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The Business Feature section carries stories relating to Indian business and how it interacts and interfaces with the economies of other democracies. The focus here is on India going global!

## "There is no reason why India and EU cannot form an FTA"

The Europe-India Chamber of Commerce is a not-for-profit non-governmental organisation registered under the Belgian law, which serves as the key liaising organisation representing the views of enterprises and semi-business groups of India and Europe having business interest in each others' countries. Secretary General Sunil Prasad talks about the key issues impacting India-EU business relations in an exclusive interview with ICFDC.com's Adite Chatterjee.

ICFDC.com: There has been a lot of interest lately about India in the EU, particularly after the signing of the India-EU Strategic Partnership. Is this being translated into on ground activities in terms of greater joint venture partnerships, more collaboration between business entities in India and EU, etc.?



Europe and India are important regional and global players and partnership between the world's two largest democratic entities is an important constituent for stabilisation of global peace, stability and progress. India's image in Europe is changing as a dynamic trailblazer with knowledge-based economy. A vibrant India is marching ahead but in order to make quantum leaps it has to forge strategies and develop new paradigms for enhancing trade and investment. The strategic partnership agreement adds a new dimension to deepen economic and political ties between the two sides: one which is the second most populous country with a 260 million middle class population and the other with a 25-country union with 455 million people trying to emerge as a global powerhouse. By 2020, India with 1.2 billion people is likely to emerge as the fourth largest economy and therefore the partnership represents a fundamental change in how the two parties approach the geo-political and economic relationship. Further, the strategic partnership with the EU should be seen in the context of India's new economic diplomacy as a part of India's foreign policy. This partnership can become realistic if both parties become stakeholders and build trust without bureaucratic interference. However, in social and other than business circles, the expectation is somewhat lukewarm and mixed. Amongst several reasons, one of the most important one is the lack of awareness and the non-participation of the majority of economic

players. What is further missing is the right attitude and awareness to do business in India in spite of several positive investment policy changes. On the issue of how the EU and India could improve synergies between companies, corporations and sectors, much requires to be done. There is higher awareness among US companies about investing in Research and Development areas with no significant presence of European companies.

**What in your opinion are the areas - in the India-EU business context - that have the maximum**

**potential.**

Both continents have enormous potential to increase trade in both directions. India has its strengths and weaknesses and these must be clearly assessed. India needs to ensure protection of investment, good governance and transparency and above all a stable political situation. While India remains loathe to opening up of its market under pressure from several trading partners as well as WTO, there are positive signs that it is willing to loosen control over its economic space through a variety of bilateral free trade arrangements.

**Could you identify some recent examples of increased economic cooperation between India and the EU.**

Both India and EU have signed several bilateral agreements such as Bilateral Investment Protection, Double Taxation Avoidance, Science & Technology Agreement, Information Technology, Customs, Galileo, Maritime Agreement, Air Services Agreement and Energy. These agreements provide good basis for regulatory and institutional framework to enhance trade cooperation and address the bottlenecks for creating conducive regulatory environment for investment. Among these agreements, India's Joint Vision Statement on Information Technology promoting cooperation in the field of information and communications technology assumes high importance. The EU is extremely important for India's burgeoning information technology and outsourcing sectors that have somehow become political issues in the US and to some extent in some EU countries too. This could provide India an opportunity to enter into the European job market such as the information technology sector, which has a short fall of more than 700,000 knowledge based workers.

**In the US, there is a huge backlash against Indian outsourcing companies. What is the situation in EU countries?**

In the US, the backlash is driven by politics rather than economics. The outsourcing by the US companies is helping the US economy in terms of quality and value added. I don't think the difference is more than 20 per cent in absolute terms but in terms of standard return, the US should be happy to have such talent in India. By IT I do not mean Information technology alone - I mean Indian Talent. In many ways, Europe is more mature and things are different in Europe for the following reasons. The countries of the European Union face a massive shortage of skill labour in coming years. It is estimated that the EU needs nearly 80 million immigrants by the year 2050 if it is to maintain the present number of working age residents. Western Europe stands to lose € 380 billion due to the shortage of skilled IT staff alone. While the future of the Indian software sector seems bright, lack of proper implementation of the GATS provisions and inadequate liberalisation in Mode 4 may dampen prospects in this sector. Mode 4 under which temporary movement of persons from provider country who go to consumer country for delivering services (Indian software engineers going to EU countries or US on assignment), is of special interest to India. While the GATS deals with trade in services, and the General Agreement on Tariffs and Trade, 1994 ("GATT") regulates trade in goods, there is a strong interdependence and co-relation between these two multilateral instruments. To ensure that the GATT is properly implemented, services under the GATS too have to be progressively liberalised. Further, Indian IT people do not face hostility in Europe. This is manifested in the number of IT people working in Europe; and the number increasing everyday. Many Indian and European companies have set up joint ventures in the IT sector.

**Despite the Strategic Partnership, Indian IT companies don't seem to have benefited from it. Due to strict labour laws in the EU, Indian companies are not able to ramp up their operation in Europe.**

**Your comment?**

The EU countries have to find out what is inspiring IT professionals from India to head for the US and why is Europe failing to evoke any palpable excitement among Indian techies? Compared to US policy the

European economies are being held hostage by their inability to shrug their image of being deeply conservative, rigid, introverted, parochial and hierarchical societies. The widespread use of the ENT has emerged as one of the major artificial barriers preventing free movement of service providers from India. Many EU countries use ENTs to regulate trade flows in one or more modes and all or selected service sectors. Under the ENT arrangement, government grants market access to natural persons under some conditions such as local market needs or management needs. The discretionary nature of ENT reduces the predictability of trade through Mode 4. It actually nullifies the opportunity for market access otherwise extended in Article XVI of GATS which includes ENT in the market access barriers list.

**Some 14 countries in the EU are opposed to allowing Indian textiles and clothing into the EU duty-free or at reduced rates of import duty under their revised generalized system of preferences (GSP). Does this augur well for the Strategic Partnership?**

Absolutely not. This is a negative attitude which does no good for the EU and India. The European Union must redefine its trade policy in the context of broad agreement and its hunger for a bigger market such as India. The EU should also ask its member countries to upgrade its technology, become efficient and compete with non-EU countries.

**What are the other challenges in the India-EU relationship?**

Although the investment climate in India has gone through a sea-change smashing barriers and actively seeking investment; many investors still see India as a difficult market, incompatible with international investment patterns. The Indian bureaucracy, that has been at the receiving end and generally seen as a deterrent not just to investment but also to professionals who have to travel to India, has changed in some respect. Yet a lot more needs to be done to improve an inefficient and slow-moving bureaucracy which is enough to frustrate any potential investor. One wonders why can't India allow simple procedures at least in sectors in which FDI is supposed to be allowed under the so-called automatic route? A NRI corporate investor must get permission from the Foreign Investment Promotion Board (FIPB) and the Reserve Bank of India to purchase even one share in an Indian company. Both FIPB and RBI must simplify the procedure in order to attract investors. It would also be better if Indian commercial banks are allowed to verify and receive inward investment as is done in many countries. There are other examples of reducing the unnecessary administrative and bureaucratic involvement of government. India-EU share a healthy trade relationship already and therefore the immediate and direct effect of the EU enlargement for India will be burgeoning trade prospects. Bilateral trade has been the bedrock of the India-EU relationship. Over the years, the EU has emerged as India's largest trading partner with nearly a quarter of our exports going to the EU. With new members acceding to the EU, the tariffs on some products are likely to be raised to the common external level. In this backdrop, it is imperative that India formulates its trade policy in such a way that it is able to effectively combat the problem of non-tariff barriers. Thus, it is imperative that India continues to strengthen its trade relations with the EU and, at the same, explore the possibility of a Free Trade Agreement with the EU so as to gain, at least to some extent, preferential and duty-free access to the European market. When countries such as Mexico, which is a part of NAFTA, formed an FTA with the EU in 1999 itself, there is no reason why India cannot.

**What is likely to be the impact of the French rejection of the EU Constitution on India-EU partnership?**

There will be none or very little. Fear of disintegration of Europe will keep the EU united and all their policies will be on track after the initial hiccups. So far as India is concerned, the only immediate effect that I see is the weakness in the EU to take bold trade decisions. The Doha Round still has to see the light of the day and if the leaders in the EU become weak, it will affect trade reform which is the core of success of liberalisation of trade. Opening of the market by both and reducing tariff structure process will be weakened but I hope that Europe will recover from this and move in the direction that is good for Europe. Frankly, I am

not too bothered about the French rejection of the charter as the leaders will now at least try to reach to the people. This has been missing for sometime now.

**In which sectors can India look forward to greater FDI from the EU?**

Although the Indian business environment is improving in multiple respects and foreign investment out of India is more than \$1 billion now, India has a long way to go. Many Indian companies are going global with their business strategies and are acquiring global competitiveness. They are also going beyond the traditional sector like IT and Pharmaceuticals. These companies are now investing abroad partly to escape weaknesses in the domestic business environment and to build assets and skills that are slow to develop at home. India's business environment is still not very efficient and productive. A fundamental shift is required in the nature of doing business which must support higher level of productivity and innovation. One of the big factors of poor investment in India is the slow speed of the decision making process, red tape, corruption, bad governance, rigid labour laws, inadequate protection of intellectual property rights, judicial delays and bureaucracy. The Indian economy can absorb up to US \$155 billion of foreign direct investment in the infrastructure sector over the next ten years in which public-private partnership can thrive. Capital requirements in infrastructure are very large. It is estimated that airports and railways alone will need \$55 billion in the next 10 years, and power and telecom \$75 billion and \$25 billion respectively in the next five years. The Indian government's plan to set up a regulatory framework for infrastructure to create an enabling environment for attracting FDI is an interesting development. However, much will depend on its transparency and independence based on international best practices. It is the manufacturing sector, comprising a variety of engineering and other products, which can play an important role in exports. The automobile and auto ancillary sectors are good examples. Recent easing of the FDI norms in the housing sector is certainly sending positive signals. Other potential sectors that are attractive to EU investors include telecommunication, insurance and banking. Energy, pharmaceutical industry including herbal medicine as alternative medical therapy also offer good potential for growth. Biotechnology occupies a special place and India has special advantage that can make it a bio-tech leader. On the issue of herbal medicine, the existing law does not allow the European citizens to opt for or have a choice for this alternative therapy. Effective measures are required to make changes in the medical insurance sector. Having competitive cost advantage on its side, what India needs in these sectors is quality production with adequate quality control facilities and an aggressive marketing effort. Agro-processing is considered a sector with immense potential for exports given India's surplus production of a large variety of fruits and vegetables.

**What are the short-term goals of Europe-India Chamber of Commerce in terms of fostering greater cooperation?**

The Europe-India Chamber of Commerce is a non-profit generating non-governmental organisation registered under the Belgian law, serves as the key liaising organisation representing the views of companies, enterprises and semi-business groups of India and Europe having business interest in each others' countries. The body plans to develop a network of contacts and expertise. Further, with so much of fast developing business interest including visits by European and Indian business leaders and other active professionals, the body will work to provide substantial input to the various interest groups. The main responsibility of the organisation is to facilitate, co-ordinate, liaise and advise; advisors will be drawn from a broad cross-section of the European and Indian business community who are typically based in most Member States of the EU. As such, the organisation will represent some committed business supporters of the European Union and India.

**[Adite Chatterjee, 15 June 2005]**

