EUROPE INDIA CHAMBER OF COMMERCE

Celebrating the Past, Charting the Future: Commemorating 11 years of the EICC

Trade and Investment Partnership Summit (TIPS) 2015

"***Changing Dynamics in EU-India Relations:***
Business & Strategic Implications in the Next Decade"

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1. Introduction:

(i). The 2014 Trade and Investment Partnership Summit (TIPS) held on 20-21 November 2014, in Brussels, brought together business partners playing a crucial role in turning the European Union – India trade and economic relations into force. With close to more than 175 participants from about 20 countries, the TIPS aimed at maintaining the momentum for accelerating progress in business and trade to 2015, while taking stock of lessons learned from efforts to reinforce importance of strategic relations so as to help EU and India to realise the importance and gravity of geo-political and economic challenges.

(ii). The 2014 summit was dedicated to fostering bilateral trade, investment and economic relations between European Union and India around the theme *"EU-India Strategic Partnership: Beyond the Lost Decade: What will it take for European and Indian Businesses to make it Work*", and was a milestone in EICC's efforts to strengthen the EU-India partnership. The summit was the largest business event in the context of India and European business of 2014 and provided the highest level platform for a concrete and constructive dialogue in the context of improving trade and investment between EU and India, offering Indian and European companies to build collaboration and business opportunities. The Summit was organized in partnership with Eurochambres / EBTC and in collaboration with Indian Chamber of Commerce and The Friends of Europe. The TIPS adheres to the motto of "serving and building EU-India trade and economic cooperation"; the concept initiated by a group of extraordinary business leaders and entrepreneurs from India and Europe.

(iii). The TIPS 2014 discussed strategies for promoting SMEs in EU-India economic cooperation; entrepreneurial spirit of Indian CEOs to help India face the challenges of change; putting Clean-Tech and Green Growth at the heart of development strategies; emerging trends in renewable energy; strengthening dialogue and consultation mechanism on the Intellectual Property Rights Protection in India; emerging business opportunities and EU-India cooperation in the higher education in India; discussing the challenges of Urbanization through infrastructure development; EU-India Free Trade Negotiation; harnessing intellectual capital of Indian Diaspora for creating better understanding in business and culture. The Summit made comprehensive overview on the strategic fundamentals of India-EU bilateral relationship in content and context and suggested ways to give it a strategic dimension through a full spectrum of industry leaders, policy makers, senior executives in the corporate sector and representatives of the European Commission and trade bodies. Drawing from their rich repository of practical knowledge and evidence accumulated in different sessions and development settings, participants highlighted successes and constraints in the EU-India economic relations through a number of working papers and presentations that were featured during the Summit.

(iv). The objective of the Trade and Investment Partnership Summit (TIPS) is to create awareness on international business opportunities and feasibility of cross-border expansion for Indian and European businesses. The other objectives of the TIPS is to build a platform for communication between large, small and medium-sized enterprises in India and the EU for integrating resources and technical know-how. TIPS also promotes entrepreneurship, enhance mutual understanding and economic integration, and provides comprehensive services for international operations to the Indian and European enterprises.

(v). Although EICC has been organizing its annual Conferences and other major events on different models, since 2013 EICC has developed a brand called TIPS (Trade and Investment Partnership Summit). In this sense the 3rd Edition of the TIPS 2014, a unique business and leadership platform, brought together business leaders, thought leaders, policy makers, regulators, representatives of the European Commission and trade and business bodies and government representatives from Europe and India with an eye to create an innovative way to strengthen the existing trade and economic partnership between European Union and India.

(vi). The TIPS 2015 around the theme **"Changing Dynamics in EU-India Relations: Business & Strategic Implications in the Next Decade**" will be different from the other summit. Based on the outcome of the TIPS 2014 and the issues raised during and the Summit, the TIPS 2015 will take innovative steps and will see shift from our current model to a different format. The Summit is being organized in partnership with **Eurochambres / EBTC** with whom EICC has been collaborating for last several years; and in collaboration with **Indian Chamber of Commerce** and **The Friends of Europe**. The Summit will invite some selected countries in the EU to show case potentials for investment in their countries, the current state of business collaboration with India and how it can be further improved. The presentations will be made either by the trade and investment agencies, from government itself or from the trade bodies and Chamber of Commerce and will include the present scenario and perspectives, problems, prospects and potentials. These Reports will be compiled and presented to the Government of India and to the respective governments in the EU to address the specific issues that the Country Reports will highlight. Opportunities in Merger & Acquisitions and joint venture between Indian and European companies will also be one of the objectives of the Country Presentations. During the sessions, the EBTC will show case its technical expertise and services it can offer to address the issues related to trade, investment and regulatory issues that confront EU-India business. The EBTC which has been functioning in India for last seven years has been of great assistance to European and Indian companies. Its mission is to assist the Business, Science & Research Community - in Europe and India - to work together towards generating new business opportunities in clean technology transfer, and establishing business relevant cooperation in the field of research, science and technology.

(vii). The goal of the country presentations is to present a panorama of economic and investment possibilities in the selected EU countries for Indian businesses, The "Country Presentation" will aim to place Indian and European firms in direct contact and will be represented at political and technical level, in such a way as to involve other actors interested in sustaining and promoting EU-India economic interests. The Country Presentations will feature government recognized proposals delivered by stakeholders and will provide attending companies with a fact and figure checked perspective on ongoing and future projects. EICC hopes that the expected outcome of the Country Presentations will present participants with limitless opportunities and the chance to create solid bonds in a dedicated environment and stimulate investment & project financing in sustainable business ventures and building conclusive partnerships.

(viii). The Summit will take note of the specific issues deliberated during the TIPS 2014 and will discuss collaboration on issues such as what will it take India to become the Global Manufacturing Hub in the context of "Make in India", India's quest for Green and Clean Energy, current state of Regulatory Environment and how EU and India can work together on Infrastructure and Urbanization, India's health care crisis, etc. As we expect some development in the free trade negotiation with EU coming up in the next few months, the Summit will discuss FTA and issues related to this such as Data Protection, Procurement Policies, etc. These are the issues which are already in the EU-India policy radar and also being addressed through joint collaboration. Hence, this is also an opportunity to reassess the progress done so far and what more are needed to be done.

(ix). The business summit will be organized in cooperation with the **Europe India Foundation for Excellence (EIFE)** and EICC Media Partner **Media India Group.**

(x). The TIPS 2015 takes place in an unpredictable economic and social environment in Europe. Europe is in the throes of a crisis of identity—perhaps the most profound since the creation of the European Union—and one that springs from deep economic distress in many of its member states and political division both within and without. Europe's bond-buying plan won't hurt but will do little to address a series of political and structural barriers that have plagued the euro zone since the 2008 crisis. Despite widespread calls for a bond-buying plan since the 2008 credit crunch first hit, European central bankers faced a thicket of political backlash and bureaucratic squabbling that thwarted those proposals. Now, with interest rates in Europe already near zero, the impact of further money easing will be muted. Lower rates in Europe will also likely be less effective than in the U.S. because of differences in the way company's access credit.

(xi). The TIPS 2015 also takes place in the shadow of the skewed pattern of global growth, its implications for bilateral relationships, and to understand the need for greater emphasis that EU and India are required to put on bilateral relationships. Also the Summit takes place in the context of the visit of US President to India to re-energise strategic US-India relations. The visit of US President Barack Obama as the chief guest at the 66th Republic Day was both a reflection of something bold and at the same time unsurprising, when understood in historical context. Bold because concerns about perception and the bogeyman of empire matter little to a Prime Minister more interested in the future than in history. U.S.-India relations are poised for a new beginning as the Modi government re-defines the terms of India's engagement with the rest of the world, bereft of the shibboleths of the past. President Obama's visit was also an important opportunity to reshape the contours of the U.S.-India strategic partnership. For Washington, this was a moment to seize and for India a moment to celebrate. However, achieving significant progress will require effective management of bilateral trade and economic policy issues, accompanied by strategic engagement on security and foreign policy fronts.

2. Eurozone Crisis threatens Future of United States of Europe

(i). While on the cusp of 2015, India is emerging as a world power, Europe once again disappointed with social and economic challenges tearing apart the social fabric. Based on what we are seeing in the global macro scenario, 2015 is shaping up to be a very turbulent year. A Chinese slowdown and the country's debt problems, the US rate hike, European slowdown, emerging markets currency crisis, Japan's return to recession. Japan, the third largest economy, has unexpectedly fallen into recession.

(ii). In the context of emerging markets, India has been doing very well since the crisis began in 2008. It needs to be acknowledged that India has been very favourably positioned against other emerging markets since 2008, when the global crises began. What happened then was that when the global economy slowed down, all countries tried to stimulate their way out of trouble. They all had massive stimulus programmes. So, everyone — from the US to Europe to China — spent trillions of dollars trying to reinflate their economy. Europe is nervous due to developments in Greece. Considering the on-going turmoil and the risks in the global market, there is a possibility that Indian market may suffer some pain.

(iii). The modern-day European Union was crafted in large part to minimize built-in geopolitical tensions that historically have torn it apart. The recent announcement of the stimulus package by the European Central Bank will soothe the nerves as the plan is an attempt to spur economic activity in Europe by increasing the amount of money available. It calls for governments to increase their borrowing for various projects designed to increase growth and decrease unemployment. Rather than selling the bonds on the open market, a move that would trigger a rise in interest rates, the bonds are sold to the central banks of eurozone member states, which have the ability to print new money. The money is then sent to the treasury. With more money flowing through the system, recessions driven by a lack of capital are relieved. This is why the measure is called quantitative easing. The European Central Bank is providing the mechanism for stimulating Europe's economy, while the eurozone member states will assume the responsibility for stimulating it - and living with the consequences of failure.

(iv). The Europe of today is, of course, a far more multicultural place and regional integration depends on "unity in diversity," as the EU's motto puts it. European integration continues to be a bipartisan project for the parties that straddle the middle of the political spectrum, but the Euroskeptics are now winning votes with their anti-federalist rhetoric. Though they tend to moderate their more apocalyptic rhetoric about "despotic Brussels" as they get closer to power, by pulling on a loose thread here and another there, they could very well unravel the European tapestry.

(v). The recent developments in the European Union shows that the financial crisis has complicated institutional and policy repair in the EU as well as the establishment of a lasting economic recovery. The fate of the eurozone underlies the future of the European Union, as any disarray at the core of the EU puts strong destabilizing forces into motion. Budget profligacy is far from explaining the depth of the current crisis in the eurozone; a flawed design and inadequate policy arrangements, which have invited rising imbalances among EU member states, are no less important in explaining the plight of and the disaffection in the eurozone.

(vi). The euro zone's problems will not be resolved by monetary stimulus and could take more time since it has to reform its rigid administrative structures that weigh on its competitiveness and create the agile distributive market channels that allow the US and the UK to rebound more rapidly. The euro zone has a high level of intra-trade quotient of over 60% and the only way out of the current weakness is to allow its member countries enough flexibility to apply different policies with the guiding rule of supporting growth in the single currency area. Emerging economies are the promise of the future that could benefit from the spillover effects of the US and UK and their growing domestic and regional demand. Sustaining the current momentum of growth is possible if we can keep the geopolitics neat and clean and provide a clear direction to financial markets. We should not misread the inflation story nor the growth story.

(vii). On 30th September when TIPS 2015 is organized, Modi government will have already completed more than a year in the office, and the speed and scale with which the government is moving in economic policy reforms, it would be interesting to see how the reforms are being implemented. It should be understood that the government is not playing T20 Cricket Match where it has to score "Boundaries and Sixers" on every ball to win but it is playing a Five Day Test Cricket where each ball counts but a sustainable score will help it to win the match.

3. Changing Dynamics and Growing Mutuality in the EU-India Relations

(i). India-EU relations have grown exponentially from what used to be a purely trade and economic driven relationship to one covering all areas of interaction. Over the years, the EU and India have upgraded their relations in both quality and depth in the last few years. India and the EU, as the largest democracies in the world, share common values and beliefs that make them natural partners as well as factors of stability in the present world order. Both are sharing a common commitment to democracy, pluralism, human rights and the rule of law, to an independent judiciary and media. Relations between Europe and India are now significant factors shaping Europe's plan to engage with Asia. In addition to their domestic social, political, cultural, legal and economic impacts, these relations are also crucial determinants of international relations, including the governance of international trade and the future of world peace. India indeed happens to be a fascinating nation - the more one sees it, the more one gets mesmerized by its sheer diversity. And many Indians who see India closely wonder about the true identity of this country in the global landscape of nation-states.

(ii). The European Union has become a club of slow growth laggard economies that are home to dynamic companies. Therein lies the seeds of a growing split between political leaders and the business elite, with serious implications for the future not just of Europe, but for globalization itself. Europe has also become a continent of competitive multinational corporations and uncompetitive nations. Growing split between fast corporations and stagnant economies explains the mixed signals coming out of Europe's powerhouses. The economic and political challenges of the globalization embodied by the rise of India haunts Europe and its political leaders. Acquisitions of European companies by foreign companies including India have been given the colour of economic patriotism. This means lesser European influence in the international institutions like World Bank, IMF, WTO and the UN. The decline of Europe would also mean a world with a greater diffusion of power and a lessened ability to create international norms and

rules of the road. This is where EU and India can work together to become supplementary and complimentary to the global order.

(iii). A stronger European Union needs to become a leading player in international relations. Just as India is called on to play a major role on the world stage, Europe is increasingly expected to assume new international responsibilities. With the 'Wider Europe' concept the EU aims to work in partnership with India to develop an area of prosperity and stability - a 'Ring of Friends' - with whom the EU can enjoy close, peaceful and cooperative relations. What does this idea mean in practice? In return for demonstrable progress in the direction of shared values and effective implementation of political, economic and institutional reforms, India and EU can offer each other a stake not only in the EU's internal market but also a broader access to the four freedoms - goods, capital, services and persons. After a fairly satisfactory performance of last one decade offers an opportunity for India to consolidate the gains and lay the ground for accelerated growth in the medium to long term. The Indian economy has almost become immune to domestic calamities like insufficient monsoons, political change, flooding and other disturbances in major commercial centres, etc. Many economists believe that the country has reached an inflection point where a 9 per cent GDP growth is the base. It is in this context that 2015 could become an important year in India's economic history.

(iv). India's influence as an emerging power in the global affairs is demonstrated by its aggressive role in international affairs. Host of several external as well as internal policy changes have also contributed it to developing a more pragmatic approach to international relations. Its democracy has been an important element in its new self- confident image as an economic player in a globalized world. India's economic advancement no longer rests on telephone call centers and computer programmers. Processes of economic liberalization and nuclearisation have capitulated India into the category of emerging powers. Confidence within itself including in its economic performance and the confidence others have come to repose in India, has been the reason of its rising reputation. It has broken away from its ideologically stultified foreign policy to realpolitik; consensus on building a capitalistic order, fresh emphasis on economics, shedding of "Third World" stigma, return to the West and movement from idealism to pragmatism. These developments have also helped Europe and India to come closer on many issues.

4…… ***And a Need for Deepening of Inter-Dependence***

(i). Europe is slowly waking up to the vast business and cultural potential of India as fast- paced economic growth transforms India into one of Asia's star economies. Indeed, while the business and political establishment in India and Europe attempt to deepen their ties, cultural links between Europe and India have been rapidly taking shape. India has its own unique past, a very different present, and it will have to chart out her own version. To meet the suffocating international challenge and the EU being a major economic player, EU and India need to develop a much more comprehensive dialogue than it has done so far. It is in the EU's interest to cooperate with India which is the emerging global power in its own right. A giant emerging Indian market exerts a gravitational pull for economic interests everywhere. India's geo-political virtues and strength, its democratic record and values and political stability makes more sense for EU to strengthen its relations with India.

(ii) It is very likely that in the next 15-20 years, Indian MNCs like Tata, Birla and Reliance will be feared just as Microsoft, General Electric and General Motors. However, Indian companies have to careful of their A giant emerging Indian market exerts a gravitational pull for economic interests everywhere. India's geo-political virtues and strength, its democratic record and values and political stability makes more sense for EU to strengthen its relations with India.

(iii). Historic enlargement of the European Union has opened a huge untapped market for trade with India. And the new Union, with 460 million citizens and consumers, will be a huge opportunity for India, just as the Internal Market proved to be not some form of "Fortress Europe" as many had feared, but a huge opportunity for the Indian business. In order to further expand into the EU market the domestic industry should concentrate more on exports of value added products and on diversification of the trade basket. The EU is India's largest trading partner and, on paper, it would appear that an enlarged EU would bring with it a large market for Indian goods and services. But it may not be so because of the high unemployment rates, low GDP and lower purchasing power in the new entrant countries of the EU.

Indeed, as an expanded single market sinks in for the richer countries, the emerging situation could upset some facets of the calculation with which EU is so eagerly engaging India – cheap labour and cheap imports.

5. New Wave in India-US Partnership and a Missing Europe

(i). There has been a dramatic upswing and paradigm shift in bilateral relations between US and India after Prime Minister Narendra Modi's BJP swept the Indian General Election last year. President Obama's visit to India underscores the importance the Narendra Modi-led Indian government attaches to its ties with the U.S. As Indian government moves ahead with its plans for reinvigorating the Indian economy, the U.S. looks to envision stronger economic ties with India, with trade policy, energy, telecommunications, climate change, and intellectual property as major areas of focus. Bilateral trade stands at around $30 billion. The U.S. and India share the goal of increasing annual trade five-fold in the future. In recent weeks, the Indian government has moved rapidly to usher in a range of reforms including the implementation of a nationwide goods and services tax; changes in land acquisition laws; amendments to archaic labor laws; cuts in wasteful subsidies on fuel, fertilizer and food; and the lifting of foreign direct investment caps in various sectors including insurance, defense, and e-commerce. Reforms aimed at boosting manufacturing and encouraging capital investment have also been initiated. The U.S. will have to up its game, and a bilateral investment treaty would be a major step forward.

(ii). U.S.-India relations are poised for a new beginning as the Modi government re-defines the terms of India's engagement with the rest of the world, bereft of the shibboleths of the past. Obama's visit will be an important opportunity to reshape the contours of the U.S.-India strategic partnership. For Washington, this is a moment to seize. Sadly, Europe is conspicuously missing so far in Prime Minister Narendra Modi's foreign policy sallies. He has focused first on our neighbourhood, with visits to Bhutan and Nepal. East Asia has thereafter received priority, with his visit to Japan and US and the visit of the Chinese President to India. In between, with the BRICS summit in Brazil, Latin America got early attention.

(iii). Already the world's largest democracy India is on track to overtake China as the most populous nation; one of those countries that presents opportunities for cooperation. Yet while the United States and India share strategic views on many issues, there remain obstacles to a deep strategic partnership. Those hindrances are primarily on the economic front, albeit with important political implications. They involve fundamental issues of property, global trade rules, and the role of the state in economic affairs. Despite the progress made in strengthening bilateral ties the Indian economic and investment policies are limiting bilateral relations. Points of contention include retrospective tax policies, FDI restrictions in various sectors, a range of issues related to intellectual property rights (IPR), and domestic content requirements in clean-tech fields like solar.

(iv). The European Union is India's biggest trade partner, a fact overlooked when China or the US are cited as our principal trade and economic partners. Last year trade with the EU reached 72.7 billion euros. With Europe, unlike China, our trade is balanced; Europe is not destroying parts of our industry because of underpriced exports. Europe is a major source of high technology for us, which China is not. The EU is the highest investor in the Indian economy, with its investment stock reaching 41.8 billion euros in 2012. India-EU trade services stood at 22.7 billion euros in 2012. The FTA (Free Trade Agreement) negotiations with the EU begun in 2007 need finalization for boosting economic ties.

(v). In transfer of technology negotiations, the state's bargaining power will be greater than that of the private sector. Our failure is more because of the uncoordinated manner in which we negotiate defence contracts, besides other problems that have corroded our system. Lately, the cancellation of tenders, some after completion of negotiations, has raised doubts in some European defence industry circles about India as a partner. On the cultural front, European countries are active in India, open to our "soft power" and exposing us to theirs. In terms of people-to-people contacts, vital for sustained relationships, Europe leads.

31. Beyond bilateral ties, the two European countries, France and the UK, are permanent members of the UN Security Council, which means that however ineffective the UNSC is at times and how much it needs reforming, Europe's role there cannot be ignored. A third European country, Germany, is with us in

the Group of 4 (G-4) as a candidate for permanent membership. Both France and UK strongly support India's candidature for permanent membership, unlike China which opposes artfully and the US which supports artfully. It may be true that those who support us are aware that any Security Council expansion is not for tomorrow and that politically supporting our aspiration can be leveraged to advantage in bilateral relations. Nonetheless, such support recognizes the legitimacy of India's claim and acknowledgement of India's rising status.

6. India a Global Power of Tomorrow

(i). The year 2014 ended broadly on a positive note for the Indian economy and financial markets, though challenges have not completely abated. The year 2015 is likely to be shaped by the way the government moves on the policy front. If 2014 was the year of decisive political change, it will serve the economy well if 2015 shapes up as a year of decisive policy thrust. However, progress in this direction could be more difficult than previously believed and signs of this have started to emerge. After not being able to push legislations in the winter session of Parliament amid constant disruptions by the opposition, especially in the Rajya Sabha, the government has taken the ordinance route to make and amend necessary laws. After promulgating the ordinance to amend the insurance Act [Insurance Laws (Amendment) Ordinance 2014], the government is now close to another ordinance to amend the land acquisition Act (Land Acquisition, Rehabilitation and Resettlement Act, 2013). This is after it re-promulgated the coal ordinance [The Coal Mines (Special Provisions) Ordinance, 2014].

(ii). The global environment, however, continues to remain weak, despite faster-than-anticipated growth in the US. Economic activity in the euro area continues to remain subdued with an imminent threat of deflation; the Japanese economy has contracted for two consecutive quarters; and China, so far, has avoided a hard landing but is slowing. Also, commodity exporting emerging economies are headed for financial hardship. The Russian economy, for example, has contracted by 0.5% in November along with falling currency and rising prices. In an environment where the global economy cannot be termed exactly supportive and there could be a risk of "unknown unknowns", the best hope for India will be swift moves in policy making, targeted to boost economic activity.

(iii). While the government has shown the intent that reform process and law making cannot wait, to be fair, the ordinance route will only serve a limited purpose for the simple reason that it will still have to be vetted by Parliament in the next session. If the government is unable to get the approval, it will have to reissue all of them. For the record, according to the Constitution (Article 123), President of India can promulgate ordinances if Parliament is not in session and immediate action is needed. However, for continuance, parliamentary approval is needed within six weeks of its reassembly. If the legislature is unable to enact the law within the stipulated time, the ordinance will expire and the government, if need be, will have to repeat the process.

(iv). It is important to note that business environment in the country got affected in recent years because of uncertainty in policy making, but the ordinance route to law making, despite the intent of creating a better environment, may not yield the desired outcome. In fact, in the next session, the reason and need for these ordinances can itself become the cause of confrontation between the treasury and opposition benches, which can lead to more problems, defeating the entire purpose.

(v). While developments in the global economy will keep making news and drive sentiments in the short run, unless an unknown risk emerges, 2015 is likely to be driven by domestic developments. If 2014 was driven by political change and consolidation, 2015 will be assessed by policy action. This government came to office riding on a wave of hope, and the challenge now will be to keep that optimism intact. With the government well-settled in office, this year will perhaps be the most important part of its tenure. It will be expected to build economic momentum through policy intervention that enhances activity in the medium term.

(vi). The global economy has very few bright spots. India is one of them. The crisis in Europe persists. China is slowing down and it is seeing a large shift of manufacturing capacities to other countries. If this opportunity is not captured for some reason in 2015, financial markets and businesses will be forced to reassess the assumptions they made in 2014. India is well on its way to becoming a $5 trillion economy

by 2025 (and thus the third largest on this planet after China and the US). By 2018, it will overtake Britain and become the largest economy in the Commonwealth.

(vii). The first trillion took India 60 years post-Independence, the next trillion will happen in another 10, and the next three trillion can happen in yet another 10 years! India needs tonnes of growth in the years ahead, starting with 6% per annum and going up to 10% and more for at least two decades, for its per capita income to rise significantly and leave poverty behind. Gazing into the crystal ball, what does India need to do in 2015 for laying the foundations of this mega growth?

(viii). Infrastructure investment as a percentage of GDP is stagnating at 6% and the PPP model is broken. Thus, despite lakhs of crores of stalled projects being cleared, there is no dramatic increase in the size of the order books for capital goods or construction. The latest round of bids for ultra-mega power plants and roads saw zero or close to zero bids, highlighting inherent risks in the sector. India's $86 billion IT exports (which have increased almost 12 times in as many years) still capture less than 10% of the global IT spend, while total tourist arrivals into India stand at 6.8 million (whereas New York's Central Park alone gets an estimated 40 million tourists) every year. These are just two examples of where there is significant headroom available for growth to happen. India is standing at the proverbial cusp of being a middling also-ran economy and a great economy. As it starts the next decade of its journey towards a $5 trillion prize by 2025, steps today will determine the complexion of the journey and indeed the destination.

7. Will Europe Meet India for New Dimension in the Partnership?

(i). In the corridors of international power it is now recognized that a new discourse is emerging which is the inexorable rise of India. The rationale for this discourse is founded on India's nuclear capacity, democratic resilience and economic dynamism. India is becoming one of the fastest growing free market economies; one with a sustainable development model built on a solid foundation of entrepreneurial energy, youthful dynamism and creativity. Brand India is now firmly entrenched in the international psyche as a growth engine of the global economy. Therefore transformation of India into one of the world's leading economies with scientific and technological competence and a stable democracy is a truly phenomenal achievement.

(ii). There is growing co-operation between the EU and India on a wide range of issues. The emergence of India as a major global economic power should not be seen as a threat to Europe but as a precursor to a reliable partnership in peace and development. The EU's interest lies in not having its policies pulled into different directions but in integrating the interest of the two continents. The world economic scene in the next decade is likely to be dominated by the growing economic importance of US, India and China with global sphere of influence gradually shifting away from a world dominated by the West to the emergence of tri-polar economy and an international power house. In this respect, the rise of India presents an opportunity for the EU to bolster regional cooperation in Asia; both for strategic reasons and for its desire to increase its leverage globally.

(iii). Europe's future international role depends greatly on whether it undertakes major structural economic and social reforms in dealing with its aging work-force problem. Its demographic situation will require a concerted, multidimensional approach. The European Union is likely to face a shortage of 20 million professionals in the services sector by the year 2020 while India will have a surplus of 47 million professionals in the services sector. This offers a big opportunity for India and Europe to work together.

(iv). The Indian perspective of the EU-India Strategic Partnership is positively based on the current engagement between the two sides and therefore it is essential that India and EU exploit to the fullest extent the opportunities being thrown as a result of strengthening of economic co-operation. There are indeed differences between EU and India over discussions on the trade and tariffs, as is seen in the international negotiations like in the WTO and such differences will persist so long as India sees the EU trying to impose trade agreements on others. But in spite of such irritants both have much in common, such as long culture and diversity and a commitment to plurality and democracy. Further, both are committed to taking the partnership to a new level; from trade to wider political issues.

(v). It is important to notice that India has responded positively to European Parliament's call to greater co-operation on issues other than trade. This also fits into India's wider international canvas in which the country wants EU's support to become the Permanent Member of the United Nations Security Council. The European Union's current pre-occupations with its social, political and security problems is understandable, but hopefully a fully integrated and reawakened Europe will emerge as one of the major global players reinforcing its trade and economic relations. The Partnership, in broader sense, should therefore be viewed in the perspectives of economic and political benefits to both India and EU, partnership for increasing global influence and enhancement of national security.

(vi). Europe's future international role depends greatly on whether it undertakes major structural economic and social reforms to deal with its aging work-force problem. The demographic picture will require a concerted, multidimensional approach. The current welfare state is unsustainable and the lack of any economic revitalization could lead to the splintering or, at worst, disintegration of the European Union, undermining its ambitions to play a heavyweight international role.

(vii). The last decade was nothing less than extraordinary for India Inc if the number of cross-border acquisitions and joint ventures is any indication. Companies across sectors and service areas have expanded their scope of operation by displaying aggression which was unheard of in the past. While during the 1990s, firms formed pressure groups to influence government decisions on going slow about opening up of India to foreign competition, today it's just the opposite. Today, Indian industry leaders are more confident about their businesses, they are not only competing against foreign players on local turf, but also taking the battle right up to their shores by setting up and acquiring units there. These buyouts are not only by the big boys of Indian industry, but also by smaller players.

(viii). India Inc has been on a global expedition for a while. From technology partnerships and joint ventures to outright acquisitions, companies of different hues are expanding every which way to access the overseas market. Today, with almost every company looking for overseas opportunities, the deals are getting bigger and the canvas much wider. Earlier only the big boys carried their shopping bags abroad; now even smaller companies are ready to pick up anything that takes their business forward and Europe is their favourite destination.

8. EU-India Trade and India's FDI Scenario

(i). According to the European Commission, the value of EU-India trade grew from €28.6 billion in 2003 to €72.7 billion in 2013. EU investment stock in India grew substantially reaching €41.8 billion in 2012 and Trade in commercial services quadrupled in the past decade, increasing from €5.2billion in 2002 to €22.7 billion in 2012.

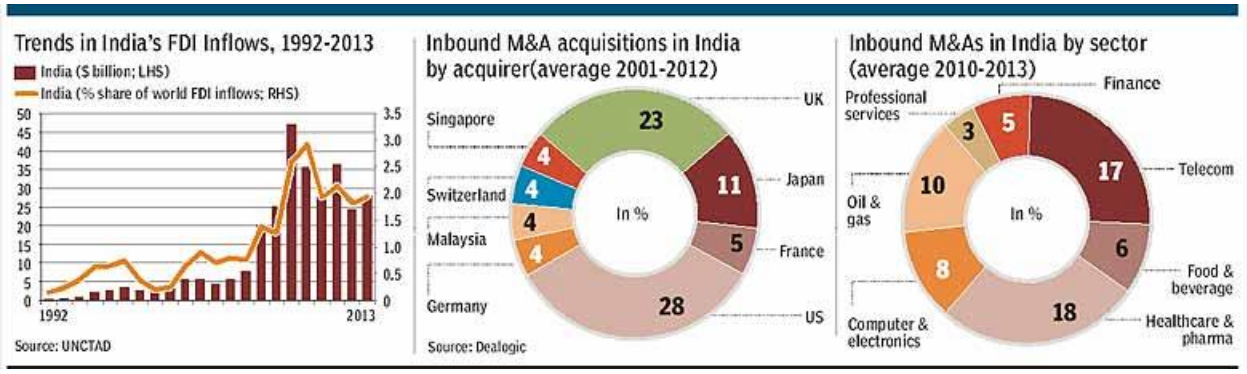
(ii). Foreign direct investment (FDI) inflows into India have been steadily rising in importance since the early 2000s until the global financial crisis. In absolute terms and as a share of GDP, net FDI inflows peaked in 2008, representing around 3% of the share in world FDI flows. While the global financial crisis initially contributed to a slowdown in FDI inflows, the rather sharp downward trend and the consequent sluggish recovery of FDI that can be observed in the post global financial crisis phase has primarily been a result of a host of domestic factors.

(iii). Policy challenges on multiple fronts, including issues of governance, inadequate structural reforms, tax and political uncertainties, all contributed to the lacklustre performance of FDI in India. While there are signs of stabilisation in net FDI inflows, India still has a long way to go to return to the pre-global financial crisis peak. In this light, it is not surprising that the Modi government has reiterated that the country's FDI regime is highly open and conducive for attracting such flows of foreign capital.

(iv). Until 2012, about 40% of FDI inflows used to come from Mauritius, just under 10% from Singapore, and another 5% from the Netherlands. These tax havens and offshore financial centres (OFCs) together made up just over half of all FDI inflows to India. In 2013, however, the composition changed, with Singapore's share rising to 25% (boosted by the double taxation avoidance agreement the two countries have signed which has incorporated a Limitation of Benefit—LoB—provision), Mauritius with about 20% and the Netherlands at around 5%.

(v). While Singapore and Mauritius have swapped places as top investors in India, still about 50% originates from these offshore financial centres. Clearly, these are not the original sources of external financing with the offshore financial centres responsible for a degree of round-tripping of funds from India and transshipping of funds from third countries. Accordingly, an analysis based on such data can be quite misleading when trying to understand economic linkages between countries. Much more attention is also needed with regard to FDI quality at a more disaggregated level (i.e. new FDI versus retained earnings and greenfield versus M&A). While it is important for India to attract FDI, it is pertinent to ask the question whether a policy to attract FDI should be careful in distinguishing between the kind of FDI it wants to attract. All FDI are not the same and are not attracted by the same factors. The prime objective must be to align FDI with national development objectives, consistent with being an open economy.

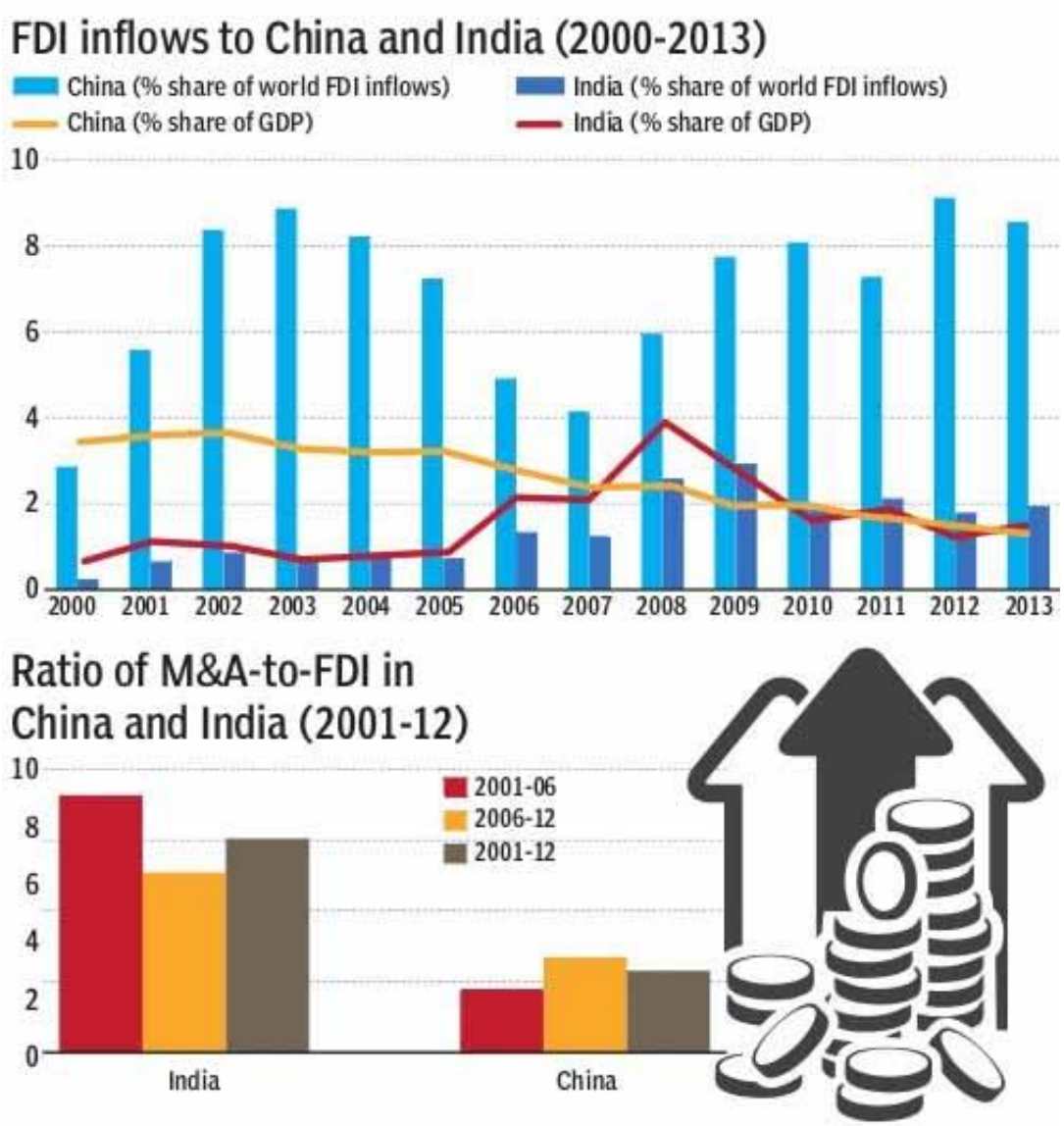
(vi). According to the Unctad Global Investment Report, 2014, global FDI flows are about $1.6 trillion in 2014, which could go up to $1.7 trillion in 2015 and $1.8 trillion in 2016. Developing countries accounted for the largest share in the global FDI in 2014 to the tune of $778 billion (54 per cent). Of this, Asia accounted for 54 per cent of the FDI inflows at $426 billion of which more than 80 per cent went to east and south-east Asia ($347 billion.)



(vii). South Asia got a meagre $36 billion in FDI, which is just 8 per cent of what Asia received, 4.6 per cent of the developing countries and 2.4 per cent of the global FDI and much lesser than what Latin America ($292 billion) and Africa ($57 billion) received. Given the fact the FDI flows in India were just $24 billion in 2012 and $28 billion in 2013, (comparisons: China $124 billion, Russia $79 billion, Brazil $64 billion and Mexico $38 billion in 2013) creating conditions that attract a larger size of foreign investment flows is an important priority.

(viii). As India is always compared with China, in this context it is also important to give the current scenario of FDI inflows to China and India. Both India and China have been important players in terms of foreign direct investment (FDI) flows since the early 2000s. Between 2000 and 2008, FDI inflows to both countries combined were about 8% of world inflows, which represented about 4.5% of their combined gross output. The post global financial crisis phase, however, has seen a sharp slowdown in FDI to India, while China continued to attract a significant share of world FDI inflows, with the proportion of FDI as a share of their combined output dipping to about 2.5% between 2009 and 2013 (figure 1). China received nearly twice the amount of FDI that India did in 2008—$110 billion compared to India's $48 billion. By 2013, FDI had climbed up to $124 billion in China while India's world FDI inflows fell sharply to $28 billion.

(ix). Beyond these numbers, however, India has a much larger share of mergers and acquisitions (M&As) than China (figure 2). While this could be because of the comparatively more well-developed financial markets in India, it could also well highlight the investors' concerns in establishing new (greenfield) investment facilities in India.



(source: Financial Express)

(x). In the Indian policy context, the type of FDI assumes significance especially with the government suggesting that it is acceptable to allow 100% greenfield in sectors like pharmaceuticals but only 49% for M&A. Such a piecemeal approach to restrictions on ownership per se may not be desirable. Indeed, with the exception of some sensitive sectors like defence, FDI should be attracted to promote the government's newly launched initiatives such as Make in India where location of production matters more than ownership.

9. EU-India Relations has Under-Performed and Needs to be Re-Energized

(i). The year 2014 marked the 10th anniversary of the European Union-India Strategic Partnership Agreement signed on 8th November 2004 during the Fifth EU-India Summit in The Hague. It is a pity and regrettable that neither EU nor India took any serious initiative to commemorate 10 years of this strategic partnership. In fact the year saw a complete silence of any high level joint activity or Ministerial visit from any side to celebrate the partnership. This also shows the lack of seriousness on both sides about their relationship. Although India and the EU do share some traits that, when taken together, none of the other established, emerging, or aspiring great powers display—continental-scale economies and a bewildering

cultural, linguistic, and religious diversity all framed in democratic and quasi-federal structures that remain in flux. Yet, while their relationship has a great deal of potential, it has underperformed and given due importance. The ambitious agenda of their Joint Action Plan, is long on shared fundamentals and abstract political objectives but short on specifics and deliverables, and devoid of timelines. Under this burden of faith, both the EU and India have found it difficult to commit to a clear-cut common agenda with specific goals. And there are fundamental deficits on both sides that impede their explicit or implicit global power ambitions as well as their abilities to effectively work together.

(ii). In the case of the EU, the deficit is first and foremost a matter of capabilities. Brussels has spelled out its vision for a strong EU role in global governance yet continues to lack the competences necessary to fully exert itself on most political and security matters. This capability gap will continue to limit the scope and intensity of cooperation with India as well as the EU's other strategic partners. And in the case of India, its greatest deficit appears to be less one of ability than of political will. With impressive democratic credentials and a benign record, and as the former standard-bearer of the Non-Aligned Movement, India has earned a high degree of political credibility in most parts of the world on top of its growing economic stature. Still, New Delhi has remained wary of assuming global responsibilities that might impose limitations on the options available for pursuing its own immediate national interests. This situation seems to be changing now as Prime Minister Narendra Modi is bringing India's lost glory and asserting county's new role as global economic power.

(iii). Above all else, there is only partial overlap between what each side hopes to get out of the partnership. India and the EU share common objectives, but these relate more to general principles for the global order than to details and deliverables. Geopolitical distance and each side's preoccupation with its own neighborhood contribute to a lack of genuine shared interests—aside from the fight against terrorism and piracy. Though the EU and India have built a multitiered institutional architecture to expand their partnership, its substance can still hardly be called "strategic." To justify that term, it would need to move beyond the bilateral and from dialogue to joint action on a regional or multilateral level. Signing the overdue EU-India Free Trade Agreement is one such step that could help revitalize the relationship. If this project were to be shelved, however, the whole EU-India partnership would slide into long-term hibernation.

(iv). To achieve the full potential power of their relationship, the EU and India must push forward on trade negotiations, carry out a critical and frank review of the whole partnership architecture, recruit more stakeholders—from lawmakers and civil society members to business leaders—into the dialogue, and shore up sources of funding for joint initiatives. Without concrete action, the partnership is at risk of stagnation and political marginalization.

(v). Sadly, the EU-India Summit is no more on agenda and this is a worrying issue. It is true that there were series of developments in India and in Europe and also the change in the European Commission, election of the European Parliament, it is our view that there should have been recognition of the importance of this relationship. In fact the EICC organized TIPS was the only high level business event of the year. EICC speaks for multilateral rule based trading system and improvement in European and Indian competitiveness. The chamber is realizing its mission through high level strategic dialogue and debate in which trade, commerce, economic and bilateral issues – political and strategic - are intensively discussed.

(vi). The TIPS 2015 takes place during the EU's "Year of the Development Cooperation 2015". Since 1983 the EU announces one topic to be in the core of its attention for that year. The European Year plays a special role in communicating within the EU about a specific theme and it usually allows for joint and national level events, organized by EU institutions, member states governments or civil society organizations. Throughout the year 2015, and throughout the EU, the European Year for Development Cooperation is likely to offer a multitude of great opportunities for development NGOs to mobilize new supporters, to engage with their governments and other stakeholders, to showcase their work, to develop joint lobby and joint projects and to enhance their public profile. The TIPS would be the largest business event in Europe promoting trade and economic relations between EU and India before the EU's Year of Development Cooperation from the Year 2015.

10. Irritants in Economic Relations Must Not Hold a Wider Partnership

(i). The economic relationship between the world's two most populous democracies in India and the EU is quite appropriately perhaps the most people-centric between any two major continents. Regretfully, the economic importance of bilateral India-EU relations is generally underappreciated by policymakers often unaware of its true magnitude. At least partly, this is due to the lack of seriousness and, and the inability of pursuing traditional trade to adequately capture the significance of these very 21st century economic linkages.

(ii). Trade and investment have been key drivers of EU-India relations - and the EU has benefited. Yet, the conversation about the bilateral economic relationship has become more transactional and less strategic. Even after eight years of negotiation, the FTA is a long long march. Both continents have a litany of complaints against each other. The EU list includes slow progress on the bilateral investment treaty, retrospective taxes, local content requirements, and intellectual property. India complains against EU visa policy, complex labelling requirements, rules of origin, sanitary and phytosanitary standards, anti-dumping measures and efforts to link trade to labour and environmental issues. Both sides also question each other's commitment to the multilateral trading system. Clearly, communication has lapsed and there is a need to establish regular dialogues to iron out these challenges. They should, instead, discuss the kind of economic relationship they wish to promote. Four principles could guide their thinking. First is joint value creation. Much of international trade is now driven by global supply chains. Trade balances matter but if countries make mercantilism (obsessively seeking markets for their own products) the core of industrial policy, they would miss out on opportunities to jointly create value. Both India and EU seek good commercial relations with China, yet worry about how China's economic power would translate into political and military power.

(iii). Secondly, innovation, particularly in manufacturing, has the potential to create backward and forward linkages in supply chains, having a multiplier effect across the economy. High value-added, technology-enabled manufacturing should be the mantra for drawing the two economies closer. They have strong engineering and scientific talent. The EU has a mature venture capital industry. India's record of rule of law, intellectual property protection (a new National IPR Policy is being readied), and competition policy is superior to most developing countries. An India-EU Technology Risk Guarantee Fund could trigger venture investment in India, allowing entrepreneurs and innovators to develop new technologies and products.

(iv). Thirdly, it is resource efficiency. As manufacturing grows, India will need more energy supplies and other critical mineral resources (cobalt, lithium, molybdenum, copper, gallium etc.). Sudden disruption in Chinese rare earths exports in 2011 underscored risks for the EU, too. Resource efficiency will drive innovation in future. India and the EU could deepen technical and commercial collaborations in clean energy (particularly energy storage). They could also begin a dialogue on managing strategic energy reserves and strengthening global commodity markets. Fourthly, a dynamic manufacturing sector depends on labour mobility and also encourages it, as workers gain and transmit skills and technical knowhow. The inability to create sufficient jobs is a security threat. India needs to create nearly 33,000 jobs a day. No economic relationship can sustain unless workers in both countries see palpable benefits.

(v). While trade between India and EU has grown over the past decade, there are significant opportunities to deepen the relations between the two. As stronger economic ties are essential to developing a deeper relationship, a commitment to a deadline for concluding a bilateral investment treaty, is likely to send the right signals and create the platform for greater economic integration between the two sides.

(vi). The European Union in January lifted ban on the importation of mangoes including number of vegetables from India. Alphonso mangoes were barred from the member states in April 2014 fear of damage to European crops. Recently, a European Commission committee voted unanimously to remove the restriction following significant improvements in India's mango export system. EICC had always been critical of the Commission's decision to ban Indian mangoes and believes that lifting of ban by the Commission would help India and EU to discuss other trade irritants. The lifting of the ban may also pave

way for greater trade cooperation in the on-going free trade negotiations. The ban is estimated to have affected exports worth millions of dollars.

(vii). The recent statement by the High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the Commission on the ongoing Italian Marine case in India, and the passing of the Resolution in the European Parliament on the issue is not helpful and risks damaging EU-India relations. Such "adventures" also risks hardening of India's attitude closing the door for a diplomatic solution. Indian judiciary is free, fair and independent and cannot be influenced by Statements or Resolution. Therefore to jump into a conclusion was not a well-thought stand and should have been avoided. There are far more important issues that EU and India should address and such moves create unhelpful environment not conducive to strengthening bilateral relations. It is important for both EU and India to build common ground on several issues that threaten better understanding and cooperation.

11. India's Current IPR Regime and Need for Urgent Policy Changes

(i). The government of India is working to introduce a stronger policy to protect India's traditional as well as modern intellectual property from being challenged by multinational companies. The move to bring out a comprehensive intellectual property rights (IPRs) policy comes as India faces growing challenges to its IPR regime and developed countries try to put in place an even stronger IPR framework through mega regional trade agreements such as the Trans-Pacific Partnership.

(ii). India has maintained that its IPR regime is in sync with the trade related intellectual property rights (TRIPS) agreement of the World Trade Organization and has used flexibilities available within that framework. The EU and the US have been raising concern about India's policy towards compulsory licensing of pharmaceutical products, holding that it may weaken the global patent regime under TRIPS.

(iii). The current Indian IP legal regime represents the policy framework on IPR, which was adopted after considerable debate inside and outside Parliament. The strength of this IPR policy is reflected well in successful establishment of the Indian pharmaceutical industry within three decades. Until 1995, its success was enabled by the Indian Patents Act, 1970, which limited patent protection to process innovations. After 1995, the success was ensured by Parliament's decision to take full benefit of the transition period of 10 years available under the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). India delayed the implementation of product patent and chose to limit the scope of patent protection through introduction of Section 3 (d) of the Indian Patents Act. India also added article 3 (j) on biological processes not being inventions to protect its biotechnological innovations in the sector of agriculture and health. Section 3 (d) rejects patents that do not involve real innovation, an issue that foreign pharmaceutical companies are not in agreement with. Similarly, compulsory licensing provisions in the Indian Patents Act aim to ensure that patent holders do not abuse patents to develop monopolies and thereby charge exorbitant prices which would result in denial of access to medicine at affordable prices to the people of India.

(iv). India stresses that its IPR policy is TRIPS-compliant. India chose to use the health safeguards available in the TRIPS agreement, to protect the interests of Indian patients as well as millions of people living in other developing countries. The law requires that patented inventions are available to the public at affordable prices as well as obligates the patent holders to work their patents in India. By making use of flexibilities in the TRIPS agreement, the Indian Patents Act and Policy reduce options to pharmaceutical companies, be they Indian or foreign, to profit from diseases or those suffering from them. The Indian law has stood the test of time and judicial scrutiny. It is also increasingly serving as model legislation for many developing countries including Brazil.

(v). There have been considerable pressure and campaign to target India's patent system and has amplified its pressure on India. For example, the Global Intellectual Property Centre of the US Chamber of Commerce accused India of harbouring the "weakest" IP environment among countries that it studied. Further, the US International Trade Commission (ITC) has initiated an investigation on India's industrial policy, which is primarily focused on India's intellectual property regime and its impact on the US economy. Similarly, the United States Trade Representative (USTR) continues to make illegitimate threats (inconsistent with the principles of the multilateral decision making and dispute settlement

processes of the WTO) of unilateral trade sanctions against India through the Special 301 process. It is to undertake an out-of-cycle review of India's intellectual property protection and enforcement standards in the coming months.

(vi). India needs to address these concern and India needs a strong IP regime, especially a patent regime, which can facilitate technology catch-up and that aids industrialisation. An IP regime that favours trans-national companies would act contrary to the Prime Minister's efforts to revive the manufacturing sector in India. We underline our demand that the Centre should not carry out any amendment to the Indian Patents Act to increase patent protection. We strongly urge the government to proactively use the flexibilities in the Patents Act such as government use and compulsory license. In fact, smaller developing countries, with much less bargaining power, have issued more compulsory licenses than just the one that India has granted.

(vii). It is a general belief that India's hostility to intellectual property rights has been a key obstacle to such foreign direct investment (FDI). Numerous studies demonstrate what should be common sense: Companies are more inclined to build infrastructure and otherwise invest in a country if they can be assured that their intellectual property will be protected. And they certainly aren't going to reward a country that steals their property with increased investment.

(viii). In order to fully realize its potential for economic growth, India must reform policies that actively inhibit foreign investment. Chief among those reforms should be a commitment to respecting the intellectual property of its trading partners, especially in the pharmaceutical and biotech sectors

(ix). India needs to modify its Intellectual Property Rights (IPR) regime and fast-track legal system to attract foreign investments. India must sort out some contours of its IPR regime. The legal system must be fast-tracked and the use of compulsory licensing (CL) for essential pharmaceutical drugs must be the exception and not the norm. This was the finding of the study Report by the Europe India Chamber of Commerce (EICC) and European Business and Technology Centre (EBTC). The report also said that over the last two years, India Government has taken several steps to remove FDI barriers in a range of sectors but "it calls for swift implementation" of those measures. It said: "Modalities such as land acquisition, revenue sharing and others must be discussed and debated by the states and the Centre before a formal policy decision is taken."Many EU companies find out that the actual market scenario in India is distinctly different from their original understanding." Reforms also need to be initiated in trade facilitation and export promotion, it added.

(x). The government needs to demonstrate through policy change that Intellectual Property Rights (IPRs) are taken seriously in the country. India should develop a more robust, predictable, and enforceable legal framework for the protection of IPRs through the proposed policy. Unfortunately, recent experiences of biopharmaceutical innovators offer several examples that, if unchecked, will continue to undermine rather than facilitate the building of a robust, innovative biopharma sector in India. A strong IPR regime could allow the country to make a major contribution to tackling health challenges, both domestically and around the world.

12. What Will it Take for India to Become a Global Manufacturing Hub?

(i). The world's economic centre of gravity has been shifting from West to East. Making India a global manufacturing hub will capitalize on this inevitable shift, positioning India at an inflexion point. India's share of manufacturing in gross domestic product is around 16 per cent, compared to China's 34 per cent and South Korea's 31 per cent.

(ii). What will it take to get investors to make things in India? It is easy to blame land acquisition rules, environmental clearances, labour laws and corrupt administrative clearance/inspection for the relative decline of manufacturing. The reality is more complex. Most regulations are administered by state governments and New Delhi has little say over that. To become a manufacturing nation, India has to quickly move beyond rhetoric to create a clear strategy and favourable policy environment for manufacturing to take off. A close dialogue and partnership between government and the private sector is critical. At this moment, the Prime Minister's "Make in India" campaign appears to be exactly this — an

imaginative marketing campaign. But there is much thought and even more work that is required to convert this to reality.

(iii). The theory behind “Make in India” is as simple as it is compelling. India must become a manufacturing powerhouse in order to gainfully employ its demographic dividend; there is no choice here. Fortunately, we have many natural advantages including a big labour pool and a large domestic market. In addition, with China’s competitive advantage in manufacturing eroding, India has the opportunity to take some share of global manufacturing away from China. All we have to do to improve the ease of doing business in India are these —stop tax terrorism, improve infrastructure, reform labour laws, invest in skills development, make it easier to acquire land, implement Goods and Services Tax (GST) and fast track approvals. Voila, we will take our rightful place as the world’s factory alongside China

(iv). According to World Bank report, India ranks 142 out of 189 countries in the category for ease of doing business based on surveys conducted in the two major cities of India, Mumbai and Delhi prior to the new Government came to power. To increase investor sentiment, it is necessary that the Government works to improve the various components of Doing Business indicators like starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency because it is these indicators that a firm looks at before going forward with an investment decision in a country. The Ease of Doing Business score is obtained by conducting surveys of start-ups in the largest business cities of India.

(v). India’s industrial policy must recognise where we have important competitive advantages. India is quite uncompetitive at low skill manufacturing. On the other hand, it is good at making complex things which require skilled labour and frugal engineering. Despite all its shortcomings, India remains a very competitive manufacturing location for sophisticated things such as construction machinery, cars and automotive components and diesel engines. It is no accident that companies such as JCB, Cummins, Deere, Volvo, Hyundai and Ford are using India as a major export hub.

(vi). India must focus on building competitive advantage and global scale in sectors where we have a large domestic market and certain inherent capabilities. Strategy is all about making choices. Here, five priority industries come to mind. Defence, because we are the world’s leading arms importer. Localising what we buy as a condition for all defence deals along with a willingness to allow majority foreign ownership can turbocharge our local defence industry. The second critical industry is electronics hardware. India imports $45 billion of mobile phones, computers and communications hardware; by 2020, this is projected to grow to $300 billion and exceed our oil import bill. This is unsustainable. We have to create policy incentives to create a local electronic hardware manufacturing ecosystem. Since most component suppliers, Original Equipment Manufacturers and Original Design Manufacturers are Chinese, this will necessarily imply incentivising Chinese companies to establish factories in India.

(vii). The protectionist policies and licensing made Indian goods, by and large, uncompetitive in global markets. The policy of import substitution might still have worked if it had not failed to account for one obvious detail. India would always be a massive net crude oil importer and crude imports could not be substituted. The trade balance is always going to be adverse for India if it lacks the exports to counter-balance crude oil imports. Whenever crude oil prices are high, India's economy is under pressure. In 1991, the Iraqi invasion of Kuwait led to a sudden spike in oil prices and pushed India close to bankruptcy. That's when these protectionist policies were slowly, partially reversed.

(viii). Manufacturing is one route to mass employment but the history of protection, complex labour laws, etc, makes it harder to get manufacturing off the ground. A long list of sectors are covered under Make in India. There is a laudable attempt to reduce red tape, enhance foreign direct investment limits, prune labour laws and environmental clearance processes, and in general to speed bureaucratic processes up. Some sectors like information technology, automobile-components, pharmaceuticals, etc, are globally quite competitive. Some sectors, such as defence manufacturing, food processing, electronics are not competitive. Some are reasonably competitive like electrical machinery, textiles and leather.

(ix). Some listed sectors are infrastructure-related like ports, roads, aviation, thermal power, renewable energy, mining, oil and gas, railways, etc. In addition, there is construction, which is arguably a services sector, heavily driven by infrastructure contracts. There is also tourism & hospitality, which is definitely services but probably included due to the potential for employment. Unfortunately, there is a lot of dead-wood, in the form of bad loans and stalled projects. Many construction firms are suffering from the overhang of stalled infra projects. If Make in India can improve that situation, it could help unlock up to 15 per cent of India's gross domestic product sunk in unviable infra projects. Obviously, building better infrastructure will also lead to more competitive manufacturing.

13……..and making "Make in India" Succeed through Speedy Reforms

(i). Make in India will surely create investment opportunities but these will be unevenly distributed. It is unlikely India can play catch-up and compete in certain areas. But a better policy environment could emphasize existing competitive edge and also energize potentially more competitive sectors.

(ii). There is no doubt that manufacturing holds the key to growth that is equitable and broad-based. Unlike IT or the financial services industry, which require concentration around cities, factories are better located in rural areas, where physical space may not be as much of a problem. The 8.3 per cent average annual GDP growth that India registered between 2003-04 and 2011-12 was notable because manufacturing, too, grew by 8.9 per cent a year during this period. Unfortunately, this process has been reversed in the last two years, with GDP growth averaging 4.6 per cent and manufacturing slowing even more to 0.2 per cent. While the Indian government has done well to acknowledge that no meaningful economic recovery can happen without a turnaround in the manufacturing sector, the fact is that we are seeing neither of these so far in the current fiscal. The various initiatives by the new government to facilitate ease of doing business — including moving the processes to file Industrial Entrepreneurs Memorandums and obtain environmental clearances online — haven't yet translated into concrete investments on the ground.

(iii). The government probably needs to reorient its "Make in India" policy towards focusing less on manufacturing per se, or the promotion of particular industries — in almost a throwback to the old dirigisme, the current programme has identified 25 such sectors. Instead, it must concentrate more on infrastructure-building. Make in India cannot become a reality without reliable and competitively priced power that makes it possible for factories to churn out goods or world-class railways, highways and ports to take these across the country and overseas. Gujarat's manufacturing success owes primarily to its superior record in creating this infrastructure through both public as well as private investments. Once the infrastructure to make and move things is there, industry will come on its own to manufacture any product for which there is a market.

(iv). There is also the law of comparative advantage. Say, a country has competitive advantages over a rival nation in the production of two goods. It could still make sense to focus on producing only one good, where the comparative advantage is larger. There are areas where Indian manufacturing doesn't have any competitive advantage. There are areas of small competitive advantages. It might be best to ignore those areas and focus purely on those sectors with large advantages. If Make in India is poorly implemented, or badly thought it will cause misallocation. But if it is well thought-out, it will create more infrastructural capacity and improve the policy environment. Either way, it is long-gestation.

(v). This initiative has to be complemented by a serious effort to provide India's youth with the requisite education and skills. It is also well-recognised that the physical and institutional infrastructure for business success has to improve for Make-in-India to succeed. In this column, I would like to suggest there is one more important piece of the puzzle that needs to be put in place.

(vi). The key to Make-in-India may lie in creating a modern system of entrepreneurial and small-business finance in the country. There is evidence that India is not generating enough new firms. The size of our domestic market should make this possible. Concerns about security are misplaced; all our personal computers, cellphones and a lot of switches and routers are already made in China, so we are conceding nothing. The third industry is construction. India will invest a trillion dollars over the coming

years in improving infrastructure. We need to create incentives that not only spur investment in manufacturing materials such as cement and steel but also construction equipment, locomotives, power generation equipment and so on. Everything we install should be made in India. The fourth is health care. India's generic pharmaceutical industry is world class. We must not concede on intellectual property rights that neutralize our advantage. India is also exceedingly good at frugal innovation in medical devices such as low cost X-ray and ECG machines. We have a real shot at being a world leader in innovation and manufacturing in this space. Finally, agro-industries. We are one of the largest agricultural nations. A third of what we grow just rots and spoils. Investing in agro-industries such as food processing and establishing a reliable cold chain would make a huge difference in terms of rural employment and food security. If we had to pick just five industries where we want to bootstrap a strong competitive advantage it would be these. In other industries, whether it be textiles, toys, or automotive, we need to ensure that we do not disadvantage local manufacturing.

(vii). While manufacturing in India has remained healthy due to strong domestic demand, its contribution to GDP is only 16%, compared to 34% in China, and largely oriented to the domestic market. How can India increase its manufacturing competitiveness while employing millions of new entrants into the workforce? India's manufacturing sector will be driven by a US$ 500 billion investment in infrastructure across sectors in the near term. Innovation in manufacturing is crucial; India's competitive edge is not only in labour arbitrage but in technologically intensive manufacturing. Both a shortage of roads and power and a skills shortage pose challenges to the manufacturing sector.

(viii). The manufacturing sector in India faces acute challenges. From problems with power, ports, railroads and roads to a shortage of human capital, manufacturing in India has long lagged behind targeted goals. But the Indian government's commitment to raise its investment in infrastructure from 7% to 9% represents a US$ 500 billion opportunity for growth within India's manufacturing sector. A number of foreign manufacturers have met India's infrastructure bottlenecks head on, with considerable success: LG has looked at India as an export hub; Hyundai has set up its small car manufacturing base in India; Nokia's handset manufacturing in the southern state of Tamil Nadu costs 12% less than its counterpart in China.

(ix). India offers potential investors in the manufacturing sector a number of competitive advantages. India's own domestic market is large, with over 600 million rural consumers. Workers' wages in India are less than half of those in China. India has a large talent pool from which to draw, including a strong engineering ecosystem. From a strategic point of view, growth in the coming decades will come from the developing world. India is in an excellent position to serve emerging economies in Latin America, Africa and elsewhere in Asia. Currently, that represents 11% of India's export market, but it is set to grow dramatically.

(x). India's competitive advantage is in technology-intensive manufacturing. Indian manufacturers must lead by innovation, following the example of the Tata Nano, the world's most affordable car, which was designed from the bottom up. One challenge facing Indian manufacturing at a time of tremendous growth is high turnover. When the economy grows at a rate beyond 7-8%, companies face a skills shortage and turnover increases from a manageable 2-3% to as much as 20-30%. This creates an unstable environment for manufacturing. The challenge can be mitigated by dramatically increasing the capacity of human resources.

(xi). Another challenge is public sector control and the requirement that companies bidding on very large infrastructure projects must have previous experience in the field, which many India companies lack. This results in Indian companies losing out in the competitive bidding process to foreign firms.

(xii). At the same time, state governments have been proactive in making manufacturing zones attractive to automobile and other manufacturers. The Indian government has identified areas where its intervention is required, such as social services, and infrastructure, where private industry is more capable. Innovation in the modes and models of manufacturing can be a solution to the surplus of India's labour pool, which is largely unskilled but highly entrepreneurial. At the same time, core manufacturing capabilities are important for creating a first-world economy.

Indian Manufacturing: Key Structural and Policy Barriers

1. **Inflexible Labour Market.** Archaic labour laws discourage hiring resulting in 90% of the work-force being "informal" labour.
2. **Restrictive Market Entry Policies.** Product market barriers in the name of protecting domestic industries have prevented scaling.
3. **Crowding-Out by Inefficient Public Sector.** Poorly-run public sector firms dominate several sectors crowding out private players.
4. **Issues with Land Acquisition, Clearances and Approvals.** $250bn of industrial projects stalled due to issues with land or approvals.
5. **Complex Tax Framework and High Cost of Doing Business.** India ranks in the bottom quartile on several key issues
6. **Persistent Infrastructure Deficit.** Poor transport infrastructure imposes high logistics and other manufacturing costs
7. **Low Literacy Levels and Women's Participation.** Under-investment in education and skills development resulting in 74% literacy (20% below China) and 30% women's labour force participation.
8. **Low Productivity Levels in Manufacturing.** Even scaled producers lag well behind global peers in key operational parameters including production, planning, supply chain management[6]

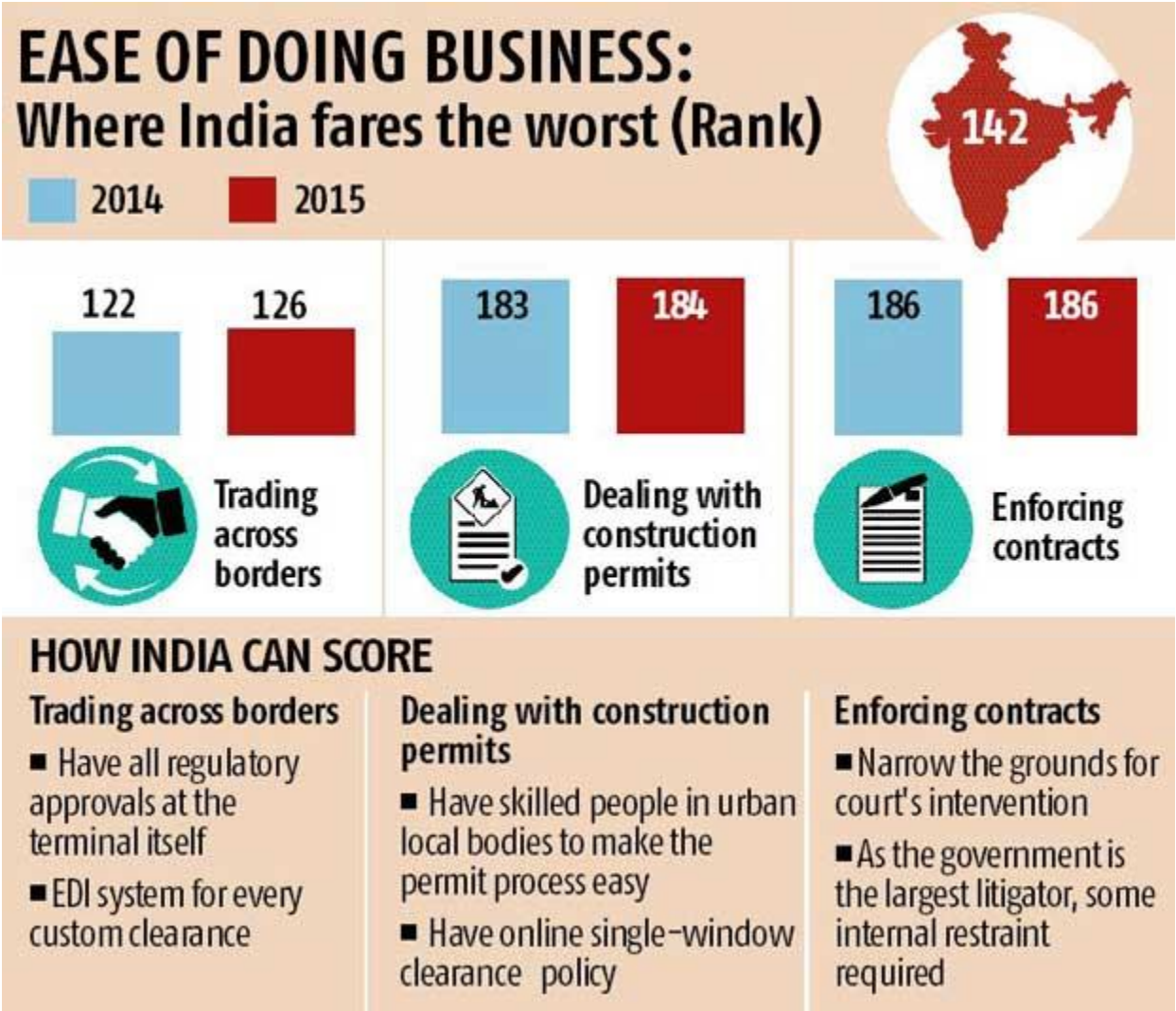
The Powerful Impact of Manufacturing on India

(xiii). If India is to deliver rapid industrial growth which is sustained over the next few decades, clearly China provides the best benchmark given its scale and success in fostering its own industrial revolution. In spite of India's seemingly weak baseline position against China's manufacturing sector, it is nevertheless well-poised to improve its competitiveness vis-à-vis China and other Asian manufacturing destinations due to a combination of factors. After three and a half decades of rapid industrial growth, China's economy appears to have reached close to full employment and recent years have seen sharp increases in average wages in excess of output growth. Furthermore, its exchange rate has also appreciated considerably (28% over last two decades vs. 93% depreciation in the rupee over the same period) and freight costs are unlikely to see the kind of structural decline which spurred China's export miracle. As a result, China's manufacturing competitiveness has steadily declined since the early 1990s and will likely continue to erode over the next few decades.

(xiv). India's manufacturing competitiveness relative to China and other countries, on the other hand, has gradually improved since economic liberalisation due to (i) rising productivity growth across sectors, (ii) low labour costs due to a large labour pool which is still very far from full employment, and (iii) a declining currency. As a result, India's relative competitiveness is likely to continue to improve vis-à-vis China and other Asian countries which have already developed their industrial bases and will likely surpass China at some point in the next few decades. The key question for India however, is not whether it will become a more competitive manufacturing destination than China, but rather how long it will take to reach that point. Given some of the key factors are already aligned in India's favour, the speed at which it can close the competitiveness gap will depend entirely on the decisions of its government and policymakers and whether it can successfully (and quickly) implement reforms which will drive manufacturing productivity, manage wage inflation and reduce other manufacturing costs. Over time, global factors (such as exchange rates and other countries' policies) and intrinsic factors (such as wage differentials) will become less favourable to India, which implies that it has a limited window of opportunity years to accelerate reforms which can harness its advantages to create an industrial revolution and become a global manufacturing superpower.

14. Need for India to Adopt Business-Friendly Policies to Make Easy for Doing Business

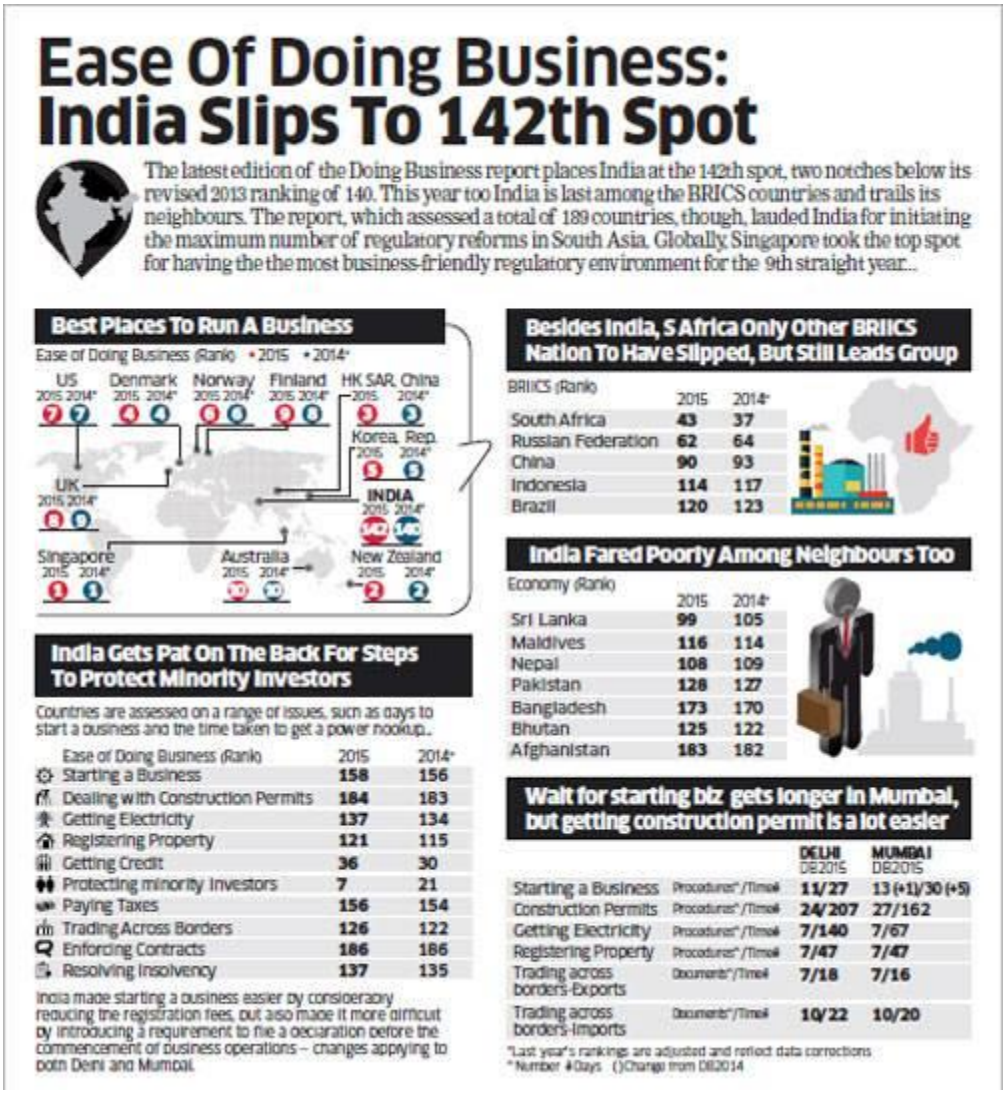
(i). Although Prime Minister Narendra Modi wants to make India the easiest place to do business, the country needs to fix its dismal track record when it comes to issues around cross-border trading, dealing with construction permits, and enforcing of contracts, to improve its overall rank. The 2015 World Bank group's Doing Business index ranked India at 142, down from 140, which it was the year before. Analysing the ten different parameters - starting a business, dealing with construction permits, getting electricity, registering a property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency - the World Bank group gives individual rankings for each one of these, which collectively provides the final rank. Experts say if India is to improve its overall rank in Doing Business index, it is important to fix issues when it comes to trading across borders, dealing with construction permits, and enforcing contracts. India is dismally ranked 126, 184 and 186 in trading across borders, dealing with construction permits, and enforcing contracts, respectively.



(Source: Business Standard)

(ii). Easier export-import regulation have remained a major challenge for successive governments. Getting regulatory clearances in ports and airports - which one needs in order to get the final custom clearance - is one of them. Experts say one key reason for cargo clogging many ports and airports is the multiplicity of regulators, and that not all of them sit at the terminal.

(iii). India's Prime Minister, Narendra Modi, is acutely aware of the high expectations placed on his government by the Indian electorate as well as the international community – to place India back on a trajectory of high economic growth. And that is why he has adopted a two-pronged approach. First, he is pursuing a slew of administrative reforms to expedite project implementation and routine governance matters. Success in harnessing these has begun to meet some expectations, allowing him greater latitude to pursue the more difficult, longer-term task of initiating substantial policy reforms and establishing a stronger and more synergistic centre-state relationship within the overall federal structure.



(Source: UNCTAD)

(iv). In the Union Budget 2014-15 presented on 10 July 2014, the new Finance Minister announced a host of measures to promote growth and investment. These included seed capital of INR 1bn each for several much-needed programs, increased government spending on infrastructure, tax incentives for savings and investment, and raising FDI limits in sectors such as insurance, railways and defence.

(v). Despite having the world's largest railway network and being the largest employment generator in India, productivity per employee of the Indian Railways is woefully short of international standards. The government has taken the bold, though unpopular, measure of raising passenger and freight fares, with the plan to deploy the additional revenue to significantly upgrade safety, electronic signals and coach quality. Foreign investment is now permitted in rail operations like dedicated freight lines, high-speed trains and mining and port connectivity, besides allowing up to 74 percent FDI in some projects like construction of new lines, gauge conversion, doubling of lines and maintenance projects under the public-private partnership model.

(vi). The Indian government raised the FDI limit in the defence sector from 26 to 49 percent. It reportedly wanted to raise this limit further but had to hold off due to internal political considerations.

India's current annual import bill is over US$10bn – the highest in the developing world – betraying a low level of indigenous defence manufacturing. The government is determined to improve India's defence industrial base by streamlining procurement norms, providing greater operational control to foreign manufacturers, simplifying procedures for foreign OEMs to source from Indian companies as per the mandatory offset provisions and incentivising technology transfers. It wants top-tier OEMs to form JVs with Indian companies, the Defence Research & Development Organization or defence public sector units, create skilled jobs, optimise costs and improve performance – lowering the defence import bill and creating a fungible pool of technologies that can meet future defence requirements that, in any case, are assessed within a dynamic threat environment.

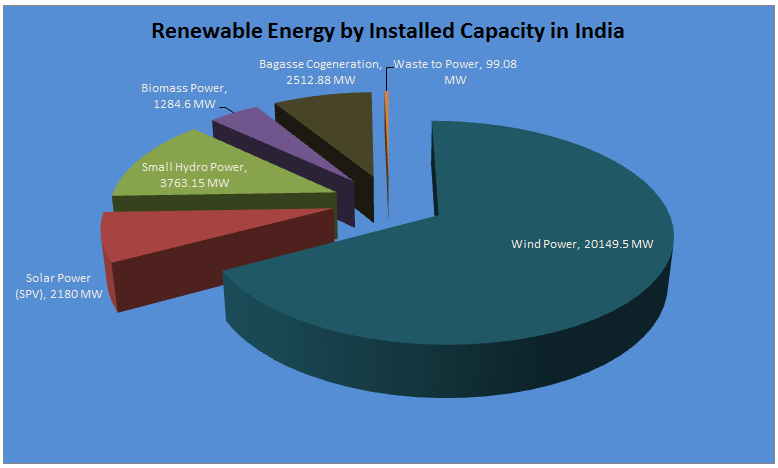
(vii). The current ranking is relative to other countries and depends on the pace with which we take on these reforms. Going forward, India will not just have to improve on several parameters of doing business but also improve faster than other countries so as to improve its position in the overall ranking. While India made starting a business easier by considerably reducing the registration fees, it also made it more difficult by introducing a requirement to file a declaration before the commencement of business operations, the report said. There was some good news, too, for India, with the report pointing out that the country follows the largest share of the good practices measured by the new indices introduced to capture protection of minority investors. These are extent of shareholder rights, strength of governance structure and extent of corporate transparency.

15. India's Quest for Energy Needs through Green and Clean Energy

(i). India has aggressive renewable energy targets and industry energy efficiency policies, but faces significant infrastructure challenges which may derail the otherwise good policy. Renewable energy is the only technology that offers India the theoretical potential to service all its long-term power requirements. The Indian subcontinent is blessed with abundant renewable energy resources. Wind energy can also help India convert to 100% renewable energy. According to the environmental group World Wide Fund for Nature (WWF), while India has no estimates of its offshore wind potential, up to 170 GW could be installed by 2050 along the 7,500 km of coastline. Hydropower could generate an estimated 148 GW, Geothermal around 10.7 GW and Tidal power about 15 GW. If these abundantly available resources were properly developed and utilized, all of India's new energy production could be derived from renewable energy sources by 2030. In addition, all existing generation could be converted to renewable energy by 2050 while maintaining a reliable power supply in the interim. Barriers to implementing the renewable energy plan are seen to be primarily social and political, not technological or economic.

(ii). India Plans $25 Billion Funds to Promote Green Energy in the country. The government has announced a plan to create a corpus of $25 billion to promote green energy as a part of the country's long-term energy security policy. This corpus will be in the form of five funds of $5 billion each, which will have the support of India's leading financing institutions, including Power Finance Corp. (PFC), Rural Electrification Corp. (REC), Indian Renewable Energy Development Agency (IREDA), IFCI, SBI Capital Markets and ICICI Bank. In a further attempt to meet the funding requirements for clean environment initiatives, India has accessed international credit lines. These include 30 billion yen for 30 years from Japan International Co-operation Agency, a $1 billion guaranteed loan from US Ex-Im Bank and €100 million from the Agence Francaise de Development of France. The government of India has declared its intent to play a proactive role as a facilitator for the renewable energy sector.

(iii). India's strategy to focus on renewable sources of energy also stems from the fact that the country is keen to reduce its dependence on energy imports. Its current energy import bill of around $150 billion is expected double by 2030. To boost solar production, the government plans to train 50,000 people and turn 20,000 graduates into solar entrepreneurs to build a sort of 'solar army'. It also plans to set up solar parks totaling 20 GW over the next five years.



(iv). Access to energy is the foremost goal in India's energy policy making, as nearly one-quarter of the population lacks access to electricity. This implies ensuring the supply of adequate and reliable energy to the Indian population amid growing energy demand, bolstered by economic growth. Second, energy security is driven by increasing dependence on imported fuels, which is crucial to meet the India's huge energy demand. Increased import dependence also exposes the country to greater geopolitical risks and international price volatility. Finally, India is dedicated to the mitigation of climate change, although overcoming energy poverty and ensuring economic and social development remains a top priority.

(v). Numerous policy reforms over the past 20 years have shifted India's energy sector from a predominantly government-owned system towards one based on market principles, offering a more level playing field for both public and private sectors. Political complexity and a tradition of socialist economic practices, however, hindered the complete liberalization of India's energy sector, leading to sub-optimal outcomes. In this sense, the huge blackouts that occurred in northern India in July 2012 could be seen as a consequence within the framework of incomplete market liberalization. The goal of providing energy access to the entire population led to well-meaning policies designed to protect the poor, but resulted in a system of untargeted producer and consumer subsidies that prevent a more thorough implementation of a well-functioning and financially- sound energy sector. In combination with an industrial policy that aims to protect the indigenous manufacturing industry through import substitution, India now finds itself trapped halfway along the transition towards an open and well-performing energy sector. India's energy sector is increasingly unable to deliver a secure supply of energy amid growing demand and fuel imports. In conjunction with a rising subsidy level and systemic failure to ensure proper revenue collection along the value chain, the financial capacity of energy sector players is significantly undermined. Lack of sufficient capacity to make timely and adequate investments gives reason to fear that India is heading towards energy crises. Increasing import dependency exposes India to greater geopolitical risks, fluctuating world market prices and intensifying international competition. Indian energy policy cannot be set in isolation and needs to account for rising global interdependence, while simultaneously communicated appropriately to the public and reflected in policy debates. India should overhaul its current patchwork of energy policies in favour of a comprehensive and clear-cut policy that encourages economic and social development through reliable energy supplies. There are six main challenges that need to be addressed to create a well-functioning and financially-viable energy market in India:

(vi). The Government of India has set ambitious targets for renewable energy — a doubling of existing renew- able energy capacity to 55,000 MW by 2017. However, unsubsidized renewable energy is still 52-129% more expensive than conventional power, and requires policy support. This policy support is currently pro- vided through a combination of state-level feed-in tariffs and federal subsidies in the form of a generation based incentive, viability gap funding, and accelerated depreciation. Given the ambitious goals, but limited budgets, the cost-effectiveness of these policies becomes an import- ant criterion for policymakers. In our previous work, we demonstrated that unfavorable debt terms add 24-32% to the cost of renewable energy in India. In this report, we show that if cost-effectiveness were the only criterion of interest, a class of debt-related federal policies that provide low-cost, long-term debt are more cost effective than the existing federal policies.

(vii). As India tries to reduce its dependence on conventional energy and mitigate climate change, the role of renewable energy has become increasingly prominent. The Government of India aims to incentivize the use of clean energy, create a competitive domestic production base for renewables, and

double the existing renewable energy capacity to 55,000 MW by 2017 (MNRE, 2012a). However, renewable energy continues to be significantly more expensive than conventional power. Unsubsidized renewable energy is 52-129% more expensive than the average wholesale price, also known as the average pooled purchase cost (APPC), of electricity.1 Therefore, it still requires policy support in order to compete with conventional sources of power.

(viii). For economic as well as environmental reasons India needs to shift to non-polluting renewable sources of energy to meet future demand for electricity. Renewable energy is the most attractive investment because it will provide long-term economic growth for India. A favorable renewable energy policy could create millions of new jobs and an economic stimulus of at least US$1 trillion, and perhaps much more if all indirect economic (ripple) effects are included. "India is the Saudi Arabia of renewable energy sources and if properly utilized, India can realize its place in the world as a great power," Rifkin says.

(ix). Renewable energy also has the advantage of allowing decentralized distribution of energy — particularly for meeting rural energy needs, and thereby empowering people at the grass roots level. Solar electricity could also shift about 90 percent of daily trip mileage from petroleum to electricity by encouraging increased use of plug-in hybrid cars. For drivers in India this means that the cost per mile could be reduced by a quarter in today's prices.

(x). India does not have an overarching energy strategy — instead it has a number of disparate policies. Rather than promoting an overarching energy strategy, to date India has developed a cluster of energy business models and policies that have not been productive. These policies are definitely affecting renewable energy expansion plans. The present business model needs to be changed from a centralized to a decentralized structure that allows all stakeholders including capital investment coming from state-owned investors, pension funds, and foreign countries.

(xi). This new business model should include the development of all forms of "distributed" (i.e. non-grid) energy such as solar, wind, hydro, biomass, biogas, and geothermal. Distributed energy not only reduces the huge amount of energy lost in grid distribution, it also helps lighten the load on the grid. Distributed energy is a critical part of the real energy revolution in achieving a cost effective smart grid solution. All forms of distributed power, micro-generation and micro-grids should be incorporated into the electrical supply system to make the system more reliable. India is in a unique position to introduce clean energy solutions on an enormous scale to provide affordable energy for everyone — especially the poor.

(xii). Renewable forms of energy (especially solar and wind) could enhance India's energy security and represent a bright spot in its economic and environmental future. If India switched from coal, oil, natural gas and nuclear power plants, it is possible that 70% of the electricity and 35% of its total energy could be derived from renewable resources by 2030. India can ramp up its efforts to develop and implement large utility-scale solar energy farms to meet the country's economic development goals, while creating energy independence and bringing potentially enormous environmental benefits. Both issues have a direct influence on national security and the health of the Indian economy.

(xiii). Supplying almost 100 % of India's energy demand through the use of clean renewable energy from solar, wind, hydro and biogas, etc. by 2050 is technically and economically feasible. But, a number of political barriers must be overcome. As examples of needed reforms, Denmark's Parliament has passed the most ambitious green economy plan to generate 35% of its energy from renewable energy by 2020 and 100% by 2050. Iceland, Scotland and the Philippines, have recently announced impressive plans to obtain 100% of their power from renewable energy. Three years after Japan's nuclear meltdown, the Japanese province of Fukushima has pledged to switch to 100% renewable energy by 2040.

(xiv). According to a Report prepared by the Climate Policy Initiative (CPI) moving to a low-carbon energy economy, India can free up a whopping USD 600 billion for investments for various developmental projects over the next two decades leading to overall development, says a report by the Climate Policy Initiative (CPI). As the country is trying to meet ambitious renewable energy goals as well as development needs with finite financial resources, moving to a low-carbon economy can help it maximise its financial

capacity to meet economic and development goals, which will result in a saving of USD 600 billion for more productive investments, says CPI.

(xv). China, the US, Europe and India are the four largest polluters and the biggest consumers of fossil fuel. China and other net oil consuming countries together comprise three-fourths of global oil demand. Similarly the EU, which is also a net consumer of oil can lead to a net benefit to the financial system of over USD 1 trillion by adopting no-fossil fuel based technologies. India has announced that it intends to more than double its use of renewable energy as a share of its electricity mix by 2020. The action would help India advance economic development while reducing CO2 emissions from the burning of fossil fuels. India has indicated it aimed to increase the share of renewables to at least 15 per cent of its total energy usage, up from 6 per cent currently. The country says it also hopes to bring in nearly USD$100 billion investment in renewable energy projects and install 100GW of solar capacity. India's announcement follows separate declarations on emissions reductions by the US, China and the European Union. It is an important demonstration of how nations can act on their domestic development needs, while also addressing pressing social issues – like energy access for the poor, health and jobs.

(xvi). India's ambition to establish the largest global solar programme of any country will demonstrate how infrastructure development, sustainability, and investments can all collaborate to transform energy supply fundamentals and position India as a leader in sustainable and low carbon development. The European Union is backing a four-year project by the Global Wind Energy Council to draw up a roadmap for offshore wind development in India up to 2032. The scheme, which is supported by a €4m contribution from the EU's Indo-European Cooperation on Renewable Energy programme, will focus on the states of Gujarat and Tamil Nadu.

(xvii). A future powered by renewable energy is already here, not decades away. Comparisons of costs per kilowatt-hour of electricity produced show that newly built solar and wind plants are already considerably cheaper than new nuclear plants. In coming years solar and wind energy will compete more and more favorably with conventional energy generation and, in places such as California and Italy, have already reached so-called "grid parity."

(xviii). Renewable Energy (especially solar and wind) is a game-changer for India: It has the potential to re-energize India's economy by creating millions of new jobs, achieve energy independence, reduce the trade deficit and propel India forward as a "Green Nation." Providing 100% renewable energy is not a fantasy for someday, but a reality today. India has a golden opportunity to solve three huge problems – reducing poverty, ensuring energy security and combating climate change. But it must act soon! India can no longer afford to delay renewable energy deployment to meet its future energy needs. In the quest to establish effective and sustainable solutions to current environmental issues, technology must be allowed to play a greater role. Globally, companies have responded enthusiastically and taken aggressive steps in innovation. Creation of effective alternatives is the same as creating solutions; with this in view, alternatives must be generated to reduce dependency on fossil fuels that are instrumental in stoking climate change. Joules, a Massachusetts-based company, is harvesting the energy of sunlight to create fuels such as ethanol, diesel and gasoline. Within the company's specially engineered photosynthesis process, non-potable water is combined with microbes that produce particular fuels when exposed to sunlight. This technology of creating fuels and chemicals has the potential to curb society's need for fossil fuels.

(xiv). With compelling global developments such as these, India cannot afford to be left behind and must leverage its strengths to emerge as a nation that is able to set global benchmarks in generating sustainable solutions to environmental problems. India has the best of talent, ample natural resources and, above all, a dynamic and a capable Government that has the full mandate of the people. India must focus on efficient utilization of natural resources, along with appropriate mix of green technology in order to increase the rate of progress without compromising on nature.

(xx). Whether it is the rate of global warming or increasing levels of pollution, India must break the trend and ensure that this year is not a re-run of the last. Superlative R&D in green technologies that is

driven by innovation needs to be the mantra for India. This will help India generate solutions for complex environmental problems and script an environmental turnaround of sorts.

16. India's Health Care Crisis will Impede India's Economic Progress

(i). Over the past couple of decades, India has had an impressive record of lifting millions out of poverty. But its record in improving health outcomes has been much less impressive despite years of rapid economic growth. As a recent Mint article pointed out, India's disease burden is much higher than other emerging economies such as China, Indonesia, Brazil, Mexico and Sri Lanka. Even poorer neighbours such as Nepal and Bangladesh have a better record in health care compared to India.

(ii). India's Health and Family Welfare Ministry has suggested making health a fundamental right, similar to education. This key proposal in the draft National Health Policy, 2015, suggests making denial of health an offence. The new national health policy announced by the government in January promises to usher in a new era in this regard. According to many scholars, poor health in India is largely a result of poor policy and low public investments both in preventive health facilities such as drainage and sanitation networks and in curative medical care facilities such as primary health centres. The new policy addresses a lot of what has already been laid down in the report of the high level expert group set up by the previous government in 2011 which recommended universal health care in the country based on 10 core principles including universality, equity and community participation.

(iii). The proposal for a National Health Rights Act comes after a debate on whether India should pass a Bill to make health a fundamental right as was done for education. "Many industrialised nations have laws that do so. Many of the developing nations that have made significant progress towards universal health coverage, such as Brazil and Thailand, have done so, and … such a law is a major contributory factor. A number of international covenants to which we [India] are joint signatories give us such a mandate — and this could be used to make a national law. Courts have also rulings that, in effect, see health care as a fundamental right — and a constitutional obligation flowing out of the right to life," the draft policy says.

(iv). The current structure and development trajectory of India's health system suggests that the country is at a critical crossroads. If it maintains its current path, India risks making many of the same, hard-to-correct mistakes of other, more developed countries, most notably the United States. But if the new government and other state-level policymakers make good policy choices in the coming years, India has the potential to "leapfrog" some of these challenges and set its health system on a course toward higher quality and affordability.

(v). A fundamental challenge India currently faces is that unregulated growth of private health care could cement a system of uncoordinated and cost-ineffective care. A highly fragmented market, in which different private providers market to the same patients, can sky-rocket overall costs without significantly improving quality. Patients tend to demand curative care more than preventive care, because they are more willing to pay for services when they are sick than before they get sick. And private providers do not have much incentive to focus on prevention, since more sick people increase their revenues. This type of market situation can condition people to believe that more curative care is better, whether multiple medicines and injections for poorer patients, or more tests in up-scale urban hospitals for wealthier ones.

(vi). As India seeks to become a global power, there is perhaps nothing more important than the health and well-being of its citizens. This is ensured in part through an effective, comprehensive health system. However, assessments about India's healthcare—stretching from access, spending, and capacity—are often bleak. Yet there has been renewed attention within India to health reform, and universal health coverage in particular. Today, most Indians seek healthcare in private facilities. Owing to many years of neglect, lower-level public healthcare facilities often suffer from a variety of problems, including worker absenteeism and dual public-private practice, low demand for their use, and shortages of supplies and staff. In contrast, private healthcare varies greatly in quality of care, being unregulated and financed largely through out-of-pocket payments. In the private sector, there are a large number of health workers who have only a high-school education or do not have a medical degree.

(vii). India has one of the world's lowest levels of health spending as a proportion of GDP, and there is little disagreement that the pledged increase in spending is important for improving the country's healthcare. There is cross-country evidence that shows that increased government spending on health in turn is associated with lower out-of-pocket health spending. The new Indian government is planning to bring about a "complete transformation" of the health sector and is working on the blueprint of the world's largest universal health insurance programme.

(viii). Government health expenditure as a percentage of GDP in the US is higher than seven per cent and ranges between six and eight per cent in EU countries. At 1.4 per cent of total GDP, India's state expenditure compares lowly against even other developing countries, leave aside the OECD. India's bed-to-patient and doctor-to-patient ratios (basic parameters) are way below global averages and even below the WHO's minimum ratio stipulations. This situation is fundamentally owed to government hospitals, particularly in remote parts of the country.

(ix). On the other hand, across India today, the very word 'private' evokes efficiency. And this perception has penetrated the psyche of ordinary Indians - poor, affluent and those in between. Irrespective of income situation and the impact on domestic finances of making such a choice, a large majority of Indians (an estimated 75-80 per cent) prefer to avail private healthcare facilities for minor and major illnesses. However, unless the situation with public healthcare provision improves substantially from where it is today, we can't even begin to consider reflecting upon the issue of citizen's affinity for the private sector as being a 'problem'. It is safe to assume that people will respond with their feet if government facilities are adequately shored up and brought in line with the advanced diagnostic and treatment facilities of our times.

(x). The new policy acknowledges that the present concept of primary healthcare covers hardly 20 per cent of the health needs and that heavy out-of-pocket health expenditure is pushing nearly 63 million people into poverty every year. It has, consequently, done well to broaden the definition of primary healthcare to include more services related to reproductive and child health as well as several infectious and non-communicable diseases.The implementation of the policy would require public health spending to rise to nearly 2.5 per cent of the gross domestic product (GDP), from the present dismal one per cent, with the Centre bearing about 40 per cent of it. To meet these expenses, the policy draft wants to introduce a complex system that relies largely on tax collection but also proposes tapping the services of not-for-profit ventures and trusts. A health cess is suggested, on the lines of the education cess, on specific commodities such as tobacco and alcohol. The Centre and states must expand public healthcare infrastructure, recruit more doctors and paramedical staff, set up new diagnostic laboratories, and revamp procurement, stocking and distribution of drugs. Seen that way, the new policy is a step in the wrong direction.

17. Creating Business-cities Relationship through Sustainable Urbanization

(i). There are six visible trends underlining the relationship between business and cities. Cities are becoming emerging markets for business, that's partly to do with urbanization, particularly population growth in cities, but the growth of the consumption class in cities means that for many businesses, cities are the emerging markets, not nations. The old models about business separating itself from the city, trying to find a separate hygienic location is over. Business is moving back into cities. Urbanization is itself now an industry. So, whether in architecture, engineering, energy, waste, construction, infrastructure or logistics, everyone is part of an urban services cluster that is now highly traded. Also cities are playing a renewed role in driving business innovation, particularly any kind of innovation that requires agglomeration advantages and interactions between people, the use of digital platforms or anything that requires a company to test products in one place to use in many places. Then obviously, the multi lingual cosmopolitan cities are the places where that happens. So, there is a big growing role of cities as part of the innovation platform for business. Although these trends seem positive, and suggest an expanding intersection between cities and business, it should be noted that there are fundamental challenges, starting with the fact that "most cities are growing, or have already grown, beyond their geographical borders and most cities have challenges and problems that are greater than the competencies of the institutions that they have.

(ii). At the heart of the quality of urbanization is the governance system of institutions and policies that guide and oversee the planning, execution and co-ordination of land use, building regulations, road construction and delivery of key services such as water supply, sanitation, transport, and solid waste disposal, while ensuring adequate mobilization of the necessary financial resources. The institutional framework for urbanization in India has been historically weak. Significant improvement occurred in 1992 through the 74th Amendment to the Constitution, which emphasized the importance of urban local bodies (ULBs). But many believe that this matter needs to be revisited to assign better revenue resources to ULBs, clarify expenditure responsibilities in relation to state and central governments, and improve their staffing and competencies.

(iii). Such systemic reform may well be necessary. But a great deal can be accomplished within the existing framework, with strong administrative and legal support from state governments and some assistance from the Centre, as through the Jawaharlal Nehru National Urban Renewal Mission. First, it is surely shocking that while over 2,000 new areas were designated as "towns" by census enumerators (according to established criteria of population, density and employment in non-agriculture pursuits) between 2001 and 2011, the number of towns with statutory ULBs increased by less than 250. Thus, a very large number of small towns do not have a ULB to deliver the basic services necessary in order to avail the benefits of agglomeration. The facilitation of new ULBs is surely a primary task of state governments, with some assistance from the Centre.

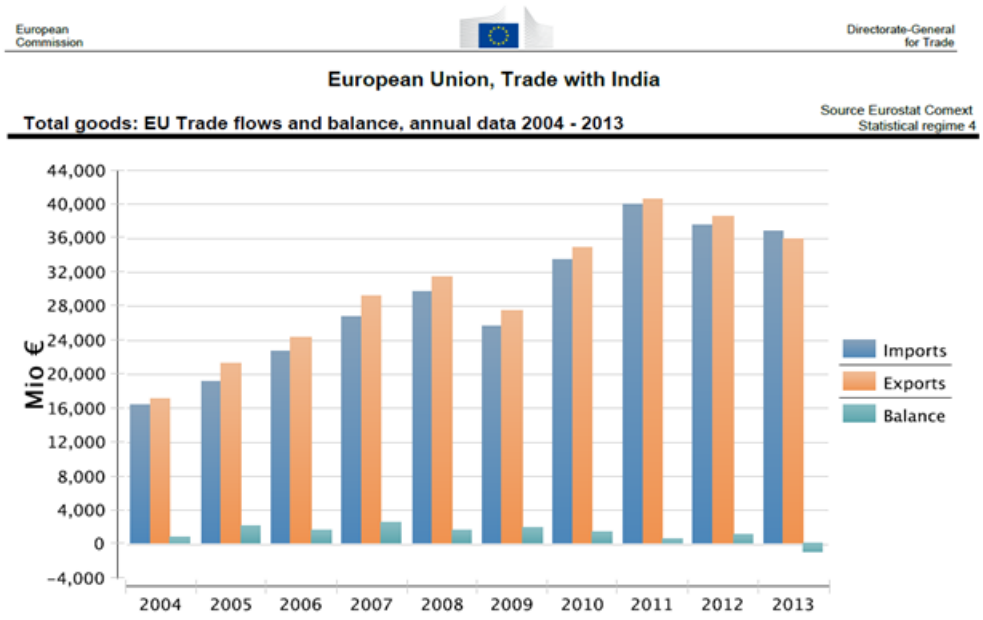
(ix). Increasingly, the role of leadership in cities is to overcome weaknesses and failures in the institutional framework and to do that in ingenious and inventive ways. So that's all about building coalitions, about strategic planning, about collaborative exercise, about moving away from silos, and about finding catalysts that will make people work together.

18. EU-India Free Trade Agreement Remains a Mirage

(i). Although the FTA negotiations have been going on for last eight years and both parties from time to time have claimed that the negotiation is on the right track, the successful conclusion of the negotiation have eluded both. This speaks that there are indeed serious differences and several rounds of negotiations have not yielded any tangible result. Indeed the negotiation has lost momentum and no one takes seriously the will to come up at an agreement. Obviously, the time-lines for a possible India-EU bilateral trade and investment agreement are getting tight with both sides supposedly failing to close the deal on some critical issues. While this could risk hurting several years of negotiations that have been undertaken by both sides, it is also important to note that the final deal should be based on a clear win-win for both partners. But time is of essence and the 28-nation European Union (EU) and India should now look at arriving at a consensus on issues soon, if an agreement has to be signed. A trade pact is about give and take.

(ii) Failure to conclude the EU-India BTIA will constitute a large opportunity loss, while trade pacts such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) (which together account for two-thirds of global GDP and one third of global imports) are moving global trade away from MFN routes toward bilateral/regional routes. They are setting new trade rules that would be far more difficult to comply with. This calls for taking a long-term view of India's trade policy options while negotiating its trade pacts.

(iii). According to the European Commission, the value of EU-India trade grew from €28.6 billion in 2003 to €72.7 billion in 2013. EU investment stock in India grew substantially reaching €41.8 billion in 2012 and Trade in commercial services quadrupled in the past decade, increasing from €5.2billion in 2002 to €22.7 billion in 2012. The FTA will be the first of India's large trade agreements with a western bloc, with 28 economies. If structured well, the agreement could push India's growth for the next decade. If structured poorly, it could derail it for just as long.



(iv). As said above, despite several rounds of the negotiations which started in 2007, the proposed EU-India Bilateral Trade and Investment Agreement (BTIA) covering trade in merchandise, services and investment is far from concluded. Failing to conclude the EU-India BTIA will be a lost opportunity when trade pacts such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership (that together account for two-third of world GDP and one-third of world imports) are moving global trade away from MFN routes to bilateral/regional routes. They are setting new trade rules that would be far more difficult to comply with. On the other hand, a badly negotiated trade pact can hurt India's long-term trade interests. With the change of guard in New Delhi, are India's trade negotiators ready for a tightrope walk?

(v). A delay in completing the negotiations soon could possibly mean that an agreement, if at all, would be put off by about a year or two. The year-long hiatus would be prompted by the fact that elections in India are expected to be held in the middle of next year and by the time a new government takes charge it would be time for the current European Commission to pack up. The EU will need to realize that even a slight opening, if achieved, can be a good starting point for future discussions. Given the current state of play, some sectors in India need to take a more proactive role if they wish to see a conclusion to a bilateral free trade agreement (FTA). Some of the obvious gainers in India from such a deal include the information technology sector and the textiles and clothing sector. Interestingly, one does not see much of a public stand by either of these sectors in advocating an early conclusion towards a deal.

(vi). Current deadlock, therefore, provide us with some pointers to help make such trade agreements far more effective and worthwhile for the government and the industry. First, the industry needs to play a far more proactive role during such negotiations. This is especially for sectors that stand to gain from FTAs. Their role should not be limited to back-room lobbying but a more public positioning of their support for a deal. This will help build public opinion in favour of FTAs. As of now, public positioning by the industry for an agreement is more focused on the negative impact rather than about the opportunities that such deals would provide. This vitiates the environment for any FTA. Second, the industry needs to start track two with counterparts in the other country/countries, as soon as official negotiations begin to ensure that the feedback to negotiators is based on a better understanding of the industry position on the other side. Third, the industry should desist from adopting a "one-size-fits-all" approach with all trade partners. This seems to be a case in some sectors that have taken a defensive view for nearly all the FTA negotiations. Fourth, foreign investors in India need to play a more active role in providing inputs to the government when such negotiations take place.

19. In Conclusion

(i). India has rapidly re-emerged on the international investor landscape since the general election in May 2014. Its economic growth has started to accelerate despite the broader slowdown in global growth, including in all three of the other BRIC countries, and inflation is at a five year low. This has led to a surge in foreign investment inflows which has pushed the benchmark stock market index up by over 30% this year – making India one of the best performing stock markets in the world in 2014. Domestic liquidity still remains an issue with Foreign Direct Investment, private equity activity and domestic credit availability still below their earlier highs. However there are some clear indications that this recent economic improvement is more than just a cyclical recovery. The indications are that India is indeed in the early stages of a major economic inflection point – driven by a strong push for structural reforms by the new government. The "India Story" – the belief that the country can fulfil the tremendous potential provided by its strong long-term assets including its people, its resources and its democratic institutions – had lost appeal in recent years, but is now being reinstated and reshaped by the Modi government.

(ii). From a geo-political perspective, India's potential resurgence comes at a good time as the US continues to "Pivot to Asia" and the concerns (territorial and other) of many Asia economies, that have become dependent on China, lead them to welcome India strengthening. China's strength on the global stage came from its reform-driven policies that galvanized huge international investment and rapid growth. India today stands to show the international community that it is where China was a decade or so ago. This requires a continuation and stepping up of reforms from the Modi government.

(iii). Only a few months ago India was described as the "most disappointing" of the BRIC nations. Its economic reform program had lost traction under a weak and inept government and the Indian rupee was one of the worst-performing currencies among emerging markets. Global credit rating agencies were threatening to downgrade India's sovereign credit rating to junk if it failed to put its fiscal house in order. In early 2011, the Indian economy was expanding at more than 9 percent. Notwithstanding India's promise and potentials, economic growth will require business, government, academics and key members of the society to confront and overcome the challenges. Business, economic and social actors should address how EU and India can really operationalize and to make the "Partnership" really strategic that manifestly serves interest of both countries and stability and prosperity it would bring to both countries. Given the state of affairs today, the economic cooperation between India and EU may make sense in the long run but as yet its impact on both sides are very limited. In the broader context of EU-India Strategic Partnership, it is definitely the time to go strategic something which has eluded both of them for the last one decade and see that the lost decade did not affect their future relations. The one which one question Europe and global community must be asking what kind of superpower India is likely to be and how it will configure its geopolitical and economic relations with the rest of the world. At the center of the debate is how India will balance its business, economic and strategic interest with Europe and US. India's passage to power in the world stage suggest that India will be a pillar of cooperation together with Europe and US as a tripod.

(iv). While India is taking all measures to reset its economic and social priorities, the European Union is confronted with huge challenges. It is losing support of public opinion and its institutions are not working well. The eurozone crisis is affecting the economic and political stability of several some Member States. However, all is not lost. The EU must continue to take difficult decisions in order to try and solve the eurozone crisis. If it is not possible to change the EU Treaties in the short or medium term, then it will have to do so within the limits of the present Treaties, while complementing them, if necessary, with intergovernmental agreements. The development in Greece and likely similar scenario in Spain is pushing the EU to reinvent itself. The Euro problems and dysfunctional institutions give rise to the real danger that the European Union will become increasing irrelevant just as its member states face more and more challenges of a globalised world. In the short term the European Union seems to have rescued its single currency, but it has not yet put an end to the crisis. The current economic, political, constitutional, social, and cultural interpretations of the European crisis is unsettling the law makers. They describe the challenges the EU faces in relation to legitimacy and democracy and address head-on the uncertainty over the future of Europe. However, Europe's economic and political substance is still strong. Not too much is lost yet. But if Europeans do not address their own fears soon, they will soon learn that they have more to fear than fear itself.

(v). Based in Brussels, EICC provides a platform for profitable interaction between the European and Indian business to enhance trade and commerce in their respective countries. In doing so, the EICC directs its energy in assisting Indian inbound investments into Europe, and leverages on this experience by assisting European companies and organizations through the various networks which have been built in India. The EICC is the only chamber of its kind at the Apex level to the existing bi-lateral chambers across Europe and by bringing "Pan-European" perspective to its activities and policies, EICC ensures serving the larger interest for European and Indian businesses and to meet its objectives, it is closely collaborating with Eurochambres and EBTC to create new pathways to serve the interest of Indian and European businesses. The TIPS 2015 will thus address the shared difference, create synergy and bring new elements to the EU-India economic relations.

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