

# **European Union and India: Dawn of a New Relationship in a Changing World**



This Idea-Exchange thematic paper is an initiative of the Europe India Chamber of Commerce (EICC).

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As the European Business Summit 2019 meets, India is in the midst of its General Election where 900 million voters are exercising their franchises to elect the next government. So is Europe where in three weeks' time citizens of European Union countries will elect Members of European Parliament. Two largest democracies of the world, two largest pluralistic global communities in democratic action speaks of the shared common vision of the 1.8 billion people of the two continents. It is a great coincidence that when European Union countries go to the European Parliamentary polls starting from 23 May - the day the counting of votes takes place in India - to elect Members of the European Parliament.

Armed with successful economic reforms, introduction of poverty alleviation programmes and social safety nets, and equipped with strong fervour of patriotism, Modi has the rich credentials to return to power.

Solid achievements in reviving the economy, addressing farm distress, fighting poverty, fighting corruption and helping India regain its global standing are likely to help Prime Minister Modi and BJP retain power in the Lower House of Parliament elections. Job creation is one area which has remained a challenge for him.

In Brussels the shape and size of the new European Parliament structure will be different this time with the absence of Britain. The new EP shall have to deal with emerging social and political issues currently confronting Europe. Following the EP election, the present Commission will give way to a new Commission which will be dealing with reviving European Union economy post Brexit. In the light of fresh alarm sounded by European Central Bank over slowing down of the eurozone economy due continued global trade tensions, Brexit and financial market volatility and other factors, it is important that EU countries readies with measures to confront the situation. The 2008 EU Debt crisis must be avoided by all means irrespective of pressing domestic and international agendas.

At a time when new economic and security architecture is evolving, EU's global engagement is incomplete without partnering with India. Considering commonality of vision, contemporary international scenario and future stakes, the India-EU cooperation over the years, however, has been fluid and unpredictable due to lack of vision and quest on both sides.

## Brexit and EU-India axis

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If 9/11 will be remembered as the watershed event of the century which changed people's lives, global economy, security, social interactions and international relations; BREXIT will be remembered as the most important event of Europe since the fall of the Berlin Wall. Pre-occupation with post Brexit must not be allowed to influence EU's trade and business agendas.

The gravitational forces which has so far kept the European Union's unity intact in spite of Brexit, is facing serious challenges from far right and nationalist ideas. However, Brexit also offers EU an unprecedented opportunity to usher in the required structural changes in policies, programme and priorities so that long awaited sustainable reforms can be undertaken with full commitment and without delay. In fact, Brexit is helping Europe to re-invest itself and embrace the challenges of change which without Brexit was unthinkable. Without reforms European Union risks losing stability and unity.

## EU's India strategy is unprecedented and historic

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The elements of new EU strategy on India provide the policy framework for the EU's deeper and broader engagement with India over the coming years. The new vision statement has the required mission to serve as the blue print for a new dawn in the EU-India relations which goes beyond the realm of strategic partnership and opens the door for new engagement. It assumes higher degree of significance because the vision strategy outlines the common challenges and provides the policy framework for the EU's deeper and broader engagement with India over the coming years. Further, EU's support for India's international role has been very effectively outlined in the strategy which states that to promote effective multilateralism, the EU will seek to coordinate positions with India to address common challenges and global issues, particularly at the UN, G20, WTO and other multilateral fora. The EU has gone extra mile to pursue joint initiatives, bilaterally and at the UN, on all aspects of common interest, notably climate change, rule of law and democracy, the promotion and protection of human rights, including gender equality, women's empowerment and children's rights, as well as the fight against terrorism.

## Deepening of inter-dependence

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In the face of geo-political developments, rising protectionism, global trade friction, slowing down of the global economy, can European Union afford to remain an “exclusive club” and still exert its power and influence in a changing world. This is where EU and India have an opportunity to embrace each other for a new world order. 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 for Europe, but for the globalization itself. Europe seems to have 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 growing economic relationship between the EU and India has been a foundational element of the EU-India Strategic Partnership. As India enjoys a demographic advantage in terms of its vast population of 1.3 billion people and is much younger to European countries, which means that the largest share of its population has the potentials to engage in economically productive activities for a longer period than that of the European Union.

EU-India economic relations in the form of bilateral investments and trade negotiations constitute important elements in EU-India bilateral relations particularly because India is now the fastest growing major economy in the world. Given the significant interest in the economic relationship and the structural factors moving India and its economic system more into the direction of global incumbents’ economic policies, the atmosphere for building further confidence in policy cooperation between EU and India is relatively getting stronger.

Fuelled by economic liberalization which has propelled growth, soon India is set to join the U.S. and China to become one of the three largest economies in the world. India will thus provide enormous upside potential for European firms, vast opportunities for trade and investments in all major sectors including information and communication technologies, energy, chemicals, natural resources, heavy engineering, consumer goods and financial services. European companies can benefit from large and skilled, yet comparatively low-cost human resources for the entire spectrum of activities – from knowledge intensive R&D, design, and software services, to labour-intensive manufacturing activities and business/knowledge processes.

## Brexit and EU-India axis

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We are living in a world of dramatic economic and social changes. Technology and information technology in particular is changing global business models and practices. The rise of robotics, economy driven by apps, data cloud computing, artificial intelligence and internet of things giving rise to revolution in entrepreneurship and start-ups, is how the world will look in the decades.

India has the potential to grow to \$10 trillion economy in the next twenty years if it can maintain its current growth rates, let alone attain sustained double digits. While India must overcome its own domestic political challenges to its economic reform process, Europe has an obligation to support India’s reform agenda because together they represent two great successful political laboratories of the later part of this century. Both need to work together and in full trust and conformity to see if this new relationship could become new “India” Europe. Therefore, in search for a transformative moment, it’s time for EU to reset its priorities with India.

## FTA and challenges

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The Free Trade Agreement (FTA) – officially known as Broad-based Trade and Investment Agreement (BTIA) which would deliver significant economic benefits and economic growth for European Union (EU) member states and India. Also, a free trade agreement would encourage greater innovation and manufacturing efficiencies by stimulating joint technological development, practical applications and new cooperative ventures.

For last two years at least, the free trade negotiation between EU and India which started in 2007 is almost at stand still. And there are reasons for this stalemate. While EU has been preoccupied with the Brexit, Indian government has been in making the legislative changes in the economic policies. Contrary to many who think the FTA is dead, the Brexit is the “hidden hand” which may help both EU and India striking a free trade deal not because it is the core issue but because of external and internal political factors which are influencing both.

Negotiating a successful trade deal which will impact the lives of 1.8 billion people is a very complex and complicated exercise and therefore it requires a careful calibration of the difficult issues involved, and if this agreement is done it shall be the largest trade agreement EU or India has ever entered into with any country. With a new government in New Delhi, a new Commission and a new European

Parliament in Brussels, it shall be interesting to see how they “defreeze” the FTA talks and move forward with an open mind not influenced by domestic political compulsions. It shall require bold leadership capable to take difficult decisions with a visionary and balanced approach where “rigidity” has no place and “compromise” becomes the mantra of the negotiating mechanism. Improving economic relations between the EU and India is essential for Indian and European companies, whose business links extend beyond import and export to include alliances and partnerships in supply chains, joint research projects and significant direct investments.

## Changing dynamics

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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 reshaping Europe’s economic structure and becoming an integral part of Europe’s economic system it would not be unrealistic to say that India and Europe have become two interdependent economies.

As the global power dynamic shifts, both EU and India 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. Looking at the new initiatives taken by both to strengthen the axis of relationship, it very much appears that after years of introspection, they both realise importance of collaboration and cooperation.

During the last one decade, India’s relations with EU have undergone a productive and fruitful transformation with Summits and other high-level visits. While India has been able to perceive an independent EU policy involving various aspects of trade, economic and security concerns, it is important to mention that India is a sovereign nation while EU is a transnational organisation and each has its own weakness and limitations. But within the existing limitations, EU and India need to set their priorities.

Europe has a number of institutions, think tanks and academic departments that are engaged in studying various aspects of political, economic, social, cultural and developmental issues of European countries. There is, however, not many such institutes exist in Europe which is exclusively engaged or active in the context of EU-India contemporary relations. Establishment of such institutions can help leverage the intellectual resources of Indian Diaspora and the goodwill of scholars, academics, social scientists and corporate movers in enhancing mutual understanding in the EU-India spectrum.

Bringing together creative thinkers and intellectuals in areas that have overlapping research interests in order to evolve common policy initiatives between EU and India would further help cement and enhance such partnership.

It is widely believed that a tri-polar world is emerging consisting of US, China and India. India with a population of 1.3 billion is three times that of the entire Europe and its population is likely to surpass that of China in 2025. As India rises to global preponderance again after centuries of subjection and stagnation, world powers are seriously engaging with India. This phenomenon though started during the last decade, under Prime Minister Modi received its due prominence and recognition. This rise of India is also the result of successful accomplishment of structural economic and foreign policy initiatives by the Modi government.

## Where does Europe stand in this?

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The benefits for India of a trade agreement with the EU cannot be measured by the growth of one sector or another alone. Access to the European Common Market, even if it excludes the UK, would pay off in the future especially when Indian firms improve their productivity and can compete with European players. India’s agricultural sector is the back bone of its labour force, but it cannot remain the main employer as productivity levels improve through increased automatization. Progressive easing of agricultural tariffs would allow gradual growth in productivity and resilience to compete with global markets.

A former EU Ambassador to New Delhi two years ago had said that the Indo-EU bilateral trade can double to 200 billion euros on increasing mutual cooperation. The envoy had noted that bilateral trade volume has trebled to 100 billion euros during past one decade and could reach 200 billion euros if the FTA talks become successful. So, what will it take EU and India to realise this target and the answer lies on commitment to realising the vision, bold policies of reforms, genuine cooperation and internal and external economic factors.

Most of the ideas and issues proposed above are not utopian or are too ambitious and futuristic but are grounded in the Indo-European economic and social realities.

# The EICC

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Based in Brussels, the Europe India Chamber of Commerce ([www.europeindia.eu](http://www.europeindia.eu)) is recognized as the Apex Chamber of Europe which promotes bilateral trade and economic relations between European Union and India. Chamber's primary mission is to foster bilateral dialogue between key business and decision makers encouraging progressive economic policies in both Europe and India. EICC is a non-partisan, business advocacy organization which speaks for multilateral rule-based trading system and improvement in European and Indian competitiveness through activities in the legislative, regulatory and political arenas. The chamber provides substantial input into the various interest groups in India and Europe and is realizing its mission through high level strategic dialogue and debate in which trade and economic issues are intensively discussed.

