

Indian multinationals as an emerging source of FDI in the Central and Eastern European countries – A Hungarian perspective³

Abstract

Emerging markets' global economic advance provides several interesting research topics for investigation. This paper primarily concentrates on the FDI relations among Asian and CEE emerging markets with special focus on Indian FDIs in Hungary. Its main aim is to study the latest developments of India-Hungary economic relations and to determine new opportunities for their further enhancement. The Hungarian economy is highly dependent on the EU through trade and finance. The backwash of the global economic crisis (2008-2009) has spurred Hungary to reorientate her foreign economic relations to decrease her dependence on the EU and increase it on high growth Asian markets, like India. We found that there is a growing investment interest of Indian multinationals in Hungary and the attraction of new investments can be supported by policy efforts from national and EU level as well.

Keywords: foreign direct investment, India, Hungary, Eastern Opening policy

1. Introduction

The 2008 financial turmoil with the subsequent global economic downturn and the 2010-2011 European sovereign debt crisis resulted in a massive fall in European GDP and trade growth figures as well as that of inward FDI. Hungary's new foreign economic policy, the "Eastern Opening", endeavours to facilitate exports to, as well as inward FDI flows (mainly) emerging from Asia (with India being prioritised in the third place after China and Russia). The underlying motivation of the strategy, initiated in 2011 is to diminish the CEE countries' (specifically Hungary's) massive commercial (concentration both in terms of country orientation and sectors) and FDI dependence from the EU-15.

On the other hand, the emerging CEE economies have a lot to offer potential emerging Asian economic partners, predominantly the market seeking investors. CEE countries with their highly skilled and relatively cheap labour force are positioned in a close geographical proximity to Western Europe with many of them (Czech Republic, Hungary, Poland, Romania and Slovakia) being integrated into

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automotive OEMs, the value chains that are jointly formulating the European car cluster. Certainly, a comprehensive India-EU free trade and investment agreement could serve as a wider and more pronounced platform for the currently undergoing bilateral advancements.

The structure of this paper is as follows: Part 2 briefly summarizes the Hungarian government's Eastern Opening policy; part 3 shows how CEE countries (with special focus on Hungary) have been integrated into the EU market through trade and FDI and also explains how negatively the global economic crisis has affected CEE countries because of this high dependence; part 4 presents the potential opportunities for the enhancement of economic relations emerging from Asia that could compensate CEE countries for the negative backwash of the global economic crisis; parts 5 and 6 deal with Indian investments in CEE with special emphasis on Hungary; part 7 contains the main conclusions.

2. The policy of "Eastern Opening"

In April 2012, the Hungarian Government passed a bill on the enforcement of a new foreign economic policy strategy (Hungarian Official Gazette, 2012). The latter is a part of a broader strategy on economic policy, which was first formulated in 2011 and included a 43-paged discussion manuscript that subsequently became the backbone, and the theoretical background of the foreign economic policy strategy.

The primary aim of the foreign economic policy strategy is to contribute to the country's growth, employment and balance of payments goals with the six main objectives/means listed below:

1. The diversification of the geographical structure of exports
2. The diversification of the product structure of exports
3. FDI attraction
4. The support of exports and supplying activity of small and medium enterprises (SMEs)
5. The means of forming an Economic Area of the Carpathian Basin
6. Economic diplomacy

The new strategy on foreign economic policy is often nicknamed the "policy of Eastern Opening" that entails the main goals of growing exports to and increasing amounts of FDI from "Eastern" (mainly Asian) countries, specifically China, Russia, India, South Korea, and some ASEAN countries (Singapore, Malaysia, Indonesia, Vietnam and Thailand), CIS and Turkey.

3. Geographical and sectoral concentration of trade and FDI in the CEE countries

The necessity of the diversification of the geographical structure of the exports derives from Hungary's extremely high economic openness, with a 103% exports to GDP ratio⁴ and the equally extreme geographical concentration of the country's trade relations with 88 percent of Hungary's exports sold in other European countries.

Table 1. Hungary's foreign trade with country groups, 2015

Country groups	Exports from Hungary (Share %)	Imports to Hungary (Share %)
<i>European Union (EU-28)</i>	79.2	76.5
EU-15	56.9	55.2
New EU-13 ⁵	22.3	21.3
<i>Non-EU countries</i>	20.8	23.5
Non-EU European countries	8.5	7.8
Asian countries	5.7	12.8
American countries	5	2.7
African countries	1.1	0.1
Australia and Oceania	0.5	0.0
<i>Total</i>	100.0	100.0

Source: Hungarian Central Statistical Office (HSCO) (2016a)

Table 1. demonstrates Hungary's interdependence with other European countries, yet it is not merely the geographical concentration of foreign trade that raises concerns

⁴ data of 2015 third quarter (Ministry of Foreign Affairs and Trade, Hungary, 2016)

⁵ Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia

but also the balance of trade (BOT) in which Hungarian imports from Asia exceed the exports (Table 2), with deficits of 1745.6, 2 687.1, 852.9, 448.3, 383.1, 304.0, 123.0, 135.8, and 184.8 million euros (current prices) from Russia, China, South Korea, Taiwan, Japan, Hong Kong, Singapore, India and Malaysia, respectively (HCSO, 2016b).

Table 2. Hungary's foreign trade balance with country groups (2013-2015)

Year	European Union (EU-28)	Non-EU countries	Total	Of which:			
				EU-15	EU-13	Asian countries	American countries
million euros, current prices							
2013	9097	-2542	6555	5339	3758	-4027	822
2014	7236	-961	6274	4830	2405	-4429	2207
2015	8588	7	8595	5940	2648	-4995	2348

Source: HCSO (2016c)

India's trade with EU-13, which reached 4.8 billion euros in 2015, accounts for only 6.2 percent of the India – EU bilateral trade in goods, which was 77.7 billion euros in 2015 (Eurostat, 2016a). The volume of trade is below the potential of the region, which has one fifth of the EU's population. Its share in the EU-28 trade is only 13 percent. None of the countries from CEE is among India's top 50 trade partners. Poland ranks at 55th, the Czech Republic ranks at 66th, Hungary positions at 85th and Romania is placed at 87th position (Department of Commerce, Government of India, 2016).

Once the new Hungarian government in 2010 took charge, it quickly reached the conclusion that such a strong dependence of the current external trade structure on a particular country or country group makes the Hungarian economy extremely vulnerable to harmful effects from outside. Therefore, if the goal is to boost the country's competitiveness and secure its positive trade balance, Hungary should become more open to other, non-European markets and gain a bigger share in the steady growth of import in some rapidly developing countries. To put this into practice, the policy of Eastern Opening was introduced, building on three major observations. Firstly, that the shape of the world economy is constantly changing,

making it necessary to build up stronger relations with the most dynamically growing regions and countries, especially those in East and Southeast Asia. The Foreign Trade Strategy of the government in 2011 also emphasized the lack of proper attention to these markets in the previous decades due to the fact that EU and NATO membership took priority in foreign relations. Secondly, the strategy took the beneficial geographical position of Hungary into account, by stating that the Eastern Opening is a natural way of utilizing the country's good access point to the markets of Asian and Post-Soviet states, which provides Hungary with the possibility to become a logistical and transportation hub between the European Union and Asia. Lastly, another motive behind a more Eastern-oriented foreign policy was the assumption that a proper representation of the Hungarian state interests on the world stage is only possible once the country is more visible and able to build on the possible support of relevant worldwide and regional players (Dániel, 2015, pp. 3-4).

In March 2015, on the occasion of the announcement of complementing the “Eastern Opening” with a “Southern Opening” strategy Hungarian Minister of Foreign Affairs and Trade, Péter Szijjartó explained that the Eastern Opening is not a Hungarian invention but something copied from the „big ones”: 43 percent of German exports, 46 percent of Italian exports and 22 percent out of the total Hungarian exports of USD 112.8 billion were directed to countries outside the European Union during the previous year. 22.8 percent of German exports were directed to Eastern areas (Ministry of Foreign Affairs and Trade, Hungary, 2015a).

Germany has always been a primarily trade-driven economy, with its 43.0% and 43.5% exports to GDP ratio in 2007 and 2008 increasing to 45.7% in 2014 (World Bank, 2016). During the economic crisis there was a decrease in demand for German exports with the exports to GDP ratio falling to 37.8 percent which contributed to the sharp decline in Germany's GDP in 2009. Given that Germany is a nation with heavy reliance on exports, it poses the question what caused the GDP to recover?

The simple answer to this question is that there was a change in the destination of German exports. While demand stayed low for German exports in the G8 countries, most notably the U.S., there was an increase in demand in the developing nations. Traditionally the U.S. has been one of Germany's major trading partners and therefore any decrease in purchases made by the U.S. has a large negative impact on Germany's GDP. China and the other BRIC countries increased their purchase of German exports, which counterbalanced the decline from the U.S. (Mikols, 2011).

By strengthening its ties with emerging economies, Germany accounted for more than one-third of EU exports to Brazil, Russia, India, China, and South Asia in 2009. Although exports to China were only 1.9 percent of German GDP in 2009, they grew by nearly 15 percent in 2010. Germany also took advantage of its proximity to the cheaper labour force in CEE. Off-shoring production to Poland, the Czech Republic, Ukraine, and Russia not only made the cost structure leaner but also resulted in higher productivity in CEE facilities as well as their counterparts in Germany. In the case of the automotive industry, factories in CEE became a part of Germany-centred value chains. For example, Volkswagen built plants in the Czech Republic, Hungary, Poland, and the Slovak Republic (Gill and Raiser, 2013).

Mc Kinsey Global Institute's (MGI) 2013 study argues that exports from Central and Eastern European economies tend to be concentrated both geographically and in sectoral terms. "Trade among CEE nations accounted for 18 percent of the total exports by CEE economies in 2010, while trade with the EU-15 accounted for 59 percent of the total. Germany is the single largest customer, absorbing 25 percent of CEE exports, not least due to close integration of supply chains with German manufacturers. Exports to the BRIC countries accounted for only 17 percent of trade and grew by 13 percent annually from 2005 to 2010; Russia accounted for only 7 percent of CEE exports.

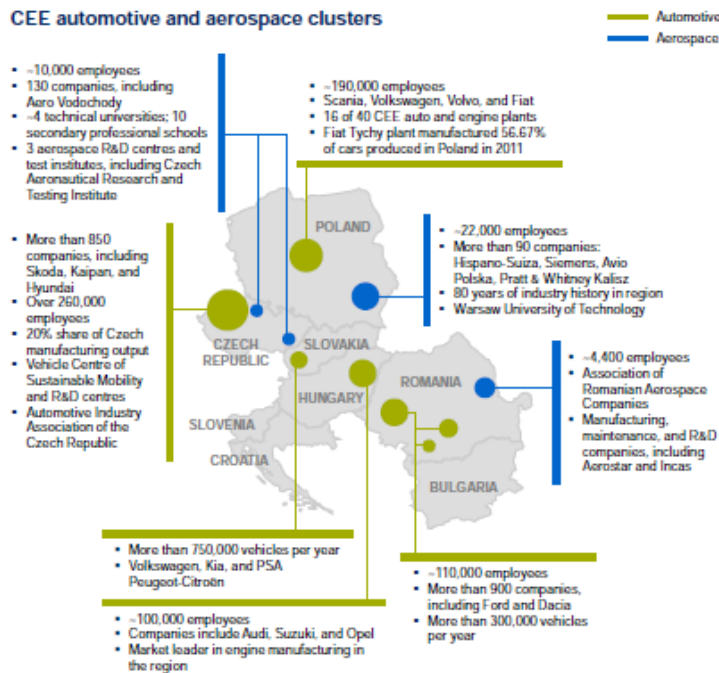
CEE exports are also concentrated in a few industries. Machinery and transport equipment is the most important category, generating 45 percent of CEE goods exports, followed by manufactured goods and articles, at 28 percent. This mix is similar to that of the EU-15 nations, where machinery and transport equipment exports amount to 42 percent of total exports and manufactured goods and articles represent 23 percent. The automotive industry is the clear leader in terms of exports across all CEE countries, with the exception of Bulgaria. Nearly two-thirds of automotive exports go to the EU-15, of which 60 percent goes to three countries: Germany, the United Kingdom, and France. By comparison, most EU-15 automotive exports are sent to the United States, China, Russia, Switzerland, and Turkey which account for 40 percent of Western European auto exports."

On the other hand, it means that "The CEE economies have established a strong position in automotive parts and automotive assembly. About 65 percent of automotive assembly and automotive parts production capacity is owned by Western European players such as Volkswagen and Bosch, and two-thirds of autos and auto parts from CEE factories are exported to Western Europe. The CEE region is also attractive to North American and Asian players. Kia's only European manufacturing plant, in Žilina, Slovakia, began operating in 2006, and Hyundai launched its first European automotive plant in the Czech Republic village of

Nošovice in 2008. The CEE region is now home to industry clusters in industries critical for further development of knowledge-intensive manufacturing, including automotive, aerospace, and others. Clusters of manufacturers, suppliers, research institutions, universities, vocational schools, and other players in the value chain help support a rapid pace of innovation and allow for tight coordination all along the supply chain.

The automotive clusters in Poland and the Czech Republic are the sixth and seventh most advanced in greater Europe, behind clusters in Germany, France, Italy, the United Kingdom, and Spain; Polish auto clusters employ 7 percent of all autoworkers in Greater Europe, and the Czech clusters employ 6 percent. The Czech automotive sector has three major automotive clusters, with over 850 companies and 260,000 employees. Czech automotive clusters have close connections with a number of universities, such as the Czech Technical University and the Technical University of Ostrava. The Pannon Automotive Cluster (PANAC) in Hungary, which was established in 2000, today comprises almost 100 companies, including assemblers Audi, Suzuki and Opel, and employs about 100,000 workers” (Figure 1) (MGI, 2013, pp.33-34).

Figure 1. CEE automotive and aerospace clusters



Source: MGI (2013, p. 34)

According to Jimborean and Kelber (2014, pp. 5-6) “during the pre-crisis period, CEE countries attracted large capital inflows (in particular FDI), enhanced by privatisation and prospects of EU accession. Compared to other emerging market economies, the Central and Eastern European region has been particularly successful in attracting FDI. Many authors have linked the productivity convergence in CEE to FDI inflows, considered to be the main vehicle of economic restructuring and technology diffusion. In terms of FDI allocation across sectors, the services sector was the main recipient, mostly motivated by market seeking and supply cost optimization; it was enhanced by privatisation in the region and the high presence of foreign investors in the banking and telecommunication sectors during the 1990s. The services concerned were financial intermediation, followed by business-related services (i.e. real estate, renting and business activities) and trade, as well as transport, storage and communication. On the other hand, FDI in the manufacturing sector was mostly motivated by low input costs and production cost savings, and typically counted towards “vertical” FDI. FDI in the manufacturing sector has been concentrated in few industries, mainly transport equipment, electrical and optical equipment, food, chemicals and metals.

After the outbreak of the 2007 global economic and financial crisis, the sharp macroeconomic and financial adjustment process in the region, coupled with the drying-up of net FDI inflows on the financing side of the current account led to important losses in output. During 2010-2011, owing to a certain improvement of macroeconomic fundamentals, the return of risk appetite and expansionary monetary policy in advanced economies, balance-of payments imbalances returned in many CEE countries, along with the rebound of exterior financing in emerging Europe. However, for emerging Europe, this rebound has been anaemic compared to the 2004-2007 average (before the 2007 crisis) or the 1991-97 average (before the Asian crisis). Moreover, after this relative improvement, CEE countries have been significantly affected by the intensification of the euro area sovereign debt crisis late 2011, through declining net FDI inflows coinciding with a drop in outward investment from the euro area. In terms of composition, over the period 2010-2013, portfolio debt flows replaced FDI as the main source of financing making the CEE region more vulnerable to the market sentiment.”

A 2015 report of the Vienna Institute for International Economic Studies (WIIW) found that the stabilization of economic growth in the new EU member states is expected to spur FDI. However, there has been diminishing green-field investment activity. Consequently, FDI has flowed mainly to existing subsidiaries, strengthening established capacities. FDI inflows are still meagre in relation to gross fixed capital formation, about half of the before crisis level. Economic recovery is based on other growth drivers including private consumption and EU transfers. However, an acceleration of economic growth may not be sustainable without a

recovery of private investments, both foreign and domestic. Government policies for attracting FDI have focused on the re-orientation of FDI to higher value-added activities in manufacturing and services. The Central European manufacturing hub (including large parts of the Czech Republic, Hungary, Poland, Romania and Slovakia) has expanded and new ventures targeted ICT services. Simultaneously, the support of domestic SMEs and national champions has received more attention and public funding compared to earlier years. However, fiscal support to new investment projects in more developed regions has been curtailed by the new EU-wide state aid ceilings (WIIW, 2015).

Table 3. Inward FDI Stock in CEE countries as a percentage of the GDP

Country	1995	2012	2013	2014	2015
Bulgaria	3.2	93.9	92	84.9	86
Czech Republic	12.3	66.0	64.4	59.2	62.2
Hungary	24.5	82.0	80.7	71.5	76.4
Poland	5.6	40.9	43.7	37.7	44.9
Romania	2.3	44.4	43.2	36.7	39
Slovakia	6.5	59.4	59.2	52.3	55.6

edited by Lukács based on UNCTAD (2016)

Table 4. Inward FDI Flows in CEE countries as a percentage of the gross fixed capital formation

Country	(2005-2007) (Pre-crisis annual average)	2012	2013	2014	2015
Bulgaria	81.3	12.9	15.6	14.8	17.1
Czech Republic	20.0	14.8	6.9	10.7	2.6
Hungary	21.3	59.3	12.9	25	4.9
Poland	19.5	7.4	3.7	11.7	7.8
Romania	22.5	6.8	7.6	6.7	7.8
Slovakia	26.0	15.1	-3	-1.6	4

edited by Lukács based on UNCTAD (2016)

After the 2008 financial turmoil with subsequent economic downturn and the 2010-2011 European sovereign debt crisis the CEE countries experienced falls both in terms of inward FDI stocks as a percentage of the GDP (Table 3) as well as of FDI inflows as a percentage of the gross fixed capital formation (Table 4). One of the main reasons for the ailing post-crises FDI statistics is that similarly to the CEE countries' dependence on European exports a massive share of FDI hails from EU-15 nations. 86.8 percent of Hungarian inward FDI stocks originate from the EU, roughly 28 percent of that from the Netherlands with other European countries, like Germany, Austria, Ireland and the United Kingdom being the major foreign investors with FDI shares of 22.4, 16.7, 8.1 and 5.2 percentages, respectively (Hungarian Central Bank, 2016). Figures for the Czech Republic resemble those of listed for Hungary. 86.9 percent of the Czech inward FDI stocks originated from the EU. 24 percent from the Netherlands, with Austria (13.2%), Germany (12.6%) and Luxembourg (12.1%) ranking in the second, third and fourth places, these four countries basically covered the major part of all inward FDI stocks in the Czech Republic in 2014 (Czech National Bank, 2015). Among the foreign enterprises that have invested in Poland, those from the EU have predominant position (91.9% of the FDI stocks for 2015), which includes investors from the Netherlands (18.2%), Germany, (16.4%), Luxemburg (11.5%) and France (10.7%) (National Bank of Poland, 2016). The largest foreign direct investors in Slovakia are the Netherlands (21%), Austria (16%), Germany (12%), Italy (8%), the Czech Republic (7%) and Hungary (n.a.) (The United States Department of State, 2015). As for Romania, the major sources of FDI are the Netherlands (25%), Austria (14.2%), Germany (12.4%), Cyprus (6.9%), France (6.7%) and Italy (5.2%) with 89.7 percent of the total inward FDI stocks originating from European countries (National Bank of Romania, 2016).

4. “Eastern Opening”, a strategy to attract FDI from, and endorse exports to emerging Asian countries

From a CEE perspective the “Eastern Opening”, a strategy based on the endorsement of commercial and investment relations with emerging Asian nations is meant to compensate for the long-time trade deficit Hungary and other CEE countries uphold with Asian nations as well as for the FDI losses compared to both the GDP and the gross fixed capital formation. According to the IMF's 2016 projections (IMF, 2016a) emerging Asia will demonstrate an average 6.3% GDP growth in 2017 with India's leading 7.6% increase followed by China's (6.2%) and the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) countries' (5.1%) as opposed to the 1.5% GDP growth rate anticipated in the Euro-zone.

The countries of emerging Asia have not merely been the most impressive performers in terms of GDP in recent years but also a major source of FDI within their own home region and around the globe. In 2014 developing Asia was the major source of FDI with 432 billion US dollars of capital outflow, followed by North-America (390 bn

USD) and Europe (316 bn USD). China, Singapore, South Korea, Malaysia and Taiwan counted among the top 20 home economies (Table 5).

Table 5. Top 5 developing Asian home economies (East and Southeast and South Asia) in 2014

East and Southeast Asia	Outflow (billions of US dollars)	South Asia	Outflow (billions of US dollars)
Hong Kong	142.7	India	9.8
China	116	Iran	0.6
Singapore	40.7	Pakistan	0.1
South Korea	30.6	Sri Lanka	0.07
Malaysia	16.4	Bangladesh	0.05

edited by Lukács based on UNCTAD (2015, pp. 40-47)

Though most developing country investments tend to occur within each economy's immediate geographic region the question arises if emerging Asian investors may somehow be motivated to expand their activities in the direction of Central and Eastern Europe? Ghemawat and Siegel (2011) argue that on a country level cultural distances (different languages, religions, ethnicities, values norms and dispositions; the lack of connective ethnic or social network and of trust), administrative distances (the lack of colonial ties, shared regional trading blocks and of common currency), geographic distances (physical distance and differences in time zones and climates) and economic distances (differences in financial & human resources and infrastructure) may hinder bilateral relations; it is believed that emerging Asian and Central Eastern European economies can strengthen their economic ties.

The Inward FDI Potential Index, published in UNCTAD's WIR 2012, assesses four key economic determinants of the attractiveness of an economy for foreign direct investors. They are the attractiveness of the market (for market-seeking FDI), the

availability of low-cost labour and skills (to capture efficiency-seeking FDI), the presence of natural resources (resource-seeking FDI), and the presence of FDI-enabling infrastructure (Table 6).

Table 6. Measuring FDI Potential: FDI Determinants and Proxy Indicators

Market attractiveness	<ul style="list-style-type: none"> • Size of the market (GDP (purchasing power parity)) • Spending power (per capita GDP (purchasing power parity)) • Growth potential of the market (real GDP growth rate)
Availability of low-cost labour and skills	<ul style="list-style-type: none"> • Unit labour cost (hourly compensation and labour productivity) • Size of manufacturing workforce (existing skill base)
Presence of natural resources	<ul style="list-style-type: none"> • Exploitation of resources (value of fuels and ores exports) • Agricultural potential (availability of arable land)
Enabling infrastructure	<ul style="list-style-type: none"> • Transport infrastructure <ul style="list-style-type: none"> - road density: km of road per 100 km² of land area - percentage of paved roads in total - rail lines total route – km - liner shipping connectivity index • Energy infrastructure <ul style="list-style-type: none"> - electric power consumption • Telecom infrastructure <ul style="list-style-type: none"> - telephone lines per 100 inhabitants - mobile cellular subscriptions per 100 inhabitants - fixed broadband Internet subscribers per 100 inhabitants

Source: UNCTAD (2012, p. 30)

Table 7. GDP, per capita GDP, real GDP growth rate (2016) and population (2015) in CEE countries

Country	Size of the market (GDP (purchasing power parity)) bn current international dollars	Spending power (per capita GDP (purchasing power parity)) current international dollars	Growth potential of the market (real GDP growth rate, %)	Population
Bulgaria	143	20,116	3	7,149,787
Czech Republic	351	33,223	2.5	10,543,186
Hungary	267	27,210	2.0	9,855,023
Poland	1,052	27,714	3.1	38,611,794
Romania	441	22,319	5	19,511,324
Slovakia	169	31,182	3.4	5,426,258

edited by Lukács based on IMF (2016 a, b) and UN DESA (2015)

Though UNCTAD lists the size of the market, the spending power and real GDP growth rates among the most relevant indicators for market attractiveness (Table 7), it is important to note that one of the most important motivations for market-seeking investors is the proximity, the accessibility of regional markets. An investment in the CEE countries often occurs when non-European MNEs consider it necessary, as a part of their global production and marketing strategy, to have a physical presence in Europe. EU-28 investors are efficiency-seekers in the CEE countries, where the availability of skilled and relatively cheap labour ensures MNEs competitive advantages (Dunning and Lundan, 2008).

In the 2013 study composed on the growth of Central and Eastern European economies McKinsey Global Institute further underlines the region's close proximity to large consumer markets. MGI notes that the furthest CEE nations are less than 1,500 km from Germany and the other Western European countries. Thus, companies

investing in Central or Eastern Europe have access to a market of 508.4 million inhabitants (Eurostat, 2016b) with a combined GDP (PPP) of approximately 14.64 trillion euros (18.74 trillion US dollars) in 2015 (Eurostat, 2016c; CIA, 2016).

Figure 2. Strategic location of CEE countries



Source: MGI (2013, p. 15)

As for the availability of skilled, yet low-cost labour in 2015, average hourly labour costs in the whole economy (excluding agriculture and public administration) were estimated to be EUR 25 in the EU-28 and EUR 29.5 in the euro area (EA-19). However, this average masks significant differences between EU Member States, with the lowest hourly labour costs recorded in Bulgaria (EUR 4.1), Romania (EUR 5), Lithuania (EUR 6.8) and Latvia (EUR 7.1), and the highest in Denmark

(EUR 41.3), Belgium (EUR 39.1), Sweden (EUR 37.4) and Luxembourg (EUR 36.2). Bulgaria's and Romania's labour force therefore costs approximately one-fifth and one-fourth of the EU-28's average, whereas the Czech Republic's (EUR 9.9), Hungary's (EUR 7.5), Poland's (EUR 8.6) and Slovakia's (EUR 10) hourly labour costs equal to approximately 30-40% of the EU-28 average, and to 25-27% that of the euro zone (Eurostat, 2016d).

About 22 percent of the entire CEE labour force has tertiary education and 29 percent of workers aged 25 to 34 have college degrees, matching the Western European rate of 29 percent for all workers. The number of science, technology, engineering, and mathematics (STEM) graduates rose by 6.6 percent annually from 2005 to 2010, and there are an estimated 561,000 such graduates in CEE countries (MGI, 2013, p. 13).

5. Indian investors in CEE countries

Indian companies have been investing abroad for a long time, but Indian outward FDI has become sizable only since the mid-2000s. The liberalization of FDI policy (relaxation of foreign exchange restrictions on capital transfers abroad) especially since the mid-1990s has contributed a lot to the growing internationalization of Indian companies. In 2014, developing Asia was the biggest source of global FDI outflow, eclipsing the performance of North America and Europe. Indian outward FDI stock reached 130 billion US dollars which placed the country at the 8th position in the ranking of developing Asian investors.

In the pre-1990 phase, Indian outward FDI was market-seeking and concentrated mainly in developing countries (Andreff 2015, p. 90). During the liberalized phase, continual industrialization in the domestic market, experience attained from home and abroad, financial relaxation and local government supports paved the way for Indian companies to invest more globally. They not only invested into developing countries but the share of their outward FDI into developed countries also increased in the 1990s (Baskaran – Charlas 2012, pp. 52-53). The developed countries' share in the cumulative FDI outflow from India increased from 23.7% between 1980 and 1989 to 44.1% between 1990 and 1999 and rose further to 49.5% between 2000 and 2009, then dropped to 39.4% between 2010 and 2014. Since the 1980s, Europe has been attracting more Indian FDI outflow than North America. The share of Europe in Indian FDI outflow into developed regions increased from 51.7% between 1980 and 1989 to 75.5% between 2010 and 2014. By contrast, North America saw its share decline from 48.3% to 18.2% between these periods (1980-89 and 2010-14). The increased share of Europe largely reflects the expansion by Indian firms of their overseas operations in European markets as a strategy for reducing their disproportionate focus on the US market. This is particularly true for Indian ICT,

pharmaceutical, automotive and steel companies that are undertaking M&A as well as greenfield investments in European countries as part of their geographical diversification strategies (Pradhan 2017, p. 54). In Europe, the UK is the traditional destination country for Indian investors. But since 2000, Indian FDI outflow into Europe has become geographically more diversified by targeting Germany, Netherlands, Luxembourg, Belgium etc. And CEE countries could also experience an increased interest of Indian investors in the last decade. For example, Charlie (2012, p. 7) highlights that Indian IT/BPO (Business Process Outsourcing) companies have benefited the economies of Romania, Czech Republic Poland and Hungary as they are emerging as new hotspots for outsourcing.

According to the calculation of Pradhan (2017, p. 57) based on Indian official data, between 2000 and 2014, developed Europe (mainly EU) was the largest target region of Indian FDI. Since 2000, Indian companies have invested cumulatively over 50 bn euros in the EU. In 2015, at the global level India was the 18th largest investor in the EU. The sectoral mix of Indian investments in the EU is consistent with overall internationalisation of Indian companies globally (Delegation of the EU to India 2017, pp. 23-24). Indian companies in the EU usually operate in the IT services, pharmaceutical, steel, automotive, energy & power, and oil & gas industry. Indian companies invest in the EU to access to large markets and to acquire new technologies, skills, research facilities and marketing networks. In the case of greenfield investments, factors such as skilled workforce availability, government support, favourable business climate, infrastructure, and logistics play an important role (Delegation of the EU to India 2017, p. 24). Gerőcs (2017, pp. 33-34) points out that there can be differences in the motivation behind Indian direct investments in Western or Central and Eastern Europe: Indian companies use CEE location not for targeting domestic market neither for acquiring strategic assets, but as a gate to the larger European market because of their proximity (and EU membership) and lower wages.

In 2012 study on Indian investments in Central and Eastern Europe, Goyal and Mukherjee (2012, pp. 8-10) argue “that the cumulative FDI from CEE countries to India since April 2000 until June 2012 was 567.4 million US dollars, which accounted for 0.32% of total FDI inflows in India during that period. Around 82.5% of the FDI came from Russia, 9.15% from Poland, 3.05% from Czech Republic and 1.8% from Hungary, among others. Of late, Indian companies have also started investing in Central and Eastern Europe. Investment by Indian companies in Central and Eastern Europe is a small proportion of the total outward investments; however, it is larger than the investments made by Central and Eastern European countries in India. According to the Reserve Bank of India (RBI), from June 2007 to May 2012, India’s cumulative direct investment in Central and Eastern Europe was valued at 1.62 billion US dollars, which was 1.28% of India’s total outward investment in the five-year

period. A large proportion (86.4%) of Indian investment in Central and Eastern Europe is directed towards Russia, followed by Czech Republic (10.13%) and Poland (2.46%). Other CEE countries, which have received investment from India, include Hungary, Romania, Georgia, Slovakia, Albania, Ukraine, Slovenia and Serbia. However, Indian investment in these countries is very small (less than one percent). By country, manufacturing and mining sector has attracted a majority of Indian investment in Czech Republic (86.78%), Serbia (98.63%), Russia (95.51%), Slovakia (100%) and Slovenia (100%). In Ukraine (77.27%) majority of Indian investment has been in the wholesale, retail trade, restaurants and hotels while in Poland and Romania, majority of investments has been in financial, insurance, real estate and business services. Interestingly, the Czech Republic is the only country where there is a record of Indian investment in electricity, gas and water supply.”

Upadhyay and Kugiel (2014, p. 5) argue that “there is a need for business groups from CEE to become stronger in the India-EU economic interactions through formal mechanisms and ad hoc initiatives. The India-EU Broad-based Trade and Investment Agreement (BTIA) could not conclude 15 rounds of negotiations since 2007. Prime Minister Narendra Modi and Herman Van Rompuy, the President of European Council discussed the BTIA in a meeting at Brisbane in 2014. They discussed the India-EU FTA, which has the potential to enhance the economic and commercial relations, and as part of the EU, CEE countries can benefit from the FTA between India and the EU. The EU-13 countries, which have still more to gain than to lose from broad India-EU FTA, could possibly form a united position within the EU to press for a swift conclusion of negotiations. India and EU-13 countries may also consider establishing a Joint Working Group or Special Task Force to examine widely existing potential to increase trade, investment and movement of people. This body should be composed by high level representatives from ministries responsible for economic cooperation and business from CEE countries and India. This can localize priority sectors for cooperation and propose new instruments and ideas for strengthened economic cooperation.” The cooperation between India and CEE countries could be designed according to the China-CEE cooperation mechanism, which has been working since 2012. On the individual country level, some CEE countries (e.g. Poland, Hungary and Belarus) have already understood the importance of the economic partnership and benefit from the presence of Indian FDI and have been working closely with India in the framework of joint economic commissions (Roman et al. 2014, p. 1671).

Upadhyay and Kugiel (2014, p. 6) also recommends another idea, which is worth exploring, a regular regional India-CEE Economic Forum to discuss comprehensively prospects for new initiatives in different fields. First, such a forum, the India-Central Europe Business Forum, was already organized in New Delhi on 25-27 March 2014. There were plans to make it an annual meeting of businessmen and policymakers from both regions.” The second India-Central Europe Business Forum took place in

Bangalore on 5-6 October 2015. The third edition of the Forum, in a revised format of India – Europe 29 Business Forum was organized in New Delhi on 8-9 December 2016. If it is properly managed, it could become another useful mechanism to enhance economic interactions between India and CEE countries.

6. Indian investors in Hungary

The Indian companies, which are operating in Hungary presently, usually invested into the country after 2000. According the data from the Indian Embassy, as of May 2017, Indian companies' investments reached 2 bn US dollars in Hungary and they provide employment for nearly 10,000 people. Indian investments are in the fields of information technology/BPO, automotive/auto-components, pharmaceutical, electrical machinery, food processing and clothing retail.

Tata Cosultancy Services, Genpact, Cognizant, Wipro, TechMahindra (formerly Satyam Computer Services) and GrayMatter-Europa are active in the IT/BPO industry. For example, Tata Consultancy Services (TCS), India's biggest IT and software company established a European Software Development Center in Budapest, Hungary in 2001 which has been upgraded to a Global Development Center. In 2017, TCS announced that it would expand its capacities in Budapest and open a new service center with 500 new employees. Genpact established its Hungarian center in 2002. The next investor in this field was Satyam Computer Services in 2004 and Cognizant in 2008. After them, Wipro arrived in Hungary which opened a development center in 2010 (to service the transformational programme of Magyar Telekom), with the launch of this center, the number of Wipro centers in Central and Eastern Europe grew to four. Wipro had already have centers in Poland and Romania. In 2014, Gray Matter opened a small office in Budapest to provide business intelligence and analytics software solutions for manufacturing and aviation industries.

Samvardhana Motherson and Apollo Tyres are active in automotive industry. Samvardhana Motherson acquired an automotive mirror technology Ltd. in the North West of Hungary (in Mosonszolnok) in 2009 and opened a new factory (in Mosonmagyaróvár) in 2011. The company is a member of the Pannon Automotive Cluster (PANAC), which is located in Győr, a city halfway between the capitals of Austria (Vienna) and Hungary (Budapest), the regional centre of AUDI (Figure 1). In 2016, it acquired the automotive mirror factory of Ábrahám és Társa Ltd. in the East of Hungary (Túrkeve). The company won the 'Investors of the Year 2015' award in Hungary (in the greenfield investment category) with the building of a new factory in Kecskemét (the city that hosts Mercedes) where it will produce bumpers for German carmakers. Apollo Tyres opened its factory in Gyöngyöshalász in April 2017

which is its first greenfield investment project outside India. (Apollo Tyres won the 'Investors of the Year 2014' award for this investment). The car parts manufacturer, Sona announced in 2016 that it would build a plant in the North East of Hungary (in Polgár).

Beside the companies in the IT/BPO and automotive industry, we should mention the presence of Crompton Greaves (part of Avantha Group) in electrical machinery, SunPharma in pharmaceuticals, Global Green (part of Avantha Group) in food processing and Cosmos City in the clothing retail industry. Crompton Greaves purchased through its Belgian subsidiary, Pauwels International two Hungarian companies (Ganz Transelektro Plc. and Ganz Transverticum Ltd.) in 2006. SunPharma acquired ICN Valeant Hungary (formerly Alkaloida) in Tiszavasvári in 2005. Global Green purchased two canning factories, Dunakiliti Konzervüzem Ltd. in 2006 and Puszta Konzerv Ltd in 2008. Cosmos City operate a franchise network with 35 shops in Hungary.

The investments aforementioned underpin the increased interest of companies from the emerging Asian economic giant. In 2014 and 2015, two Indian automotive companies made the largest greenfield investment in Hungary. And the expansion of TSC in 2017 was labelled by the Hungarian Minister of Foreign Affairs and Trade, Péter Szijjártó the latest success of Hungary's Eastern Opening policy (Ministry of Foreign Affairs and Trade, Hungary, 2017). Indian companies' engagement with the Hungarian economy has also been strengthened by the conclusion of Strategic Cooperation Agreements (SCA). The Hungarian Government signed an SCA with Crompton Greaves and Tata Consultancy Services in 2013 and Samvardhana Motherson in 2015. SCAs are signed by the Hungarian Government to acknowledge the importance of outstanding investors in regards to their contribution to the development of the recipient economy. With the conclusion of SCAs, the Hungarian Government seeks to foster the long-term presence of these companies, deepen their embeddedness into the Hungarian economy, and improve the international competitiveness of the Hungarian economy. We can also experience a higher intensity in bilateral official relations, which is revealed in the growing number of meetings of high ranking politicians and the Hungary-India Joint Commission on Economic Cooperation, and in the organization of business forums for Indian and Hungarian companies.

Hungarian investors in India include Richter Gedeon, one of the CEE countries' biggest pharmaceutical companies with approximately 1 bn euros annual turnover. Two engineering companies as well as Hungary's petrochemical national champion (MOL) is also present in India and a wastewater management firm (Embassy of India, Hungary 2015; Ministry of Foreign Affairs and Trade, Hungary, 2015b). The latter is

part of Hungary's sustainability efforts pledged at major UN conferences (Rio+20, 2012; Budapest Water Summit, 2013; COP 21 Paris, 2015).

7. Conclusions

The 2008 financial turmoil with the subsequent global economic downturn and the 2010-2011 European sovereign debt crisis resulted in a massive backdrop in European GDP and trade growth figures as well as that of inward FDI. The continent's leading economy, Germany maintained its position mainly by restructuring commercial and FDI destinations, primarily towards the emerging economies of East, Southeast and South Asia. With the expression "borrowed" from the Hungarian Minister of Foreign Affairs and Trade, Péter Szijjártó the CEE countries, specifically Hungary "copied Germany's formula" and incorporated it into their foreign policy strategies. Hungary's new scheme, the "Eastern Opening", endeavours to facilitate exports to as well as inward FDI flows (mainly) from emerging Asia (with India being prioritised on the third place after China and Russia). The underling motivation of the strategy initiated in 2011 is to diminish the CEE countries' (specifically Hungary's) massive commercial (concentration both in terms of country orientation and sectors) and FDI dependence from the EU-15.

On the other hand, the emerging CEE economies have a lot to offer to potential emerging Asian economic partners, predominantly the market seeking investors. CEE countries with their highly skilled and relatively cheap labour force (20-40% of Western European labour costs) are positioned in a close geographical proximity to Western Europe with many of them (Czech Republic, Hungary, Poland, Romania and Slovakia) being integrated into automotive OEMs, the value chains that are jointly formulating the European cluster (hub) of car factories within a radius of 500 kms. In case of Hungary, which is in the focus of this study, we can see how Indian automotive companies have started to integrate into these value chains.

In this paper we also wanted to find out if firms from emerging markets (EM) possess an advantage over global MNEs when entering into other EMs. In the light of the new foreign economic policy orientation of CEE economies the answer is certainly yes, yet a comprehensive India-EU free trade and investment agreement could serve as a wider and more pronounced platform for the currently undergoing bilateral advancements.

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