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INDIA –EU ECONOMIC RELATIONS IN THE AGE OF GLOBALIZATION

Abstract

The main objective of this research and study is to understand the European interest in Indian market and possible economic relations with India. In the introduction part, author explains that how India is Important for European Economy in the age of globalization when many European countries are facing economic crisis. Author characterized the two continents as indispensable pillars of a new multi-polar world order where both the countries have the will and capabilities to make meaningful contributions to meeting the challenges of managing global interdependence. Subsequently, Author explains the possibilities for strong geo-political underpinnings for India and EU to work together and address many global issues.

Key words: India, European Union, economy, interest, cooperation and globalization.

Introduction

The main objective of this paper is to analyze possible India-EU economic relations in the current scenario, when most of the developed economy as member states of the European Union is in crisis. Today, India-EU relations are not just an interest of two continents but it is in the global interest. India's role is crucial for ensuring and maintaining long-term peace, stable balance of power, economic growth and security in Asia as well as it is the only choice for EU to start new partnership and get support to the following down European Economy. It is a core state whose role is crucial for the economic well- being, intuition building, collective and cooperative security, economic integration, trade expansion, essential for the growing Asia. India's role is very important between East and West. India is an important trade partner for the European Union and a growing global economic power. It combines a sizable and growing market of more than 1.2 billion people with a growth rate of between 8 and 10 % - one of the fastest growing economies in the world. Although it is far from the closed market that it was twenty years ago, India still also maintains substantial tariff and non-tariff barriers that hinder trade with the European Union. India's global vision would remain imbalanced without the EU, without EU's integrated foreign and defense policies. On the other side, the EU's engagement with Asia would be incomplete without India. India's interest towards EU is to be considered as a safe, secure and profitable trade and investment destination for EU as well as for high technology research & development, manufacturing and development. And to take advantages for liberalize FDI policies introduced by Indian govt. especially in telecommunication, IT, retail and service sectors. The European Union and India hope to increase their trade in both goods and services

and investment through the Free Trade Agreement (FTA) negotiations that they launched in 2007. Negotiations are expected to be concluded in early 2012. In my opinion, this is very necessary to create strong economic tie with both the continents in the age of globalized world. Today's need for the EU is to reform their economic policy and take advantage of high quality Indian scientific talent and highly qualified Indian young generation to support their economy.

Trade in figures at a glance

The main aim of this research paper is to understand trade cooperation between India and European Union. The current situation and future predictions, indicates about the new balance of power in International Relations. When major economies are in recession; Indian economy is still growing, its current growth rate is at 8%. World's strongest economy European is mostly affected by economic crisis and looking forward for new partnership with India (without any effect of crisis to the Indian economy is growing rapidly). How this relation will develop in the age of globalization with two different economic zones? To understand this new economic cooperation between India and European Union, we have to understand all basic factors of these two continents, which present an opportunity for developing the ties between the traditional partners. Apart from the above, the traditional relationship between the two also makes more important to increase the economic ties between them.

A very significant trade development has been seen between these two continents in current years. Bilateral trade grew steadily between 2001 and 2011 by over 15% on each year. And, India and EU become as an important investment partners in both directions, both the EU investment in India and the Indian investment in the EU. Current figure shows;

Trade in goods

- European Union goods exports to India 2010: €34.7 billion
- European Union goods imports from India 2010: €33.2 billion

Trade in services

- EU services exports to India 2010: €9.8 billion
- EU services imports from India 2010: €8.1 billion

Foreign Direct Investment

- EU outward investment to India 2010: €3.0 billion
- Indian inward investment to EU 2010: €0.6 billion

Historical background

Realizing the significance of economic relations, India was the first country to establish Diplomatic relations with the EU in the early sixties itself. In 1973 & 1981 it signed the Commercial Cooperation Agreement to promote trade relations without affecting its bilateral relations with independent members of the EU. As a comprehensive agreement, it covered a wide range of economic issues including trade, economic cooperation, industry, services, energy, telecommunication, tourism, private sector investment, science and technology, intellectual property, agriculture, development cooperation, environment and human resource development.

In 2001, India and the EU signed a science and technology agreement. They also signed a custom cooperation agreement in 2004 to simplify customs procedures to facilitate trade. From 2004, India became one of the EU's strategic partners. As a result joint strategic cooperative summits, trade chambers, India EU joint trade fares and number activities further strengthened the EU India Relations by realizing the great potentials and importance of one another.

Trends in Trade

In 1960–61, West European countries accounted for about 37% of India's total trade. A large amount of this trade was still with two countries, the UK and West Germany. The UK accounted for about 27 per cent of total exports and 20% of total imports. In later years, trade with some other countries also became important, particularly so with Belgium. Trade with the EEC (European Economic Community) was an important component of Indian foreign economic relations in the 1960s and the 1970s. Its relative importance declined as India forged special trade and economic relations with countries of the former Soviet bloc. In 1971, the European Community granted 'Generalized System of Preferences' (GSP) facility to India, the first among the Asian countries, aimed at encouraging export of manufacturing goods of developing countries.

In recent years, Indian exports to combined EU have increased from about 8.8 billion in 1996–97 to about 34.7 billion Euros in 2010. Similarly, Indian imports from the EU-27 have grown from about 10.6 billion in 1996–97 to 33.2 Billion Euros. These imports were from India's major trading partners in the EU-27, i.e., Germany, the UK, France, Belgium, Italy, the Netherlands, Spain and Sweden. In 2010, these eight countries accounted for about 89% of India's trade with the EU. The remaining nineteen countries accounted for only 11 per cent of total trade with the EU-27. Imports from Belgium, France, Germany, Italy and the UK constituted about 76 per cent of total imports from the EU. In fact, the UK has retained its importance as a major export market within the EU. In 2007–08, it accounted for 19% of total exports to the EU. India–EU trade has grown at a comparatively slower pace than India's total external trade during the last one decade. Against an average of about 28.9% growth of Indian trade in four years (between 2003–04 and 2007–08). India–EU trade grew at about 25.4%. Similarly, compared to about 34% growth of Indian imports during these four years, imports from the EU grew at an average of about 26.5% annually. These factors indicate that the European economies have not been able to take full advantage of an expanding Indian economy. In comparison, during this period India's trade with various other countries grew significantly.

Real position

Although in absolute terms, India's trade with the EU has increased, in relative terms as a percentage of India's total exports and imports, it has declined consistently in the last decade in 1996–97, India–EU-27 trade constituted about 26.5% of total Indian trade. However, in 2010, it declined to its lowest level, i.e., 18%. These factors indicate that the European economies have not been able to take full advantage of an expanding Indian economy. In comparison, during this period India's trade with various other countries grew significantly. For example, India–US trade grew at an average rate of 26.3% and its trade with China registered a growth of nearly 53% per

year. The composition of the main trading items between India and the EU shows that India exports a wide variety of products to the EU. Major export items are readymade garments, gems and jewelry, pharmaceuticals, organic chemicals, leather goods, vehicles and machinery. The rate of growth has been the highest in food items, iron and steel, etc. Major items of import include gems and jewelry, machinery, electronic goods, chemicals, iron and steel, aluminum, etc. Items in both lists also indicate that considerable intra-industry trade is also taking place. For many years, India had balance of trade problems with many EU countries. The last few years have seen deficit in the balance of trade with countries like Belgium, Germany, France, Finland and Sweden. On the other hand, there has been a surplus with Italy, the Netherlands, Spain, Portugal and even the UK, with which India had trade deficit for many years. In the earlier decades, balance of trade issues dominated the trade debate in India. However, with India poised for growth at a rate of 8–9% per year and with large foreign exchange reserves, this sense of insecurity has given way to pragmatism. In order to increase the economic activity both sides launched negotiations to enter into a EU-India FTA in 2006, which resulted in 11 rounds of discussions and finalized to implement from 2012.

Free Trade Agreement (FTA)

An analysis of trade and production structures in India and the EU: Implications for non-tariff barriers, services regulatory parts of FTA; with the rapid growth of Indian economy India became an important partner for European policy makers. And, from June 2007 EU Commission and Indian government started negotiating on Free Trade Agreement.

Main aspects of FTA

- Projected FDI and Economic growth in India.
- Trade policies in India non-tariff barriers, services and regulatory issues Main obstacles for trade and scope for implications under the FTA
- Implications of FTA integration Legislative and administrative issues.
- The entire framework deals with the Sussex Framework 2005.
- The main idea is to eliminate the potential problems and issues that affect the trading.
- Preferential Trade liberalization involves a process of Shallow (Negative) integration. This leads to trade creation and diversion.
- Trade creation leads to removal non-sufficient goods in the domestic market with sufficient imported goods.
- Trade diversion occurs when sources of supply switch away to more non-partners to less efficient non-partner countries.

India already entered with a number of trade agreements. Import licensing system was abolished this led grow of trade from 17% in 1999 to 79% in 2005. GDP also increased from 9% to 21%. Export prohibitions are there in certain areas on Health, environmental and moral grounds. These issues will be eased by FTA and bring in more cohesiveness between EU and India. This will also increase from 1.3% exports of EU to India substantially. For this the FTA aims at Deep Integration between the two to remove the barriers.

Projected FDI and Economic growth in India

FDI is a most important aspect. In the beginning engineering and other aspects had a higher FDI Investment. India ranks second to China in FDI investments even in the global recession. In the FTA there is a possibility for the EU India model Central and Eastern European Countries (CEEC) have a wide prospective of FDI to increase in various sectors. This may increase from 28.9% to 85% compare to the OECD countries investment with their southern partners in other parts of the world.

Trade policies in India non-tariff barriers, services and regulatory issues Main obstacles for trade and scope for implications under the FTA:

- EU has specific problems in various issues. Such as procurement, services, and non-service sector.
- It needs to be more pragmatic from the Indian perspective.
- The recent events of corruption and other charges led the government to tighten the issues and increase the import export duties, which is hampering the trade relations.
- EU should bargain for land matters and other issues.
- A Straight jacket procedures need to be implemented.
- India recently changed its PPP policy investments for the States, wherein the Federal Units need the permission of the Union may hamper further.

Issues of Concern:

- Computer and related services: No Regulatory authority exists in India.
- Telecom: Licensing restrictions on services providers and lack of policy perspectives.
- Construction: The Urban Land Ceiling and Regulation Act wherein EU providers need to be given status on par with domestic traders.
- Health: A regulatory mechanism is needed for transparent services.
- Banking and Financial Services: India –Singapore Comprehensive Economic Cooperation may be replicated to EU.
- Insurance: Cap on FDI of 26% be raised to 46% to EU.
- Education: Changes are required in the regulatory mechanism.
- Postal and courier services: A monopoly be given to Indian post below 500 gms and impose universal service levy on private providers.

Legal Aspects:

- India should follow a tough regime with IPR as a member of WTO.
- Several western countries still feel the Indian generic companies are vulnerable for the piracy of the drugs without any punishment.

- The latest revision pending before the parliament has several innovative provisions to prevent piracy especially the movie makers, the director and the script writer whom are going to be made as copy right owners. The media interest will be taken care.
- The Indian contract ACT, which is the major law for commercial purpose, needs a through revision.
- The company law, competition act and other aspects of IPR need to be broader based.
- Foreign players need to be encouraged in all sectors.
- There are certain fears both sides. However, the progressive approach, which India is looking for, is acceptable and need to be embraced by both the partners.
- The above overview presents a scope for both EU and India to sort our issue by negotiations.
- At the same time, considering the Poverty and other issues still persist in India, The EU need to be considerate on certain issues and start develop cultural interaction with India. Instead of insisting the Government of India to reframe everything according to EU standards, it should also finance projects and help internationally to raise the standard of living.

Conclusion

In the age of globalization a very significant feature has been noticed is that the integration of the emerging economies in world market, as well as at the same time the weight of global economic activities shifting to the emerging economy. Today, India's relations with EU need rejuvenating through new strategic partnership. There is a growing recognition of India as an indispensable partner within EU. Where, in one hand the EU member states are largely affected by the recession, in another India is touching double digit of GDP growth rate. The EU is reflective as India is a multi- lingual, multi- religious and multicultural society with shared values and belief in democracy, human rights, pluralism, independent media, and rule of law, which guarantee for the long-term economic cooperation and security for Foreign Investment into India. The natural partnership between India and EU could be beneficial for both the continents as well as useful to bring stability during economic recession; where India is one of EU's six strategic partners and EU remains India's largest export destination and one of the largest sources of foreign investor into India. The partnership between India and EU must be based on mutual interest and balanced relations based on negotiations to support their economy as well as reshape the global economy. The EU and India are the two largest democratic entities in the world with the capacity to define the new world economic order in the hard time of recession. As traditional partners both need to have give and take policy, which will certainly help in the longer run to develop their relations to further heights and establish a win-win situation.

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