from 1 January 2007. Each company must file its own return.

Filing requirements: Slovenia operates a self-assessment regime. Tax payments are made in advance on a monthly or quarterly basis. The tax return must be submitted to the tax authorities 3 months after the end of the relevant tax period.

Penalties: Various penalties are imposed (depending on the size of the company) for failure to submit a corporate income or if the return does not comply with the legal requirements.

Rulings: Binding rulings on proposed business activities (except for transfer pricing) are available.

Corporate Taxation

Residence: An entity is a resident if it has its business seat or place of effective management in Slovenia.

Basis: Residents are taxed on worldwide income; non-residents are taxed only on Slovenia-source income. Foreign-source income derived by residents is subject to corporate income tax in the same way as Slovenia-source income.

Taxable income: Corporate income tax is imposed on income derived by residents and by non-residents operating through a permanent establishment in Slovenia. Expenses related to business activities of the entity generally may be deducted if they are properly documented.

Taxation of dividends: Dividends are exempt if received from another Slovene taxpayer, an EU subsidiary or a non-EU subsidiary established in a country not included on the “black list” published by the Ministry of Finance.

Capital gains: Capital gains are treated as ordinary income, although gains arising from a transaction subject to the EU merger directive are exempt. An exemption of 50% of gains derived from the sale of shares is available if, inter alia, the shares represent a participation of at least 8% and the shareholding has been held for more than 6 months and at least 1 person is employed on a full-time basis in this period. Fifty percent of a capital loss is not recognised (unless the loss arises from a venture capital investment).

Losses: As from 1 January 2013, taxable persons are able to utilise tax losses carried forward from previous tax periods only to a limited extent, with a maximum of 50% of the tax base, which is realised in each fiscal year. The carryback of losses is not permitted. Tax losses can be carried forward for unlimited period of time. Loss carry forward is lost if certain conditions are cumulatively met:

- the change of the direct or indirect ownership or voting rights exceeds 50% in the tax period; and
- the company is inactive for 2 years prior to the change of ownership or 2 years prior to or after the change of the ownership it fundamentally changes its activities, except when the change of activities is due to reorganisation or preservation of job positions.

Rate: The standard rate is 17% for calendar year 2013 (reduced from 18% for calendar year 2012). The rate will further reduce to 16% for 2014 and 15% for calendar year 2015 and onwards. A special rate of 10% applies to operations in special economic zones and a 0% rate applies to certain funds and pension insurance undertakings and venture capital companies.

Surtax: No.

Alternative minimum tax: No.

Foreign tax credit: A tax credit is available for foreign tax paid. The credit is equal to the lesser of the amount of foreign income tax actually paid or the amount of Slovene tax payable on the foreign income.

Participation exemption: Covered under “Taxation of dividends” and “Capital gains” earlier in this section.

Holding company regime: No. Refer to the special regime under “Capital gains”.

Withholding Tax

Dividends: Dividends paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under a tax treaty or exempt under the EU parent-subsidiary directive.

Interest: Interest paid to a non-resident is subject to a 15% withholding tax unless the rate is reduced under a tax treaty or exempt under the EU interest and royalties directive.

Royalties: Royalties paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under a tax treaty or exempt under the EU interest and royalties directive.

Technical service fees: Service fee payments are subject to a 15% withholding tax if made to persons with a head office outside the EU and the country is on the list published by the Ministry of Finance.

Branch remittance tax: No.

Other: No.

Other Taxes on Corporations

Capital duty: No.

Payroll tax: No.

Real property tax: There is no direct tax on real property. However, transfer tax applies for the sale of real property, if not subject to VAT.

Social security: The employer is required to withhold employee contributions (22.1% of gross salary) from the employee’s gross salary and pay it together with the employer contribution (16.1% of gross salary) each month as part of payroll accounting.

Stamp duty: No

Transfer tax: A special sales tax is levied on motor vehicles (different rates), the transfer of real estate if not subject to VAT (2%) and insurance services (6.5%).

Anti-Avoidance Rules

Transfer Pricing: Rules apply to transactions with non-resident related parties. The rules apply to resident parties only to the extent that one or both parties are deemed to be in a favourable tax positions. A party is related if it holds directly or indirectly at least 25% of the other party or if the conditions between them differ from those between unrelated parties.

Thin Capitalisation: Interest on loans (other than those granted by a bank or an insurance company) is not deductible if:

- Received from a shareholder who, at any time during the tax period, directly or indirectly owns at least 25% of the shares in the equity capital or voting rights
- The loan exceeds at any time during the tax period the established debt-to-equity ratio (4:1 from 2012), unless the taxpayer can prove that the loan would have been granted by an unrelated third party. The excess interest is generally re-characterised as a dividend.

Personal Taxation

Basis: Resident individuals are taxed on worldwide income. Non-residents are taxed on Slovenia-source income.

Residence: An individual, regardless of nationality, is resident in Slovenia for personal income tax purposes if he/she has a formal residence tie with Slovenia (i.e., a permanent residence registered in Slovenia, is a Slovenian public employee employed abroad, or was a Slovenian resident but is currently employed in an EU institution) or actual residence tie with Slovenia (a habitual abode or centre of personal and economic interest, or is present for more than 183 days in a taxable year in Slovenia).

Filing status: There is no joint taxation. Each individual is treated as a separate taxpayer.

Taxable income: Personal income tax is levied on 6 categories of income: income from employment, business income, income from basic agriculture and forestry, income from rents and royalties, income from capital (dividends, interest and capital gains) and other income.

The taxable bases of various sources of income earned in a calendar year are computed separately, and then aggregated and taxed at progressive rates (except income from capital). Scheduled taxation is applied to income from capital.

Capital gains: Capital gains are subject to a base rate of 25%, which is reduced by 10 percentage points after first 5 years, and then by 5 percentage points for every next 5 years the capital (real estate, securities, etc.) is held, making the gain exempt when the capital is held for more than 20 years. Capital gains arising from derivatives are taxed at a 40% rate if disposed of during the first year of ownership. The rate is gradually decreasing for longer duration of ownership.

Deductions and allowances: A general allowance is available to all resident taxable persons. Various personal allowances are also available under certain conditions (dependents, disability, etc.). The amounts are changed annually.

Rates: For the calendar years 2013, the following progressive rates apply: 16% up to EUR7,841.04; 27% up to EUR18,534; 41% up to EUR69,312.96 and 50% on amounts exceeding EUR69,312.96. The tax schedule is changed annually. Dividend and interest income received by a resident individual in the calendar year 2013 is subject to a 25% withholding tax (increased from 20%).

Other Taxes on Individuals

Real property tax: A 2% transfer tax applies if the transaction is not subject to VAT.

Inheritance/estate tax: Inheritance and gift tax applies to the transfer of property and is levied progressively, depending on the value of the property and the recipient’s relationship with the deceased or donor.

Social security: Income from employment is subject to employee contributions (22.1% of the gross income) and employer contributions (16.1% to the gross income). Self-employed individuals are obliged to remit social security contributions on their own.

Value Added Tax

Taxable transactions: VAT is payable on supplies of goods and services effected by a taxable person, acting as such, for consideration within Slovenia, on intra-Community acquisitions, including intra-Community acquisitions of new means of transport and on the import of goods.

Rates: The standard rate is 20%; a reduced rate of 8.5% applies to specified goods and services. Certain transactions are exempt or zero rated. As from 1 January 2013, several changes will come into force of the Slovene legislation including changes of regulation regarding the place of taxation and tax point for specific supplies and numerous changes regarding the billing requirements. The upcoming changes may also include cessation of use of the reduced rate for several supplies of goods and services.

Registration: A taxable person must register if the value of its supplies within the last 12 months exceeds the EUR 50,000 (increased from EUR 25,000 in 2012) threshold, and EUR7,500 for agricultural activities. Small businesses (including farmers) may apply for voluntary registration, valid for a minimum period of 5 years. A taxable person established abroad who performs taxable economic activities in Slovenia must register.

Filing and payment: The VAT return must be submitted and VAT paid by the last working day of the month following the taxable period (which is a calendar month, or 3 months for smaller taxpayers). Taxable persons that are also obliged to submit an EC Sales List have to submit both documents (VAT return and EC Sales List) by the 20th day of the month following the taxable period.

Tax Treaties

Slovenia has concluded 47 tax treaties.

8. Labour Environment

Slovenia's unemployment rate grew by 0.8% and reached 13% in December 2012. The number of people in employment went down by more than 12,000. Nevertheless, Slovenia has a well-educated and adaptable workforce; although skills are mainly concentrated in the technical and engineering areas. Recent years have seen improvements in fields such as accounting and financial services. The labour market may come under renewed pressure towards the end of the forecast period, as economic reorganisation intensifies structural unemployment. Despite a strong social consensus against a significant loosening of labour market regulations, the government is planning to introduce reforms. Slovenian enterprises are bound by collective wage-bargaining agreements, and wage negotiations are slow and cumbersome, but still possible. Labour costs are considerably higher than in other economies in the region, although they have been decreasing since the onset of recession in 2009, thereby improving the cost competitiveness of Slovenian labour. The elimination of payroll taxes should also ease some of the pressure in this area. Overall, from a legal point of view, the situation in respect of foreign investments is improving also due to the effect of the recent recession.

Wages

The minimum monthly wage for labour is EUR763.

Regular Working Hours

Full working hours shall be between 36-40 hours. On the employer's request, employee shall be obliged to work extra hours which may not exceed 8 hours a week, 20 hours a month and 180 hours a year.

9. Education and Talent

The Slovenian school system has undergone several changes primarily to make people aware of the importance of education and to achieve a higher education level. The education system in Slovenia is almost fully financed from the state budget; a small share of the finance is also contributed by local authorities (for primary schools and kindergartens). Slovenia has one of the highest shares of people in the age group of 25 to 64 who completed upper secondary education.

Primary Education

Public primary school for children and youth is free of charge. In Slovenia, primary education is compulsory and lasts 9 years. It is divided into 3 three-year cycles.

There are also two private primary schools in Slovenia with a publicly recognised education programme (the Waldorf School in Ljubljana and the Catholic Alojzij Šuštar Primary School in Ljubljana).

Secondary Education

Secondary education in the Republic of Slovenia is divided into general education (general secondary schools – gimnazije), vocational and secondary technical education. General secondary education lasts 4 years and ends with an external examination called matura, which grants students access to university and other post-secondary vocational and professional higher education programmes. Vocational and technical secondary education prepares apprentices and students for a profession. The length of education ranges from two to five years, depending on the individual programme. Education finishes with a final examination, and secondary technical programmes also end with a vocational matura, which enables students to enrol in post-secondary vocational and professional higher education programme.

Tertiary Education

Tertiary education comprises post-secondary vocational education, professional higher education and university studies provided mainly by public institutions: universities, faculties, art academies, professional colleges and independent higher education institutions. The Slovenian universities are located in Ljubljana, Maribor, Koper and Nova Gorica. There are no tuition-fees in public tertiary education for Slovenian students, while foreigners, citizens of non-member states of the EU, pay a tuition fee for full-time studies, unless:

- otherwise established by interstate or international agreements and treaties;

- you are the holder of a scholarship of the Ministry of Higher Education or authorized contractor of such scholarships;
- you are a student of an exchange programme between higher education institutions in the framework of the Lifelong Learning Programme;
- you are a foreign national with permanent residence in the Republic of Slovenia and you yourself, or your parents or guardians, are a taxpayer in the Republic of Slovenia.

The tuition fee for part-time studies is to be paid by all foreign students.

Language of instruction is predominantly Slovene. Many higher education institutions also offer lectures (especially at postgraduate level) in English.

Switzerland
Investment Opportunity

1. Overview of the Economy

Switzerland is one of the most competitive economies in the world with low unemployment, a highly skilled labour force, and a per capita GDP among the highest in the world. Switzerland occupies a unique place in the world economy. It is respected for its prosperity and stability, and, at the same time, envied by many for the quality of life enjoyed by its residents.

With a long history of sovereignty and neutrality, Switzerland has been honoured by major European powers. Switzerland's role in many UN and international organisations has strengthened its ties with its neighbours. Switzerland has a technology-intense manufacturing industry and a highly developed service sector, led by financial services. Its economic and political stability, transparent legal system, exceptional infrastructure, efficient capital markets, and low corporate tax rates also make Switzerland one of the world's most competitive economies. The global financial crisis of 2008 saw a decline in Switzerland's exports, resulting in a recession in 2009, but it recovered in 2010 with the help of zero-interest policy implemented by the Swiss National Bank. The Swiss economy grew by 1.0% in 2012 and is expect to grow further by 2.0% in 2013.

Political System

Switzerland has a federal constitution which defines Switzerland as a federal state composed of 26 cantons. Switzerland's Government, parliament and courts are organised on three levels: federal, cantonal (based on 26 cantonal constitutions), and communal (in a few small cantons and in some 2500 small villages reunions of all citizens are held instead of cantonal and communal parliaments; local courts are usually common to several communities).

Switzerland's federal government consists of 7 members called Bundesrat with equal rights. These members are elected by chambers of the federal parliament meeting together as the Federal Assembly. All these members take representational functions of a president one by one.

2. Economic Data

Economic Indicators for 2012

Inflation	GDP per Capita (US$)	Real GDP Growth	Export (US$ billion)	Import (US$ billion)	Unemployment Rate	Minimum Wage (approx.)
-0.7%	79,010	1.0%	330.2	264.3	2.9%	No minimum wage

Source: Economic Intelligence Unit

Policies

According to the State Secretariat for Economic Affairs (SECO), “Our main task is to analyse the aggregate supply side. One focus is on long-term economic development, i.e., on trend growth, productivity and innovation capacity. Our mission also includes the competitive political environment of the economy. This involves development of antitrust law, internal market law, state aid and administered prices, as well as the appropriateness of new regulations in sectors where the state creates a legal regime.

Food Security

Placed 6th in the Global Food Security Index 2012, which encompassed 105 countries, the country’s ranking reveals the efforts taken towards food programmes. According to the Index, Switzerland’s strengths are:

- Strong food consumption as a share of household expenditure
- Less proportion of population under global poverty line
- Presence of food safety net programs
- Access to financing for farmers
- Agricultural infrastructure
- Diet diversification
- Nutritional standards
- Food Safety
- Political Stability Risk
- Sufficiency of supply
- Gross domestic product per capita

In Switzerland, a cantonal official veterinarian and a cantonal food control authority have the responsibility of

Cantonal official veterinarian:

- Zoonoses prevention
- Control of milk production
- Control of animal breeding
- Control of animal before and after slaughtering
- Control of slaughter houses hygiene

Cantonal food control authority:

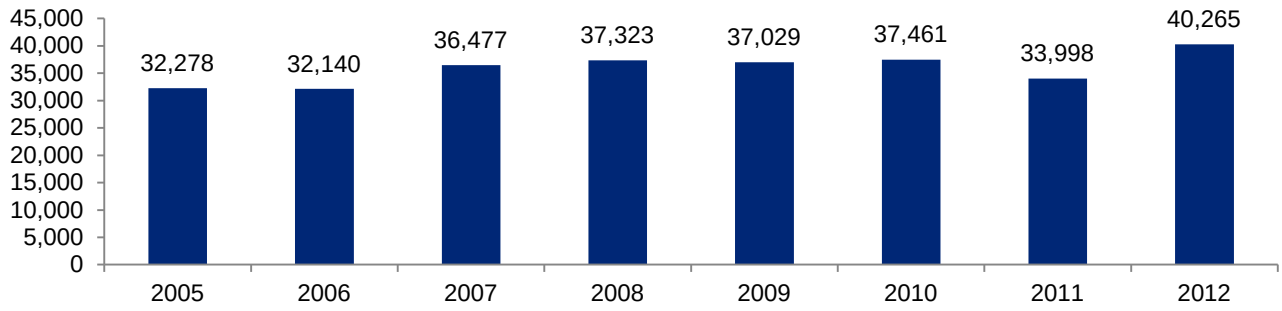
- Control of food products
- Control of hygiene at factories, stores, restaurants, and so on
- Control of food production and own-check systems

Energy Security

The energy article in the Swiss Federal Constitution, the Energy Act, the CO2 Act, the Nuclear Energy Act and the Electricity Supply Act are all integral parts of the instruments for defining a sustainable and modern Swiss energy policy.

Aligning energy policy with its neighbours, Switzerland has two main planks in energy policy, i.e., to promote use of renewable energy and to encourage efficiency. Switzerland introduced a feed-in tariff system in 2008 to promote energy from renewable sources.

Switzerland's electricity production from renewable sources (GWh)



Source: World Bank

3. Infrastructure

Switzerland has an excellent infrastructure for supplying goods and services which is the result of the Swiss Government's focus at improving the country's attractiveness as a business destination.

Road Transport

With 1.7 km of roads in every square kilometre, Switzerland has one of the densest highway networks in the world. Highlights of the roadway network are:

- 1,790 km of national highway connecting all parts of the country
- 220 tunnels of total length 220 km
- Planned national road network of 1,892.5 km which are expected to complete by 2015
- Gotthard tunnel which connects Germany and Italy

Rail Transport

Swiss use railways more often than many of the people in other European countries chiefly because of the punctuality and reliability of the railway system. Switzerland has 3,000 km long railway network which is operated by SBB (Swiss Federal Railways). Apart from SBB, there are private players who operate tracks covering 2,000 km.

Currently there are three major projects underway:

- Rail 2000: Main objective of this project is to increase direct connectivity all over Switzerland and frequency of railways. This project is expected to complete by 2018.
- AlpTransit or NRLA Project: The new Lötschberg and Gotthard transalpine lines are designed to provide new, fast north-south connections and facilitate substantial expansion of capacity and services. The AlpTransit or NRLA project (New Rail Link through the Alps) is being built in stages. The Gotthard base tunnel, which is expected to be opened in 2015-2016, will be the longest tunnel in the world at 57 km.
- Link to the European high-speed rail network: This project was initiated with the aim of connecting to the European high-speed rail network. The government will invest CHF1,090 million by 2015 for this project.

Air Transport

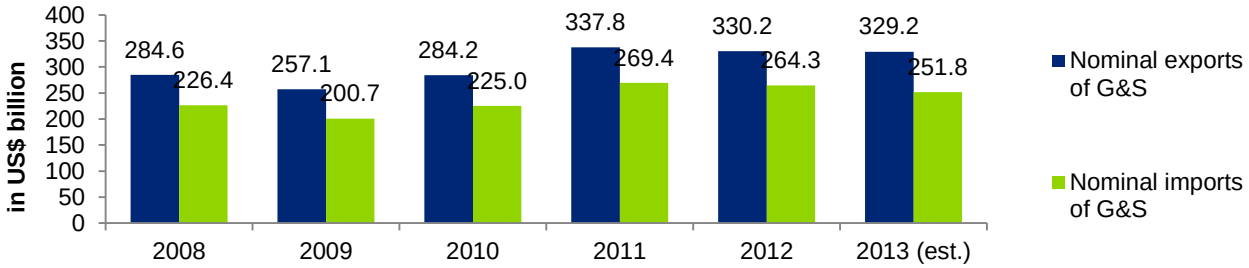
There are 41 airports in Switzerland with airports at Zurich, Geneva and Basel being the main Swiss airports for passengers and cargo. Zurich airport has received World Travel Award as Europe's leading airport for 7 times. In 2012, Swiss airports and regional airports registered a total of 44 million passengers in scheduled and charter flights.

These airports connect important European and international destinations with regular flights. Zurich has most of the flights (66%) connecting Europe and 34% international flights.

Water Transport

Switzerland is a landlocked country. There are 1,227 km of waterways on lakes and rivers for public transport and another 65 km on the River Rhine between Basel-Rheinfelden and Schaffhausen-Bodensee used for the transport of commercial goods.

4. Foreign Trade



Source: Economic Intelligence Unit

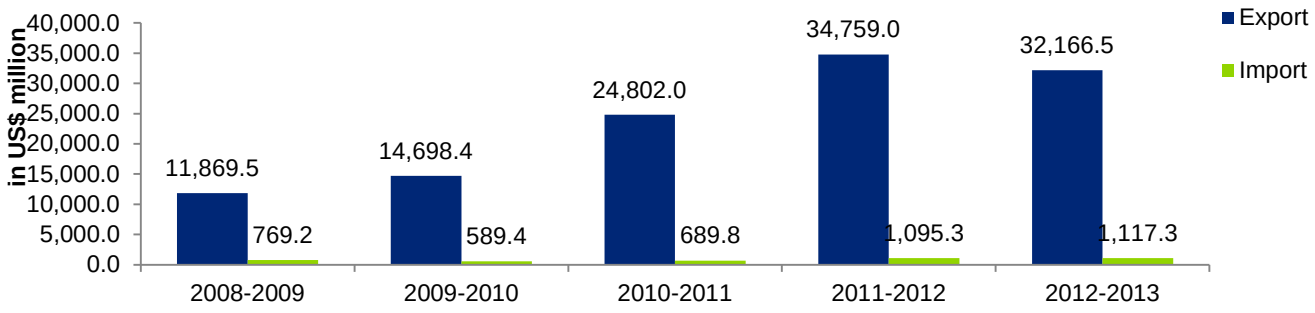
In 2012, nominal exports of goods & services (G&S) declined by 2.3 to US$330.2 billion, and the value of nominal imports of G&S decreased by 1.9% to US$264.3 billion. Exports and imports are expected to decrease further to US$329.2 billion and US$251.8 billion, respectively, in 2013.

Switzerland's major exports are machinery, precious metals, and electronic goods and major imports are machinery, chemicals, vehicles, metals, agricultural products and textiles. Major part of the overall trading (more than 50%) is done with European countries.

Switzerland-India Trade

Relations between Switzerland and India go back to 1948 when the two countries singed their first bilateral agreement. After that, there were many agreements signed between both the countries.

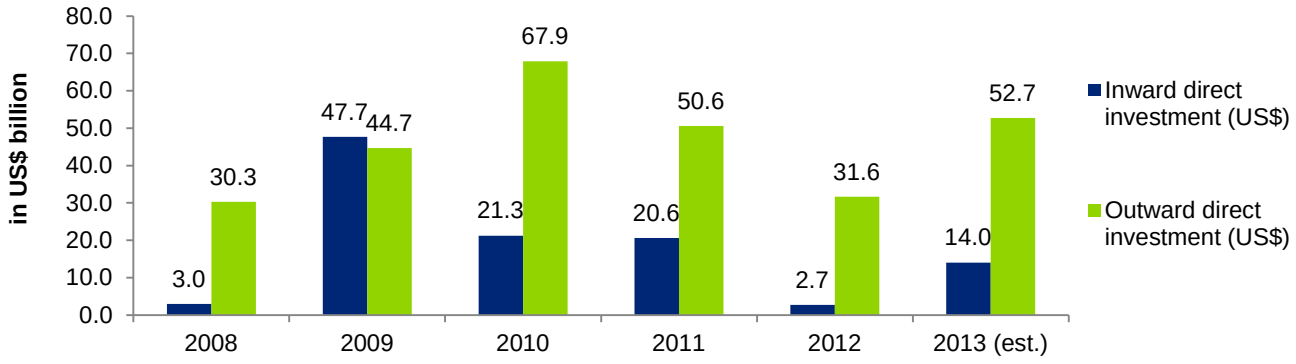
Switzerland's trading with India



Source: Department of Commerce (India)

According to the Indian embassy in Switzerland, the major exports from Switzerland to India include bullion, machinery and equipment (electrical and mechanical), precision instruments, pharmaceutical products, dyes and chemicals whereas imports from India include textiles and garments, organic chemicals, precious stones and jewellery, dyestuffs, machinery and parts, leather products, shoes and shoe uppers, cotton, plastics, coffee, tea, and hand-knotted carpets.

5. Foreign Direct Investment



Source: Economic Intelligence Unit

The global downturn in 2008 impacted the Swiss economy, resulting in the decline in Inward Direct investment and Outward Direct investment. There is an increase in Outward investment after 2009, but continuous decline in Inward Direct investment since 2009 (except in 2012 when Inward investments are expected to recover).

Investment Incentives

Switzerland offers comprehensive incentives to foreign companies looking to setting up operations in the country. Federal assistance in the form of a federal tax holiday is available for up to 10 years for companies bringing economic value-adding activities to specific regions in Switzerland. Most cantons also grant tax holidays to companies bringing economic value-added functions and creating significant new jobs up to 10 years.

Indian Companies in Switzerland

According to the Indian Embassy, software companies like Tata Consultancy Services, Ramco Systems, PIT Solutions, Infosys, Wipro, MindTree, Satyam, and Polaris have made their strong presence in Switzerland. Apart from these software companies, manufacturing companies like Divi's Laboratories, Dr. Reddy's and Novelis are also present in Switzerland. Other investments by Indian companies are:

- Saber Group acquired stakes in Swiss Quality Paper in 2009
- Hindustan Constructions bought majority stake in Swiss real-estate company Steiner in 2010
- In 2011, PGC Textile Corporation took over Swiss firm Switcher SA that is into manufacturing and marketing Switch brand Sports clothing

6. Key Industries

Agriculture: The agriculture contribution in the Swiss economy is low with 1.3% contribution to GDP, employing 3.4% of the total labour force. Switzerland's main agricultural products are grains, fruits and vegetables. In 2012, Switzerland had some 1,051,100 hectares In agriculture use. There is a marked trend towards fewer and larger farms. In 2012, the total number of farms was 56,600 a sharp decline since 1990 (92,815 farms).

Financial Services: Switzerland's Financial services industry, especially banking, holds a prominent position in the international market. The financial sector, which has the major contribution in the GDP of the country (6.2% of GDP), accounts for 10.3% of value added in Switzerland (CHF59.4 billion). At CHF260,000 per employee, productivity is almost two times the Swiss average. The banking sector alone accounts for CHF35.0 billion of value added, corresponding to 6.2% of GDP. The corresponding amount for the insurance sector is CHF24.4 billion, corresponding to 4.1% of GDP. The added value of the whole financial sector increases from CHF59.4 billion to nearly CHF90 billion by including indirect effects, which is equivalent to approximately one-fifth of the Swiss GDP.

In 2011, there were 312 banks, 3,382 branches, and 5,555 ATMs in Switzerland.

Machinery: The mechanical engineering and electrical industry have a key role in the domestic as well as export market of Switzerland. They provide employment to approximately 338,000 employees (highest compared to any other industry). With 80% of the products being exported, with a value of CHF64.6 billion (2012), the industries are one of the major contributors to the goods that are exported (35%).

Chemical & Pharmaceuticals: In Switzerland, exports constitute a major part of the GDP, with chemicals and pharmaceuticals being major exports. Employing 65,000 people, these sectors are major employers in the country.

The chemical industry operates in the field of speciality chemicals. Ninety percent of the Swiss chemical industry's overall product portfolio is specialties, which are high compared with the international average. These speciality chemicals have a big demand in the international market. The Swiss companies in this sector occupy leading positions in many market segments. With exports of CHF79.0 billion and imports of CHF39.4 billion in 2012, the chemical and pharmaceutical industries earned a trade surplus of CHF39.6 billion. It thus contributed the largest export surplus of all industrial sectors to the trade balance of Switzerland.

Tourism: Approximately 6% of Switzerland's export revenue comes from tourism, making it an important sector in the Swiss economy. Tourist accommodation, meals or transportation constitute more than half of the total revenue in the sector. In 2012 this sector generated exports of CHF15.0 billion.

7. Tax System

Tax is imposed in Switzerland at the federal and cantonal levels. The Federal Tax Harmonisation Law (FTHL) has generally harmonised the tax systems of the cantons with respect to the tax base, as well as with the federal income tax law. FTHL harmonises the major tenets of cantonal tax systems; one significant aspect, however, is not harmonised, i.e., the tax rates which may be independently set by the cantons and municipalities.

Tax rate: On an average, companies resident in Switzerland are subject to an effective income tax rate of some 11.5%-25%.

Other taxes:

- Withholding tax on dividends
- Issuance stamp tax
- Securities transfer tax
- Value added tax
- Real estate capital gains tax

Special tax regimes: Various tax privileges exist at the cantonal level. The holding company tax privilege is granted to companies whose primary statutory purpose is the holding of participations and that have no active trade or business in Switzerland. A company with holding company privilege is fully exempt from cantonal and communal income taxes. The effective federal income tax rate on income other than from qualifying participations is 7.8%.

Corporate Taxation

Residence: A company with legal seat or place of effective management is resident in Switzerland.

Basis: Residents are taxed on worldwide income, except for profits derived from foreign branches and foreign immovable property, which are tax exempt. Non-resident companies are taxed on permanent establishment/branch income and/or immovable property located in Switzerland. The federal statutory tax rate of 8.5% is levied on net income. Since income and capital taxes are deductible in determining taxable income, the effective tax rate that a company pays on its profits before tax is 7.8%.

Losses: Losses may be carried forward for seven years and may be set off against any income, including capital gains. Losses may not be carried back.

Double Taxation Relief

Unilateral relief: Foreign-source income is included in taxable income, but relief is granted for dividend income. Foreign-source income is taxed net of foreign taxes; no credit is given for foreign taxes paid (except for non-refundable withholding taxes on dividends, interest and royalties under applicable tax treaties).

Tax treaties: Switzerland has a broad tax treaty network. To obtain benefits under these, the foreign recipient and the tax authorities in the treaty partner country must sign a specific form that certifies the residence of the recipient and submit the form to the Swiss federal tax administration before the distribution is made to benefit from reduction at source.

Administration and compliance:

Tax year: The tax year coincides with the fiscal (business) year of the company.

Filling and payment: Combined tax return filing is allowed for both federal and cantonal income tax purposes. In general, provisional tax payments are due during the business year, followed by final assessments/invoices after the declaration is filed.

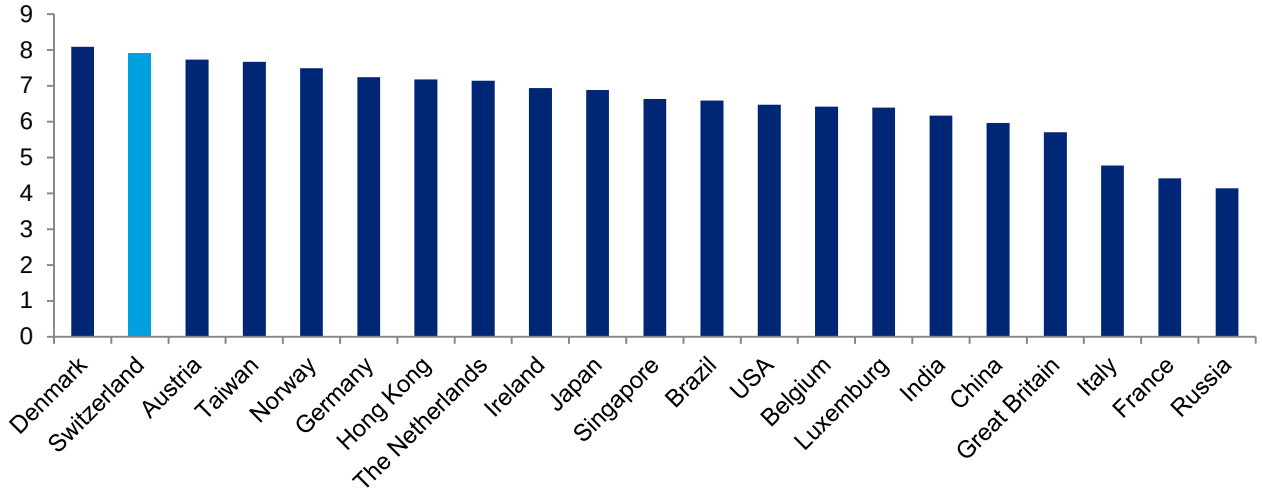
Consolidated Return: Not allowed

8. Labour Environment

Unemployment in Switzerland has always been low (less than 4% for the last 10 years). The Swiss workforce is highly qualified, with every third person having completed higher education. Employees can speak multiple languages. The Swiss labour market benefits from the high quality of its workforce and the well-regulated yet flexible structure. There are few restrictions on hiring and firing, contract work and work for temporary employment agencies. Indicators of employment protection legislation calculated by the OECD suggest that Switzerland is among the leading countries in terms of flexible policy. However, wage levels are among the highest in the OECD (in purchasing power parity terms), despite a long-term trend for the gap to narrow.

Swiss ranked second in terms of worker motivation. Swiss employees are very loyal to their companies, partly because most companies are small or medium-sized.

International comparison of worker motivation, 2011



Source: IMD World Competitiveness Online 2011

Wages

Switzerland does not have minimum wage criteria.

Working Hours

Full working hours are between 40 and 44 hours per week. Overtime must be paid at a premium of 25%, but the number of hours must not exceed 170 hours in a year.

9. Education and Talent

Being one of the world's leading investors in the world, Switzerland has always focused on the delivery of good-quality education and boasts of many higher education opportunities.

The Swiss education system is the responsibility of the cantons, so the process may vary from canton to canton. Public schools are funded by the cantons through tax revenue, so there are no additional fees for schooling. The system is divided into:

- Nursery school (3-6 age)
- Primary school (6-15 age)
- Secondary school (15-19 age)
- Post-secondary school (19 and above age)

Around 25% of young Swiss people have third-level qualifications. Of the 25,000 students who graduate in Switzerland every year, around two-thirds come from traditional universities. The public education system in Switzerland has a reputation for high quality and tough standards.