



EU-India Relations
(including EU-India Journalists' Conference Report, 30-31 May)

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Introduction

The EU-India Journalists conference on 30-31 May 2005 was an important contribution to deepening the mutual understanding between two increasingly important global actors. There is considerable misunderstanding between Europe and India and any event bringing journalists together is to be welcomed. The conference attracted a very strong Indian representation and was held at a crucial juncture for the EU, sandwiched between the French and Dutch referenda on the Constitutional Treaty. Inevitably this affected the participation on the EU side but nevertheless, there were some interesting discussions both in the plenary and in the four workshops.

As His Excellency, the Indian Ambassador, Mr. Rajendra Madhukar Abhyankar stated during his dinner speech, there is tremendous potential in EU-Indian relations, especially if both sides are serious about developing a 'strategic partnership.' But despite the flowery rhetoric from both sides, there has been a lack of urgency in moving to concrete actions. It is hoped that the proposed Action Plan that the European Commission is preparing and the September summit will give a fresh impetus to the relationship.

Journalists from both sides were not afraid to ask penetrating questions to the EU officials who gave presentations. These included sensitive issues such as the alleged double standards on nuclear policy, on democracy and on the priority to be given to terrorism. Indian participants pointed to the very difficult regional environment facing India and some felt that the EU showed little understanding for their situation. Europeans were more critical of the corruption, the red tape and baffling bureaucracy in India. But as some Indian participants pointed out, the EU bureaucracy could also be baffling at times.

There were also very useful exchanges on social, economic and cultural issues with the workshops revealing immense opportunities for both sides to deepen their engagement in these fields. For many, the pace of change as a result of globalisation was having a major impact on society and both Europe and India needed to deepen their dialogue on this phenomenon.

The European Policy Centre was pleased to be involved in this conference and intends to feature India more prominently in its EU-Asia Work Programme. In particular, the EPC plans to organise an EU-India think tank roundtable in the near future to further deepen ties between civil society organisations.

Fraser Cameron
Director of Studies, European Policy Centre

Event Report: EU-India Journalists' Conference "Crossing Boundaries"

Recommendations

- The EU-India Strategic Partnership should be operationalised at the next EU-India Summit in September.
- There is a need for the EU and India to discuss global issues in a more systematic and serious manner. Priority should be given to seeking agreement on how to react to the Kofi Annan High-level Panel report. This touches on conflict prevention, arms control and disarmament, regional security, the peace-building Commission, human rights, the definition of terrorism and the responsibility to protect.
- The EU should have more visibility in India and in turn, India more visibility in Europe. Journalists have an important role to play in providing objective and comprehensive coverage of EU and Indian affairs.
- Concerning trade, the Indian government needs to make greater efforts to overcome 'red tape' and obstacles to investment. It should be less hesitant about economic reforms.
- Success stories of EU companies doing well in India should be highlighted in order to help boost the rather low levels of European investment in India.
- The Indian authorities need to do more to stamp out corruption. There should be an exchange of 'black lists' and 'white lists.'
- Culture exchanges should be intensified in the EU-India partnership.
- European universities should promote themselves better in India. There should be undergraduate level exchange programmes between European countries and India.
- There should be more exchange programmes for journalists with institutional funds being made available for such purposes.
- The EU should adopt a more unified policy towards the issue of Schengen visas in order to boost Indian tourism in Europe.
- There should be more NGO sector cooperation between the EU and India. Priority areas are human rights, gender equality and healthcare.
- 'EU-India cooperation' should not only mean 'EU-Delhi cooperation.'
- There was considerable scope to expand EU-India cooperation in research and development as well as science and technology.

Embassy and Presidency Briefings

His Excellency, Indian Ambassador, Rajendra Madhukar Abhyankar

Ambassador Abhyankar underlined that the visibility of the EU was of crucial importance - who better to promote this visibility than the Indian journalists participating in the EU-India Conference. They had to make the EU as an entity visible in India.

He noted the importance of the timing of this Conference - it was taking place prior to the next EU-India Summit in Delhi in September. Here, the participants would approve an Action Plan on the strategic partnership between the EU and India. India was the 6th country to have such a partnership with the EU.

The Ambassador saw the EU as a work in progress. He pointed out that India was also a Union, but of 28 states and 7 union territories - India was "one integral whole; it's people, a single people." Within such a union, there existed two things: a single imperium and an agreement of constituent units.

He also referred to the extent of sovereignty-sharing that each EU Member State had agreed to. He stressed the visibility of the EU as an entity, and not as a collection of individual Member States. "The EU doesn't have the visibility it should have," he remarked. Whatever visibility it had in India was negative, not positive.

He referred to the foreign policy of EU Member States. There were two EU members with seats on the UN Security Council. Regarding trade policy issues, he referenced the common external tariff. India had been able to benefit from this tariff – 50% of Indian exports came under the GSP (Generalised System of Preferences). He noted that the EU had taken a great interest in Sudan. Similarly, India had €2 billion worth of oil interests in this country. India had additional interests in Iraq, as did the EU. "What the EU is doing in these areas concerns India too," he emphasised.

Referring to the European Parliament, he mentioned how this European institution had gained co-decision power. He stated that he would like to build an informal "Group of Friends of India." India was presently part of the South Asian delegation of the European Parliament. On this point, he remarked that he would like to see a separate Indian delegation, since the other EU strategic partners had such a delegation.

Finally, he touched on the EU-India roundtable, which was set up to promote civil society issues.

Henri Schumacher (Representative, Luxembourg Presidency)

Mr. Schumacher stated that a Conference on EU-India relations for journalists was long overdue. If there were more questions than answers at the end of the day, this was due to a complex system and a complex continent – the Member States were themselves complex and diverse in language, ethnicities and political views. However, such a system made for lively discussion, but working together was not always easy as was recently demonstrated by the French ‘No’ vote on the European Constitutional Treaty. He acknowledged that this procedure would take time but he also highlighted the need to shorten the decision-making process. There was no need for unanimity on every subject.

Mr. Schumacher said that he was not surprised that those outside the EU were at times puzzled. The EU was an example of an integration project unlike anything before in history.

He noted that India is the world’s largest democracy. It was a tremendously diverse ethnic and linguistic country which had made remarkable strides since independence. India had developed into a large economy with a growth rate that ranked amongst the highest in the world. However, he underlined that the challenges India faced were complex and urgent in nature.

He pointed out that EU-India relations dated back to the 1960s – India was one of the first countries to set up relations with Europe. The EU and India became strategic partners in 2004 at a summit in the Netherlands. Both sides were asked at this summit to operationalise their partnership.

On the economic side, EU-India trade had grown to almost €30 billion in 2003, he said. Trade with the EU represented almost a quarter of Indian’s exports and imports. However, India attracted only 0.3% of the EU’s worldwide investments so there was room for improvement on this matter.

Indian society was still a mystery to many Europeans – images were often limited to those of Gandhi, the Taj Mahal or Indian food. “A lack of information gives rise to stereotypes and misconceptions,” he said. He referred to the information age that we live in and the power that journalists had to influence opinion based on what they write. He affirmed that this imparting of knowledge created understanding and tolerance.

He concluded by saying that he hoped that this conference would assist the journalists in acquiring some of the “knowledge that might help our peoples reach a better understanding of each other.”

Plenary and Workshops

A) Politics (Moderator: Axel Berkofsky, Senior Policy Analyst, EPC)

It was noted in this workshop that India's political global influence and leverage appeared underdeveloped. India's bid for a permanent seat on the United Nations Security Council (UNSC) indicated that India was willing to increase its influence and responsibilities in international security, but it was concluded that securing a seat on the UNSC was not an issue the EU and India had in common since "Europe still had no Mr. Europe."

In acknowledgement of India's global role and influence, the EU-India strategic partnership needed to be implemented.

The agenda of EU-India political and security relations was indeed ambitious and this workshop discussed successful and problematic areas concerning implementation of the envisioned EU-India co-operation. It was noted that the revolving EU Presidency seat for the 25 Member States could prove problematic with regard to maintaining consistency in EU-India political cooperation.

The issue of conflict prevention also arose in the discussion. There was scope for the EU and India to work towards conflict prevention but it would be difficult for India to opt for any other military operation outside the UN framework.

It was acknowledged that the issue of non-proliferation was a non-starter because of the double standards maintained by the 'permanent 5.' A participant highlighted that in the non-proliferation section of the EU-India Strategy Document, disarmament was not mentioned. "How can you promote non-proliferation without linking it to disarmament," he asked. In response to this finding, Mr. Prada of the European Commission affirmed that in the Action Plan discussions due to be continued in September, non-proliferation and disarmament were to be treated equally and in a more satisfactory manner. Mr. Cameron pointed out that there were two nuclear states within the EU. They, like the US, had failed to meet the commitments of the Non-Proliferation Treaty (NPT).

On a final note, it was recommended that media personnel from both regions should meet on a bi-annual basis. As to UK Prime Minister Tony Blair's visit to India in September, participants felt that this would be a good opportunity to focus and promote EU-India relations further.

Discussion

Mr. Cameron noted that political leadership needed be addressed on both sides. “It seems like we are talking past each other,” he remarked. He underlined that there was a need for even greater dialogue.

Gustavo Martin Prada, Head of Unit, DG RELEX, European Commission, admitted that conflict prevention and non-proliferation were complicated areas. However, discussion was ongoing on these issues in relation to the Action Plan in September and good progress was being made.

He acknowledged that regional integration was also difficult in Europe, not just in South East Asia. The EU had made much progress in the last 10 years and this would continue to be reflected in the bilateral partnership. The response of the Indian government to the European Commission’s Communication highlighted the political importance of the EU-India relationship, despite existing trade frictions. Participants agreed that these frictions needed to be overcome, as there was too much at stake.

B) Economics (Moderator: David Fouquet, Director of Asia Europe Project)

This workshop touched on the following topics: agriculture, services, investment, the Lisbon Strategy and the Indian/Chinese equation.

It was noted that the European model of development differed from the US model. There was no common view in Europe on globalisation – Germany, France and the UK all had different models. It was proposed that the EU could renew development aid by allowing market access for exports from developing countries.

Participants agreed that the benefits of the Asian boom had not trickled down sufficiently to the grass roots level. The level of investment by Europe in China was far greater than in India. It was suggested that success stories should be highlighted – for example, an EU company that has done well in India.

European Investors and businesses should seek to be involved in emerging areas of growth in infrastructure development, especially in energy and transport, pharmaceuticals and other life sciences, telecommunications and tourism.

It was suggested that the EU could impart information on its agricultural policies, as such policies had an impact on India and other developing countries. The lives of some rural populations in Europe should be explained – many were not as affluent as some perceived them to be in India. EU subsidy payments often benefited large agro-food multinationals and not the ‘dying breed of the average family farmer.’

The EU and India should collaborate and exchange best practice with respect to the introduction of transparency in business dealings and the prevention of corrupt business practices. This could include the possible exchange of ‘black lists’ and ‘white lists.’

Discussion

Mr. Martin Prada agreed with the conclusions of the working group that putting an emphasis on market access and trade was more important than aid, but market access had to work both ways. He mentioned Peter Mandelson’s recent report which details how market access had evolved. Progress was starting to show in the figures, he said. As for a European model to deal with globalisation, there was a distinctive approach emerging, which incorporates the WTO negotiations.

C) Culture (Moderator: Maya Bhandari, Researcher at Lombard Street Research)

“Culture plays a vital role in any strategic partnership,” the rapporteur emphasised. There was a consensus from this workshop that culture had been undervalued in the EU-India partnership. This workshop focused on three main areas: i) Education ii) Media and iii) Tourism.

i) Education: There was a lack of knowledge regarding the EU’s cultural institutions in India. There needed to be more university fairs and exchanges. University contacts needed to be fostered. It was suggested that student visas could be further relaxed. The EU institutions could sponsor more projects.

ii) Media: The politicisation of the media in both regions needed to be addressed. There should be more institution-to-institution exchanges for journalists. A media cooperation exchange programme already existed, but it was noted that these programmes could be more numerous. The media required better training. Programmes would need institutional funding.

iii) Tourism: Development of the tourism sector would lead to greater cultural understanding on both sides. The negative impact of culture on tourism was also highlighted. Travel expenses were still very high. Common visa rules could be relaxed, at least in the Schengen countries, participants noted.

Discussion

Mr. Martin Prada noted that India was a huge country; therefore, EU efforts often looked small, he said. However, there had been a boost in terms of funding for civil society activities. The Commission planned to increase this sponsorship in 2007. The Commission also intended to increase funding for more educational, cultural and media-related activities.

D) Social Issues (Moderator: Sebastian Bersick, Research Fellow at the European Institute for Asian Studies)

The workshop underlined that it was wrong to think of India as a development country. Because of the rising gap between the middle class and the very rich and the very poor, the workshop participants agreed that poverty reduction should continue to be a priority area of EU-India cooperation. In that context, more cooperation between the Indian and European NGO sectors was needed. NGOs should be engaged in identifying new areas of investment. The EU-India cooperation in the social sector should follow a policy of diversification on the regional level, taking into consideration the aspirations of local populations for sustainable development. As the role of civil society was important, a platform needed to be provided for NGOs, civil and human rights associations. In particular, minority groups and agricultural workers should be targeted. Furthermore, issue areas like class/caste and conflict resolution should be dealt with through new and innovative strategies.

There was an overall sentiment that the flow of information between the EU and India was insufficient. Existing networks within the EU and India dealing with EU-Indian relations needed to be pooled. With regard to the area of education, it was suggested that an internet-based information hub be built up. This would offer students in India and Europe access to information on their respective university programmes. There should be undergraduate level exchange programmes between European countries and India. Furthermore, European universities needed to market themselves better.

On health, there should be collaboration between civil society groups and health activists to ensure the availability of essential drugs. In addition, cooperation between the EU and India on human rights issues was essential. There also needed to be more gender empowerment – the number of women in governance should be increased. This applied especially to the area of local government. The overall process should further the formation of a more egalitarian society. Workshop participants pointed out that India and the EU both faced the challenge to make their societies more egalitarian. Economic development needed to go hand in hand with social reforms. India and the EU had to think of a more egalitarian method for distributing wealth within India and the EU.

Cautioning an overly intent focus on relations with India's capital, the rapporteur of this workshop underlined "EU-India cooperation does not just mean EU-Delhi cooperation."

Discussion

Concerning the topic of **HIV/AIDS** and whether the Indian authorities were underestimating this problem, it was noted that it was difficult to assess the number of cases, as instances of infection were judged on different models. The whole issue had the tendency to become very political.

Commission Briefings

DG Trade (Andreas Julin)

Mr. Julin affirmed that the priorities of the new Trade Commissioner were similar to those of the previous Commissioner. Among these priorities was the successful conclusion of the Doha Round World Trade Organisation negotiations and relations with the developing world.

He observed that the EU was India's largest trading partner whereas India was the EU's 12th greatest trading associate. He also noted that India was the second largest benefactor of the EU's Generalised System of Preferences (GSP). The present legislation regarding the GSP would expire by the end of this year. He mentioned that former EU Trade Commissioner Pascal Lamy had proposed a new GSP by 1st July and the Commission was under a legal obligation to implement it. This proposal was blocked in the Council, as a qualified majority could not be obtained for adoption due to sensitivities relating to the tax and clothing sector. Mr. Julin said that the Commission's position was that India should remain within the GSP system for this sector.

Regarding obstacles to investment, there was sometimes no Foreign Direct Investment (FDI) allowed at all. Caps existed on FDI and 'red tape' further complicated things. Mr. Cameron suggested that this 'red tape' should be lifted – India should not longer be hesitant about reform.

DG AIDCO (Michael Pennington)

Mr. Pennington outlined the grant aid portfolio in India of €1 billion, which was split between development cooperation (concerning poverty reduction) and economic cooperation (including economic and cultural exchanges). He also referred to the Country Strategy Paper 2002-2006 which mentioned the 'state partnership for progress' where there was a decision to concentrate on a number of regions instead of spreading Commission funds too thinly. Within this set-up, the government of India coordinated bilateral aid between the EU and India.

He concluded that the EU-India relationship was going through a period of transition in two key areas: firstly, the EU was changing its way of allocating development cooperation funds from a project coordination approach to a sector support approach. Regarding the latter approach, the "European Commission discusses with the government of India what's important for it." He outlined how sector support could influence policy as it was donated on a conditional basis. Sector or budget support would also lead to greater ownership of aid allocation, he said. A second important

and positive development was that in the strategic partnership for 2004, the old idea of the donor/beneficiary relationship had been deleted.

He also stated that there would be a special amount allocated to India in the 2007-2013 Financial Perspectives.

DG Research (Daniel Descoutures)

Mr. Descoutures affirmed that science and technology were high on the political agenda of the EU-India relationship. He said that the science and technology cooperation agreement had yet to really deliver on such endeavours as common research projects/cooperation, exchanges between scientists and cooperation on fundamental research. He stated that there were but a few thematic priorities: the information society, climate change and the automotive industry. He was not satisfied with the present level of cooperation – it was far from the potential level of meaningful science and technology cooperation with India. “We need India to be present in the 21st Century in a sustainable way,” he said.

He spoke about the 7th Framework Programme - a proposal to organise scientific policy at EU level for years to come. He said the Commission had proposed to double funds from €5 billion per annum to €10 billion per annum for this programme.

DG Energy and Transport (Nils Weller)

Mr. Weller gave a presentation on GALILEO, the European Satellite Navigation System. He explained that GALILEO was based on a constellation of 30 satellites and ground stations providing information concerning the positioning of users in many sectors such as transport (vehicle location, route searching, speed control, guidance systems, etc.), social services (e.g. aid for the disabled or elderly), the justice system and customs services (location of suspects, border controls), public works (geographical information systems), search and rescue systems, or leisure (direction-finding at sea or in the mountains, etc.). GALILEO would be operational from 2008 and would, in particular, help resolve the mobility and transport problems facing many areas of the world at present.

DG EAC (Vito Borrelli)

Mr. Borelli said that the Commission’s goal was to improve the quality of European higher education by promoting intercultural dialogue and understanding. Out of a total budget of €230 million, India received €33 million for 2005/6 in scholarship grants to Indian students. There were 5 out of 140 Indian students in the programme’s first year. This figure increased to 140 out of 800 students in its second year.

Other Briefings

INEP (India News in Europe Programme) – an example of EU-India cooperation in the journalistic world

Aidan White, General Secretary of the International Federation of Journalists introduced INEP, the India News in Europe Programme. He stated that INEP's objective was to try to improve the flow of information from India to Europe and from Europe to India. He introduced the Editor-in-Chief of INEP, **Nawab Kahn**. Mr. Kahn stated that INEP's aim was to make the EU more visible in India. He outlined efforts that have been made to translate news items into vernacular languages. INEP was a small team of three people with over 90 subscribers from Indian media. The network was expanding with correspondents present in Athens, Berlin, and London. Mr. Kahn said that they hoped to have correspondents in Paris and Amsterdam in the near future. The service was offered for free but in turn, Mr. Kahn requested full and due acknowledgement to INEP if reprinted in news stories.

Discussion

In the discussion session that followed, it was noted that articles referring only to the EU were not likely to be published by INEP. Mr. Kahn stated that 90% of the articles produced by INEP were on EU-India relations. When questioned on whether there was a focus on difficult matters in EU-India relations, Mr. White affirmed that INEP was not just a "PR programme for good news from Europe." In his concluding remarks, Mr. White emphasised that INEP was still a pilot project. There still needed to be more extensive coverage of EU-India relations. A business strategy needed to be established so that INEP could mature into a viable news service.

The EU Constitution

Jeffrey Russell, Principal Administrator at DG EAC, European Commission, gave an outline of all the treaties (from the Treaty of Rome to the Nice Treaty) prior to the present day Constitution which he saw as an attempt to simplify these aforementioned treaties into one document.

He outlined how the Convention charged with drafting the Constitutional Treaty, went through existing treaties to see where they could be simplified and whether it was possible to make the texts more accessible to the ordinary citizen.

However, as Mr. Cameron pointed out, the text was still as unreadable as ever. He saw the Constitution as a good attempt to streamline the

institutions, as they were initially only created for six Member States. These efforts aimed to make the EU more efficient for enlargement.

Discussion

A lively discussion ensued after Mr. Russell's presentation on the implications of the French Referendum result.

When questioned as to whether the **Constitution was now a dead document**, Mr. Russell felt that the ratification process had to continue. He referred to the article in the Treaty which stated that if four-fifths of the 25 Member States had ratified the Constitution by the November 1 2006, the European Council 'would consider the matter' at this stage. He said that due to the French 'No' vote, they would be forced to consider the matter sooner than expected.

Mr. Cameron affirmed that each Member State would have to ratify the Treaty for it to enter into force. EU leaders could decide to abandon the project at the next Council Summit. He felt that the primary reason for the French rejection was the split in the Socialist Party. Voters were also disillusioned with Prime Minister Jacques Chirac and Prime Minister Jean-Paul Raffarin and it was common for the electorate to use referenda to express their dissatisfaction with their government.

On the topics of the **market economy and globalisation**, Mr. Cameron highlighted the fundamental split between the 'Blair camp' which was pro-globalisation and the free market and the French/German camps who were more attached to the social market. The negative vote could be a call for a more social Europe with less emphasis on competition and more emphasis on the protection of jobs.

When asked if the EU had a **Plan B** or whether there might be a **second referendum** imposed, Mr. Cameron said that there was no Plan B. He referenced Ireland, where a second referendum on the Nice Treaty had to be called. Ireland "receives 5 Euros out for every one Euro in," he noted. Still, Irish political leaders had failed to garner enough support for the Treaty the first time around.

When asked about **social cohesion in Europe**, Mr. Cameron underlined that there were different economic and social systems within Europe. There was no unified socio-economic model for Europe which was why it was proving so difficult to meet the Lisbon Strategy targets, he said. Mr. Russell explained that the European institutions were not responsible for social policy – this was within the remit of each national government.

As to **how to connect voters to the European ideal**, Mr. Cameron said that voters had to be able to express their choice for political leadership – they had to be able to vote directly for the President of the European Commission, for example. The creation of pan-European political parties could establish this direct connection.

Regarding awareness of the **achievements of the EU**, Mr. Cameron stated that citizens should realise that the EU was a success story. The EU had managed to create a European security community, united on the basis of democratic values and the rule of law. It had created the largest internal market in the world. It had produced a single currency and was playing a positive role in world affairs with regard to the Kyoto Protocol, the International Criminal Court and support for the UN.

Programme EU - INDIA Journalists' Conference "Crossing Boundaries"

<i>Time</i>	<i>What</i>	<i>Who</i>
SATURDAY 28 MAY Arrival day (Indian journalists)		
	Arrival and transfer to hotel	Jean J. Dubois
PM	Per diem payment, touristic pack and free time.	Jean J. Dubois
SUNDAY 29 MAY Discovering Europe day (Indian journalists)		
10:00	Guided bus tour of Brussels + lunch en route + Mini Europe & Spirit of Europe	Jean J. Dubois
16:00	End of tour & free time.	
MONDAY 30 MAY Day 1 of Conference (Indian journalists)		
8:00	Breakfast with address on the EU and its institutions	Jeffrey Russell
9:30	Depart from Hotel for visit of the European Parliament	Richard Freedman
11:15	Visit of the European Council	Cristina Gallach
13:00	Lunch	
14:00	An overview of EU-INDIA relations	Fraser Cameron
14:30	EU-India related activities of DG TRADE (30' + 15' Q&A)	Andreas Julin
15:15	EU-India related activities of DG AIDCO (30' + 15' Q&A)	Erich Muller Michael Pennington
16:00	Coffee / tea break	
16:15	EU-India related activities of DGs TREN & RTD & (30' + 15' Q&A)	Nils Weller <i>Didier Gambier tbc</i>
17:00	Wrap up.	Fraser Cameron
19:30	Dinner with welcome speeches by the EU Presidency, the Embassy of India and the EC External Relations Commissioner (or her representative)	Henri Schumacher (Presidency) H.E. Mr R.M. Abhyankar <i>Commissioner Benita Ferrero-Waldner tbc</i>
TUESDAY 31 MAY Day 2 of Conference "Crossing Boundaries" (Indian & EU journalists)		
8:00	Breakfast	
9:00	INEP : an example of EU-INDIA cooperation in the journalistic world (20' + 10' Q&A)	Nawab Kahn
9:30	The EU constitution : (20' + 10' Q&A)	Jeffrey Russell
10:40	Introduction of the workshop's way of working	Fraser Cameron
10:45	Coffee / tea break	
11:00	WORKSHOP A on POLITICS (EU-India affairs, security issues, ...)	India + EU + A.Berkofsky as Mod.
11:00	WORKSHOP B on ECONOMICS (EU-India trade, trade policy, investment related issues, ...)	India + EU + D. Fouquet as Mod.

11:00	WORKSHOP C on CULTURE (Education, European and Indian art, cinema, literature, ...)	India + EU + M.Bandhari as Mod.
11:00	WORKSHOP D on SOCIAL ISSUES (globalisation impact, role of civil society, health, ...)	India + EU + S.Bersick as Mod.
12:30	Lunch with a speech from EIAS vice-chairman (Malcolm Subhan). Table sitting mixing groups & EU-India journalists.	All
14:00	WORKSHOP A on POLITICS (EU-India affairs, security issues, ...)	India + EU + A.Berkofsky as Mod.
14:00	WORKSHOP B on ECONOMICS (EU-India trade, trade policy, investment related issues, ...)	India + EU + D. Fouquet as Mod.
14:00	WORKSHOP C on CULTURE (Education, European and Indian art, cinema, literature, ...)	India + EU + M.Bandhari as Mod.
14:00	WORKSHOP D on SOCIAL ISSUES (globalisation impact, role of civil society, health, ...)	India + EU + S.Bersick as Mod.
16:00	Coffee / tea break	All
16:00	Summing up each groups conclusions	Moderators/reporters
16:30	Presentation of conclusions of the workshops and general discussion in presence of EU/EC representatives	India + EU journalists
17:45	Closing cocktail	

WEDNESDAY 1 JUNE	Business meeting and personal meetings day
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8:00	Breakfast
9:00	Meeting between Indian/EU business managers working in the EU and Indian journalists (1st leg)
10:10	Coffee / tea break
10:25	Meeting between Indian/EU business managers working in the EU and Indian journalists (2nd leg & conclusions)
12:30	Sandwich buffet lunch
PM	Free for personal contacts
?	Presentation and cocktail at TATA Consultancy services 5 Mr Kamble)

THURSDAY 2 JUNE	Departure day
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AM Departure of Indian journalists

Table of Participants

India Journalists

Mrs	Swati	BHATTACHARJEE
Mrs	Devirupa	MITRA
Mrs	Srilalitha	SRIDAR
Mrs	Charubala	ANNUNCIO
Mr	VIJAY PURUSHOTTAM	NAIK
Mr	Sameer Chander	MOHINDRU
Mrs	Anita	KATYAL
Mr	Garimella	SUBRAMANIAM
Mr	RAMABHADRAN	RAJAGOPALAN
Mr	Inderjeet	SAWHNEY
Mr	Shahid	MIRZA
Mr	Suresh	BAFNA
Mr	mrityunjoy Kumar	JHA
Mr	Sujit	CHATTERJEE
Mr	Shivraj	PARSHAD
Mr	Anshuman	TIWARI
Mr	Ananthampili V S	NAMBOODIRI
Mr	Sumeet	CHATTERJEE
Mr	Vipin	PUBBY
Mr	Vishal	THAPAR
Mr	Keeyath Sunil	THOMAS
Mr	Ajay	SETIA
Mr	Onkareshwar	PANDEY
Mr	Sajjad	MIRZA
Mr	Ravi	CHATURVEDI
Mr	Prabodh	JAMWAL
Mr	Pranay	SHARMA
Mr	Sanjay	Kapoor
Mr	Ranjan	ROY
Mrs	VIJAY	BHARTI
Mr	Anil	SASI

EU Journalists

Ms	Bettina	Peters
Ms	Rashmee	AHMED
Mr	Mikko	ZENGER
Mr	Adam	Szostkiewicz
Mr	Krzysztof, Maria	RENIK
Mr	Wojciech	KOZINSKI
Mrs	Maya	Bhandari
Mr	Sanjiv	Burman
Mr	Per	NEROTH
Ms	Teresia	Borgman
Mrs	Adrienne	Baughman
Mr	Thomas	Bärthlein
Mr	Ranvir Singh	NAYAR
Mr	Henrik	Berglind-Dehlin
Ms	Anne	Coulon
Mr	Malcolm	Subhan
Mr	Nawab	Khan
Mr	Fakhruddin	Manzoor
Mr	Leo	Cendrowicz
Mr	David	Cronin
Mr	John	Quigley
Mr	Eric	Walvarens
Mr	Axel	Berkofsky
Ms	Cathryn	Clüver
Ms	Diane	Halley
Mr	David	Fouquet
Mr	Olivier	Money-Loyan
Mr	Kevin	White

Other Participants

Mr	Alex	Spachis (EUDEL)
Mr	Paul	Hope
Mr	Jeffrey	Russell
Mr	Vito	Borelli (DG EAC)
Mr	Gustavo	Martin Prada
Mr	Andreas	Julin (DG Trade)
Mr	Mikael	Swann
Mr	Sibel	Taner
Mr	Nils	Weller (DG)

		TRD/TREN)
Mr	Erich-Wilhelm	Muller (AIDCO)
Mrs	Cristina	Gallach
Mrs	Rensje	Teerink
Mr	Richard	Freedman (EU parl)
Mr	Michael	Pennington
Mr	Amar	Sinha
Mrs.	Narinder	Chauhan
Mr	Paramjit	Mann
Exc		Abhyankar
Mr	Amar	Sinha
Mr	Henri	Schumacher
Mr	Jean J.	Dubois
Mr	Fraser	Cameron
Mrs	Rita	Metten

Business Participants on June 1

Mr	Mukund	Garg
Ms	Vidhhya	Sampatti
Mr	Milind	Kamble
Mr	Dinesh	Krishnan
Mr		Siddharth
Mr	Lars	Jacobson
Mrs	Jyoti	Kapila
Mr	M.S.	Chandramouli
Mr	Nawab	Khan
Mr	Malcolm	Subhan
Mr	Sanjiv	Burman
Mr	Thomas	Bärthlein
Mr	Alex	Spachis
Mr	Mikael	Sami
Mr	Paul	Hope
Mr	Jeffrey	Russell
Mr	Jean J.	Dubois

EU-India Background Paper

Introduction

This paper considers the rapidly changing and intensifying relationship between the EU and India, evidenced by the launch of the EU-India strategic partnership in November 2004 at the 5th India-EU Summit in The Hague. However, this relationship with Europe is not new. India was amongst the first countries to establish diplomatic relations with the EEC in the early 1960s. Colonial ties with individual Member States are of course much older, with late 15th century colonies maintained by France, Portugal, Holland and Britain, amongst others.

India is an interesting partner for the EU for many reasons, particularly as the rationale for this partnership could be argued to be less clear than for its counterparts. Whereas the EU's partnership with Russia is based on its location (an important neighbour) and as a vital source of oil and gas, Japan and the US are key trading partners, and China is the world's largest and fastest growing economy, the motivations for the EU's choice of India as a strategic partner appears less obvious. Equally, India is difficult to ignore: at 1.2 billion, India is the second most populous state and largest democracy in the world; it has realised a commendable annual GDP growth rate in excess of 6.5% for over a decade and is now the world's fourth largest economy; it has a large and growing pool of intellectual talent, and it ranks among the top ten largest of the world's industrialising nations.¹ Moreover, trend growth has increased by one percentage point every decade for the last three decades, and this is expected to continue.² If India is extremely promising in economic terms, its political voice, too, as heard at the G20 and WTO negotiations as a leader of developing and less developed countries, makes it an increasingly important international player.

In recent months India has moved to strengthen its relations with the US, China and ASEAN. It has also engaged with Pakistan in an effort to resolve their long-standing border dispute. At the same time there is much poverty in India and a large majority of the population still lives on less than \$2 a day. India is also a country of great ethnic, religious and cultural diversity.

Despite its divisions over Iraq, the EU is also playing a greater role in global affairs as witness its leadership role in trade matters (Doha), human rights (the International Criminal Court – ICC) and climate change

¹ Economic Intelligence Unit Country Reports; Intellectual Capital, Issue 6 5; India: Country Strategy Paper 2002-2006, European Commission DG External Relations.

² Speech by EU Commissioner Peter Mandelson, 'The Global Economic Agenda: Europe and India's Challenge,' Kolkata 13th January 2005.


(Kyoto). With a single currency and 25 Member States it has gained a new respect in world affairs, although it seems perpetually bound up with changing the basic premise of its work – its treaty base. [this paper was completed before the results of the French referendum on the new Constitutional treaty].

The EU and India broadly share a common vision of world affairs. Both are strong supporters of the multilateral system, although India maintains that in some key areas the system is biased against developing countries. While both the EU and India are increasing their global footprint they are also seen as regional leaders, the EU as the anchor for the entire European continent and India for South Asia.

Trade – and often trade irritants – has long been a mutual issue of concern and dialogue between India and the EU. The other major issue has been development assistance with the EU and its component Member States, which together contribute around 27% of development aid – the largest share – to India. Now both sides are seeking to develop a strategic partnership that would broaden the relationship to cover issues from global politics and security (including the role of (and representation on) the UN and other multilateral organisations, cooperation in counter-terrorism, energy security, global environmental questions, global and regional development) to a wider economic dialogue (managing and responding to globalisation, communications technology, space exploration, as well as the Doha development agenda), to discussion and joint projects about and with civil society (from encouraging interaction among think tanks, business and NGOs, to the different but related challenges both India and the EU face on diversity, multiculturalism, regional disparities, issues in nationalism and religious fundamentalism).

What instigated this recent and significant economic and political commitment to a future as strategic partners? What does the partnership hope to achieve? What are the opportunities and what are the likely constraints?

EU-India Relations: Background

EU-India relations are based on the 1994 Cooperation Agreement ([1994 co-operation agreement](#) ) that extended the relationship, at least on paper, beyond trade and economic cooperation. A joint Political Statement was agreed at the same time that provided for annual ministerial and official meetings. The 1994 Co-operation Agreement provides for an EC-India Joint Commission as the central body to oversee the entire range of co-operation activities between India and the EC. Three separate sub-commissions, on Trade; Economic Co-operation; Development Co-

operation, cover a more detailed agenda and report directly to the Joint Commission. The 14th meeting of the EC-India Joint Commission was held in Brussels on 10 September 2004. Discussions focused on a number of specific deliverables for the 5th EU India Summit. They included negotiations for a cooperation agreement on GALILEO, preparatory meetings for the negotiation of a Maritime Agreement, and a planned meeting of a Joint Customs Co-operation Committee. Continued co-operation on the Joint Initiative for Enhancing Trade and Investment and the holding of regular Round Tables were also encouraged, as was future collaboration on cultural exchange, the continuation of the Civil Society dialogue, and the meetings of the Joint Working Group on Consular Affairs. The work of the sub-Commissions and specialized working groups was reviewed. Developments in the WTO were also considered.

A 1996 Commission Communication calling for an EU-India Enhanced Partnership ([Commission Communication for an "EU-India Enhanced Partnership" of June 1996](#)) was endorsed by the Council and European Parliament but did not lead to any major development forward in the relationship. More important was the 2004 Commission Communication [Commission Communication](#) 'Towards an EU-India Strategic Partnership' that set out concrete proposals to upgrade the relationship. The Commission paper was wide-ranging in nature and started from the premise that the EU and India already enjoy a close relationship, based on shared values and mutual respect. It then stated that the new strategy should be guided by the following objectives: to promote peace, stability, democracy, human rights, the rule of law and good governance, *inter alia* by fighting terrorism and illicit trafficking; to co-operate on fighting poverty, inequality and social exclusion, and on sustainable development, environment protection, and climate change; and to enhance economic interaction and secure a strengthened international economic order.

On 11 October 2004 the Council endorsed the Commission Communication recalling the ambition of the European Security Strategy to move towards a strategic partnership with India, taking into account the country's role in international relations. It also endorsed the priorities for the relationship:

- strengthening the economic partnership and boosting trade and investment, including through better market access and continued economic reform;
- working towards more effective EU-India cooperation in the UN and other multilateral fora, including on conflict prevention and post-conflict reconstruction;
- increasing cooperation on non-proliferation of weapons of mass destruction and their means of delivery, and on the fight against terrorism and organized crime;

- pursuing the dialogue on democracy and human rights in a mutually respectful and constructive manner;
- deepening the cultural relations, based on expanding people-to-people contacts;
- promoting sustainable development and the good management of globalisation;
- supporting India's path toward the achievement of the Millennium Development Goals through a more focussed development cooperation;
- reinforcing the dialogue on all aspects of international migration.

The Council also drew attention to the importance of regional cooperation in South Asia, called on the Indian government to pursue economic reform with vigour and heralded the prospect of enhanced EU-India collaboration in science and technology as well as on climate change and energy efficiency. The Council did, however, acknowledge that - notwithstanding the dynamic evolution of the EU-India relations - “the EU faces the challenge of raising its profile in India and deepening the understanding of the EU's role and nature, which includes emphasising its cultural and linguistic diversity. Accordingly, the Council fully supports the Commission's proposals to increase mutual understanding between India and the EU through parliamentary exchanges and increased cooperation between political parties, trade unions, business associations, universities and civil societies.”

India, seeking to expand its global role, responded favourably to the EU's overture and both sides agreed to begin work to deepen and strengthen the relationship. These objectives are to be achieved through a Joint Action Plan, which is currently being discussed by Indian and European officials preparing the next Summit meeting on the 8th of September this year. Related dialogues include business-to-business cooperation through an EU-India Business Roundtable, Euro-India conferences to encourage investment in information society, possible space-mission collaborations, initiatives fostering closer ties between European and Indian academics, and an energy and environmental panel.

EU Development aid to India

EU countries are collectively India's largest bilateral donor, with the Commission's active grant portfolio in India almost €1 billion in commitment terms. The main areas of cooperation are: development cooperation, civil society groups and NGOs, and economic cooperation, but development co-operation accounts for over 95% of the total financial commitment. New initiatives being implemented include health and HIV/AIDS awareness and prevention, drug abuse prevention, and human

rights. India is also the largest recipient of NGO funds from the European Union in Asia, which in turn are instrumental for socio-economic Million Euros (around Rs 500 crores) and consists of more than 170 projects.

Given the dimensions of India it is difficult to gauge the real impact of this assistance; nonetheless, important projects funded by the EU have been adopted as models for larger schemes funded by the World Bank (Doon Valley project, Alkaline project). Under its 2002-06 Country Strategy, the EC plans to allocate €160 million for two State Partnership Programmes in Chhattisgarh and Rajasthan. The partnerships hope to address state reform agendas and specific interventions in the social sectors.

EU and Indian Foreign Policy Compatibility

Both the EU and India are supporters of the multilateral system and already cooperate effectively in the UN and other fora. There is certainly scope to increase this cooperation on issues such as the implementation of the UN High-Level Panel on Threats, Challenges and Change, conflict prevention and peacekeeping. The EU has found it difficult to adopt a common position on some aspects of the High-Level panel report, especially reform of the United Nations Security Council (UNSC), and hence has been unable to support India's bid for a permanent seat. India's decision to join the nuclear club was not welcome by the EU (or US) but both sides have accepted to live with the consequences. The EU and India share similar views on preventing the proliferation of weapons of mass destruction and this is another area for increased cooperation. The fight against terrorism is another area for closer EU-Indian ties and there are several proposals on the table for closer cooperation.

Migration is an issue of increasing importance for the bilateral relationship, with several thousand Indians working in the EU and sending home substantial sums in remittances. There are many areas for closer cooperation in this field including the prevention of trafficking in human beings and smuggling of migrants along with integration and fair treatment of Indian workers in EU Member States and visa issues.

The EU and India already hold regular exchanges on Human Rights, yet there is scope for broadening the dialogue to include issues such as the role of the International Criminal Court (ICC), the abolition of the death penalty, the strengthening of the Convention against Torture, gender discrimination, child labour, labour rights, Corporate Social Responsibility and religious freedom.

South Asia faces some of the biggest development challenges of the new century: poverty, overpopulation, civil wars, and environmental problems.

Prospects look brighter, however, following the recent decision of the South Asian Association for Regional Cooperation (SAARC) Summit to move forward on regional integration, and with the thaw in relations between India and Pakistan. The EU has consistently encouraged dialogue between India and Pakistan, condemned all forms of terrorism and violence and expressed its readiness to support a peace process. While Kashmir is primarily a bilateral issue with international implications, the EU can offer its own unique experience as an example of building peace and forging partnerships. In addition, the EU should develop a regional approach to relations with South Asia.

China

Both the EU and India are seeking to upgrade their relations with China. The EU has identified China as a strategic partner and wishes to deepen relations across the board. Relations between India and China have improved significantly following the April visit of Chinese Premier Wen Jiabao to India to see his Indian counterpart Manmohan Singh. Both sides also agreed to form a strategic partnership that reflects a major shift in relations between the two emerging Asian powers, whose ties have long been defined by mutual suspicion. The pact creates a diplomatic bond that would tie together nearly one-third of the world's population. "India and China can together reshape the world order," Prime Minister Manmohan Singh said after signing the agreement which stated that the partnership would promote diplomatic relations, economic ties and a dialogue on how best to address global challenges and threats. Under the agreement, China has recognized the Himalayan territory of Sikkim as a part of India, and the two reached consensus on principles leading to an overall settlement of their decades-old boundary disputes. A final settlement could still be some way off, although both sides appear to be moving towards accepting the status quo, with small changes. The talks revealed a shared desire to forget some of the past mistakes and historical legacies and move the new relationship forward.

The Chinese leader's first stop in India was the southern high-tech capital of Bangalore, home to such world-leading information technology firms as Infosys Technologies and Wipro and the flagship of India's technology aspirations. "If India and China cooperate in the IT industry, we will be able to lead the world ... and it will signify the coming of the Asian century of the IT industry," Mr. Wen said during his visit. However, India and China are competing in the IT sector and China is already challenging India's global lead in IT services and outsourcing. The number of Chinese software engineers is growing rapidly and is catching up quickly with the number of highly-qualified Indian English-speaking software engineers. Despite the desire to increase trade ties, some sections of industry remain

wary of a flood of cheap Chinese imports, which have captured a significant share of low-end consumer sales in India. India-China trade amounted to \$13 billion in 2004. That, however, is only 1% of China's and 9% of India's global trade. Bilateral trade is expected to reach \$30 billion by 2010.

As China's regional political and economic influence and leverage will be growing in years to come, China will need to continue to play a constructive role supporting Indo-Pakistani peace talks and reconciliation. A minority of Indian scholars and policymakers on the other hand still point to China as "potential military threat" claiming that not only Pakistan's nuclear ambitions but also China's nuclear arsenal "forced" India to go nuclear in 1998. China and India could also become competitors for natural resources and energy. Both countries buy significant shares of their crude oil supplies from the Middle East (above all from Iran).

The EU is also seeking to develop a strategic partnership with China which has become its second largest trading partner. There has been an increasing number of political and official contacts and preparations are in hand for a complete upgrade of the relationship. But there are problems in the relationship, notably the lack of democracy and widespread disrespect for human rights in China. A further controversial issue concerns the lifting of the arms embargo imposed by the EU after the Tiananmen Square massacre of 1989. The US is strongly opposed to the lifting of the arms embargo lest it lead to increased sales of high tech weaponry to China.

The US

Both the EU and India have close ties to the US. For the EU it is by far the most important political and economic partner with over a billion euros worth of goods crossing the Atlantic every day. But the transatlantic relationship has changed with the end of the Cold War and the US' overwhelming emphasis on the 'war on terrorism.' The dispute over Iraq was the worst in transatlantic history and the wounds have still not entirely healed.

US-India relations have also had their ups and downs, notably over different views on India's regional and global ambitions. Washington was opposed to India (and Pakistan) joining the nuclear club and has been lukewarm in supporting Indian ambitions for a permanent seat on the UNSC. The largely uncritical US support for Pakistan (an ally in the war on terrorism) has also been an irritant in the relationship. Recent sales of US F-16 jetfighters to Islamabad were perceived as destabilising for the region and confirmed to Delhi that the US administration is prepared to

develop US-Pakistani military relations to the disadvantage of regional stability and conflict-free US-India relations.³

India-Japan Relations

Closer Indo-Japanese relations and more regular high-level exchanges over recent years between the two countries have partly been motivated by the perception of China as a regional and global economic and political challenge and/or threat. Although a minority in both countries perceive China as a “threat” (rather than “just” a challenge), both countries are clearly aware of China’s rapidly growing economic, political and military influence in the region and have recently decided to intensify their diplomatic and high-level exchange on political and security issues. Japan, however, is aware that it needs to maintain a balance in its diplomatic relations with China and with India to maintain a leading position in Asia and secure the best possible political and economic relations with both China and India. This is without a doubt a task that has become increasingly challenging in view of currently tense Japanese-Chinese relations.

India and Japan both seek a permanent seat on the UN Security Council and have (together with Brazil and Germany) decided to support each other’s candidacies. India announced efforts seeking China to support Japan’s bid for a permanent UNSC seat while Japan has promised to persuade Pakistan to support India’s bid. However, it is very unlikely that India’s efforts can persuade China to reconsider its opposition to Japan’s UNSC seat ambitions. Equally, it is unrealistic to assume that Japan can convince Pakistan to support India’s bid.

Japan is providing India with \$1 billion of Overseas Development Assistance (ODA) per year (roughly as much as Japanese ODA to China although Japan has already begun to consider reducing ODA to China in light of China’s rapid and continuous increases in China’s defence budget⁴). Although Japanese ODA payments are very welcome in India, there is also concern within the Indian government that continuous ODA payment hinders increased private Japanese investment in India. Nevertheless, Japan is the 4th biggest provider of foreign direct investment (FDI) in India (after the US, Mauritius and the UK). Between 1999 and 2004, Japan invested \$3 billion in India, which is however relatively small

³However, in January 2004, the US and India signed an agreement on trade for dual-use technology, technology with civilian and military applications.

⁴Japan’s increasingly assertive regional and global security policymakers are becoming increasingly reluctant to provide China with ODA. Although there is no clear-cut evidence to support the claim, some in the government are concerned that China uses Japanese ODA to finance China’s rising military expenditures.

compared to what Japan invested in China over the same period. Currently, more than 300 Japanese corporations are operating in India. Recently (April 30 2005), India and Japan have signed an eight-point agenda agreeing, amongst others, to enhance economic ties and launch a high-level strategic dialogue on regional and global issues. Furthermore, during the April 2005 India-Japan summit both countries agreed to increase Indo-Japanese cultural, academic and science and technology exchanges. Japan also announced its support for large-scale Indian infrastructure projects, high-speed computerised freight trains between New Delhi and Mumbai and New Delhi and Calcutta. Both countries also agreed to increase co-operation to develop projects to exploit natural resources. Despite increasing economic and business relations, India-Japanese relations still lack a clear strategic dimension even if India's growing global economic and political influence did not go unnoticed in Japan's foreign and security policy circles.

India-ASEAN Relations

India and ASEAN maintain close economic and business relations and are bound to intensify their economic relations in view of rapid economic growth in both India and ASEAN. In 1992, India became a sectoral dialogue partner of ASEAN and a full dialogue partner in 1996. The India-ASEAN dialogue partnership has enabled India to deepen its relationship with its member countries. The ASEAN-India Joint Sectoral Cooperation Committee (JSCC), an inter-governmental consultative body, is co-ordinating ASEAN-Indian sectoral dialogue relations.⁵ In October 2003, ASEAN and India held their second ASEAN-India summit (in Bali, Indonesia) where India acceded to ASEAN's Treaty of Amity and Cooperation (TAC). Recently, India and ASEAN started the implementation of an ASEAN-India free trade area through the ASEAN-Indian Trade Negotiation Committee. Over recent years, India has been providing assistance to ASEAN under the so-called Initiative for ASEAN Integration (IAI) providing, amongst others, technical assistance and language (English) training. With economic liberalisation under way in ASEAN, ASEAN's Member States have steadily increased FDI in India in sectors such telecommunications, heavy industry, chemicals, fertilizers, textiles, paper, food processing and others. Especially Singapore, Malaysia and Thailand have become significant sources of FDI into India.

India has been a member of the ASEAN Regional Forum (ARF), Asia's only regional security forum since 1996. India is an active member of the ARF, but tense (and at times hostile) India-Pakistan relations dominate India's security agenda leaving only limited capacities for India's

⁵ Association of Southeast Asian Nations, ASEAN-India, www.aseansec.org/11396.htm.

involvement in Asian security issues. Although since the inclusion of Burma/Myanmar into ASEAN, India and ASEAN share a land boundary of 1.600 km, it is unlikely that India will play a more active role in East Asian security (getting more involved in regional security issues such as the nuclear crisis on the Korean peninsular and Taiwan Straits tensions) through the ARF. Pakistan's admission to the ARF in July 2004 was welcomed by India although Indo-Pakistani issues are not being discussed in the forum. In fact, the ARF members agreed on Pakistan's membership on the condition that Islamabad would not use the forum to address Indo-Pakistani issues.

SAARC

The South Asian Association for Regional Cooperation (SAARC) was established in 1985 as an effort to institutionalize regional economic, security and political co-operation in South Asia.⁶ According to SAARC's charter cooperation in the SAARC is based on "respect for the principles of sovereign equality, territorial integrity, political independence, noninterference in internal affairs of the Member States and mutual benefit." Like the above-mentioned ARF, bilateral and contentious issues are excluded from the deliberations in the SAARC framework.

The current areas of cooperation are:

- Agriculture and Rural Development
- Health and Population Activities
- Women, Youth and Children
- Environment and Forestry
- Science and Technology and Meteorology
- Human Resources Development
- Transport.

SAARC also established working groups in the areas of information and communications technology (ICT), biotechnology, intellectual property rights (IPR), tourism and energy. As a regional institution SAARC is still relatively unknown outside of South Asia and has not yet undertaken initiatives that have attracted international attention beyond South Asia. It is widely acknowledged that in order to increase SAARC's significance in a global context, India as the region's economically most powerful state needs to assume a leadership role. However, India's relations with the other SAARC Member States (above all with Pakistani relations) are not necessarily stable enough to expect SAARC to unconditionally endorse India's leadership within SAARC. In general, SAARC member states,

⁶ For details please see SAARC's official website at <http://www.saarc-sec.org/main.php?id=76&t=1>.

with the notable exception of Pakistan, endorse India's leadership within SAARC (mainly in acknowledgement of India's economic leverage influence in the region and beyond). However, there is also concern amongst SAARC members that India has got "hegemonic ambitions" in South Asia and will use the SAARC to underline its dominance in the region.

India accounts for more than 75% of SAARC's population and more than 80% of its gross national product (GNP). It is expected that India will take the leading role to gain preferential trade treatment from the EU and ASEAN. Regional security issues are not part of SAARC's agenda and SAARC's primary concern is the expansion of intra-regional trade. In January 2004, the SAARC Member States signed the South Asia Free Trade Area (SAFTA) to enhance trade amongst each other. This seemed indeed necessary, as more than 90% of imports by SAARC countries still come from outside SAARC. SAFTA will enter into force from January 2006.

The Indian Economy: Prospects and Realities

Today's Indian economic policies cannot be understood without reference to the recent past. 1991 was a pivotal year in the contemporary history of India: with scarcely enough reserves to pay for two weeks of vital imports, a 17% inflation rate, and negligible capital flows. India was on the brink of a balance of payments crisis and very far from where it stands today. The genesis of these problems lay in the socialist development strategies and autarkic policies pursued by the government since independence. However, the policies pursued in the oppressive period from 1969 to 1980 are particularly to blame, with an extensive system of industrial licensing, lack of currency convertibility, autarkic import substitution strategy, and inefficient public enterprises, which ultimately led to the notorious 'Hindu rate of growth' of 3.5%.⁷ The crucial reforms of 1991, under the guidance of Finance Minister Manmohan Singh, effectively set the stage for the Indian economy as it exists today: more than 80% of India's draconian license raj was dismantled, current account convertibility was introduced, many of the stifling restrictions on Indian businesses were abolished, and by 1995 tariffs were reduced to 65% from the prevailing 300%.⁸ The success of the Singh reforms is manifest in the sustained growth of the economy after 1991, from 3.5% in 1990, to 6.5% between 1991 and 2001, to a recent 8.4%. Most importantly from an investor's perspective, the fact that the economy has successfully transformed itself from an entirely

⁷ Kaushik Basu, 'The Indian Economy: Up to 1991 and Since' in *India's Emerging Economy: Performance and Prospects in the 1990's and Beyond*, MIT Press 2004.

⁸ See papers by Aradhana Aggarwal, Indian Council for Research on International Economic Relations.

inward-looking closed economy to an important player in the high-tech global market, with significant innovative and research capabilities and a diversified industrial and technology base,⁹ should add necessary credibility to India's ongoing reforms. That the economy is managed by the same man who effectively transformed the economy in 1991, now in the capacity of Prime Minister, and that he is advised by a very capable Finance Minister P. Chidambaram and Commerce Minister Kamal Nath amongst others is seen by many as encouraging.

Despite its recent economic success, India remains an economy of sharp contrasts: it is a labour intensive economy, with 65% of the population engaged in agriculture and 70% living in rural areas, but with pockets of highly skilled intellectual capital. India has the third largest pool of engineering and science talent in the world, but 37% of the populace remains illiterate. These contrasts give India a unique mix of comparative advantages, including both abundant low-skilled, low-cost and high-skilled low-cost labour respectively. Both groups have stimulated economic growth and drawn foreign investors to India. However, they are also central to understanding its domestic policies, and in particular those concerning market access and liberalisation, which many of its international partners, including the EU, would like to see accelerated. Although some of the onus is on government bureaucracy, the essential *raison d'être* for slow reform is intrinsic to the Indian economy itself, with disparities in capabilities pulling policy prescriptions in opposite directions. While at its present stage of development India has overriding concerns of supporting domestic industry (particularly sectors that employ low-skilled workers) and absorbing an ever-increasing labour force through tight regulation, the success of areas such as IT and R&D demands minimal government intervention. The problem facing the India's government is thus getting the balance right. Viewed in this context, perhaps the reluctance of the Indian government to uniformly hasten the speed of trade liberalisation becomes more understandable.

The EU voices explicit concern over India's 'hesitant reform,' which it arguably can do as India's most important trading partner. As shown in the tables at the end of this section, EU countries account for 22.4% of India's exports and 20.8% of imports; moreover, two-way trade between the EU and India tripled to \$33 billion from 1992 to 2002. The UK, Germany, Benelux and Italy are the largest contributors to these statistics, accounting for 21.4%, 20.7%, 19.3% and 11.5% respectively.¹⁰ However, despite these encouraging numbers, there appear to be several areas of untapped trade potential for both economies; for instance, there is a tremendous

⁹ It is also worthwhile to note that the reforms greatly strengthened the relationship between the government and business, which prior to 1991 was exceedingly antagonistic, and policy was dictated exclusively by a socialist and nationalist government.

¹⁰ CII Paper.

opportunity to widen the scope of trade, currently dominated by textiles and clothing. Crucially, there is a stark imbalance between relative levels of trade: where the EU accounts for roughly 21% of India's two way trade, India's share in EU trade is less than 1%; where the EU is India's key trading partner, India ranks 14th in the EU's comparable list.¹¹ At the same time, while there has been an increase in FDI into India from the EU, India still receives only 0.2% of the EU's FDI flows.¹² With over 1 billion people and the world's 4th largest economy, India is an immensely attractive export and investment destination, whose potential has yet to be recognised by EU firms.

In the current international climate, any discussion of India's economic prospects invariably draws a comparison with China: besides being the new 'tigers' of Asia, they are important neighbours, and together are the world's fastest growing economies. Both are poor, massively populated, and largely agricultural countries that have embarked on radical and liberalising economic reform.¹³ Particularly with respect to the strategic partnership, China is often the most relevant benchmark in terms of the speed of growth-inducing reform of the economy and the resulting new business and investment climate. China is certainly an exemplary case of rapid economic transformation and growth; it has recently realised a first quarter growth of 9.5%, ahead of the 8% target,¹⁴ and has formidable levels of FDI (in 2003 it received \$53 billion in FDI, or 8.2% of the world's total).¹⁵

However, it is important to note the differences between the strategies and policies pursued by China and India, and resulting strengths and weaknesses. While heavy government intervention in China has facilitated a 'top-down' model of growth and reform, an undemocratic system of governance has been (and remains) central to its success. India pursues a 'bottom-up' approach that is more gradual and perhaps less systematic, but it values democracy and human rights. The Chinese government has invested in building a strong 'hard' infrastructure (roads, ports, power), which is essential to certain industries; in contrast, India has nurtured 'soft' infrastructure, or those in which intangible assets matter more.¹⁶ China's

¹¹ Speech by Kamal Nath, 'India-EU Strategic Partnership: Steps Ahead,' 14th January 2005; Sengupta.

¹² Jayashree Sengupta, 'EU-India Strategic Partnership' for the Observer Research Foundation at www.observerindia.com/strategic/st041108.htm.

¹³ See Economist, 'The Tiger in Front,' May 3rd 2005.

¹⁴ Financial Times, May 23rd 2005.

¹⁵ Khanna, Farrell et al., 'China and India: The race to growth,' in McKinsey Quarterly, 2004 Special Edition: China today. Note that India's FDI is but a fraction, standing at \$4.7 billion in 2003.

¹⁶ An important implication is the type and size of firm that each economy attracts - China attracts MNEs whereas India attracts more SMEs; firms entering China specialise in manufactured goods, whereas IT, software development, and R&D firms are those most interested in investing in India.

interventionist government has stifled its banking sector and capital markets; India's markets, while not perfect, do support private enterprise. Finally, the Chinese government's intervention in the economy, including the decision to welcome FDI, has brought material growth in the standard of living that India has not enjoyed.¹⁷ However, when one considers the fact that India's process of reform began over a decade after China's, the timing and pace of deregulation and market liberalisation appears less unwieldy.

The 1991 reforms, coupled with the intrinsic traits of the Indian economy that have allowed it to 'emerge' in the 21st century and its strong economic relationship with the EU, suggest that India should be an attractive destination for EU investors. Indeed, as discussed above, many suggest that India's politico-economic structure and in particular its capital markets are more conducive to foreign investment than its Chinese counterparts. Nonetheless, several hurdles must be overcome in order to allow this relationship to flourish to its full potential.

India's Exports:

	Region	2002-2003	% Share	2003-2004	% Share	% Growth
1.	EU Countries	11,847.87	22.4734	14,443.58	22.6236	21.91
2.	Other WE Countries	830.50	1.5753	1,106.97	1.7339	33.29
3.	East Europe	61.06	0.1158	116.44	0.1824	90.70
4.	Southern Africa	640.51	1.2149	791.43	1.2397	23.56
5.	West Africa	1,066.63	2.0232	1,273.51	1.9948	19.40
6.	Central Africa	115.75	0.2196	150.96	0.2365	30.41
7.	East Africa	634.93	1.2044	860.79	1.3483	35.57
8.	North America	11,594.03	21.9919	12,253.31	19.1929	5.69
9.	Latin America	1,295.80	2.4579	1,138.81	1.7838	-12.12
10.	East Asia	604.39	1.1464	703.52	1.1020	16.40
11.	ASEAN	4,618.54	8.7606	5,821.74	9.1189	26.05
12.	WANA	7,528.76	14.2808	10,185.03	15.9533	35.28
13.	NE Asia	7,863.64	14.9160	9,387.17	14.7035	19.37
14.	South Asia	2,784.90	5.2825	4,293.55	6.7252	54.17
15.	CARs Countries	85.56	0.1623	151.83	0.2378	77.45

¹⁷ Tarun Khanna, 'India's Entrepreneurial Advantage,' McKinsey Quarterly, 2004 Special Edition.

16.	Other CIS Countries	836.13	1.5860	884.71	1.3858	5.81
17.	Unspecified	310.44	0.5888	279.61	0.4380	-9.93
	India's Total Export	52,719.43		63,842.97		21.10

Values in USD m. Source: Department of Commerce, GOI, 26/4/2005

India's Imports:

	Region	2002-2003	% Share	2003-2004	% Share	% Growth
1.	EU Countries	12,780.42	20.8109	14,991.80	19.1835	17.30
2.	Other WE Countries	2,500.29	4.0713	3,698.64	4.7328	47.93
3.	East Europe	59.79	0.0974	96.26	0.1232	61.01
4.	Southern Africa	2,160.63	3.5182	1,959.64	2.5076	-9.30
5.	West Africa	539.73	0.8789	580.36	0.7426	7.53
6.	Central Africa	5.56	0.0090	10.99	0.0141	97.74
7.	East Africa	183.39	0.2986	184.06	0.2355	0.37
8.	North America	5,009.87	8.1578	5,760.75	7.3714	14.99
9.	Latin America	1,046.04	1.7033	1,192.67	1.5261	14.02
10.	East Asia	1,422.71	2.3167	2,751.31	3.5206	93.38
11.	ASEAN	5,150.17	8.3862	7,433.16	9.5114	44.33
12.	WANA	3,587.09	5.8410	4,926.23	6.3036	37.33
13.	NE Asia	7,803.61	12.7070	11,815.99	15.1197	51.42
14.	South Asia	530.43	0.8637	709.32	0.9076	33.73
15.	CARs Countries	39.22	0.0639	50.79	0.0650	29.50
16.	Other CIS Countries	805.08	1.3109	1,210.68	1.5492	50.38
17.	Unspecified	17,788.11	28.9651	20,776.97	26.5861	16.80
	India's Total Import	61,412.13		78,149.61		27.25

Values in USD m. Source: Department of Commerce, GOI, 26/4/2005

Trade: Interests, Convergences and Divergences

The EU is India's largest trading partner and main source of foreign inward investment, but India is only the EU's 14th trading partner, behind countries like China, Brazil and South Africa. Trade and investment volumes are clearly below potential. The EU and India need to take action on many fronts, including greater market opening and economic reform on India's side. Trade, investment, competition and industrialisation are key factors, while taking account of wider societal needs (the environment, consumer protection, social and economic cohesion, etc). If the potential of the Indian market is to be realised, India must continue and speed up economic reforms. Numerous barriers to investment, including a lack of IPR protection and poor infrastructure remain. At the same time India has become a major source of outsourcing for European industry.

While the European Union and India share similar views, both in real and ideological terms, there are certain important areas where they differ. Divergences are natural between two economies at very different stages of development and with distinct concerns; however, there are four imperative areas that need to be addressed by both parties, particularly in order to reap the full economic benefits of a strategic partnership: the removal of tariff barriers to trade, eradication of non-tariff barriers to trade, measures needed to ensure success at the WTO negotiations under Doha, and finally, necessary steps to encourage Foreign Direct Investment into the Indian economy.

Although the EU-India strategic partnership is ostensibly built on a strong economic relationship, several pertinent problems remain, particularly with regard to bilateral trade. As previously mentioned, a correction of imbalances could result in significant economic gains for both: although the 16% and 17% growth of India's exports and imports respectively to the EU 25 in 2004 indicates an increased recognition of the importance of building on bilateral trade, India's share in the EU's trade remains less than 1%; whereas two-way trade tripled between 1991 and 2001, the EU's total trade with India is less than 20% of the flow with China. These figures suggest an enormous unrealised trade potential (see tables at end of section).

Tariff Barriers/Market Liberalisation:

Barriers to trade between the EU and India, particularly tariffs, quotas, and duties in the Indian economy complicate matters. While India speaks of a 'fortress Europe' that is increasingly difficult to penetrate and in urgent need of harmonisation,¹⁸ India's average tariffs remain amongst the highest

¹⁸ Overall, the EU does maintain a very open market.

in the world. As discussed in some detail in the section on India, while the reform process has made significant progress, much remains to be achieved. The dilemma facing the Indian government is apparent: while in the long-run market liberalisation will have a positive impact on growth and competitiveness, the short run costs could be very significant. Moreover, India argues that as a developing country these costs to domestic industry could be immense (especially small scale and infant industry sectors), and could adversely affect developmental efforts as revenue inflows would fall with lower customs duties. However, there is one key area in which India could open up its market: *services*. This is a sector where India could gain enormously: it is a world leader in Information Technology and thus need not fear the effects of international competition in the domestic market; equally, it stands to gain from increased market competitiveness and greater efficiency in the allocation of resources in a sector that makes vital contributions to India's GDP¹⁹ and is expected to drive the growth of the economy. Thus, while the costs and benefits of rapid liberalisation are less clear in some sectors, the arguments for the benefits that could derive from liberalisation of services seem apparent.

Non-Tariff Barriers/Market Protectionism:

Where the EU argues India's formal barriers to trade are the main reason behind discouraging EU trade figures, India argues that it is the EC's informal barriers that create a protected and impenetrable market for India's exports. Amongst these are trade defence actions (particularly anti-subsidy measures and the Advanced License Scheme),²⁰ use of labour standards and phyto-sanitary standards to control Indian exports entering EU markets, the withdrawal of trade allowances (such as General System of Preferences²¹), and controls on Indian services (particularly movement of professionals under Mode 4²²). While some of these fall under the remit of WTO negotiations rather than bilateral discussions, Indian officials indicate that the dissolution of these barriers is paramount to creating a true strategic partnership: 'the EU pushes for very ambitious reductions on tariffs of industrial products with a view to prise open developing country

¹⁹ Services account for half of India's GDP, see Sengupta; also see Didcock 'New Realities' for the Foreign Policy Centre.

²⁰ 9 out of a total 17 countervailing measures are in use in India, which is the highest in any developing country. Compact Disc Recordables, Graphite Electrodes, and PET films are recent and prominent examples of cases that have been filed with ECJ.

²¹ This involves a proposed downward revision of the threshold criterion for GSP concessions (textiles and clothing) from 12.5% to 10% which would effectively exclude India. The Textile and clothing sector is an important one as it employs over 80 million people and comprises 27% of India's exports to the EU.

²² India expects greater commitments under Mode 4 from the EU to ensure easier access for the movement of skilled persons, recognition of qualifications, and the facilitation of increased provisions of remote services through electronic means.

markets...as (the EU) has comparatively low tariffs...they would not need to sacrifice much while the developing countries are being asked to make proportionately very high sacrifices.²³ Moreover, it is argued that a lack of harmonisation between EU Member States acts as an additional barrier, particularly in pharmaceuticals, food and agricultural products.

Of these, Indian officials consider that phyto-sanitary standards are limiting the access of Indian agricultural products. Others important issues include GSP services allowances, antidumping measures and Mode 4 allowances.²⁴ The EU is unlikely to reduce its phyto-sanitary standards to accommodate Indian exports; Europeans believe that the standards that apply to India are the same for all products sold in the European marketplace (including those produced by Member States), this appears reasonable. While on GSP preferences, the EU maintains that it is working to preserve the benefit to Indian textile producers and argue that India, as the largest user of anti-dumping measures in the world, is not in a position to demand allowances from other states. Finally, the question of Mode 4 allowances remains to be resolved within the WTO framework.

WTO issues and Doha:

A successful outcome at the next round of Doha negotiations of the WTO is very important to both the EU and India. It may also be indicative of the strength of the political element of the strategic partnership and its prospects for the future. Both the EU and India played a pivotal role in the formulation and adoption of the Framework Agreement adopted in Geneva last July. Indeed, EU officials believe that India is a natural ally on many important issues. In economic terms however, where the EU and India share a protective stance on agriculture (both want to protect their agricultural sectors),²⁵ their essential areas diverge, including on such issues as market access for industrial goods, services, trade facilitation and anti-dumping, as discussed above. Specifically, India wants the EU to take the lead in resolving implementation concerns, put into operation Special and Differential Treatment clauses in various WTO agreements, and support the principle of 'less than full reciprocity.' Conversely, the EU argues that India must bring down its taxes and duties (for instance in wine and spirits), lift quantitative restrictions (maintained by India under Articles XX and XXI of GATT), and importantly, change its attitude, as India 'cannot behave over Doha like a poor developing country.'²⁶

²³ Indian Position on the WTO, Indian Embassy Brussels.

²⁴ See also Sengupta.

²⁵ See Bello and Kwa, 'G20 Leaders Succumb to Divide and Rule Tactics,' August 10 2004 at <http://www.globalexchange.org/campaigns/wto/2946.html>.

²⁶ This includes extending similar treatment to LDCs as granted to trading partners. See Speech by Mandelson, 13/1/05.

Foreign Direct Investment:

India also voices serious apprehensions about the low levels of FDI flowing into its economy from the EU, which has amounted to less than €5 billion over the last 15 years²⁷ - a mere 0.2% of FDI into other countries. Gaps between actual and approved levels are also a concern, where less than 1/3rd of the total approvals granted typically come through as investments.²⁸ FDI is a critical element for the development of all sectors of the Indian economy and the EU is a major potential investor, therefore this issue must be addressed with some urgency. EU officials dealing with India make two key points: first, that FDI has been slow largely because of the uncertainty of India's regulatory and legal environment; and second, that FDI is a firm-level micro decision rather than an EC mandated macro decision, and therefore European investors must be 'convinced' by their Indian counterparts. Further, the difference between approved and actual investments appears to be 'standard' in India, as *both* Indian and European sources suggested.

The removal of tariff and non-tariff barriers to facilitate market access and liberalisation, ensuring success at the WTO negotiations under Doha, and finally, encouraging Foreign Direct Investment are vital to reaping the full benefits of the EU-India strategic partnership. Collectively, these bring to the fore key issues that appear to significantly affect the realisation of prescribed goals: a lack of awareness of one another's economies and resultant misperceptions, the problems created by government bureaucracy, and the urgent need for dialogue outside the strategic partnership i.e. at a firm rather than government level.

	Partner and Country Code	EU Imports	EU Exports	Total Two-Way Trade
1	0400:USA	153104485	227470550	380575035
2	0720:China	117694945	46896940	164591886
3	0039:Switzerland	58841610	72663583	131505193
4	0732:Japan	69016399	42271749	111288149
5	0075:Russia	64465065	39924203	104389268
6	0028:Norway	54554626	28516436	83071062
7	0052:Turkey	29092687	35958504	65051191
8	0728:South Korea	27811666	17496708	45308374
9	0404:Canada	15761741	21391143	37152884
10	0736:Taiwan	21977090	12639562	34616652
11	0508:Brazil	20272722	13824060	34096782
12	0664:India	15617627	16684773	32302400
13	0706:Singapore	16118686	15511273	31629959
14	0388:South Africa	15536628	15801205	31337834

²⁷ Speech by Kamal Nath.

²⁸ *ibid.*

15	0740:Hong Kong	9607424	18806900	28414324
16	0632:Saudi Arabia	16064803	12253066	28317869
17	0800:Australia	8540018	19466963	28006981
18	0066:Romania	12706807	15114081	27820888
19	0208:Algeria	15047788	9247771	24295559
20	0701:Malaysia	14309127	8578200	22887327
21	0647:U.A.Emirates	5192099	17645265	22837363
22	0412:Mexico	6550066	14327327	20877393
23	0624:Israel	8109242	12397037	20506280
24	0616:Iran	8140980	11676507	19817486
25	0680:Thailand	12160408	6849740	19010148
	EU'S TOTAL TRADE WITH ALL TRADING PARTNERS	1008952386	970822877	1979775262

Source: Embassy of India, Brussels

India-EU Trade

(Value in Thousand Euros)

Member State	2003		2004		% Growth	
	India's Export	India's Import	India's Export	India's Import	Export	Import
France	1247250	1079564	1446307	1444440	15.96%	33.80%
Netherlands	1169699	558204	1206827	789364	3.17%	41.41%
Germany	2431956	2442462	2728014	3289722	12.17%	34.69%
Italy	1681830	1096738	2025857	1273227	20.46%	16.09%
Utd. Kingdom	2907540	3405655	3383284	3370419	16.36%	-1.03%
Ireland	117758	92629	133698	108424	13.54%	17.05%
Denmark	245137	206829	295863	264424	20.69%	27.85%
Greece	192403	46972	286664	21155	48.99%	-54.96%
Portugal	158903	18267	175374	18378	10.36%	0.60%
Spain	1012320	242139	1203285	375902	18.86%	55.24%
Belgium	1767198	3851773	2245168	4247641	27.05%	10.28%
Luxembourg	13942	10423	12470	11312	-10.56%	8.53%
Sweden	248175	780418	252362	906180	1.69%	16.11%
Finland	66573	208078	84368	263855	26.73%	26.81%
Austria	119359	209648	138085	300331	15.69%	43.25%
Total of EU15	13380042	14249800	15617627	16684773	16.72%	17.09%
Malta	14910	101	13741	404	-7.84%	300.47%
Estonia	10691	4174	8767	2374	-18.00%	-43.12%
Latvia	8161	770	8670	1950	6.23%	153.29%
Lithuania	27584	4637	15987	14358	-42.04%	209.63%
Poland	202323	71313	208498	71389	3.05%	0.11%
Czech Republic	109608	106359	103376	159282	-5.69%	49.76%
Slovakia	40008	21694	40582	27125	1.43%	25.04%
Hungary	115474	30544	126961	28842	9.95%	-5.57%

Slovenia	39307	24632	47988	17948	22.09%	-27.14%
Cyprus	27677	2197	30935	4212	11.77%	91.77%
Total of new Member States	595744	266421	605504	327885	1.64%	23.07%
Total of EU25	13975786	14516222	16223131	17012658	16.08%	17.20%

Source: Embassy of India, Brussels

Problems in Fulfilling the Strategic Partnership

Three key facets of the EU-India Strategic Partnership were highlighted at the beginning of this paper: the perceived benefits and problems of two vast democratic states negotiating with one another on issues of common concern, a lack of awareness and resultant misperceptions of one another's real positions, and the variegated domestic quandaries which often drive these interests apart. The ensuing discussion briefly reflects on each, and considers how this analysis should inform the development of the EU-India Strategy.

A Tale of Two Bureaucracies:

Common democratic structures governing similarly vast constituencies have brought the European Union and India on to the same ideological plane. Equally, the implicit problems of governance of this nature are a primary cause of disputes between them, including issues of market liberalisation and market access. For instance, where the EU suffers from a lack of consensus because different states have different economic competencies and priorities as evinced in the discussions around GSP, India contends with problems of uneven development alongside the need to stimulate rapid economic growth, and thus proceeds with economic reform at a comparatively slow pace. It is also sometimes suspicious of the EU's perceived neo-liberal views on economic policy. Where the EU has no one line of command and thus can be a difficult institution to deal with overall, particularly with a newly enlarged union of 25 states, India is beleaguered with regulatory hurdles that can confuse even the seasoned investor. Within the EU there is often a significant difference between the institutions that are keen to move forward with the partnership, and conservative Member States who are afraid to give institutions too much room to negotiate analogously²⁹. In India, the Foreign Ministry often lacks adequate leverage to exert pressure on national and state governments. The result, according to one EU official, is 'two difficult bureaucracies trying to arrive at a consensus...who don't know what that consensus should

²⁹ There is an additional problem in the EU where decisions such as migration need to be taken by Member States through the Shengen treaty rather than by the institutions.

be...and (thus) the need for a unique joint action plan, designed to cut through bureaucratic confusion.’ Indeed, the same official postulated a simple solution as far as the strategic partnership is concerned : the Joint Action Plan, currently being negotiated between the two parties, should effectively curtail the powers of the bureaucracies and instead create a ‘commitment institution’ with a common agenda and at the highest level.

All about an Image?

Many officials involved in EU-India relations complain about a lack of awareness and understanding of one another’s economies and resultant policy positions as *the* major predicament in the development of the EU-India relationship. Whether the policy in question is phyto-sanitary standards or market liberalisation in services, outsourcing and migration or differential treatment, higher foreign direct investment or regulatory hurdles, the EU and India seem to be staring through opposite sides of the looking glass. India is still perceived by many in Europe as a traditionally closed and self-sufficient economy, and while its *potential* prowess is recognised, there is a sizeable ‘gap’ about moving forward. Moreover, investors, particularly those that are cautious, tend to move in ‘herds.’ For example, although between them the EU and India have the best R&D platforms in the world, a lag in recognition of India’s potential has prevented gains from being realised - at least so far. Some consider that this is complicated by the fact that the European end of the strategic partnership is driven by very small circles in Brussels, with an inadequate number of ‘experts.’ India, for its part, seems sceptical of a hidden European protectionist agenda and uncertain about how to engage with the EU. Although its protectionist fears are rooted in part in the behaviour of other Indian trading partners (such as the US), the country appears to be playing a balancing game in which it wants to engage with other nations as a developed country in international fora but nonetheless wants the concessions offered to developing countries.

Notwithstanding individual complaints about one another, the results of a general lack of awareness are two-fold: mistrust of one another’s political positions, and impediments to economic cooperation. Again, the Joint Action Plan should pave the way forward. However, there are other important initiatives that would greatly enhance and fortify the EU-India relationship, and in particular business-to-business discussions such as the EU-India Business Roundtable to promote cooperation in areas such as Information Society, and Space and Scholarship Programs respectively.

Addressing the Real Problems

As mentioned above, initiatives outside the formal boundaries of the Strategic Partnership could be crucial in building confidence between the

European and Indian economies, and should be given greater importance in future dialogues. Discussions between SMEs are especially important in the EU-India partnership, where India's soft infrastructure is more likely to attract SME investors than big multinational corporations. However, domestic interest groups have another vital role to play: ensuring that their respective elected governments address the fundamental problems of each economy, and cooperate on areas of mutual interest. The power of domestic constituencies in both EU states and India is immense: the Common Agricultural Policy (CAP) in the EU and a practically unregulated IT sector in India are but two such instances. In India, priorities on the supply-side must include a larger market presence of Indian goods in EU markets and a diversification of exports of non-traditional items, and on the demand-side a better regulatory and legal environment that will be central to attracting foreign investors. Indeed, compliance with the Patents Act earlier this year has already boosted foreign investors' confidence in moving operations to India and sharing R&D knowledge. Conversely, EU firms must ensure a 'level playing field' for their Indian counterparts, address hidden or overt barriers to trade, and embrace the opportunities the Indian economy offers. On a more strategic level, perhaps greater cooperation between the EU's Development Programs for India and the Strategic Partnership could be mutually enhancing.

It will be important for the EU and India to maintain close contact in the final stages of the Doha round WTO negotiations. There are certain strategic differences but also commonalities on trade, development and globalisation. As demonstrated at Cancun, India is a key player in the whole debate on agriculture and fair trade. The EU and India could also usefully discuss the entire complex of issues surrounding the rural-urban debate and specifically regional inequalities in India. There may be some lessons from the EU's approach on regional matters to be learned.

Conclusion

Clearly, the scope and potential gains of this partnership are enormous, both for their respective domestic economies, and more broadly in the international arena. For instance, domestically, a stronger EU-India relationship could facilitate each entity meeting its economic objectives through increased trade, investment, and cooperation in areas such as R&D. Indeed, a glimpse at relevant figures suggests a vast untapped economic potential, both in India and the EU.

Internationally, the emergence of a new geo-strategic geometry, accompanied by an awareness that the current unipolar world is unsustainable in the long run, makes the political relationship between the

EU and India vital in directing and managing global affairs. However, it appears that in some areas, the very strengths of the relationship between the two entities are constraining the realisation of prospective gains. For example: the similarities in structures of governance with the separation of the federal from state governments creates a situation where two bureaucracies are attempting to discuss and negotiate issues and arrive at common solutions; resultant miscommunications are causing misperceptions on both sides, which, accompanied by an overall lack of understanding and awareness of one another's positions could hinder rather than foster progress. In the same vein, while the EU and India share a common objective of economic growth, each faces different internal concerns that often direct their external policies in different directions, making a partnership more difficult to manage.

The EU-India strategic partnership, through which India joins the ranks of the United States, Canada, Russia, China, and Japan as an important or 'priority' partner of the EU, is in certain aspects a natural progression from the 1994 Co-operation Agreement and associated annual summits. However, there are at least three compelling factors that suggest that the partnership may be more than a mere strengthening of current relations between the EU and India, but rather a vital acknowledgment of the EU's most 'natural' potential partner³⁰: shared social and political commitments, similar long-term objectives, and common domestic issues. India and the EU share common commitments to democracy, international law, multilateralism, human rights, stable institutions, economic liberalisation and development; this is not the case with all of the EU's other strategic partners, particularly in Asia. They also share similar long-term objectives: the EU is determined to implement the Lisbon Strategy to make it the most competitive economy, and India is striving to stimulate growth, investment and employment to meet its Millennium objectives; the EU is focused on revitalising and sustaining its economy, and India hopes to reform its economy and become a developed country in the next 20 years. Finally, each is confronted by similar problems of democratic deficits, competing claims of federalism and regional autonomy, and the demands of presiding over multiple cultures, religions, and languages within a secular framework. Thus, the EU-India partnership, built on 'naturally' strong foundations, takes the 1994 commitment one wide step further. That this partnership comes at a time when both are emerging as more significant global players is also very important: India through its nascent economic prowess, size, leading role in South Asia and the G20, as an important regional aid donor, and nuclear power status; and the EU, by building on its already significant trade role, newly enlarged size, and increased role in international political fora. The strategic partnership is thus also a recognition of each other's growing importance, and an attempt to forge stronger economic and political ties in a very promising relationship.

³⁰ At least in South Asia.

The EU and India are both major democratic bodies with huge diversity (linguistic, cultural, ethnic, economic, political, geographical). They have much to learn from each other in terms of how to ensure good governance and simultaneously tackle such diversity with tolerance. Similarly the EU and India should engage in a broader dialogue concerning multiculturalism, globalisation, discrimination, religious and nationalist fundamentalism. The newly agreed India-EU Parliamentary Forum should play a prominent role in such a dialogue along with representatives of civil society and the media.