

SPRING 2016

# EU-INDIA

## JUST LIKE STARTING OVER

REPORT



This event is part of our policymakers' lunches series, which gather key stakeholders including senior officials from the EU and international institutions, MEPs, diplomats, academics and business and NGO representatives for an informal roundtable discussion on a topical issue. They allow for frank and open off-the-record discussions.

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## EU, INDIA NEED TO REVITALISE TIES AT SUMMIT

India and the EU look like they're made for each other. Big, diverse democracies where the rule of law is respected, they also have complementary economic profiles because of their contrasting levels of growth and development. A free trade and investment agreement (FTA) has been under negotiation since 2007 as a way to make the most of the partnership. However, this has stalled, creating a de facto impasse in the broader relationship.

The two sides hope to get ties back on track when Indian Prime Minister Narendra Modi visits Brussels at the end of March for the first EU-India bilateral summit in four years. In meetings with EU leaders, he is expected to look for new ways to tap the potential of the relationship beyond trade. In particular, India and the EU could work together more in areas such as international security and climate change. Modi's domestic modernisation drive could also yield new avenues for cooperation.

"These are times which require countries, regions and especially large global players to come together," **Manjeev Singh Puri**, Indian Ambassador to the European Union, told a Friends of Europe Policymakers' lunch. "In the course of this summit we hope to crystallise several areas of strong cooperation."

European business would benefit from greater exports to India, whose 7.5% expansion last year made it the world's fastest-growing large economy. India could use European technology and investment to boost skills and manufacturing and to provide the country's rural communities with digital connections and bank accounts.

But bilateral trade is far smaller than would be expected from two such large economies. While the EU is India's largest trading partner, India represents just 2.1% of the EU's total trade. South Korea, whose economy is two-thirds the size of India's, has more trade with the EU. "There is vastly underdeveloped potential in our relationship," said another participant at the lunch, where most of the participants were speaking off the record. "We don't have a track record on implementation. Implementation is the key for a new beginning – for a vastly invigorated partnership."

## STICKING POINTS IN FREE TRADE NEGOTIATIONS

There are a number of hurdles for the India-EU FTA.

The EU is demanding that India slash tariffs on imports of automobiles, alcoholic drinks and dairy products – moves that would increase pressure on Indian producers. The EU also wants greater access to India's market for services such as banking, retail, telecommunications, law and accounting. Other sticking points include European demands on enforcing intellectual property rights and including labour and environment standards in the agreement.

India thinks an FTA could boost its IT and related service industries, and it wants more of its skilled professionals to be allowed to work in the EU on short-term assignments. It also wants to be allowed to export more

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Indian Ambassador to the European Union

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pharmaceuticals to the EU. India put off a new round of talks in August 2015 after the EU banned around 700 pharma products from India.

The stakes have been raised by the slowdown in global growth since negotiations began in 2007, which has made both sides especially sensitive to the impact of any deal on employment. “The most important thing is jobs,” said Puri “It should be the commonality that binds us. Eight or nine ago when we began, perhaps no one realised that this would be the key challenge. New thinking is called for from all sides.”

The negotiations might benefit from new approaches. “We need to look at reshaping and repackaging the agenda,” said one participant. “If the first concern for India is employment for Indian skilled labour, then there will be huge reactions to that. And if the EU turns up in Delhi and says we want to eliminate this and that restriction, there will be a huge number of jobs at stake. Simply making these demands won't work. We do need to look at this more creatively.”

## THE BUSINESS PERSPECTIVE

Trade and investment can carry on without an FTA – but they will not realise their potential. “Of course things can go on even if we don't have a free trade agreement with India, because a number of obstacles are obstacles that are also being faced by Indian companies,” said one participant. “It has to do with structural reforms and infrastructure, and these are not really dependent on the FTA. But an FTA can help us bring the technology and the investment. To invest in India we need to import as well, as we will not be able to source everything in India at first. In the past, investments have started but then not developed as they should.”

Some European breweries want to expand their Indian operations. To do this, they want to train Indians in specific skills. They want to source barley and malt from local farmers. And they want to power their breweries using solar energy alone. To do all that they want an FTA that provides a framework for transferring the skills and technology they will need in India.

“It's not so much about tariffs for us in these negotiations,” said one participant. “If we are going to improve our local presence in India, it is very important that this agreement allows us to ensure that we have the right technologies in agriculture. In addition, the transfer of skills in a digital environment has become a top priority.”

Without an FTA, bilateral relations could get overshadowed as the EU forges trade deals with rival emerging economies. “The EU has a medium-term prospect of an FTA with China, provided it first seals a satisfactory investment agreement,” said one participant. “Parts of the Indian population are resisting liberalisation, and India has to decide whether it wants to be driven by a domestic development agenda.”

## CHANGES INSIDE INDIA

Still, if the FTA proves too hard, then perhaps the two sides can find other ways to work together. “There is a whole gamut of areas where things are moving forward,” said moderator **Shada Islam**, Policy Director at Friends of Europe. “Should we focus on the umbrella agreement? Or on other areas?”

Modi came to office in 2014 with promises to bring Indians jobs and prosperity and to raise the country’s international profile. He has launched a number of initiatives, notably “Make in India”, which encourages multinationals to manufacture in India. The initiative focuses on skill enhancement, quality standards and minimising the impact on the environment. Procedures for obtaining business licences have been relaxed and streamlined. Foreigners are now allowed to own greater portions of India’s railway infrastructure and defence industry – the latter move being aimed at reducing the country’s military imports. The government also wants to turn India into an electronics manufacturing hub, targeting net zero imports in electronics by 2020.

“Skill India” aims to train more than 400 million Indians by 2022. “Startup India” aims to make it easier to set up a new business, and comes alongside a plan to promote bank financing for new ventures. Some 200 million Indians lack a bank account at present, but the country’s ubiquitous post offices have recently been allowed to provide financial services. “The prime minister has also led in some major initiatives,” said Puri. “These are things that have not been done in the past. There is a very large potential.”

## BEYOND BUSINESS

The EU could generate goodwill through efforts to reduce poverty and improve living conditions in India – for example by contributing to sanitation and clean energy programmes. “India has big challenges in developmental terms,” said one participant. “If the EU could cooperate with India to get rid of a layer of poverty, the EU would be seen as supporting a country and a people – not just entering a market.”

The two sides could also do more in global security. India, like Europe, has suffered attacks by Islamist militants, and it is also in a unique position to contribute. “Security challenges are transnational and there are things India could bring to table here,” said this participant. “India has the world’s second largest number of Muslim citizens. It could provide good lessons of having a large Muslim minority and using this as a tool against radicalisation.”

Another participant pointed out that India and the EU already work together in maritime security, particularly in the Indian Ocean and the Horn of Africa. Both sides are considering specific ways to work jointly against terrorism, and the summit could yield some concrete steps.

“Beyond this, security cooperation is deepening – whether this is linked to migratory questions or cyber security,” the participant said. “Here of course we also have a clear business interest – that the important and fast-developing area of cyber cooperation and investment is not undermined by threats against cyber security.”

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**Shada Islam,**  
Policy Director at Friends of Europe

## RECOMMENDATIONS

- 1** The EU-India Summit should get free trade negotiations back on track.
- 2** European business should take advantage of the huge opportunities provided by Modi's economic reforms, in areas such as infrastructure investments, smart cities, renewable energy and synergies between "Digital India" and the EU's digital single market.
- 3** India and the EU must also move to a "beyond trade" agenda, through cooperation on issues of international security and climate change.
- 4** With India still facing big challenges in developmental terms, the EU and India should step up their cooperation to improve living conditions for the poorer population.



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