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EU-India Enhanced Partnership

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1. The setting for current relations

1.1 India: economy, society and domestic politics

1.1.1 An overview of India

India catches the attention with its cultural diversity, democratic tradition, and recently renewed economic dynamism. A long-standing partner¹ of the European Union (EU)², India is a rising force, with the eleventh largest economy in the world³, a Gross Domestic Product (GDP) of 212 billion ECU⁴ (1995) and the second largest population in the world with at least 900 million inhabitants⁵ (the EU has 370 million) living on a land area of 3.3 million km² (the EU is 3.2 million km²).

1.1.2 Economic reforms and their impact

The substantial policy changes undertaken since 1991, have promoted an expanding export-oriented economy, as well as increased private sector confidence. From 1994 to 1995 alone, external commerce grew by 20%⁶, and approved foreign investments rose to an annual figure of 3.5 billion ECU in 1994, compared to just 129 million ECU in 1991⁷.

In 1994, Indian economic growth reached 5.5%⁸ and there is optimistic talk of forthcoming economic take-off. Industrial production for fiscal year 1994-5 increased faster at 8.6%, and industry now represents some 30% of total GDP⁹. Services account for approximately 42% of GDP, with the fastest growth being recorded in transport, commerce and the financial sectors. India already has developed a considerable high-technology capacity in certain sectors such as space and computer software, which holds out the prospect of growth in these high value-added niches. Indeed, it is also increasing exports to the EU¹⁰ in a number of advanced sectors eg chemicals, engineering and electronic products as well as machinery and transport materials¹¹.

However, the economy is not yet reaching the growth rates of nearly 10% recorded in several parts of East and South-East Asia. Also, trade and foreign investments are growing from a low base and in 1994 exports represented just 9.5% of total GDP, and India's foreign direct investments were only slightly higher than Malaysia's (population: 19 million). The domestic savings and investment rates (both around 21%) are also not yet strong enough to support a major boom, and public sector reforms have been slow with a public budget deficit equivalent to 6.7% of GDP in 1994. This has also contributed to the external debt of some 73 billion ECU¹². Hence a number of macroeconomic challenges are still on the agenda.

¹ See Annexe 1

² Please note that for the sake of transparency to the wider public, the term EU is systematically used. In some cases the term "European Community" would be legally more exact.

³ See Annexe 2, Table 1

⁴ In all cases where the original statistics are in US dollars, the exchange rate used is 1 ECU= \$ 1.3. See Annexe 2, Table 2 for past Indian GDP

⁵ See Annexe 3, Table 1

⁶ See Annexe 4, Table 1 for the overall trend

⁷ See Annexe 5

⁸ See Annexe 2, Table 3

⁹ See Annexe 2 Table 4

¹⁰ For trade balance, see Annexe 6 Table 1

¹¹ See Annexe 6 Table 2

¹² See Annexe 2 Table 5

1.1.3 Democracy in a multi-cultural society

India has earned its title of the world's largest democracy, holding regular elections since 1947, having a free press, a firmly apolitical army and a well-established rule of law, backed by an independent judiciary that defends the rights of citizens and business. As a result it has enjoyed considerable domestic political vitality for a country of its size and diversity, as was again proven with the general elections this year.

This is no mean feat, given that India, a secular society, is a cultural cauldron with considerable regional and religious variety. Indeed, India is the birth place of numerous religions, notably the Hindu and Sikh faiths as well as Buddhism and Jainism, and is also home to an estimated 130 million Muslims and 20 million Christians. However, this diversity produces social tensions and (ethnic, caste and gender) barriers, which the Government of India (GoI) has tried to diffuse by a long-standing policy of positive discrimination measures, backed up in the constitution and a process of decentralisation.

Economic growth, if widely spread, could help to reduce such tension. However, India's 2% annual demographic growth reduces the impact of economic growth and places a major strain on provision of many basic public services. This challenge is being met in some Indian states, where female education is higher and family planning has effectively decreased birth rates. Nevertheless, the challenge remains elsewhere, as even if India is home to over 10 million university graduates - a tremendous achievement by any accounts - average literacy is 64% for males and 39% for females, the latter being the priority targets in family planning.

India is thus a country of great contrast. The reforms have bolstered the creation of a 'consumer class' (some 150 million¹³), but average annual per capita income is just 235 ECU, and poverty is still a problem (touching some 210 million people¹⁴). India therefore faces a major development challenge, with malnutrition, child labour (estimated as affecting 17 million children¹⁵), and relatively low life expectancy (61 years¹⁶). Indeed, India's rural society (over 70% of its population) faces upheaval as population growth places a strain on the many monsoon-dependent subsistence holdings (average land-holding is under 1 ha. per farm family).

The renewed Indian dynamism therefore still has to overcome a number of challenges to fulfil its full potential.

¹³ Not on a par with Europe's middle class, this group of people has nevertheless created a consumer goods market according to the National Council of Applied Economic Research, India

¹⁴ Source: the National Council of Applied Economic Research, India

¹⁵ Source: the International Labour Organisation (ILO)

¹⁶ See Annexe 3 Table 2 for further population-related data

1.2 India in Asia and the world

1.2.1 India's global position

India has long played an important international role in the Non-Aligned Movement. This stance has been complemented since 1991 India by a multiplication of links with the developed world, including the EU. Military co-operation with Russia continues, but trade has decreased substantially. Political relations with Washington remain subject to American concerns over the possible development of nuclear weapons in the South Asia region. This is fed by India's explosion of a nuclear device in 1974, its development of long-range missiles capable of carrying nuclear warheads, and non-signature of the Non-Proliferation Treaty (NPT). Japan has gained in importance, and is currently the largest foreign aid donor to India, (20% of total¹⁷), although almost all its aid is in the form of loans, mainly for infrastructure projects.

Its regular participation in United Nations (UN) Peace-Keeping Operations, role in establishing the World Trade Organisation (WTO), and high-profile positions in UN conferences such as Beijing, Cairo, Copenhagen and Rio have been further signs of reinforced international commitment.

1.2.2 India, Asia and South Asia

India has been keen to build up its political and economic links with the rest of Asia, recognising that the changing economic power in the region is having an impact on geopolitical relations and that its own economic growth depends on regional political stability as well as vice-versa. The recent decision by the Association of South-East Asian Nations (ASEAN) to make India a full dialogue partner is therefore an important step in India's move towards Asia allowing it to participate in the economic and political discussions of the ASEAN Post-Ministerial Conference, and now also in the Asia Regional Forum.

In South Asia, India's relations with neighbouring states have not always been easy, as seen by its three wars with Pakistan (1947-9, 1965, 1971). Skirmishes have continued with Pakistan, even recently (February 1996). On the other hand, the border conflicts with China have calmed following the Indo-Chinese agreement on recognition of existing frontiers, Indo-Nepalese relations have taken a step forward with agreement on water sharing, and India enjoys easier relations with Sri Lanka following increased Indian surveillance of the Palk Strait. Relations with Bangladesh have also improved, although some problems, mainly linked to water and refugees, still remain.

In contrast to many other parts of the world, there is a relatively low degree of economic and political co-operation in the South Asia region, which both explains and is explained by the tension. Although the *South Asian Association for Regional Co-operation* (SAARC) has been in existence for 10 years, total official trade among SAARC countries is only equivalent to 3.4% of their total world trade compared to 24% for intra-regional trade among ASEAN countries. However, the entry into force of the *SAARC Preferential Trading Arrangement* (SAPTA) in December 1995 should help trade by reducing tariffs on 226 items including commodities. If fully applied, this will constitute a considerable change in intra-regional trading practices.

¹⁷ For aid breakdown, see Annexe 7, Tables 1, 2 and 3

2. EU-India mutual interests

The *Co-operation Agreement between the European Community and the Republic of India on Partnership and Development* as well as the accompanying *EU-India Joint Statement on Political Dialogue* outline a number of areas where it is possible to act together. Within this framework, the following areas are considered particularly important in economic or political terms for both partners.

2.1 International political issues

2.1.1 Global issues

Europe and India both face the challenge of maintaining a peaceful and secure international environment. Given the evolution towards greater inter-dependency any decision taken by one party is likely to have a direct or indirect effect on the other. Furthermore, the number of local or regional issues that are recognised as having an international impact are much larger today than before. A deeper EU-India dialogue as a part of the global process can therefore help to establish the mechanisms needed to meet these challenges.

Arms' control is naturally one issue of interest. Joint examination of conventional arms limitations, and control, non-proliferation and disarmament of weapons of mass destruction (nuclear, chemical, biological, ballistic missiles) would be a first step. After all, there are plenty of old and new items on the international agenda with the Non-Proliferation Treaty (NPT), the Comprehensive Test-Ban Treaty, the Cut-off Treaty, the reinforcement of international nuclear safeguards, the Chemical Weapons Convention, the Biological Weapons Convention, ban on anti-personnel mines, transparency in armaments, as well as the control of sensitive dual-use goods and technologies. In all these issues there is much to be gained from a closer EU-India understanding, with the aim of promoting a safer global security environment.

There is also a need for co-operation in meeting the environmental challenges outlined by the 1992 Rio Earth Summit. A strengthened EU-India partnership stands to enhance mutual appreciation of the manner in which issues such as climate change, conservation of biodiversity, pollution prevention, environmental aspects of trade and other important topics are approached, and need to be included in an enlarged concept of world security. The key position of large countries like India in helping to bring about a substantial reduction on global CO₂ emissions in order to stabilise and subsequently reverse changes in climate will become more evident in the future.

Intimately linked to this is the wider issue of energy resources and security of supply in which both the EU and India have a direct interest. If India follows traditional patterns, then rapid GDP growth will result in much greater total energy consumption (eg the EU consumes 14 times more energy per capita than India). Simultaneously with other emerging economies and many Western countries, India will face a substantial increase in demand for non-renewable imported energies, and risks producing ever more CO₂ emissions, raising geopolitical and global environmental issues, requiring a concerted search for renewable alternatives.

Both the EU and India also face the threats posed by international crime, terrorism, and drugs trafficking. Given that these illicit activities benefit from their ability to change

countries rapidly, reinforced co-operation is appropriate here. The same is true for the control of illegal immigration flows.

The EU is thus ready to be a partner in India's integration into appropriate international bodies, so long as India accepts the international responsibilities and Treaties that befit a major world power.

2.1.2 Regional stability and security

In addition to building globally reassuring structures to promote peace and security there is a need for similar action on the regional and local level. Even a perceived risk can for instance harm investment by creating an impression of uncertainty and may divert resources from more productive uses. Furthermore, conflict (especially when combined with the fear of escalation) may have repercussions on the world economy, as witnessed during the Gulf War. Hence, the EU has a very direct interest not only in what happens on its own borders but also in the situation in South Asia - and vice versa.

Also, although there is no desire for European-style regional integration, India is interested in participating in the wider Asian co-operation process, and the EU can support this, drawing on its own experience of using economic integration to secure political stability. Furthermore, both Europe and India need to explore ways of reducing tensions with their own neighbours, tensions that are sometimes fed by false images of cultural and religious differences. Each therefore can learn from the other, and help to defuse issues that may otherwise disrupt good relations and world security.

2.2 Trade and economic issues

2.2.1 Liberalisation for growth, trade and investment

The world economy is not a zero sum game. Hence it is in the EU's interest to see high rates of growth in India and vice-versa. For each to benefit fully from the other's growth, it is important to tackle outstanding barriers to trade and investment within the WTO. As India presently accounts for just 1.3% of EU external trade - much of this in low added-value products - there is substantial room for expansion. Following dialogue with the GoI, the Commission has thus identified issues in trade and investment, where action could be beneficial.

Seen from Europe, and despite recent changes, India's tariffs remain high. Furthermore, many of the recent reductions have not been bound with the WTO. India has also been using the Balance of Payments protection clause to retain extra protection for certain sectors, especially consumer goods, where taxes substantially increase import prices. Even major export sectors like textiles and clothing are still protected. Naturally, the EU is keen for these barriers to be tackled in a multilateral context. India itself would benefit given that increased competition would force domestic producers to increase productivity and efficiency, thus enabling greater export capacity.

There is also a question of direct public sector intervention in many industries. Where this involves public subsidies to companies, the market may be distorted, discouraging efficient competition (both foreign and domestic). This is important, as India wishes to attract and secure long term investors, especially in basic infrastructure, such as energy, water, transport and communications. Europe has undergone a process of liberalisation in many

of these sectors and would be willing to exchange its experiences with India, and may also be able to give practical support to Indian liberalisation and public service restructuring. Furthermore, the EU can provide complementary expertise, eg as regards renewable energies.

Liberalisation needs to touch all industrial sectors and even government procurement habits if India is to reap the full gains of growth. 'Buy national' policies are costly to the public purse, do not guarantee the best possible public service, and limit competition-induced productivity gains in key sectors. On this, the Commission would be happy to discuss a wide reciprocal opening either in the context of the WTO Agreement on Government Procurement, or on a bilateral basis.

As efficient financial, telecommunications and transport services are the mainstay of growing economies, liberalisation of these sectors can also be used to spur rapid growth. The EU is naturally prepared to collaborate in this process, as well changes in specific sub-sectors such as insurance and maritime transport. Collaboration on these issues could then stimulate new opportunities in, for instance, information technology.

In a similar vein, the understandable Indian sensitivity on the implications for internal stability of restructuring agriculture, although justified, must not prevent a progressive policy change. The existing agricultural system, even with technological improvements, will be incapable of keeping up with demographic growth and rising living standards, especially if some Indian farmers are to take advantage of export opportunities. Naturally the EU is prepared to work with India on promoting and diversifying commerce in agriculture, as well as on aligning sanitary and phytosanitary standards.

2.2.2 Removing additional barriers and improving the framework for trade and investment

There are still a number of horizontal trade impediments raised by both sides such as those arising from application of customs, investment and consumer protection rules. Many of these issues can be handled by bilateral co-operation, for example the reduction of technical barriers or the mutual recognition of conformity assessment and of testing and certification procedures. But more substantial issues clearly need to be tackled in the framework of the WTO.

This being so, it is worth jointly considering common interests on a large number of issues that may at some time figure on the WTO's agenda, and the Commission considers that co-operation with India should be reinforced on WTO objectives. Indeed, building on successful past experience with India, there is clear room for further intensifying this collaboration by allowing ad hoc consultations when necessary on substantial issues.

As regards past multilateral commitments, under the Uruguay Round, India has promised important measures in improving the protection of Intellectual Property Rights (IPR). The sooner that India adopts the necessary legislation (not just the establishment of a 'black box', but full application to all sectors), the sooner investors will feel assured. Indeed, India should also consider adhering to other, stricter, existing international IPR codes to further reinforce the sense of security. Most importantly, when legislation does come into force, it must be backed up by effective implementation and on the ground control. A joint EU-India programme is already envisaged to reinforce the intellectual property system and its alignment with international standards. Similar work has already started in institution building for standards and quality, and can be further advanced (eg with awards/campaigns). Help could also be given in the regulation of utilities.

2.2.3 Increasing awareness and information

Barriers to trade and investment are not only the result of market structure. There are also important cultural and information barriers which need to be overcome for partnerships to flourish and business opportunities to multiply. Hence the Commission will seek to use all the necessary means, including information technologies, to improve business awareness and information flows, also for small and medium sized enterprises.

Indeed, the Commission encourages all forms of links between civil society, educational establishments and the media, precisely to build up a pool of mutual understanding. Exchanges of experience and joint activities on substantive issues such as vocational training are naturally part of this.

To provide a common backdrop for these efforts, it would be useful to hold a regular of exchange views on economic developments in the EU and India. This could include discussions on the regulatory framework, investment promotion, and industrial policy.

2.2.4 Sectors of specific interest

Europe and India can work together to mutual benefit in a number of sectors.

One clear example is co-operation on science, technology and technology transfer, as co-operation here promotes an enabling environment for co-operation in general, as well as helping the search for scientific solutions to global problems. Science and technology (S&T) co-operation will therefore be actively encouraged under the Research and Technological Development Framework Programmes. This co-operation should mobilise complementary skills from across Europe and India, supporting innovative research and promoting the development of human and institutional capital. This reflects the way that the EU is taking a new look at means of enhancing S&T co-operation given India's status as an emerging economy.

In another example, both Europe and India have an active interest in ensuring that all groups and countries have access to the 'Global Information Society'. India and the EU are interested in taking advantage of, and developing these advanced technologies, and each can be a valuable source and partner for the other. Bodies such as the *Software Services Support and Education Centre* (3SE) can be used to improve co-operation in this market of the near future, and help ensure full participation in the global efforts to implement the information society.

Similarly existing work in other areas can be built upon by establishing a closer bilateral dialogue to overcome problems identified by the business community, and encourage industrial co-operation, trade and investment facilitation. The list of sectors should be determined in function of EU and Indian interest, and could include:

- financial services (especially insurance);
- transport services and equipment;
- infrastructure, energy (renewable, clean technologies and nuclear safety);
- capital goods and heavy machinery;
- the automotive sector (including parts and production);

- space technologies (including the Global Navigation Satellite System);
- agriculture;
- textiles.

2.3 Building a human dimension

2.3.1 Supporting social development and basic services

The European Union firmly believes that social development must be a parallel objective to economic development, and that it is not possible to ensure sustainable economic growth without taking into account the social dimension. Furthermore, Europe has a fundamental interest in India making a success of its structural adjustment process. Hence the need to support the process by focusing resources on basic services where the GoI itself has already established a firm policy orientation.

In terms of education, without widespread basic literacy skills, the poor will have difficulty in obtaining better paid work, and the country as a whole will have struggle to meet the demand for skilled labour, and hence higher growth rates. Thus the recognised need to place great emphasis on education and practical skills, as well as to focus in particular on primary and female education and training. Indeed, greater female education will release the potential of 50% of India's population to contribute in all spheres of life. Similarly, a healthy work force contributes to an increase in the quality and motivation of the work-force. Hence the need for better basic health services as well as health education. Improved education and health will then contribute to cutting the continued and unsustainably high birth rate.

There is a growing understanding of a socially-just economy, and that the respect of fundamental social rights is a positive factor for economic well-being. India and Europe can work together to ensure the respect of freedom of association, non-discrimination and elimination of forced and child labour. These issues, which are closely linked to poverty, can only be progressively tackled by a multifaceted approach. Both sides have experience of these problems and a dialogue can be used to build positive programmes of action to help tackle the problems at their root.

In all these areas the EU and India can exchange experiences, and work together.

2.3.2 Opportunity creation

As a complement so as to help meet the challenges posed by the modernisation of industry and to develop the resource base of the country in line with GoI policy, another area for co-operation could be employment generation activities and related social issues including the elaboration of an appropriate social safety net. This may also link in to rural poverty alleviation projects, and self-help projects generated by local groups.

The EU already has experience of the problems produced by liberalisation, and recognises that without this human dimension being added, India will have difficulty in opening its markets at fast enough pace to attract large-scale investment and rapid growth.

2.3.3 Reinforcing democracy in diversity

Given the extent of shared European and Indian values, any solid relationship cannot be built without fully taking account of the human dimension.

One of the cornerstones of these shared values is a belief in democracy, where the EU and India face similar issues such as building democracy in multi-lingual, multi-religious, multi-cultural environments and have been examining how to improve co-operation between different levels of decision-making.

Europe and India also have much to learn from each other when it comes to empowerment and development of dynamic local democracy. Indeed empowerment is also important when it comes to developing the economy, dispensing basic services and wisely using international assistance funding.

2.3.4 Encouraging sustainable development

Environment and development are closely linked. However, the domain has broadened in recent years as the need to link human and economic aspects has become more apparent if sustainable development is to be achieved. Pursuit of an equilibrium between economic growth, social stability and environmental conservation will become more important and discussion on the path to follow should be encouraged. Sustainable development as a concept affects not only natural resources, but entails a continuing reappraisal of the manner in which environmental criteria are taken into account in all other areas relevant to the EU-India partnership.

An enhanced partnership with India to consider loss of biological diversity, sustainable management of natural resources, clean energy production, pollution of air, water and soil, the urban environment, waste management, clean water supply, the application of clean production technologies and various other issues of mutual interest will be pursued. For example, in the WTO's Committee on Trade and Environment India and the EU could usefully hold a constructive dialogue. On the bilateral level this implies a continued exchange of information on environmental policies, with particular regard to environmental measures likely to have an impact on trade relations.

3. Reinforcing partnership

3.1 Points of focus

3.1.1 Intensifying the political dialogue

Clearly we must continue the dialogue on global and regional issues of concern. Nevertheless, there is a need to go beyond the formal exchange of speeches, and to create a series of working groups in which detailed dialogue can be held. These working groups can then lead to some form of substantive action or decision, or agreement. In this case the dialogue will not be on purely political issues, but may well spill over into technical assistance and trade. With this in mind, the Commission considers that sector arrangements and agreements could usefully be explored on, for instance:

- dual-use products;
- drug precursors;
- money laundering.

All are commercial issues, but which are closely linked to political questions.

Furthermore, and given that some form of co-operation may be possible, it would be worth looking more closely at:

- climate change;
- the cultural dimension.

3.1.2 Trade and investment facilitation

Our aim must be to increase two way flows of trade and investment substantially. This implies considerable trade and investment facilitation work, and promotion of business to business contacts, which again implies that our relations need to go beyond the formal periodic meetings.

Indeed, there are many sectors which could benefit from an integrated sector approach that set out to examine all the barriers that exist, negotiate their elimination on a Most Favoured Nation basis, perhaps focus technical assistance, and maybe conclude some sector agreements or arrangements. Trade and investment promotion could be dealt with in one group, whilst a number of industry-focused groups could be established in function of the interests expressed by the Member States, business and the GoI. Such sectors may include:

- transport (especially maritime transport);
- telecommunications;
- energy;
- agriculture.

3.1.3 Helping India face structural adjustment

As India has to make considerable efforts to meet structural adjustment, so it is only right to help limit the impact of this on the poorest part of the Indian population. As such the Commission will continue to support health and education, especially for women. However, European development co-operation must fit into an overall concerted policy framework if it is to be effective. For this reason a detailed sector dialogue on the policy lines, linked to the co-operation, needs to be maintained.

3.2 Steps in the new partnership

3.2.1 Laying the groundwork

In the framework of the co-operation agreement and the joint statement, this Communication seeks to build on this basis by stimulating a wide discussion, in order to:

- take stock of current activities;
- establish priority areas for action.

The Commission invites a wide participation in this discussion and the suggestions made by the European institutions on this Communication will clearly be a first major input. Furthermore, the Commission proposes the possibility of joint reflections with the Member States to look at future challenges in EU-India relations so as to ensure that the EU as a whole can draw a maximum synergy from current activities and future developments.

Business will have a number of chances to make its views known, not least at the planned Forum on investment in trade and co-operation foreseen for November 1996.

The Joint Commission (planned for December 1996) can then endorse a set of priorities for action and establish a detailed programme of activities. The Joint Commission will in subsequent years be able to review the progress made.

3.2.2 Working through the priorities

As soon as priority areas for action have been jointly established on the basis of proposals outlined above, it will be possible for the working groups to start their activities. With the information collected in the discussions outlined above, each group will be able to establish its targets. These targets may include the:

- need to build a better understanding each others position;
- possibility of focusing financial resources to help eliminate a problem;
- utility of negotiating some kind of sector agreement or arrangement.

The exact number and membership of the groups, as well as the substance of the discussions would be fixed jointly by the EU and India. This stage of activity will therefore involve considerable trade facilitation, and give greater impetus to the dialogue on detailed issues and providing substantive results.

3.2.3 Increasing cultural understanding

In parallel with the establishment of working groups, the Commission is keen to help extend the EU-India dialogue to civil society (including trade unions and NGOs), the media and the academic community. Without this spread of dialogue, the conduct of business and politics will always be hampered by a lack of broader understanding.

This, as was noted in the Commission's proposals of July 1994 for a *New Asia Strategy*, implies a strengthening of Europe's economic presence in Asia requires a heightened European profile in Asia. It is not enough simply to do things, the EU must be seen to be doing them. Hence, particular attention will be paid to improving the visibility of European

activities in India, where the sheer size and diversity of the country calls for a special effort in strengthening profile. The same is true in the opposite direction, where India's profile, and European awareness of the sub-continent, need to be increased.

In this context the Commission intends to:

- facilitate cross-cultural co-operation initiatives;
- encourage the establishment a network of organisations interested in Europe-India relations;
- promote an increased flow of press and media information on Europe in India and vice-versa.

This phase of activity could be usefully complemented by activities launched in the European Parliament, Economic and Social Committee and the Committee of the Regions, if these institutions find it appropriate.

3.2.4 Institutional framework

The resulting series of sector agreements and arrangements are likely to push the existing institutional framework to its limit. If and when a clear need to prepare the ground for a new Framework Agreement emerges, the Commission will then return to the Council.

4. Conclusions

India is an effective, functioning democracy increasingly open to the world. Structural reforms are continuously strengthening the Indian economy's ability to face opportunities and challenges in an international framework.

However, there is no room for complacency on either side. A number of challenges need to be tackled and opportunities seized. This Communication therefore underlines the need and means to reinforce relations between the EU and India, expanding on the experience gained to date, taking account of the need to adapt to changes in India and the EU, and inviting an intensified and more targeted dialogue.

Indeed, on many points, notably those of an international political nature, the EU and India have a shared interest in tackling the challenges together, as both must face the same issues, and the growth of inter-dependency means that neither can ignore the choices made the other. The scope for increased growth through trade and investment also presents an opportunity for each side, and requires assiduous work in tackling obstacles, and promoting awareness of the possibilities available. Furthermore, the shared values of India and Europe, vitality of cultures, and need for greater mutual understanding, create opportunities for cross-learning, imposing an important human dimension on relations. In all these ways, the challenges which are of joint interest can become tremendous opportunities for joint benefit.

Bearing all this in mind, the Commission suggests a number of steps to reinforce the relationship using the *Co-operation Agreement between the European Community and the Republic of India on Partnership and Development*, as well as the accompanying *EU-India Joint Statement on Political Dialogue* to their fullest. Council and Parliament are therefore invited to comment on the analysis and proposals outlined in this text, and the Commission will subsequently move forward in the framework of the existing agreement and political declaration on the basis of these comments and in light of dialogue with the GoI.

1. The institutional framework

In addition to the historical and cultural links between the sub-continent and Europe, India was, in 1962, one of the first countries to establish relations with the European institutions. These links were formalised by agreements, the first one in 1973 aiming to improve trade relations, and the two following including economic and development co-operation, as well as trade.

The current *Co-operation Agreement between the European Community and the Republic of India on Partnership and Development*, in force since August 1994, is a third generation co-operation agreement and is particularly broad in scope, covering:

- respect for human rights and democratic principles as an essential element;
- development and diversification of trade and investment in mutual interest;
- encouragement of understanding and strengthening of ties between the two regions in respect of technical, economic and cultural matters;
- building up India's economic capability to interact more effectively with the EU;
- promotion of exchanges and communication between business communities;
- acceleration of India's development in particular to support new Indian policies in key areas fostering sustainable social progress and poverty alleviation;
- support for environmental protection and sustainable use of natural resources.

2. Political relations

Political relations have been established with Troika ministerial meetings since 1982. More recently these contacts have been put under the *EU-India Joint Statement on Political Dialogue*, adopted at the same time as the co-operation agreement in 1994, and which commits both sides to:

- defending democracy, human rights, peace and a stable, just, international order in line with the UN Charter;
- reinforced co-operation to promote prosperity, economic reform, liberalisation, free-trade and economic stability as well as social progress and cultural links;
- allowing each others' interests to be taken into account in decision-making procedures;
- a better mutual understanding to increase co-operation on international questions such as non-proliferation, the fight against terrorism, drug trafficking, money laundering and issues linked to international peace and stability.

Some positive discussions have already taken place in this new framework, although India has been cautious towards European criticism on its human rights record at the UN. Also past discussions on non-proliferation have made little progress, as India affirms that the Non-Proliferation Treaty would reinforce the privileges of those who have recognised nuclear arms' stocks, without actually tackling the need for elimination of the stocks. Although the EU has always recognised the need for disarmament, it insists that separate fora exist for this issue, and that there is an urgent need to prevent further proliferation. For similar reasons the EU has also urged India to facilitate adoption of the planned Comprehensive Test-Ban Treaty which is under negotiation, as well as the negotiation of a Cut-off Treaty (prohibiting production of fissile materials for weapon purposes).

3. Trading relations

In trade terms the whole of the EU is India's largest external trading partner, being the destination for 26% of its exports and the origin of 30% of its imports. Nevertheless this must be put into perspective, as, looked at from the EU, trade with India is only 1.3% of total external commerce. This reflects the relatively modest level value of the commerce, which at 14 billion ECU is less than EU trade with Singapore (16 billion ECU). In terms of investments, Europe slipped behind the USA from 1991-94 (in 1995: EU 18.4%, USA 22.1%), with some 1322.4 million ECU of investments in India in 1995 (August 1994-November 1995).

The main priority for dialogue and the largest achievement in recent years has been the conclusion of the Uruguay Round and the establishment of the WTO. Europe and India played an important part, and established a close and successful collaboration in Geneva on a bilateral and multi-lateral level.

On a bilateral level, a Memorandum of Understanding concerning the export of Indian textiles to the EU was agreed in December 1994. This increases the flexibility of the quotas applied to certain textile imports in the phase-out period agreed under the Uruguay Round's Agreement on Textiles and Clothing. India has committed itself to some liberalisation of its domestic textile markets, although the quota system currently in place seems less than adequate. Furthermore, in Maritime Transport, a bilateral agreement is being considered with India.

The EU has also recently revised its Generalised Scheme of Preferences (GSP) and under the new regime India is likely to lose some of the benefits it held in the textile and leather goods, but will gain market opportunities in a number of other sectors, as more developed countries, such as South Korea, are excluded, and other countries like China lose benefits on a wider range of export sectors. This is all the more important given that India is the second largest user of the EU's GSP facility (after China and before Brazil), having an overall utilisation rate of about 62%.

4. Economic co-operation

There have been active efforts to foster mutual understanding and to facilitate trade and investment using economic co-operation. In 1995, 30.5 million ECUs were committed to economic co-operation with India, and India also had access to part of several regional programmes worth more than 70 million ECU. The commitments made in 1995 doubled in a single year the amount that has been spent on economic co-operation with India since 1976, demonstrating that this has become a very dynamic part of the EU's relations.

The 1994 agreement provides for a very broad-based co-operation in various economic sectors. The European Community-India co-operation strategy up to the year 2000, agreed at the Joint Commission in November 1994, focuses support on reinforcing the Govt's efforts at economic reforms and on strengthening the interaction between European and Indian economic operators. Areas particularly singled out (with emphasis on the private sector) include energy, telecommunications, electronics, information and satellite technologies, standards, intellectual property, investment, agriculture and fisheries, tourism, science and technology, information and culture.

The newly launched *EU-India Economic Cross-Cultural Programme* will lay the basis for a much greater mutual understanding with media, academic and business aspects. Furthermore the Commission has initiated a new programme to build co-operation between EU and Asian local authorities, called *Asia-Urbs*.

The pan-regional *Asia Invest* programme combined with the recently opened *European Business Information Centre* in Bombay are major steps to raising business awareness and promoting private sector linkages. These efforts are also backed by the business community using the *Council of EU Chambers of Commerce* (established in 1982), which provides a forum for the European and Indian private sector to review issues and initiatives of common interest, as well as the *Joint Business Forum*.

On institution building, focus has been given to work on standards and quality improvements in industry. This has just led to the establishment of an Indian Quality Control Council, and co-operation on property right protection is starting.

On business to business co-operation, the Commission has promoted technology transfers in different sectors including agri-business, transport, energy and environment. The Commission and GoI have also set up the *3SE*, which in particular aims at economic co-operation in information technology projects.

These economic co-operation measures have been backed by assistance from the *European Community Investment Partners* scheme, which since 1990 has provided some 10.6 million ECU to assist 77 joint venture activities in India, initiated primarily by European small and medium sized enterprises.

The first steps have also been taken to support regional co-operation in South Asia, with a number of projects. A further step is now being taken to establish inter-institutional collaboration with SAARC through the establishment of a Memorandum of Understanding on Administrative Co-operation between the EU and SAARC, focusing on exchange of information, staff training and technical assistance.

5. Development co-operation

The EU is the second largest bilateral aid donor to India (16% of total), and the largest grant donor (60% grants). The main part of EU aid (about 800 million ECU annually) is by the member states directly with Germany, the UK, and the Netherlands in the lead. Funds from the European Community budget represent 10-15% of EU assistance, almost on a level with Dutch funding. This Commission co-ordinated development co-operation with India in 1976 and since then well over 1.6 billion ECU have been committed. This action is added to by the *European Investment Bank* which, from 1993 to 1995, agreed to lend 55 million ECU for projects in the power generation sector. This makes India the largest recipient of European Community aid in the developing world.

In the past, funding particularly aimed at increasing and diversifying agricultural production. Projects included development and rehabilitation of irrigation, improved sustainable use of natural resources, and support to the agri-food industry and markets. In addition, reforestation has been financed as a priority in its own right. One lesson drawn from these projects has been that agricultural pricing, trade and markets must be freed if

real progress is to be made. It is not enough simply to improve access to funding and technology, the key signal must come from a change in policy.

Hence, since 1993 there has been a change of track, and human resource development has become top priority, funding a primary education programme which gives special attention to female education. This is the biggest Commission-run programme of its kind, and is a model of policy reform support. This new co-operation strategy has been confirmed since then in a Joint Commission with the GoI, which established that up to the year 2000 co-operation should be focused on:

- access of the most deprived to productive resources
- basic social services.

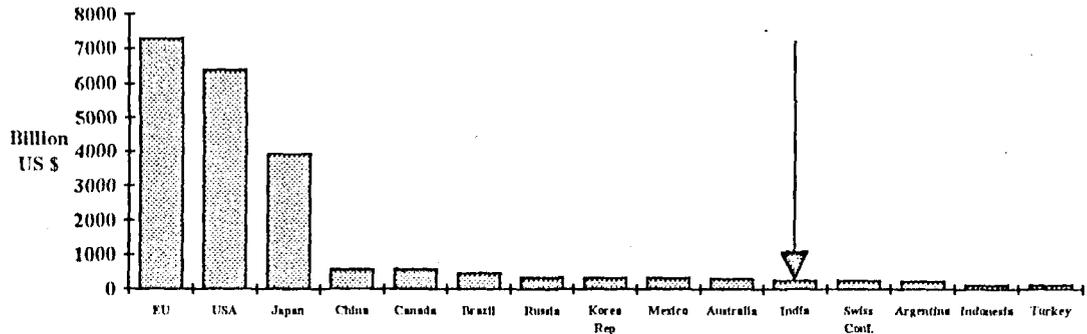
In addition, the Commission has sought to multiply the impact of its own support by:

- concentrating efforts on a limited number of programmes of a certain critical mass;
- encouraging private sector participation.

It is also of note that this strategy is in line with that undertaken by the Bretton Woods organisations.

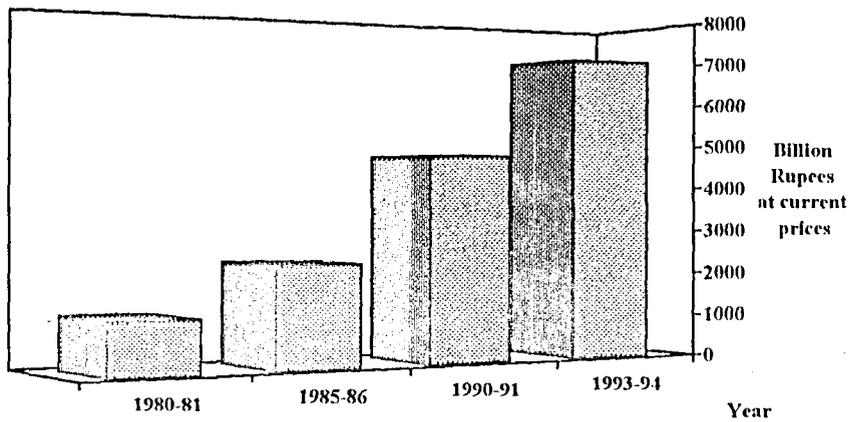
Finally, there has also been an increasing trend in recent times to develop projects, integrally involving local groups in participate mechanisms. Experience shows that local support is essential to establishing sustainable development projects. One means to reach such participation has been the use of Non-Governmental Organisations, particularly local, which have shown to be the most effective partners in fighting poverty alleviation at grass root, and in helping to improve social and human rights.

1. International GNP league table, 1993



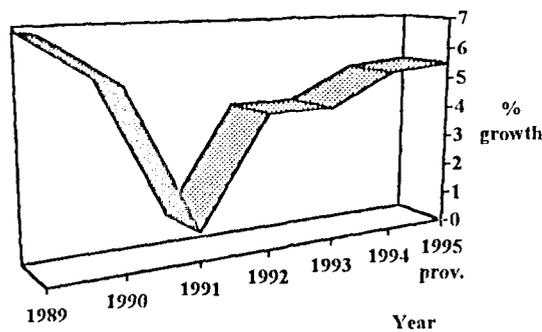
Source: World Bank Atlas 1995

2. Evolution of Indian Gross Domestic Product 1980-94



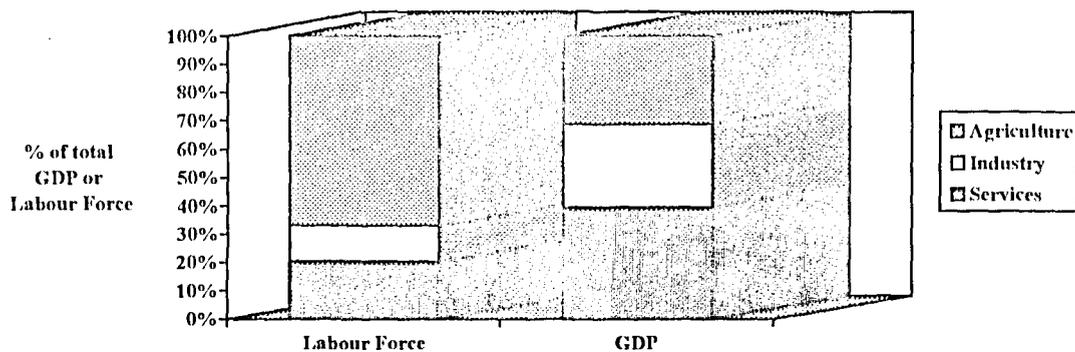
Source: World Bank, India Country Economic Memorandum, 1995

3. Annual % GDP Growth in India 1989-1995



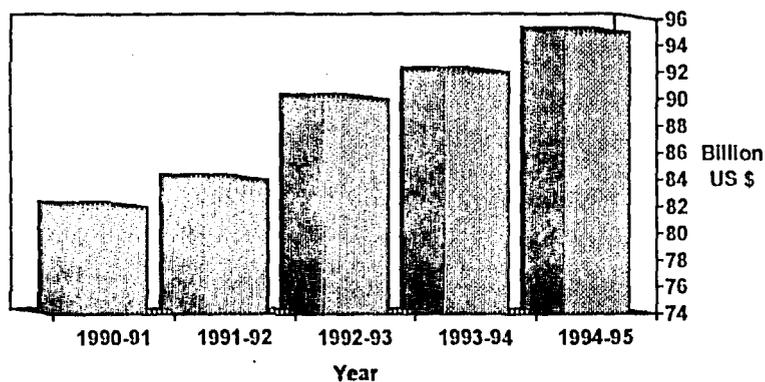
Source: Asian Development Bank, Asian Development Outlook 1995 and 1996

4. Breakdown of employment and GDP by type of activity in 1993-94



Source: World Bank, India Country Economic Memorandum, 1995

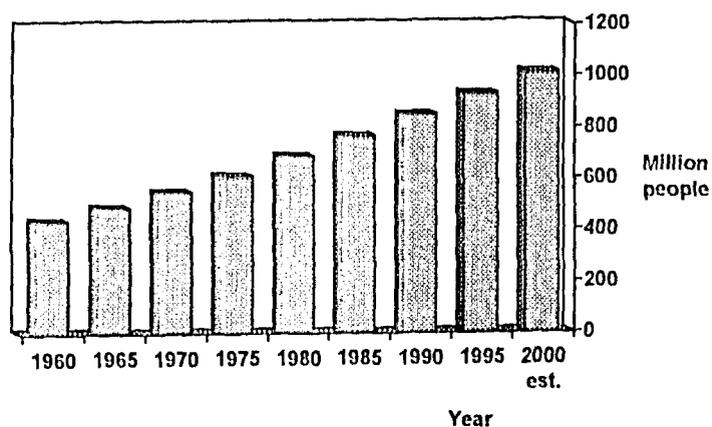
5. India's External Debt, 1990-94



Source: World Bank, India Country Economic Memorandum, 1995

Annex 3. Population

1. Estimated Indian population 1960-2000



Source: World Bank, India: Trends, Issues and Options, 1990

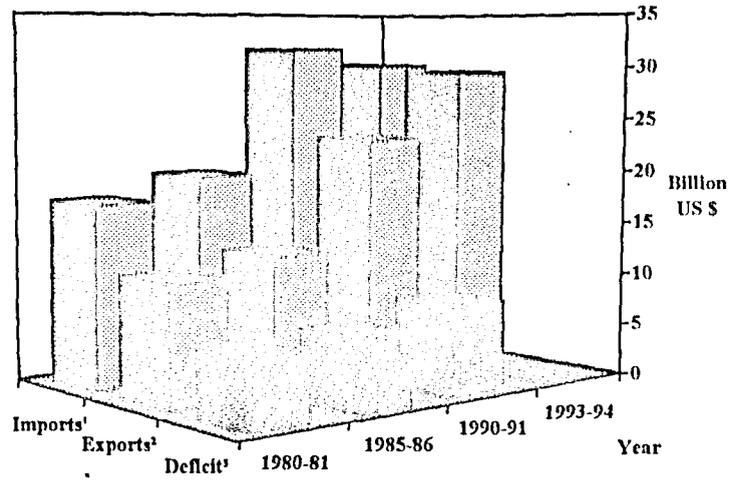
2. Other population features 1970-93

| <i>Indicators</i> | <i>unit</i> | <i>1970-75¹</i> | <i>1980-85¹</i> | <i>1988-93²</i> |
|-------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| <i>density</i> | <i>inhab/km²</i> | 188.8 | 232.1 | 267.7 |
| <i>annual growth</i> | <i>%</i> | 2.2 | 2.0 | 2.0 |
| <i>fertility index</i> | <i>births/woman</i> | 5.4 | 4.5 | 3.7 |
| <i>infant mortality</i> | <i>per 000</i> | 132 | 106 | 80 |
| <i>life expectancy</i> | <i>year</i> | 50 | 55 | 61 |

Source: World Bank, India Country Economic Memorandum, 1995

¹ Latest single year
² Most recent estimate

1. Evolution of India's Trade with the World



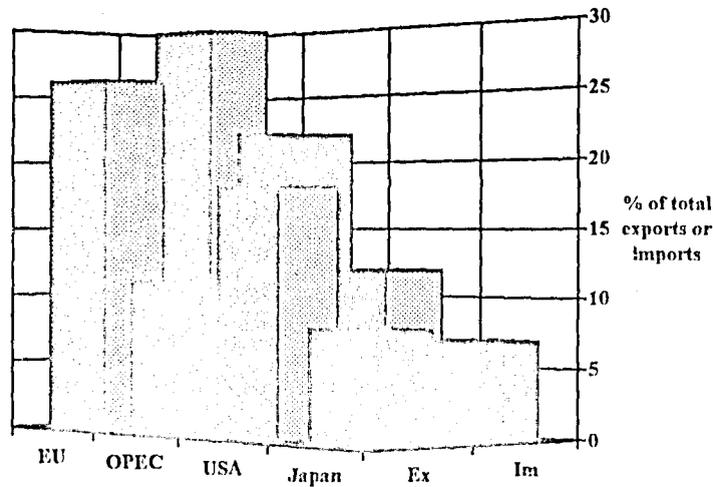
Source: World Bank, India Country Economic Memorandum, 1995

¹ Imports= Imports of goods and non-factor services

² Exports= Exports of goods and non-factor services

³ Deficit= Deficit on resource balance

2. Destinations of Exports and origins of Imports for India, 1994



Source: Economic Survey, GoI.

Ex = Export destination

Im = Import origin

The EU (as well as OPEC) was still beneficiary in its trade balance with India for 1994. The situation was the opposite for the US and in a lesser extent for Japan.

Direct foreign investments approved by Indian authorities 1991-1995 (in million ECU & %/total)

| | 1990-91 | | 1991-92 | | 1992-93 | | 1993-94 | | 1994-95 | |
|---------------------------|---------|------|---------|------|---------|------|---------|------|---------|------|
| | ECU | % |
| <i>EU</i> | 43.6 | 33.8 | 119.9 | 12.6 | 399.1 | 18.0 | 656.4 | 18.5 | 1322.4 | 18.4 |
| <i>USA</i> | 43.7 | 33.9 | 284.6 | 29.9 | 868.2 | 39.2 | 872.0 | 24.6 | 1585.9 | 22.1 |
| <i>Japan</i> | 13.0 | 10.1 | 152.6 | 16.0 | 64.4 | 2.9 | 100.2 | 2.8 | 374.8 | 5.2 |
| <i>NRI*</i> | 4.9 | 3.8 | 109.8 | 11.6 | 258.1 | 11.6 | 122.7 | 3.5 | 173.1 | 2.4 |
| <i>Total invest</i> | 129.2 | | 950.4 | | 2215.4 | | 3546.8 | | 7180.8 | |
| <i>the 4 as % of tot.</i> | | 79.6 | | 69.1 | | 71.7 | | 49.4 | | 48.1 |

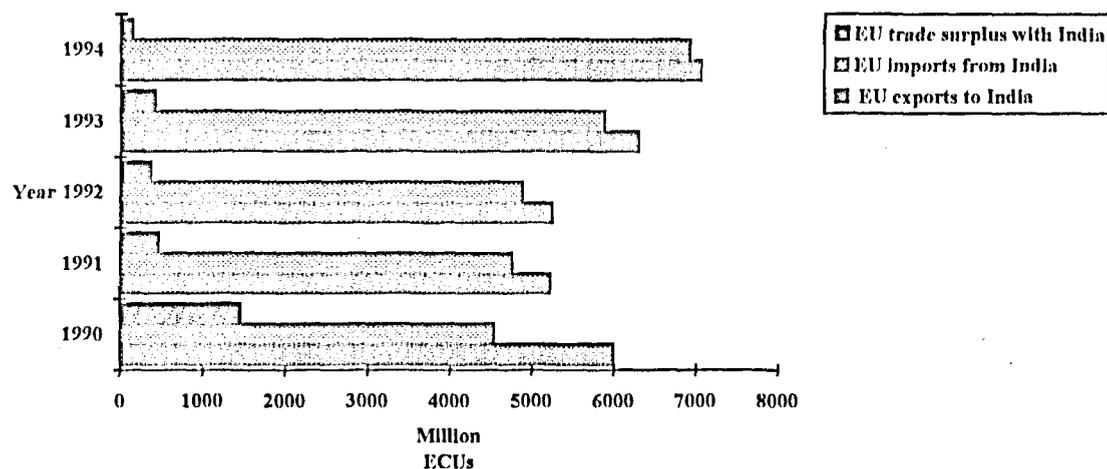
Source: SIA Newsletter, Ministry of Industry, Govt

+ All years are from August to July of year indicated, except 1995 which is August to November (ie 16 months)

*Non-Resident Indians

Annexe 6. Evolution of EU-India trade relations

1. EU-India Trade Flows 1990-1994



Source: Eurostat

Note: total EU external trade grew by approximately 20 % from 1990 to 1994, compared with 32% growth for trade with India.

2. Recent trends in EU imports from India, 1990-1994

| <i>Products or product groups</i> | <i>1990</i> | | <i>1994</i> | |
|---|-----------------------|-----------------------|-----------------------|-----------------|
| | <i>in Million ECU</i> | <i>in Million ECU</i> | <i>in Million ECU</i> | <i>% / 1990</i> |
| <i>Textiles / clothes</i> | 1,434 | 2,206 | 54 | |
| <i>Leather articles / skins</i> | 713 | 1,001 | 40 | |
| <i>Precious stones</i> | 604 | 707 | 17 | |
| <i>Agri / marine products</i> | 594 | 889 | 50 | |
| <i>Engineering / electronics</i> | 376 | 766 | 104 | |
| <i>Carpets</i> | 204 | 262 | 28 | |
| <i>Food products and live animals</i> | 452 | 712 | 57 | |
| <i>Chemical products</i> | 182 | 416 | 127 | |
| <i>Machines/transport material</i> | 171 | 427 | 148 | |
| <i>Manufactured products/raw material</i> | 1,723 | 2,362 | 37 | |
| <i>Different manufactured articles</i> | 1,514 | 2,481 | 64 | |

Source: Eurostat

3. Recent trends EU exports to India, 1990-1994

| <i>Product groups</i> | 1990 | 1994 | |
|--|-----------------------|-----------------------|-----------------------|
| | <i>in Million ECU</i> | <i>in Million ECU</i> | <i>% rise on 1990</i> |
| <i>Food products/live animals</i> | 9 | 60 | 560 |
| <i>Oils, animal fats/vegetables</i> | 3 | 5.5 | 84 |
| <i>Chemical products</i> | 554 | 746 | 35 |
| <i>Jewellery (pearls, precious stones,...)</i> | 1,540 | 2037 | 32 |
| <i>Manufactured goods</i> | 2,220 | 2843 | 28 |
| <i>Machines and transport material</i> | 1,965 | 2552 | 30 |

Source: Eurostat.

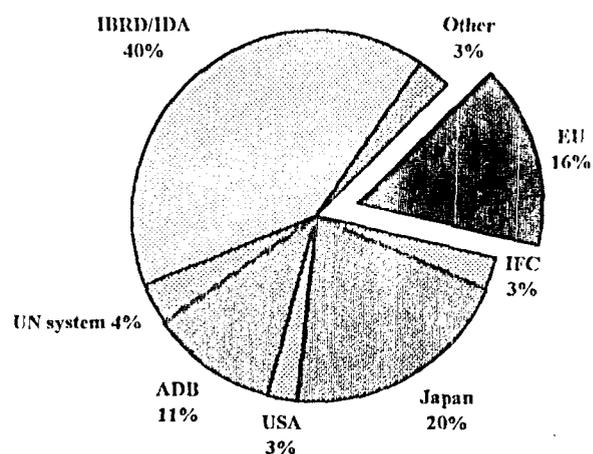
4. Principal European Partners for India - 1994

| <i>Exports (destinations)</i> | <i>Million ECU</i> | | <i>Imports (origins)</i> | <i>Million ECU</i> | |
|-------------------------------|--------------------|----------|---------------------------|--------------------|----------|
| | <i>ECU</i> | <i>%</i> | | <i>ECU</i> | <i>%</i> |
| <i>Germany</i> | 1760 | 25 | <i>Germany</i> | 1738 | 26 |
| <i>United Kingdom</i> | 1649 | 24 | <i>United Kingdom</i> | 1687 | 25 |
| <i>Belgium-Luxembourg</i> | 862 | 12 | <i>Belgium-Luxembourg</i> | 1610 | 24 |
| <i>Italy</i> | 848 | 12 | <i>France</i> | 763 | 11 |
| <i>France</i> | 743 | 11 | <i>Italy</i> | 594 | 9 |

Source: Eurostat.

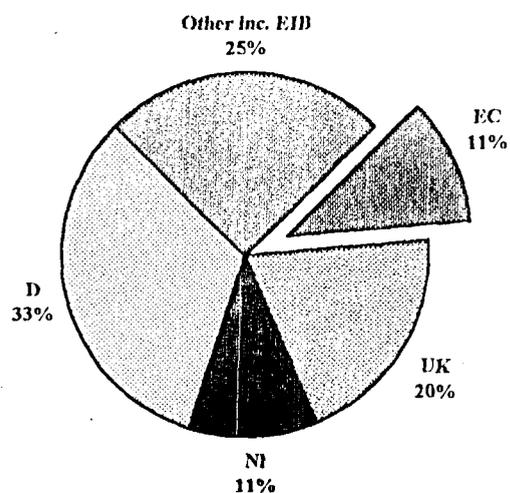
Annexe 7. India: international development assistance for 1995-96 (indicative)

1. International Financial Assistance to India in 1995 (indicative figures)



Source: World Bank
Total indicative assistance \$ 6.7-6.9 billion

2. Breakdown of total EU aid to India in 1995 (indicative figures)



Source: European Commission

3. Cumulative European Community assistance to India 1976-1995 (in million ECU)

| <i>Years</i> | <i>Econ. Coop.</i> | <i>Development Assistance</i> | | | | <i>Human. Assist.</i> | <i>Total</i> |
|------------------|------------------------|-------------------------------|------------|------------------------|------------------|---------------------------|--------------|
| | | <i>Food Aid</i> | <i>NGO</i> | <i>Fin. & Tec.</i> | <i>Sub-total</i> | | |
| <i>1976-1980</i> | 2.10 | 89.07 | 3.93 | 93.50 | 186.50 | 0.51 | 189.11 |
| <i>1981-1985</i> | 8.48 | 286.83 | 11.04 | 221.30 | 519.17 | 17.51 | 545.16 |
| <i>1986-1990</i> | 14.48 | 161.77 | 25.90 | 363.42 | 551.09 | 29.58 | 595.15 |
| <i>1991</i> | 4.98 | 3.73 | 5.00 | 72.33 | 81.06 | - | 86.04 |
| <i>1992</i> | 5.28 | 35.16 | 3.14 | 13.17 | 51.47 | 0.32 | 57.07 |
| <i>1993</i> | 9.42 | 0.01 | 4.81 | 164.00 | 168.82 | 2.04 | 180.28 |
| <i>1994</i> | 2.42 | - | 6.54 | 10.95 | 17.49 | 7.57 | 27.48 |
| <i>1995 est.</i> | 30.50 | - | 7.15 | 72.85 | 80.00 | 0.30 | 110.80 |
| <i>Total</i> | 77.66 | 576.57 | 67.51 | 1,011.52 | 1,655.60 | 57.83 | 1,791.09 |

Source: European Commission