

ISAS Brief

No. 2 – Date: 9 September 2005

Institute of South Asian Studies
Hon Sui Sen Memorial Library Building
1 Hon Sui Sen Drive (117588)
Tel: 68746179 Fax: 67767505
Email: isaspt@nus.edu.sg
Website: www.isas.nus.edu.sg



Moving Ahead: EU's Ties with India and China

S. Narayan¹

The announcement by Indian Prime Minister, Dr Manmohan Singh, on the purchase of aircrafts by Indian Airlines worth US\$2.2 billion from Airbus Industries, was timed to add value to the important Indian-European Union (EU) summit in New Delhi on 7 September 2005. Other private airlines had already announced their purchase intentions at the Paris show a few months ago, and this announcement was important only because the buyer was a government airline. Dr Singh was underscoring the importance of trade with the EU and the need to ramp up relations with the bloc.

The EU is India's largest trading partner and an important source of India's foreign inward investment. The EU accounted for 23% of India's exports and imports in 2004. India ranks as EU's 12th trading partner accounting for 1.7% of EU's imports and exports. India-EU trade has grown impressively from 4.4 billion euros in 1980 to 33 billion euros in 2004. In 2004 alone, trade increased by 17%. Given its developing country status, India's exports to the EU benefit from reduced tariffs under the EU generalised system of preferences. EU investment outflows to India amounted to 820 million euros in 2004. Interestingly, India's investment outflows to the EU have been increasing rapidly, and were 600 million euros in 2004.

Under the National Indicative Programme for India 2002-2003, the EU has earmarked 14 million euros to assist India to better integrating into the world economy and promoting bilateral trade.

India was among the earliest countries to recognise the EU as a political and economic entity, and the EU-India co-operation agreement, signed in 1993, covers wide ranging areas such as trade, economic-cooperation, environment, agriculture, tourism, standards and intellectual property rights. In 2000, India took the initiative for an India-EU summit in Lisbon, and these summits have become an annual feature since then. In November 2001, a Science and Technology agreement was signed to cover cooperation in areas such as health, agriculture and natural resources management, and includes a legal framework for the protection of intellectual property rights. A Customs Co-operation agreement, signed in April 2004, provides for simplification of customs procedures and other trade facilitation measures. Formal negotiations were lunched at the EU-India summit of November 2003 for a Maritime

¹ Dr S Narayan is a Visiting Senior Research Fellow at the Institute of South Asian Studies, an autonomous research institute within the National University of Singapore. He is the former economic adviser to the Prime Minister of India. He can be reached at isassn@nus.edu.sg.

Agreement to improve the conditions and legal framework under which the maritime transport operations are carried out to and from India.

The recent summit was the sixth India-European Union summit, and the importance to this particular summit stems from several geo-political developments.

First, and most importantly, India has come a long way from 2000, and now feels increasingly confident of the sustainability of its growth path. A GDP growth of around 7% per annum, with headline inflation under control at 4% or less, appears to be definitely feasible, and could even be exported. Exports topped US\$7 billion in July 2005, the third successive month that they have done so, and the magic figure of US\$10 billion in exports seems quite achievable this year, given a 24% growth in exports so far. High oil prices underscore the need for a healthy foreign reserves position, and India is increasingly convinced that reform and globalisation would yield external financial stability and opportunities for growth. Trade and trade policy, which were never at the forefront of India's external policies, have now become important in defining future relationships.

The EU has long been a trusted trading partner, and it has now become important to address several irritants to trade that have developed along the way. Since the creation of the World Trade Organisation (WTO) in 1995, India has been involved in 32 dispute settlement proceedings. The EU recently requested WTO consultations with India on practically all of its anti-dumping measures, totaling 271, affecting European exports. The large number of these measures, and the low standards applied, have been frustrating EU exporters. Further, though import tariffs have been substantially reduced in India, they remain very high compared to EU standards. India also has a number of non-tariff barriers in the form of quantitative restrictions, import licensing, mandatory testing and certification for a large number of products. There is also a growing concern that Indian technical regulations and sanitary and phytosanitary requirements do not adhere to WTO rules. India now feels the need to address these concerns with the EU.

The forthcoming WTO ministerial meeting in Hong Kong is also very high on India's and the EU's agenda. India was concerned, at Cancun, at the seemingly bilateral agreement between United States and the EU on agricultural issues and the four 'Singapore' issues. A greater understanding of each other's position is important, since there is already a disjoint between India- EU concerns and EU-China concerns.

Since 1978, EU-China trade has increased more than thirty fold and reached around 175 billion euros in 2004. According to China's statistics, the EU became its first trading partner in 2004, even ahead of the United States and Japan. Whereas the EU enjoyed a trade surplus with Japan in the beginning of the 1908s, EU-China trade relations are now marked by a sizeable and widening EU deficit with China (around 75 billion euros in 2004). This is the EU's largest trade deficit. The EU has been adopting a policy of:-

- a) engaging China further, both bilaterally and on the world stage, through an upgraded political dialogue;
- b) supporting China's transition to an open society based upon rule of law and respect for human rights;
- c) encouraging the integration of China into the world economy through bringing it fully into the world trading system, and supporting the process of economic and social reform that is continuing in China; and
- d) raising the EU's profile in China.

The relationship between the two has matured significantly over the years, and the approach to the recent resolution of the textiles exports to the EU demonstrates an attitude of give and take that is the sign of a long-term strategic relationship. It is important for India to capture some of that flavor with the EU.

Finally, the future of multilateral trade appears hazy. There are concerns that the Hong Kong ministerial meeting may not achieve the level of success expected, and all countries, including the United States, are aggressively pursuing their trade interests through regional as well as well as bilateral trade agreements. Some of these are strategic and political while all the others are genuinely focused on trade enhancement. For India, the EU is a natural candidate for pursuing a comprehensive trade relationship. From the point of view of the EU, the emergence of India would make it a major world player some years from now, and any exclusive relationship could be to its advantage. Further, relations between the EU and India have never been as good as now. India broke away from Brazil and others to support the candidature of Mr Pascal Lamy, the former EU trade commissioner, as Director-General of the WTO. Mr Tony Blair, the current head of the EU, is a close friend of India.

The aircraft deal is thus symbolic, and indicates India's willingness and need to engage with the EU to develop India-EU relationship into a mature and sustainable one.

oooOOOooo