**THEME DOCUMENT**

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

**9 November 2005, Brussels (Belgium)**

**European Parliament**
**rue Wiertz – Wiertzstraat**

**B-1047 BRUSSELS**


**Europe India Chamber of Commerce (EICC)**
**Commonwealth Business Council (CBC)**
**Global Organization of People of Indian Origin (GOPIO)**

## *EXECUTIVE SUMMARY*

*1. The proposed EICC-CBC-GOPIO Conference has as its basis, the "Strategic Partnership Agreement" entered between India and the EU in The Hague on 8th November 2004 and will focus on the trade and investment component of this Agreement. Strengthening of institutional mechanism and Importance of the Strategic Partnership can only be realized by active and meaningful participation by both India and EU. It is recognised that without prominent participation by the economic players in both the states, political dialogue alone will not sustain the Partnership. At the same time there is considerable lack of awareness amongst the major economic players in both states about each other's potential and about issues of trade and commerce in the other state.*

*2. Bilateral trade relations between the EU and India are promising but not adequate. Just as an example, the EU looks towards India with the hope that India will adapt its regulatory environment while India tries to grapple with the changing regulatory environment in the EU. For India, the EU (as a bloc of 25 nations) constitutes the largest export destination. The EU is also a major source of FDI into India. But the inflow is far below its potential. Indian sectors that are ripe for inviting FDI from Europe include manufacturing, telecommunication, insurance, banking, energy, pharmaceuticals, bio-technology, agro-processing, financial services and infrastructure. However, much work still needs to be done in the Indian regulatory framework to attract increased FDI from Europe.*

*3. India's share in the $33 trillion global economy is less than 2 per cent. Both the EU and India have enormous potentials to increase trade in both directions. India has its strength and weaknesses and these need be clearly assessed. India needs to ensure protection of investment, good governance and transparency and above all a stable political situation. On the other hand, the EU market is seen from India as one that is dense with cumbersome rules, over-stringent standards, visa restrictions and use of trade defence instruments.*

*4. The bilateral agreements including the ones on Information Technology and Information Network will hopefully remove some of the mutual bottlenecks in trade and investment. Bilateral Trade and investment can only be enhanced through simplifying the administrative and regulatory parameters of both the partners. Trade and commercial co-operation between the two could improve if bilateral trade issues such as GSP benefit, lack of harmonization of EU laws on agriculture, market access in the services, trade defence actions, liberalization in standards and testing and commercial angle to BPO are jointly addressed in the business-to-business space.*

*5. With the enlargement of the EU, India faces new realities. On the negative side, the EU's relatively higher tariff regime and trade defence measures gets extended to the new countries. On the positive side, India enters a more level playing field vis-à-vis the new countries and also India plays into an area of the world which is the largest exporter and the second largest importer in the international arena.*

*6. What is missing in doing business with India is the right attitude and awareness. What is therefore required is how the EU and India could improve synergies between companies, corporations and sectors. Although 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 low speed of decisions making process, high red tapeism, corruption, bad governance, rigid labour laws, inadequate protection of intellectual property rights, judicial delays and bureaucracy.*

*7. It is in this backdrop that Europe India Chamber of Commerce (EICC) jointly with the Commonwealth Business Council (CBC) and in association with Global organization of People of Indian Origin( GOPIO) Belgium has planned to organize a High Level Conference on **"EU – India Strategic Plan: Enhancing Trade and Investment"**. The Conference will be held on 9 November 2005 and the venue is the European Parliament. The Conference will be attended by industrialists and business leaders from Europe and India, representatives of multinational corporations, European law makers, European Parliamentarians, representatives of the European Commission, community leaders representing 3 million strong Indian Diaspora in Europe and various Chambers of Commerce, etc. The Conference will address the need for India and the EU to strengthen the existing framework by making trade and investment as the centre of the ongoing development between the sides.*

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## Theme Document
## "EU - India Strategic Plan: Enhancing Trade and Investment"

### *Introduction*

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 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. For the investors, India can become a land of a billion opportunities.

India and the European Union strengthened their economic relationship by entering into a "strategic partnership agreement" in The Hague on 8$^{th}$. November 2004. This partnership adds a new dimension to deepen economic and political ties between the two sides: one which is the second most populous country with 260 million as middle class and the other with 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 4$^{th}$. largest economy and therefore the partnership represents a fundamental change in how the two parties approach the geo-political and economic relationship.

### *Strengthening institutional mechanism for cooperation*

India-EU economic relations are structured on the "Agreement on Partnership" and Development between India and the EU, which became effective from the beginning of 1994. There is an array of bilateral institutions which derive their mandate from this Agreement and are used by both sides to engage in formal exchange of views and consultations on matters of bilateral interest. The Summit meeting between India and the European Union since 2000 is an outcome of a political realization that the relationship between India and EU has emerged from the economic and developmental cooperation to acquire a strategic dimension in global political sphere. The 5th Summit was historical in the sense that both sides agreed to upgrade their relationship to a Strategic Partnership based on the EC Communication on Strategic Partnership with India and India's Response to the Communication. The Summit also endorsed the proposals to commence negotiations on an India-EU Agreement on bilateral investment protection and decided to set up a joint Energy panel, a joint Environment Forum, and finalize the framework agreement on Galileo.

### *Importance of the Strategic Partnership*

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. Negotiating liberal trading with some key nations and focusing on developing transport infrastructure in the neighbourhood, India's new role as economic donor and her focus on mega projects such as natural gas pipelines cutting across borders, show that a new trend is quietly transforming the nation's economic diplomacy. This partnership can become realistic if both parties become stake-holders 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.

### *Trade and investment: Issues and contents*

In the emerging globally integrated economy, India is able to bring its comparative advantage successfully. Bilateral trade relations between the two are very promising, yet not sufficient. Nonetheless, there is tremendous scope for improvement. India faces the task of adapting its regulatory environment, for example, in order to improve corporate governance. At the same time, Indian exporters face stringent challenge to adapt their products to meet changing EU regulatory requirements, notably in the area of health and environmental protection. Making full use of know-how available in the EU countries to deal with these tasks will need well functioning network between Indian and European business communities.

India and EU have substantial trade and economic relations with each other. EU (as a bloc of 25 nations) is India's largest export destination and has a share of over 24% in her total exports. EU is one of the largest sources of FDI for India. However, the current level of FDI from EU is, far below its potential. The most important countries in for FDI are UK, Netherlands, Germany followed by France, Italy and Belgium. Top sectors attracting FDI approvals from EU are Fuels (power & oil refinery (24.94%), Telecommunications (17.36%), Transportation industries (9.88%), Chemicals (other than fertilisers) (7.59%) & Electrical Equipment (including computer software & electronics) (5.96%).

With the enlargement, the EU is world's largest trading bloc accounting for 20 percent of world trade and contributes more than 25 percent of the world's GDP. This certainly is an opportunity for India through an even larger single market with a single set of rules for business and a very open economy with a high standard of rules.

India's share in the $33 trillion global economy is less than 2 per cent. India can increase its share by converging three fortuitous factors – developing services, energy and knowledge-age competencies. India hopes that the Partnership will enable it to attract more foreign direct investment particularly in the light of the First New Foreign Trade Policy (NFTP) 2004-2009 announced by the Indian government in August 2004. The NFTP which has set target of achieving 2 percent share of global trade by 2009, clearly indicates that economic reforms are on track. The thrust of the NFTP is on export promotion moving away from quantitative restrictions and improving competitiveness of Indian industries to meet global market requirements by doubling its share in world exports from the current 0.82 per cent to nearly 2 per cent by 2010. In the short run, it aims to achieve the target of $80 billion worth of merchandise exports by 2007.

Both continents have enormous potentials to increase trade in both direction. India has its strength and weaknesses and these 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 sign that it is willing to loosen control over its economic space through a variety of bilateral free trade arrangements.

Both 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 European job market such as information technology sector aggressively which has a short fall of more than 700,000 knowledge based workers.

These agreements offers opportunity deepen cooperation, however, due to the lack of effective policy decisions and absence of serious pursuance on several key elements of the agreements, its full implementation is being delayed. A better understanding of each other's problem and timely action can lead to solving several pending trade issues. The difference of opinion on the management of international trade under the World Trade Organization is also one of the reasons for creating proper environment for investment. There seems to be some lack of understanding of the social and economic compulsions under which India has to adjust to the process of globalization and free trade.

### ***India has a long way to go***

What is missing in doing business with India is the right attitude and awareness. What is therefore required is how the EU and India could improve synergies between companies, corporations and sectors. There is higher awareness among US companies about investing in Research & Development areas with poor presence of European companies.

Although 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 low speed of decisions making process, high red tapeism, corruption, bad governance, rigid labour laws, inadequate protection of intellectual property rights, judicial delays and bureaucracy.

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 example. 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 is another example of good potentials 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 variety of fruits and vegetables.

Indian economy can absorb up to 155 billion dollar 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 dollar in the next 10 years, and power & telecom 75 billion dollar and 25 billion dollar respectively in the next five years. 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 independency based on international best practices.

Sluggish economic growth, government ceilings on foreign ownership and too much government regulation have created negative attitude among investors in India. They would like to see India 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. India's tariff structures make it difficult for foreign companies based in India to compete in a world market and that, as a result, large foreign companies are not looking favourably on India. India's average import tariffs exceed 32%, more than three times higher than many other Asian economies. The government needs to focus on a rationalisation of the import duties and taxes to improve the competitiveness of the manufacturing sector.

One very positive result of hike in the FDI limit can be seen in the telecommunication sector. India has recently crossed 100 million telephones which is the result of an investment friendly telecom policy. The hike in the FDI limit from 49 to 74 per cent was a progressive decision as India's telecommunications sector has shown high growth rates. The liberalization of the financial services sectors and effective implementation of telecom regulations can be helpful in expanding the scope of investment in India. India's greatest impediment on the road to development is its infrastructure. 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.

The proportion of exports produced by foreign affiliates in India has been rising (5 per cent) but this remains extremely low compared to countries such as China (50 per cent), Mexico (31 per cent), and South Korea (15 per cent) India had fewer bilateral treaties than several countries which have received large amounts of FDI, such as China, Malaysia and South Korea. The large size of India's domestic market tends to mean that foreign investors focus on serving this market rather than exporting. Policy reforms are required at the state level to make the FDI process more efficient and at the central level to reduce ground level hassles faced by foreign investors. India could be marketed better as an investment destination; this could involve setting up an investment promotion agency to provide information to potential investors on opportunities that it offers. The government should continue with export promotion schemes, but target the schemes more efficiently towards inducing foreign affiliates to diversify into the global market.

Although 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 pattern. The Indian bureaucracy that has been at the receiving end and generally seen as a deterrent to investment not only to investment but also to professionals who have to travel to India, too although has changed in some respect, yet a lot more needed to be done to improve an in-efficient and slow-moving bureaucracy - enough to frustrate any potential investor. One wonders why can't India allow simple procedure 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.

### *Trade & commerce cooperation*

EC-India economic co-operation is based on several horizontal programmes. Since February 2001, joint initiatives have provided business and policy-makers with forums to select sectors of strategic importance and debate commercial and regulatory obstacles that might arise. Eight areas have been identified for particularly close attention. Of these, textiles, mechanical engineering, the food industry and biotechnology come under the direct remit of the Directorate-General for Enterprise and Industry. Other sectors of potential interest are pharmaceuticals, the motor industry, e-commerce and outsourcing. India is the world's largest producer of generic medicines and the base for 70% of global outsourcing, most of it from the United States. Although not a major manufacturer of automobiles themselves, the country is an increasingly important producer of car parts.

On the other hand, the scope and opportunity for Indian enterprises has been much restricted in Europe via governmental regulation, language / cultural barriers and social marginalization. The bilateral Trade and investment can only be enhanced through simplifying the administrative and regulatory parameters of both the partners especially from the Indian side by creating one window for the EU investors. The poor track record of Indian regulators/ local partners in handling foreign company's problem and commitments has rendered many initiates from the EU to go unrealized. Hesitation widely exists, except in the case of large multinationals that operate on their own, among several EU governments to back their private business enterprises to invest in India. The role of politics and bureaucracy is that of a facilitator by removing hindrance to free trade and commerce between the citizens. Unfortunately same is hard to achieve in India and in EU under current complex political situation. Further, lack of specific investment regulations and guidelines on both sides prevent enterprises from venturing into each other countries accept for few big companies. Trade and commercial co-operation between the two could improve by addressing the issue of Market access, Agriculture, Services, Trade defence actions, GSP, Standards, Testing and Certification and Business Process Outsourcing.

### *Enlargement of the European Union*

With enlargement of EU the immediate issues that are of concern to India are (i) impact on India's trade of increase in the duties on some of the tariff lines in the 10 acceding countries, and (ii) extension of trade defence measures invoked in the EU to the acceding countries. It was estimated that there would be tariff escalation in about 418 products which would cause a net loss of approximately US$ 376,000 per year to India. (However, India's overall export to the new 10 member states in 2004 showed a marginal increase of 1.64%). Some of the major commodities that would be affected are coffee, soyabeans, nuts, starches, shrimps/prawns preparations, acids and salts, dyes, hides & skins, yarn and toilet/kitchen linen. The EU trade defence actions also will be automatically applicable in the enlarged EU25. However, it is ascertained that the major tariff lines affected by EU enlargement do not include the tariff lines covered by the ongoing Anti-dumping or Anti-Subsidy measures of EU. Consultations in this regard are continuing.

India-EU share a healthy trade relationship already and therefore the immediate and direct effect of the 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 away 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.

With the expansion, access to the markets of the 10 newer countries for India has become a lot easier now because the new EU would provide access on the same terms as access to the 15 original members. In the past Indian exporters have been competing on unequal terms with the 10 new EU member countries for several years.

Should India pursue other alternatives? Should India reduce its dependency on the EU? Should India take recourse to changes in the direction of exports? These issues are bound to confront India as economic integration of European markets further crystallizes. However, India cannot ignore the fact that the EU is today not only the world's largest exporter of goods but also the second largest importer. This bears testimony to the importance of trade to European consumers and producers and to the significance of EU as a market for most WTO members, notably developing countries such as India.

The desire of the European Union to become the most competitive and knowledge based economy in the world will be difficult to achieve if Europe continues to make its immigration policies complex and difficult. Although there has been a growing economic cooperation between them, the current and ever increasing stricter visa policies are proving detrimental to development.

### *Civil society and the Indian business community*

However, when there is very high opinion about the Strategic Partnership agreement, it is surprising that in social and other than business circles the expectation is somewhat lukewarm and mixed. Amongst several reasons, one of the most important ones 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. Despite seeing an improvement in recent negotiations and discussions what is required is that 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 & Development areas with no significant presence of European companies.

The diversity of EU and India has rendered the 3 million Indian community fractured as small local groupings with specific interest. The lack of any unifying factor, distance, language barriers and leadership has further pushed the Indian community to find their own solutions locally making them weak and venerable. The absence of a debate on theoretical and practical issues connected with the strategic partnership remains particularly invisible in the case of the Indian business community and in larger sense, the Indian Diaspora in Europe. The importance of Indian Diaspora in Europe in this sense has remained almost invisible in the absence of proper co-ordination and unity amongst them. Apart from politics, economics and regional issues, the strategic partnership must cover dimensions of the role of Indian civil society including the Indian Diaspora in making the partnership achieve its overall objectives. Although a small minority, Indian community can play an important role in improving relations between two. Increasing interaction between Indian community and the EU countries will help open doors in the political establishment. The minds of the young people must be captured in order to build a strong fundament of international relationship and EU's development cooperation programme in this respect is important.

The Europe-India Strategic partnership will bear fruits only if the partnership is created at the grass root level and not only at the bureaucratic level. At the grass root level, the most important role will be played by the NGOs working for better EuroIndia relationship, like GOPIO, the EuroIndia Centre etc. The interaction between these NGO's and various EU and Indian Government agencies must be coordinated to achieve an effective progress as envisaged in the EuroIndia Strategic Partnership Treaty. The EICC platform can take a lead role in this, as trade and business flourishes only when a good relationship is established at the level of people from different continents. Only then political, cultural and economic barriers can go down to make the path of trade and business freer and smoother. If the people of one nation happen to be suspicious of the others, business can not flourish.

Against this backdrop the Europe India Chamber of Commerce (EICC) jointly with the Commonwealth Business Council (CBC) and in association with Global organization of People of Indian Origin( GOPIO) Belgium has planned to organize a High Level Conference on 9 November on the theme **"EU – India Strategic Plan: Enhancing Trade and Investment"**. The EICC members represent one of the most dynamic and entrepreneurial industrial sectors in Europe. The participants will be representatives of industries, business leaders, Multinational, various Chambers of commerce and professionals. The Conference will address the need for India and the EU to strengthen the existing framework by making trade and investment as core to the ongoing development as defined above. The idea is to build a better relationship by organizing interaction at different levels including government and industry. The High Conference will explore these dimensions and emphasize for a viable EU-India strategic partnership with creating more political synergy between the sides and the Indian Diaspora in Europe is capable to contribute.

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