

Global Europe meets India Inc.

There is a compelling case for a new bilateral trade and investment pact between the two partners

Comment by Peter Mandelson in the Financial Express ©,
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This week, European and Indian business leaders gathered in Finland for the annual EU-India Business Summit. I used the meeting to make the case for an idea that I recently made as an important strand of the European Commission's Global Europe strategy for competitiveness: a new bilateral trade and investment agreement between the EU and India. Such an agreement could open our markets further to each other and build on WTO rules. Global Europe meets India Inc.

For more than a year now, interest in such an agreement has been growing, both in India and in Europe. A recent report of the EU-India high-level trade group has made a compelling economic case for the value of a new bilateral pact.

Indian advocacy of such an agreement makes obvious sense. The EU is India's largest trading partner, accounting for a full one-fifth of India's exports. In keeping with India's wide export profile, this covers everything from textiles to more than three billion euros in advanced services trade in 2005.

Europe is also a growing market for Indian investment. Since 2000, Indian companies have invested more than \$10 billion in Europe. They have made a number of impressive inroads into the EU market, of which the Mittal Steel bid for Arcelor was only the most dramatic example - not least because of the unjustifiable defensiveness it provoked in Europe.

Indian firms now operating in the EU include IT giants Infosys, TCS, HCL, Wipro and Birlasoft. In everything from steel to tea, Indian foreign investment to the EU has increased five-fold in the last 10 years.

Yet, there is huge untapped potential here. India still accounts for only 1.5% of world services trade and 1% of global merchandise trade - yet, Indians make up one in six of the people on the planet. Unlike the growing economies of China and Southeast Asia, the Indian economy's growth rate of around 8% is driven chiefly not by exports but by domestic demand. Extend that demand overseas and you shift the Indian engine up a gear.

From the EU side, the value of a bilateral agreement lies in the fact that India combines massive potential and rapid growth with relatively high barriers to EU exports. Europe's exports to India are hardly negligible but they account for less than 2% of our goods trade, which is totally out of proportion to India's population and the size of its market.

India's historically high tariffs have been coming down, and the days of the 'licence raj' are over. But we have plenty to do in chipping away at tariffs and tackling the knotty non-tariff barriers that EU businesses often encounter behind the border in India.

India can also gain by improving conditions for EU investment for India. Again, European investment in India accounts for less than 2% of our FDI outflows - a disappointment.

EU investment can be an important source of capital for India, not least for the infrastructure work that the Indian government has made a central strand of improving competitiveness. That is the basic case for a new bilateral trade and investment agreement between India and the EU and it is a compelling one.

I know that some argue that bilateral agreements too often skirt the sensitive issues. To create new bilateral trade agreements you have to be ambitious. An EU-India agreement would have to be deep and substantive: covering not just goods, but services, non-tariff barriers and rules on issues such as investment, competition and public procurement as well. We also need to improve the enforcement of rules on the protection of intellectual property rights. Obviously, both sides have some sensitivities. But I believe this is what both the EU and India are looking for.

I'm fully aware that some also argue that a bilateral agreement between two such major economies could distract from the WTO system and the Doha Round. But that is a political choice. India and the EU are both fully committed to reviving the Doha negotiation and bringing it to a successful conclusion. That's a commitment that must remain central, even as we take further steps down the bilateral road.

The key to the value of deeper EU-India trade and investment is in where we want to take it. That means beyond WTO rules into areas of mutual interest to us both, but not yet ready for multilateral agreement at the WTO - certain kinds of non-tariff barriers, and rules on services trade, investment and competition. Here, EU and Indian companies are straining at the leash and we can do more to assist them.

By moving ahead on the multilateral and bilateral tracks simultaneously, we can open global markets and push ahead with a sophisticated bilateral agreement that reflects our shared ambition to go even further. The political momentum for taking such a path is growing. Both the EU and India should mandate their negotiators to get started.