

EUROPE INDIA CHAMBER OF COMMERCE (EICC)

Strategy Paper

Trade and Investment Partnership Summit (TIPS)

Dynamics of EU-India Relations in a Changing Europe: Challenges and Opportunities for Accelerating Trade and Investment

16 October 2013

European Parliament, Brussels

1. This year marks the 50 years of India's engagement with the European Union. In the last fifty years, EU-India relations have come far and wide than many could have imagined with several bilateral close cooperation agreements being signed. This relationship was primarily based on the commercial cooperation agreement but with the passage of time, developed into a strategic partnership in 2004. The importance of the strategic partnership lies in the fact that both India and the EU share common vision for a democratic, multi-cultural and multi-polar world order. At a time when new economic and security architecture is evolving in Asia, EU's engagement in the continent is incomplete without partnering India. Similarly, India has to engage with liberal, democratic and globalising Europe for its growing role in international relations. Considering commonality of vision, contemporary international scenario and future stakes, the India-EU strategic relationship is of paramount importance for both sides. However, this has failed to push them to solidify their strategic partnership and make it work effectively. This cooperation, however, has been fluid and unpredictable due to lack of vision and quest on both sides.

2. Over the years, Europe has changed and so has India. The European Union has become a global actor on the world scene, and India is now an emerging global power, a major contributor to the global economy, peace, security and development. From taking tentative steps towards fledgling nationhood, India has faced many crises, yet witnessed astonishing stories of enterprise and development - in spite of its baffling complexities. India is unique and her people know that - even though many a times they do not realise how this great nation shapes every one of us. The transformation of India into one of the fastest growing economies of the world, a responsible nuclear power with demonstrated scientific and technological competence is truly a phenomenal story of achievement the world has ever seen. This wonder of diversity and dynamism, of tolerance and secularism and of dignity and restraint as a development model for democracies has no parallel on the world stage in language and in behavior.

3. The image of India as an emerging power is widely held, but there is equal reason to see the European Union as an emerging power too. Like India, the EU seeks to become a global political player on top of being an economic power. As the global power dynamic shifts, both are trying to define their roles in an emerging multipolar world. The question arises whether closer cooperation can help the EU and India to achieve their ambitions. In its present state the EU-India relationship it has failed to push them to solidify their strategic partnership and make it work effectively. Yet, while their relationship has a great deal of potential, it has underperformed. With impressive democratic credentials and a benign record, India has earned a high degree of political credibility in most parts of the world on top of its growing economic stature.

4. India's embrace to globalization is built on sound foundation of democracy and that is why its strong democracy has worked through dissent rather than sweeping it under the carpet. However, while having a democracy brings about many positive opportunities for India, India also needs to find a way to deal with the bureaucratic processes, which have hindered growth. The best chance for sustainable growth will occur if the government removes itself from business.

5. India and the European Union are emerging as global economic powers and are aiming to consolidate their role and boost their leadership in political and security issues of

regional and global concern. For a long time, the EU-India relationship was largely at the economic level but with the strategic partnership the current effort is to give it a larger political dimension to their relations. India's growing attractiveness of the stock markets, and its increasing role on the global stage both at the World Trade Organisation and the international institutions have clearly contributed to the rising interest within the EU in a long-term stable relationship with India.

6. 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. There is a European quality to India. Like the European Union today, the Indian republic is a confederation of regions and attitudes with little affection between them and vastly different levels of governance, productivity and historical good fortune. India is a federal union of states comprising twenty-eight states and seven union territories. And all of them, of course, are stuck with a uniform currency with free border. The European Union is an economic and political union of 27 member states which are located primarily in Europe. The EU operates through a system of supranational independent institutions and intergovernmental negotiated decisions by the member states.

7. Although India and the EU share common objectives, 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 neighbourhood contribute to a lack of genuine shared interests - aside from the fight against terrorism and piracy. Though the EU and India have built a multilateral 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.

8. To many in India, the European Union may not sound too attractive primarily because of the lack of knowledge and interest in India about EU; and also to many the changing institutional dynamics and emerging complexities in the EU structure may sound too confusing and directionless, but those who are aware of the recent developments in Europe and how India is becoming an integral part of Europe's economic system - from automobiles to pharmaceuticals, from information technology to energy - it would not be unrealistic to say that India and Europe not only share historic relations, they also share common economic vision.

9. Over the years, Europe has changed and so has India. The European Union has become a global actor on the world scene, and India is now an emerging global power, a major contributor to the global economy, peace, security and development. From taking tentative steps towards fledgling nationhood, India has faced many crises, yet witnessed astonishing stories of enterprise and development - in spite of its baffling complexities. India is unique and her people know that - even though many a times they do not realise how this great nation shapes every one of us. The transformation of India into one of the fastest growing economies of the world, a responsible nuclear power with demonstrated scientific and technological competence is truly a phenomenal story of achievement the world has ever seen. This wonder of diversity and dynamism, of tolerance and secularism and of dignity and restraint as a development model for democracies has no parallel on the world stage in language and in behavior.

10. The EU still ranks as India's foremost trading partner, but it is likely to be dethroned in the near future with China becoming the main source of Indian imports if current trends persist. Unlike India's unbalanced trade with China, depending mainly on exports of raw materials and resulting in a large and widening deficit gap, the exchange with Europe reveals a high degree of economic complementarity in the composition of exports and imports. Indian exports to the EU have consistently moved up the value chain, with the largest share now held by the product category of machinery and transport equipment. Yet Europe needs strong trade growth both in quality and quantity if it wants to defend its pole position in India. India's overall share of EU trade remains modest at 2.4 percent, which now places it ahead of South Korea and Brazil. The stagnation and recession could further erode the importance of trading

with Europe for India, and appear to vindicate New Delhi's efforts to open new markets and diversify exports through trade promotion programs targeting the Middle East, Africa, and Latin America especially.

11. These are uncertain times for Europe and Eurozone, and major challenges to the future of Europe lie ahead. The Eurozone is undergoing a period of instability, and it is far from clear how, or when, or if, it will end. It is also doubtful that current political efforts to create a fiscal union with stronger controls on public debt will address underlying imbalances that are the root cause of instability. The euro crisis has entered a new phase and although the survival of the euro is assured, the future shape of the European Union will be determined by the political decisions the member states will take during the next year or so. Until recently, the idea that the 27-nation European Union might disintegrate would have been unthinkable, for uniting a continent ripped apart by two World Wars was considered a rousing diplomatic success. But the EU's two most cherished achievements - a common currency and the free movement of people across borders - are under threat. And the possibility that the decades-long experiment that is the EU might not survive in its present form has now entered mainstream debate. In a fast-moving situation, significant developments are bound to occur due to the announcement of British Prime Minister to go for referendum if UK should remain in the EU. This has generated huge uncertainty in EU and in UK. If Britain pulls out of EU, this might spell disaster for European Union integrity hurting stability and resilience. Implication for this for India too would be huge and wide.

12. India needs to take fundamental lesson from the European debt crisis. The European sovereign debt crisis is not an overnight development. Globalisation of finance; string-less credit conditions during the 2002–2008 period that encouraged high-risk lending and borrowing practices; international trade imbalances; real estate bubbles that have since burst; slow economic growth since 2008; fiscal policy choices related to government revenues and expenses; and approaches used by nations to bailout troubled banking industries and private bondholders, assuming private debt burdens or socialising private losses have all contributed to this development.

13. India has not been spared the effects of the global recession and particularly by the Eurozone debt crisis. Eurozone debt crisis, global economic head-winds have had significant negative consequences on India. Amid global slowdown India has lowered its economic growth for 2012-2013 fiscal to 5.7 – 5.9 per cent from its earlier projection of 7.6 percent.

14. India is one of the largest growing economies of the world registering average growth of more than 6.5 percent in the last decade; India is also amongst those economies which largely remained partly insulated from the world economic recession and particularly the Eurozone debt crisis. On the other hand, EU is one of the most cherished success stories of regional and economic cooperation in the contemporary times. India is an important trade partner for the EU and an emerging global economic power. The country combines a sizable and growing market of more than 1 billion people. The value of EU-India trade grew from €28.6 billion in 2003 to €79.9 billion in 2011. EU investment in India more than tripled between 2003 and 2010: going from €759million in 2003 to €3 billion in 2010. Trade in commercial services tripled during the same time period, going from €5.2billion in 2002 to €17.9 billion in 2010.

15. In last three years when the pace of negotiations with EU and other trading partners gained speed, India has seen major changes in India's economic policies marking a new phase in India's development strategy. The broad thrust of the new policies is not very different from the changes being implemented in other developing countries. They aim at reducing the extent of Government controls over various aspects of the domestic economy, increasing the role of the private sector, redirecting scarce public sector resources to areas where the private sector is unlikely to enter, and opening up the economy to trade and foreign investment. These changes have been accompanied by a lively debate in India and have also attracted interest abroad. International opinion has typically welcomed the reforms and generally urged a much faster pace of implementation, especially in view of changes taking place in other countries.

16. In the corridors of trade and economic diplomacy in Brussels and New Delhi, one issue which has received the widest interest, publicity and concern is the ongoing free trade negotiations between EU and India. Although EU-India relation does not have the same hyper-resonance as India has with the US, it is nevertheless of strategic importance to both. As both seek to broaden strategic partnership, much will depend on how they tackle the challenge of reconciling their positions on numerous issues. Both sides are claiming to have resolved many differences with much of the discussion focussed on content and modalities, they seem miles apart. From the Indian business perspective, although India has softened its stand on trade liberalisation of a large number of products including on EU's demand on intellectual property protection, procurement policies including data exclusivity and enforcement, there seems to be never-ending demand from the EU side. There is resistance to India's core negotiating demand to gain better access for Indian investors and service suppliers, and allowing greater mobility of skilled Indian professionals in Europe.

17. As the largest open societies in the world, the EU and India share a commitment to participatory democracy, human rights, good governance, and rule of law. The EU's gradual gravitation towards India is also the result of a growing unease with China's economic dominance. Not only is India seen as a better enforcer of Intellectual Property Rights laws but diversification also seems to be a better strategy for Europe. While China is not seen as being fully integrated into the international system, India being a liberal democracy is considered as almost a fellow traveller. India has been a major beneficiary of the EU's Generalised System of Preferences scheme that provides duty reduction, and duty free and quota free access to products from developing and least developing countries. The EU is India's largest trading partner and one of the largest sources of foreign direct investment for India.

18. Despite the well-intentioned attempts by the EU to engage India more productively in recent years, there are significant constraints that continue to limit these ties from reaching their full potential. It took the EU very long to recognise that India also matters over the long-term and should be taken seriously. For long, the EU had single-mindedly focused on China, ignoring the rise of India in Asia-Pacific. India's rising economic profile, the US overtures to India, its growing role on the global stage from the United Nations to the World Trade Organisation, all have forced the EU to make it one of its strategic partners. The EU-India relationship is getting a long-term focus with the recognition that there are enough mutual benefits to ensure that small areas of friction are smoothed over.

19. The EU has been lukewarm at best to support India's bid for a permanent membership in the United Nations Security Council. This is partly because different member states have different views on this issue and partly because the EU is still testing the waters to see which way the wind will blow. This is despite the fact that the EU has been supportive of the UN attempts to reform its functioning and organisational structure to meet the changing global realities.

20. India's road to free trade with the world has been bumpy and slow. Partly because of the Doha Round of the World Trade Organisation negotiation while is still technically alive, it is on the life support. However, it is true that bilateral negotiation with EU has faced many hurdles; some of these are the product of democratic domestic political exigencies that come in the way. The EU and India also find themselves on the opposite sides in trade negotiations in the WTO and there are strong differences over the EU's farm subsidy policy and on issues related to market access. The EU's reluctance to reduce the massive agricultural subsidies to its farmers that distort fair competition in trade in agriculture continues to be a major bone of contention between the EU and India.

21. Though the EU is India's largest trading partner accounting for around 19 percent of trade and FDI from the EU into India has also grown considerably in recent years. Yet, the EU's economic ties with India are yet to achieve their full potential with total FDI into India still amounting to only 1 percent of EU outflows and being less than a tenth of that into China.

22. As the centre of gravity shifts to Asia-Pacific and the international system undergoes a profound re-ordering, the EU is trying hard to accommodate to these new global realities.

The rise of India and China has presented the EU with several opportunities that it's trying its best to harness. But while trade and economics seems to have given the EU a reference point vis- the two Asian giants, politically it seems adrift as it is finding it difficult to speak with one voice on the political issues that confront the world today. Europe is finding it difficult to formulate a coherent foreign policy across the EU nations and this has made it difficult for the EU to respond as effectively to the rise of India and China as it would like to. The US has taken the lead in defining its relations with India and China but EU is still seems to be reluctantly following its lead as opposed to acting as an autonomous political unit keeping in mind its own strategic priorities.

23. The EU's lack of a strategic direction in foreign policy also makes it difficult for it to respond effectively to new challenges such as the rise of India. If India wants to seize this opportunity it should have to leverage its growing economic and political profile in the international system and to impress upon the EU that it's time for the EU to take India seriously.

24. Europe and India are at a complex and interesting crossroads in their relationship. As the role of India and Europe grows in a globalizing world, the two sides find they have an increasing range of interests or at least increasing contact - in economic, political, diplomatic, and security terms - in an increasing number of places around the world. Both sides see value in deeper relations but also have doubts about how far and how fast.

25. Democracy in India is loud and messy, confusing and chaotic but it is resilient and vibrant – the core of European values. Political protests get spilled on the street on any major economic policy decision but as people's participation through parliamentary democracy remains the centre to India's economic progress Sometimes Europe is frustrated by the long time frame that India takes to decide on some strategic issues but Europe has to understand that it is dealing with a continent which is not an autocratic but a democratic nation and any major policy that will affect the lives of majority of people will have to go through a political process; how rigorous and time consuming it may be.

26. Trade relations between EU and India have huge scope for growth. However, trade relationship between India and EU does have some irritants that need to be ironed out to foster growth. Although India's import tariffs have been significantly reduced, it is still high according to prevalent international standards. Besides imposition of steep import tariffs, a number of non-tariff barriers in the form of quantitative restrictions, import licensing, mandatory testing and certification for a large number of products are also deterrents to EU-India trade.

27. The Free Trade Agreement must not be empty on content and issues like government procurement, trade facilitation and competition policies are vital for economic growth of the country. Competition policy, Intellectual Property Rules must enable people to know that there is a level-playing field and helps boosting investor confidence. India wants to be ensured that non-tariff barriers (NTBs) prevalent in the EU do not bother Indian exporters after the FTA is inked.

28. Although Indian trade policy has been protectionist, however, during last few years' Indian government though several policy measures has lowered tariffs, removed import controls and liberalized some of its service sectors. During the last six years, India has cut its tariffs from an average of about 80% to 17%. Its export-to-GDP ration, now near 20%, has tripled since 1990, and its imports have grown even faster. India's current foreign trade policy plan calls for doubling its share of world trade.

29. Prospects for a Free Trade Agreement between European Union and India appear good but there remain potential obstacles as the result of protectionist storm seems to be shaking EU's single market. The EU today seems less homogeneous but perhaps most disturbing aspect of this is that protectionist measures in one country appear to trigger protectionist response in other EU member states. Although some countries may be violating the spirit rather than the letter of the law, the hostility to foreign takeovers is raising serious doubts whether EU nations are really committed to open, borderless and competitive market.

30. The European Commission desires the free trade agreement to address deeper integration issues such as competition policy, the rights of foreign investors, open government purchasing practices as well as environmental, social and human rights clauses. India considers some of these issues as pretexts for future protection. India considers them patronizing given that Indian democracy is older than that of many EU member states. India's rapidly expanding role in the world economy as a buyer and seller make it an important target for the EU. From the Indian side, the free trade agreement would be a move from its reliance on a unilateral liberalization policy with extreme reluctance to commit multilaterally.

31. European Union should seize an opportunity and take a visionary approach and not governed by impractical thinking given the different stages of development and the size and intricacy of the two economies. However, India should develop required internal capacities to meet international standards. The FTA is of strategic importance to both as this will change the dynamics of EU-India relations. There is also a global rationale for an agreement and reflects how India has moved to the centre stage of global economy. The agreement will provide the opportunity and prospect of preferential access to one of its major market. Let the agreement further blossom the economic relationship. An agreement will also give India and EU additional power to negotiate WTO Doha Round. To resolve the outstanding differences common grounds can always be found through mutual collaborative approach and understanding of realities.

32. After five years of on-and-off negotiations, the trade deal has turned into a litmus test for both sides' commitment to the strategic partnership. Mutual economic benefit will continue to serve as the backbone of the Indo-European relationship for the foreseeable future, and a growing political partnership cannot be built upon a shrinking or stagnant foundation.

33. On balance, both sides stand to gain much more from the Free Trade Agreement than they stand to lose. The most pressing priority for European and Indian business leaders and their umbrella organizations is to play a stronger role in the partnership, starting with the summit formats. This business summit therefore by Europe's Apex Chamber EICC is a bold step in this direction. Given that these few years have seen the growing significance of the EU-India relations expanded cooperation and interaction in dealing with the challenges they face prove that the EU and India can be part of their respective solutions, and indicate that internal developments in the EU or in India have a direct bearing on the interests of the other.

34. Both India and the EU are unclear of their own role and lack political willingness to project themselves as independent world players. The two sides have the capability to define the developing order of the international system. Any political cooperation with common vision of just and equitable world order would be beneficial for India and EU.

35. For Europe to actively protect its economic and strategic interests will be far more greater and complex in the coming years as the centre of gravity of power and wealth is fast shifting from West to the East. The risk for Europe in the next ten years is not one of war or starvation or disintegration, but of gradual and steady decline of its global influence. Growing structural unemployment, falling productivity and competitiveness, technological and scientific decline, demographic changes and an expanding gap between the sense of expectation of ordinary people and the capacity of the European economy to deliver it, are going to be the most pressing challenges for EU. The current financial crisis is also testing the depth and passion of the Union's resolve to stay together. Therefore for Europe to succeed, it is necessary that it demonstrates its visibility and bring institutional changes that will help its relevance to the 21st century.

36. In these uncertain times and economic slowdown, Europe needs greater economic and political integration to maintain the four pillars of freedoms, the principles on which the foundation of EU is based – the freedom of movement of people, goods, capital and services. EU and India are well placed to address these emerging challenges provided there are framework conditions in place that encourage these linkages.

37. It is in this respect that EU and India need to demonstrate the political will and maturity to work for common ambitions in the areas that will dictate and determine the 21st century. To achieve this, India will need to seize the opportunity to reinforce mutual economic synergy and strategic alignments. Without active Indian efforts in this direction, the India-EU relations may not live up to its full potential for either party. Against this geopolitical and economic backdrop, EICC has a role to play for enduring friendship between declining Europe and the rising India.

38. India and EU have immense potential in coming future however the success to realize this potential will depend on their ability to tackle their domestic challenges. For EU that will involve becoming a true union of 27 nations with different cultures and preference that would be easier said than done. For India to become a true global economic and political power it too will have to deal with domestic challenges like tackling corruption, creating world class infrastructure and bringing the poor and vulnerable sections into economic mainstream so that they benefit from faster economic growth.

39. A comprehensive free trade agreement and greater economic cooperation between the world's two largest economies would not only provide the economic stimulus that both regions sorely need, but also send a message that there was at least one lesson the two regions at the heart of the crisis have taken heed of.

40. The objective of the Trade and Investment Partnership Summit (TIPS) therefore is to build better and innovative relationship by exploring the dynamics of changing Europe through discussion and exchange of ideas among high profile business leaders, experts from wide range of discipline, policy makers from Europe and India. The TIPS will be panel focused with insights into addressing core issues pertaining to inbound / outbound investment from India to Europe and vice versa that invariably impact EU-India trade relations. The summit will also discuss the broader side of the trade related issues such as regulatory and legal framework, taxation policies and other incentives in India and Europe. The summit will make comprehensive overview of India-EU relations in content and context and will suggest ways to give it a strategic dimension. The summit will also serve as a key platform offering an unparalleled access to a full spectrum of industry leaders, business executives, representatives of the European Commission to share their views on issues related to trade and investment. The summit will provide an opportunity for the delegates to access important presentations to engage in discussions and network with specialists across a range of topical issues and suggest ways to give it a strategic dimension.

EICC - 30113

Contact details of the Chamber:

Europe India Chamber of Commerce (EICC)

69, Boulevard Louis Mettwie

(bte. 18)

1080 Brussels (Belgium)

Tel. & fax: 0032 2 469 2677

GSM: 0472-207 338

E-mails: info@eiccglobal.eu; EICC.SG@GMAIL.COM; sunil.prasad@coditel.net

Website: www.eiccglobal.eu;