



Policy Brief

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EU and India: progress, ambitions, realities

By Shada Islam

Background

The eighth summit between the European Union and India in Delhi on 30 November offers both sides an opportunity to inject much-needed momentum into their hitherto relatively uninspiring relationship.

New-found confidence among leaders in both India and the EU means the prospects for a qualitative leap forward in relations are bright. But transforming all the talk of shared democratic values and common goals – and the existing patchwork of sectoral cooperation initiatives – into an effective EU-India strategic partnership will require hard work, vision and persistence.

The omens for success in Delhi are good. First of all, both sides are in upbeat mood. The agreement on a new EU Treaty reached in Lisbon on 19 October – ending a two-year stalemate on institutional reform – means that European leaders will be more confident at the Summit when discussing the Union's key concerns, including the situation in Burma, climate

change and the future of the stalled Doha world trade talks.

Having entered its 60th year of independence with a flourish, India is also in buoyant mode as it basks in international recognition of its new found economic strengths and its growing role both within the region and on the international stage. The Delhi Summit will therefore see an equally self-assured, and assertive, India staking out its positions on regional flashpoints and global economic concerns.

Second, India and the EU are looking at each other with more interest than in the past, ending years of mutual cold-shouldering and neglect.

While still mesmerised by China's rapidly-expanding market, EU governments and business leaders are beginning to pay more attention to developing relations with India. Indian policy-makers are also trying to bring EU-India ties out of the shadow cast by Delhi's budding relationship with the United States. Successive EU enlargements, the

Union's growing reputation as a global defence and security actor, and its continued strong economic performance are key reasons for India's increased interest in Europe.

Third, India and the EU are increasingly interacting with each other both within the United Nations' framework and on a bilateral level. Ties have strengthened since the first EU-India Summit in Lisbon in 2000, with ever more meetings at all levels – including business and civil society – and extensive dialogue and cooperation on political, geo-political and multilateral issues as well as economic and trade themes. Significantly, India has shed its earlier inhibitions about engaging in dialogue with the Union on developments in Nepal, Sri Lanka and Bangladesh.

Meanwhile, as the once-languishing Indian economy takes off following across-the-board economic liberalisation (Indian growth rates now stand at between 8-10%, compared to 3-5% in the 1980s),

European companies with global ambitions are recognising that they cannot afford to ignore the country any longer. The remarkable success of India's information technology sector (including the rise of its €33 billion computer services outsourcing industry), and the emergence of Indian world-class industrial giants eager to scour Europe for new markets and acquisitions, have also put the country on the EU business map.

This increase in mutual interest has led to a significant improvement in bilateral relations in recent years. EU and Indian leaders agreed at their summit in The Hague in November 2004 to forge a strategic partnership. A Joint Action Plan has been hammered out covering a vast array of areas for increased cooperation, ranging from energy, terrorism, maritime transport to space technology. Negotiations on a first-ever EU-India Free Trade Agreement were launched in June 2007, with Delhi hoping that the accord will be ready for implementation as of 2009. The two sides have also agreed to start exploratory talks on a possible new EU-India Partnership and Cooperation Agreement to replace an accord signed in 1994.

At the Delhi Summit, leaders are expected to renew the 2001 EU-India Science and Technology Cooperation Agreement, and sign separate accords on civil aviation and maritime transport. The Union is also expected to announce the setting up of a European Business and Technical Centre in Delhi to promote business partnerships and foster better mutual understanding of EU and Indian markets.

Where differences remain

However, despite the impressive array of meetings and the range of issues under discussion, both sides are still struggling to give real substance to their strategic

partnership. One key reason for this is that while India and the EU share common values – including a commitment to democracy, the rule of law and effective multilateralism – they have very different views on what 'strategic partnership' means in practice. This divergence in outlook reflects differing geo-strategic interests and different levels of economic development.

The EU's first-ever Security Strategy, published in December 2003, identified India (along with the US, Russia, Japan, China and Canada) as a country with which the Union should seek to develop a strategic partnership in order to build an "effective multilateral system leading to a fairer, safer and more united world". The EU wants to use its strategic partnerships to, among other things, share global responsibilities in order to meet 21st century challenges including terrorism, the proliferation of weapons of mass destruction, state failures and regional conflicts.

As an emerging power, India's immediate concerns are understandably very different from those of the Union and its Member States. As it aspires to play a more forceful global role (illustrated by its demand for a seat on the United Nations Security Council and participation in international peace-keeping operations), India views its strategic partnerships with the EU and the US as vehicles for ensuring greater worldwide visibility, prestige and political clout.

However, while developing a strategic partnership with the Union is seen as important, Delhi's primary focus is on its troubled neighbourhood. Rivalry with China, tensions with Pakistan, and political turmoil in Bangladesh, Nepal and Sri Lanka dominate the country's foreign policy agenda.

Not surprisingly, therefore, there is a significant mismatch of aspirations.

The Union has made no secret of its disappointment at India's failure to stand up for democracy and human rights during Burma's recent military crackdown on dissidents. EU policy-makers have argued that as the world's largest democracy – and given its growing economic ties with Burma – India must use its considerable leverage to put pressure on the military junta in Rangoon. India has responded that it does not believe sanctions work.

The strategic partnership has also failed to soften Delhi's tough line in the World Trade Organization's Doha trade negotiations, with India continuing to resist US and EU demands for further cuts in industrial tariffs. Furthermore, it has refused to accept Western calls for stricter binding commitments to reduce greenhouse gas emissions to combat climate change, arguing that a developing country cannot be expected to slow down the pace of its industrialisation.

Differences have also emerged on the US-India nuclear agreement, which – if it enters into force – will give energy-hungry India access to US civil nuclear technology. The agreement, which reverses three decades of American anti-proliferation policy by allowing Washington to supply nuclear fuel and technology to a country which has not signed non-proliferation treaties and has tested nuclear weapons, has been described as "historic" by US President George W. Bush.

Those in favour of the deal in both Washington and Delhi see it as recognition of India's good record on proliferation and a reward for adopting similar nuclear export standards to those imposed by the Nuclear Suppliers Group, made up of 45 countries which voluntarily coordinate controls

of nuclear exports to non-nuclear-weapon states.

However, several EU Member States have argued that the deal lacks sufficient safeguards to

prevent Delhi from continuing to produce nuclear weapons. While India has pledged that US civilian nuclear energy assistance will not benefit its nuclear weapons programme,

there is concern that it could use the imported nuclear fuel to feed its civilian energy programme while diverting its own nuclear fuel to weapons production.

State of play

India and the EU cooperate in many sectors. Significantly, Delhi views Europe as an important source of high technology and, in addition to the EU-India Science and Technology Cooperation Agreement of 2001, India is also participating in the European satellite project Galileo and working with the Union (as well as Japan, South Korea, Russia and the US) in the International Thermonuclear Experimental Reactor (ITER) programme designed to produce electricity using nuclear fusion. Cooperation links have also been established between the Indian Space Research Organization and the European Space Agency.

The two sides have set up a security dialogue and hold talks on terrorism, migration issues and visa policy, and EU-India working groups have been established to study the prospects for cooperation in pharmaceuticals, biotechnology, and information and communication technologies.

Negotiations on the EU-India Free Trade Agreement are focusing on reducing tariffs on trade in manufactured goods, removing non-tariff barriers, liberalising trade in services, easing investment flows and trade facilitation. The negotiations also cover intellectual property rights, competition policy and government procurement.

EU negotiators point out that while Indian import tariffs have been substantially reduced, they are still high by international standards: various additional duties, taxes and charges are levied on top of the basic customs duty, resulting in what the Union

regards as a complex and non-transparent system.

EU officials also argue that India imposes a number of non-tariff barriers in the form of quantitative restrictions, import licensing, mandatory testing and certification for a large number of products, as well as complicated and lengthy customs procedures which are also seen as obstacles to EU-India trade. For its part, India complains of the Union's frequent use of anti-dumping duties on its exports, including footwear.

Trade between the EU and India could certainly do with a boost. While EU-India trade has grown impressively over the years – from €4.4 billion in 1980 to more than €46 billion in 2006 – India still only accounts for 1.8% of total EU trade. By contrast, trade with the EU represents almost 20% of India's exports and imports, making the Union India's largest trading partner. In 2006, EU imports from India (mainly textiles/clothing, agricultural products and chemicals) were worth a total of €22.4 billion, while EU exports to India (mostly machinery and chemical products) totalled €24 billion.

The EU is also India's largest source of foreign direct investment (FDI), especially in the energy, telecommunication and transport sectors. In 2005, EU investment outflows to India amounted to €2.2 billion – 1.3% of total FDI outflows from the Union. While India's FDI regime has been considerably simplified and liberalised, EU officials say that important sectors like

telecommunications, retail distribution, insurance, banking and aviation remain restricted to foreign investors.

Poverty's not history – yet

Despite the vast array of new issues under discussion, poverty alleviation, health and education remain the primary focus of EU policy towards India. This is not surprising given that the large majority of the country's population still lives on less than \$2 a day. Regional disparities also remain a problem, with some areas speeding ahead of others.

As highlighted by the Organisation for Economic Cooperation and Development (OECD), India still needs to push ahead with bold reforms if it is to achieve the government's objective of double-digit economic growth by 2011. The OECD has advised India to open its economy more rapidly to international trade and foreign direct investment in tightly-protected service sectors such as insurance and retailing.

The EU has earmarked €470 million for India between 2007 and 2013 to tackle energy cooperation, climate change and other environmental concerns. Funds will also be used to support India's efforts to achieve its Millennium Development Goals in the health and education sectors, through a range of measures including public administration reforms, decentralisation and community empowerment, deepening school enrolment, better quality education and teacher training.

Prospects

Relations between India and the EU are certainly becoming stronger, more diverse and more substantial, with the two sides drawing closer together on the basis of their common commitment to values such as democracy, diversity and multilateralism.

In a break with the past, both sides are also focusing more on the other. After years of fascination with China, the Union is waking up to India's economic potential and growing political clout, while India is making a determined effort to balance its deepening US ties by seeking to widen its contacts with the EU. However, while prospects are improving, building a solid and sustainable EU-India partnership will require further action on a number of fronts.

More generally, the Union will have to work harder to increase its visibility in India. Although Indian policy-makers, think tanks and the media are becoming more interested in Europe, the EU's image in India remains fragmented and partial. Indians continue to find EU institutions bewildering and complex and, for many, the focus remains on the Union as an economic rather than a political partner.

The EU will therefore have to develop a wider network of contacts in India – in government, business and non-government circles – to project a more accurate view of its multi-faceted identity as both a leading trade bloc and an increasingly influential global political player.

Recognising India's diversity

Indians will have to make a similar effort to ensure that Europeans recognise the diversity of their country. This is important if Delhi is to succeed in convincing the Union – and especially the European Parliament – to ensure a better balance between EU assistance programmes geared to meet India's development needs and more modern EU aid instruments which reflect India's concerns as a country in transition.

Delhi could also gain from the Union's experience in encouraging economic reforms and modernisation in Central and Eastern Europe and in countries included in the European Neighbourhood Policy.

This will require that the current vast Joint Action Plan is slimmed down to focus on a smaller number of priority areas. The first steps towards such a shift in EU policy are already being taken: the negotiations on the EU-India Free Trade Agreement are, for instance, a step in the right direction since a new accord would provide both sides with improved access to each others' markets, help develop trade in the services sector and upgrade the protection of intellectual property rights in India.

The EU-India dialogue on competition policy is also a welcome development, as is the planned establishment of the European Business Centre in Delhi, designed to further EU business interests and contacts in India. Further dialogue on

regulatory cooperation should be envisaged and India could also learn from the Union's experience in reducing regional disparities.

Although India and the EU disagree on the need for binding targets to fight global warming, the Union can step up cooperation in the energy sector, where India is hungry for access to clean technology and wants to expand its use of renewable energy. Cooperation could also be increased on other environmental issues, such as combating water and air pollution, soil degradation and a further loss of biodiversity.

The road ahead will not be easy, however. The EU is not in a position at the moment to respond positively to India's demands for nuclear cooperation, more decision-making rights in the troubled Galileo project or increased security cooperation. India will not accept the Union's stance on climate change, the Doha round or demands that it take on more responsibility for tackling regional hotspots like Burma.

There can be no quick fixes, but such differences need not become an insurmountable obstacle to building a closer relationship. Political will – combined with slow, steady and practical steps towards greater cooperation and a better understanding of, and respect for, each other's interests – will be crucial in forging a genuine strategic partnership between the EU and India.

Shada Islam is a Senior Programme Executive at the European Policy Centre. The issues addressed in this publication are among the wide range of themes explored under the auspices of the EPC's EU and Asia Forum.

