



## EUROPE INDIA CHMBER OF COMMERCE (EICC)

### **EICC-CBC-GOPIO Conference on EU-India Strategic Plan: Enhancing Trade and Investment**

8-9 November 2005

Brussels (Belgium)

## CONCLUSIONS AND RECOMMENDATIONS

### **Conclusions**

1. In this multi-polar world, Europe and India are important regional and global players and partnership between the world's two largest democratic entities is an important constituent for stabilization of global peace, stability and progress. India's image in Europe is changing. It is seen as a dynamic trail-blazer moving forward on a knowledge-based economy. A vibrant India is marching ahead but in order to make a quantum leap it has to forge fresh strategies and develop new paradigms for enhancing trade and investment.
2. India and the European Union strengthened their economic relationship by entering into a "strategic partnership agreement" in The Hague on 8<sup>th</sup> November 2004. This partnership adds a new dimension to the deepening economic and political ties between the two democracies: one which is the second most populous in the world with a middle class of 260 million and the other supporting a 25-country union with 455 million people trying to emerge as a global powerhouse. The enlargement of the EU is an opportunity for India in that it represents a larger single market with a broad set of uniform rules for business and an open economy of high standards of international trade.
3. The strategic partnership with the EU should be seen in the context of India's new economic diplomacy which itself is a part of India's foreign policy. This partnership can become realistic if both parties become stakeholders and build mutual trust without bureaucratic interference. However, in social circles and circles other than business, the expectation is somewhat lukewarm and mixed.
4. The strategic partnership between India and Europe will have no meaning unless the scope of the agreement and its mechanism are put to regular reviews and greater interaction. Civil society and the business community both in Europe and India can help generate a deeper understanding of complex issues and address the differences in perception. Amongst several reasons for the low key in which the strategic partnership is currently being played out, one of the most important is the lack of general awareness and the non-participation of the majority of economic players.

5. Innovation and flexibility is the key to Europe's future. India can benefit from Europe's advanced technological experiences while Europe in turn can benefit from India's highly qualified technical manpower. Europe should increasingly look at India as a manufacturing base that enables low-cost, high-quality production that can be sold both in the international market as well as in the rapidly growing Indian market. India's share in the \$33 trillion global economy is less than 2 per cent. It can increase its share by converging on three fortuitous factors – development of services, production of energy and deployment of knowledge-age competencies. It is hoped that this Partnership will enable India to attract more foreign direct investment.
6. EU and India have signed several bilateral agreements. These agreements provide a good base for developing a regulatory and institutional framework that will enhance trade cooperation. They should also serve to remove bottlenecks that hinder investment. However, due to the lack of effective policy decisions and absence of serious application, full implementation of the agreements is being delayed. A better understanding of each other's problem and timely action can lead to solving several pending trade issues.
7. The EU is extremely important for India's burgeoning information technology and outsourcing sectors. The European information technology sector can take advantage of India's pool of knowledge-based workers. However, the scope and opportunity for Indian enterprises has been much restricted in Europe due to governmental regulation, language / cultural barriers and social marginalization.
8. The integration of Europe has valuable lessons for India. A decade ago when Europe thought of Asia, it was only China which showed up in its economic radar. But today India increasingly occupies pride of place in the economic map of Europe. For long Europe was afraid to change the status quo and shift its focus on to India. It played down the significance of India and adopted a dismissive attitude to its economic policies and sometimes its raucous parliamentary system. But precisely because India has a functioning democracy, it makes sense for both democracies to recognize their differences, their strengths and their weaknesses – and then work together.
9. The government and business lobbies responsible for pushing trade and investment have not done enough to brand India as a favourable destination. India is still seen as a rule-bound highly bureaucratic country. Good governance in the management of investment promotion is a must and it is necessary to analyze all policies and processes in the light of the principles of good governance such as transparency, predictability and accountability. It must be understood that trade, commerce and investment are not driven by simple arithmetic or sheer sentiment; it is driven by economic logic, opportunities, return on investment and value for money. No other considerations work because investment promotion is about marketing and providing value, nothing else.
10. While the number of Foreign Institutional Investors and their interest in Indian stock markets has grown, FDI has lagged behind. The swift pace of reforms in the telecom sector has no doubt brought in substantial investments and technology, but this has not happened in other areas. The power sector stands out as a monumental failure in terms of both reform and the wooing of private investment, foreign and domestic.
11. Over the last decade, liberalization has improved the climate for investment in India. However, the world has moved on and India has perhaps not kept pace. The biggest frustration for potential investors in India is the bureaucracy.

12. India, among the European investors, is believed to be a good investment despite political uncertainty, bureaucratic hassles, shortages of power and infrastructural deficiencies. India, which presents a vast potential for overseas investment, is actively encouraging the entrance of foreign players into the market.
13. Success in India will depend on the correct estimation of the country's potential. Under-estimation of its complexity or over-estimation of its possibilities can lead to failure. While planning, due consideration should be given to the inherent difficulties and uncertainties of functioning in the Indian system. Entering India's marketplace requires a well-designed plan backed by serious thought and careful research. For those who take the time and look to India as an opportunity for long-term growth and not short-term profit, the trip will be well worth the effort.
14. There is a strong need for creating awareness about the HIV/AIDS in India. The HIV/AIDS is estimated to have affected 5 million persons in the country. The effect of this disease is evident both in quantitative and in qualitative terms and if the spread of this disease is not checked, the economic consequences will be severe. This epidemic requires urgency as well as sustained involvement and support of voluntary organization such the India Development Trust which is actively engaged in this work in India.

## **Recommendations**

### **1. Clear the pathways for FDI inflow into India**

The depressingly low flow of foreign direct investment into India should be a matter of serious policy concern for the government because India is missing out on large flows of capital investment that are now going elsewhere. Regulatory shortcomings, tardy privatisation of public sector undertakings and free electricity to a large number of customers are also cited as some of the reasons for poor flow of FDI into India. The regulatory environment is even more problematic. The political setting too has not been as supportive as it needs to be for foreign direct investment.

### **2. Strengthen institutions in India**

Both continents have enormous potential to increase trade in both directions. India has its strength and weaknesses. India needs to ensure protection of investment, good governance and transparency and above all a stable political situation.

### **3. Address the European attitude problem**

Amongst the European investors what is missing in doing business with India is the right attitude and awareness. The EU and India could improve synergies between companies, corporations and sectors and bridge this gap. There is higher awareness among US companies about investing in Research & Development in India whereas European companies are poorly represented in this respect.

### **4. Leverage Indian overseas investment**

Although the Indian business environment is improving in multiple respects and Indian overseas investment is more than \$ 5.4 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.

#### **5. Improve Indian productivity and efficiency**

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 a higher level of productivity and innovation. Important reasons for poor investment in India include the low speed of the decision-making process, high red tapeism, corruption, bad governance, rigid labour laws, inadequate protection of intellectual property rights, judicial delays and bureaucracy.

#### **6. Simplify the Indian regulatory environment**

The Indian economy presents an attractive destination for venture capital and private equity funds. However, regulatory, taxation and legal issues continue to impact inflows. Although the Government has taken several steps to harmonise the regulatory environment, the current framework is still not adequate to provide for an environment that lays stress on encouraging the flow of venture funds, easy exit options, etc.

#### **7. Infrastructure, infrastructure, infrastructure**

India's greatest impediment on the road to development is its infrastructure. The Indian economy is capable of absorbing massive 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. The Indian government's action 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 independency based on international best practice.

#### **8. Simplify foreign ownership and lower tariff structure in India**

Government ceilings on foreign ownership and too much government regulation have created a negative attitude among investors. India should remove the limit on foreign ownership that effectively prevents foreign control of Indian businesses. Government has failed to improve tariff structure and as a result high import tariffs on raw materials are discouraging foreign manufacturing companies from establishing plants in India. The government needs to focus on a rationalization of the import duties and taxes to improve the competitiveness of the manufacturing sector.

#### **9. Simplify bureaucratic procedures**

Although the investment climate in India has undergone a sea-change with dismantled barriers and active induction of FDI, many investors still see India as a difficult market incompatible with international investment patterns. The Indian bureaucracy is generally seen as a deterrent to investment. Although changes are seen in some respects more needs to be done in order to improve an inefficient and slow-moving bureaucracy that is enough to frustrate any potential investor. One wonders why India cannot frame simpler procedures at least in sectors in which FDI is supposed to be allowed under the so-called "automatic route"?

#### **10. Provide a single-window clearance for EU investors**

Bilateral trade and investment can only be enhanced by simplifying the administrative and regulatory parameters of both the partners especially on the Indian side by creating one window for the EU investors. The poor track record of Indian regulators/ local partners in handling a foreign company's problems and commitments has rendered many initiatives from the EU to go unrealized. Hesitation exists widely among several EU governments to back their private business enterprises to invest in India. Large multinationals that operate on their own and do not depend on the support of the "parent" government tend to be more energized.

#### **11. Increase mutual transparency in investment regulations and guidelines**

The role of the political system and the bureaucracy is that of facilitation by removing hindrance to free trade and commerce between the citizens. Unfortunately this is hard to achieve in India and in the EU under the current complex political situation. Further, lack of specific investment regulations and guidelines on both sides prevent enterprises from venturing into each other's countries except for a few big companies.

#### **12. Improve Centre-State synergy in India to woo foreign investors**

It is not enough for the Central government to woo investors. State Governments too must accept the task with both hands. Despite India's political diversity and sharp inter-party differences on certain issues, the Centre and the States need to work in tandem to create attractive investment destinations.

#### **13. Heighten Europe-India business and trade dialogue**

The integration of Europe has valuable lessons for India. The strengthening of trade relations and continuous exchange of trade delegations between Europe and India would help both countries to bridge the gap in trade and commerce. Regular discussions between the European and Indian business bodies such as the chambers of commerce in both countries should be encouraged.

#### **14. Overhaul the European visa regime in India**

Stringent enforcement by the EU countries of their visa policy in India is not only scaring away Indian business people from Europe but also dampening the investment climate of the EU countries thus taking a toll on its economy. Mechanisms should be developed between the Government of India and the EU countries to remove non-tariff barriers particularly in relation to the visa issue. In spite of the best efforts from all sides to increase Indo-European trade relations, it is being increasingly noticed that the Schengen Visa is denied even to a bona fide Indian corporate executive. In spite of submitting all the demanded supporting documentation with the application, the visa departments of the EU member states in their respective Missions in India show total callousness and disrespect and behave in a highly arbitrary manner seeking very unreasonable and sometimes personal and confidential information. The methods and techniques of the embassies of the EU member-states in India amount to unwarranted obstruction in free and smooth trade flows and this is a serious problem that needs to be addressed. The EU-

India Strategic Partnership Agreement is defeated by the negative bureaucratic approach taken by the embassies of EU nations in India.

#### **16. Address the problem of innovation in Europe**

The current problems in the EU relating to growing unemployment and declining GDP are to be seen in relation to the lack of serious innovation as compared to the immediately preceding centuries and not in terms of external attacks being mounted on fortress Europe. Closer examination of links between Europe and India in the areas of university and industrial research could aid the innovation process in Europe.

#### **17. Recognise and respond to European diversity**

India should not view Europe as a monolith but recognise broad areas of differing cultural, social, industrial and economic patterns and respond appropriately. The current tendency to approach Europe with a one-size-fits-all policy should be eschewed. In some of the newer EU member-states GDP is currently growing at between 8 and 11.6% and these should be approached with a stance different from those parts of Europe where the growth is around 2%.

#### **18. Support the pan-European effort of the EICC**

While the EICC will rise from its own strength acting as a catalyst between EU and India in promoting better trade relations and create a lobby in the EU and in India among opinion leaders in support of enlarging the scope of trade relations and act as a one-stop facilitating centre for providing insight information on key issues in relation to the institutions of the EU, the Government of India was called upon to give its full support and assistance to the EICC.

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*The above Conclusions and Recommendations were reached at a Conference in Brussels on 8-9 November 2005 organized by the Europe India Chamber of Commerce (EICC) in partnership with the Commonwealth Business Council (CBC) and Global Organization of People of Indian Origin (GOPIO) and in association with the Embassy of India.*

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