

Soon after the idea of a European community started taking shape in the 1950s, India was among the first countries to set up diplomatic relations with the European Economic Community (EEC) in the early 1960s. As it turned into the European Union (EU) and started assuming a greater economic role, India's relationship with the transnational body deepened with bilateral agreements signed in 1978 and 1981.

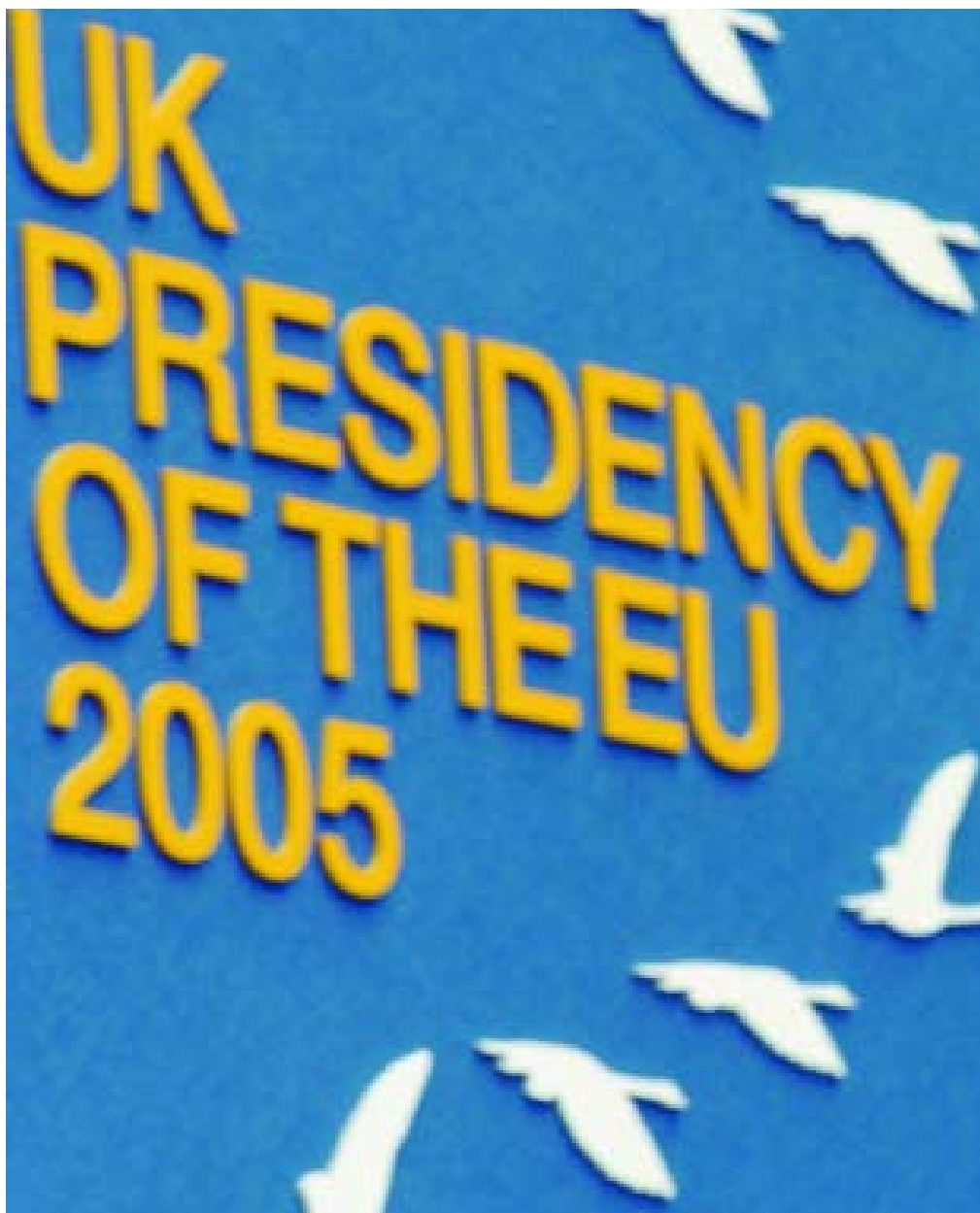
Over the years these have grown. The 1994 Co-operation Agreement provided for an EC India Joint Commission as the central mechanism to oversee the co-operation activities between India and the EC. The first summit was held in 2000 which stressed the need to tap the potential for trade and investment. In 2001 experts from 40 leading EU and Indian think tanks met in Brussels to work out the most viable areas of co-operation.

Further rounds of discussions, a number of summits between Indian and EU leaders led to the Fifth Summit at the Hague in November 2004. Here the EU and India relationship was upgraded from an economic one into a Strategic Partnership, India being the sixth country after the US, Russia, China, Japan and Canada, with which a strategic partnership had been formed.

The initiative to upgrade in fact came from the Union, which said "India was emerging as a regional and global leader ... engaging increasingly on equal terms with other world powers." Indian prime minister Manmohan Singh, who attended the summit, said the partnership "implies serious intent to respect each other's concerns and interests."

The relationship between the EU and India is again set to grow stronger at the Sixth Business Summit being held on September 7 in New Delhi with the UK assuming the Presidency of the EU for six months effective July 1, 2005. In a recent newspaper interview, the British High Commissioner in India, Sir Michael Arthur

A deepening relationship



EU Imports from India (€ billion)

Year	Value of Imports	%change
2000	12.8	
2001	13.4	4.7
2002	13.6	1.4
2003	14.0	2.8
2004	16.2	16.1

Current value of one Euro = US\$1.2

Source: Eurostat

BUILDING ON AN ENDURING LINK: British Prime Minister Tony Blair makes an address under

Thanks to historic links, India's largest trading partner is the European Union. But with a huge market and the ability to make big-ticket purchases, the qualitative aspects of Indo-EU economic ties are changing, discovers **Anu Saraf**.



the aegis of UK's presidency of the European Union

said, "One of our key goals will be to help launch a major new EU-India action-plan which is expected to be finalised during the EU-India summit in New Delhi in September," The action plan was the follow-up of the India-EU summit at The Hague last year.

The agenda set at the Hague, the Netherlands, included an increase in the students and scholars between the EU and India through the Erasmus Mundus programme, joint workshops on automotive engineering, genomics, life sciences and nanotechnology, to establish an EU-India environment forum to exchange information on know-how, technologies and research, and to set up an energy panel to coordinate joint efforts.

India may also invest \$360 million in Europe's Galileo satellite navigation project coming online in 2008 and a potential rival to the US GPS system. Among the things yet to be discussed is that the EU is short of 700,000 knowledge workers, largely in the IT sector. India has also noted that Europe has an aging population and needs a young labour force. This could mean a big opportunity for India's skilled workers.

The links are made more enduring by the strong trade growth between India and the EU. The European Union, comprising 25 nations with a population of 457 million and a GDP of \$14 trillion, is India's largest trading partner and the destination for nearly a fourth of India's total exports. But these exports constitute just 1.3 per cent of the EU's total imports, which underscores the growth potential for Indian wares and services on the Continent.

India's exports to the EU were \$19.4 billion last year, up 16 per cent from \$16.8 billion in 2003. There was a similar sharp rise of 17 per cent in India's imports from the EU last year, grossing \$20.4 billion, up from \$17.4 billion in 2003. Though hefty increases may be a recent occurrence, the volume of trade between the two countries has grown by almost 500 per cent in the past two decades. Trade

EU Exports to India (€ billion)

Year	Value of Exports	%change
2000	13.6	
2001	12.9	-5.4
2002	14.3	10.7
2003	14.5	1.7
2004	17.0	17.2

Current value of one Euro = US\$1.2

Source: Eurostat

ORIGINS AND DEVELOPMENT OF THE EU

FOLLOWING the devastation and the huge loss of life of the Second World War — the second time in a generation that Europe had been engulfed in war — six European countries came together to find a way of preventing this happening again.

France, Germany, Belgium, Luxembourg, Netherlands and Italy decided that the best way to prevent a repeat was to work together on coal and steel production as these were the main resources required for fighting wars. They therefore created the European Coal and Steel Community in 1952.

The ECSC was regarded as a success. So the participating national governments decided to expand this co-operation to other areas in 1957 when 'the Six' signed the Treaties of Rome. These created two more international bodies - the

European Economic Community (EEC) and the European Atomic Energy Community (Euratom) — to work alongside the ECSC.

In 1967 the institutions of the three European communities (EEC, ECSC and Euratom) were merged, and the three communities became known collectively known as the European Community (EC) in 1993. New treaties expanded upon and re-organised the founding Treaties, whilst maintaining the principles and legal authority of the original agreements.

The Treaty of Maastricht (1992) introduced new forms of intergovernmental co-operation between the member state governments - for example on foreign and security policy, and in the area of 'justice and home affairs'. In doing so, the Treaty of Maastricht created the European Union (EU).



between the two entities is currently worth \$33.6 billion and the target for 2008 is \$60 billion, says Suranjan Gupta, Economic Adviser, European Union.

India's major export destinations in the 25-nation EU are the UK (\$4.1 billion), Germany (\$3.2 billion), Belgium (\$2.8 billion) and Italy (\$2.4 billion). Belgium stays in the top league because of its key global role in diamond trading and manufacture. Diamond imports from Belgium, which were valued at \$6.4 billion last year, represented 31 per cent of total imports from EU.

If diamonds reflect tradition, there is also a lot that has changed qualitatively in the relation between India and the EU. Faced with a graying population, shrinking markets and high labour costs, Europe — as other developed countries — is increasingly looking East to market its manufactures. And India, with among the fastest growing markets for aviation, telecom and

automobiles, is looming large among the countries shaping the EU's commercial future. At the Paris air show, India was the largest buyer of commercial aircraft. One loss which piqued European industry was



AGRICULTURE SUBSIDIES REMAIN A MATTER OF CONCERN: A harvester in operation

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EU Imports from India 2004

Item	Percentage
Textiles and Clothing	28.18
Gems and Jewellery	11.07
Agriculture and allied products	6.58
Chemicals and allied products	8.87
Metal and metal products	8.14
Engineering goods	12.09
Leather and leather goods	9.38
Transport equipment	4.35
Others	11.34

Period (Jan-Oct)

Source: Eurostat

EU exports to India 2004

Item	Percentage
Gems and Jewellery	33.30
Agriculture and allied products	6.58
Chemicals and allied products	8.31
Metal and metal products	7.61
Engineering goods	35.56
Transport equipment	4.29
Others	4.35

Period (Jan-Oct)

Source: Eurostat

the recent decision by Air India to purchase 37 aircraft from Boeing for \$7 billion, instead of sharing the order with rival Airbus Industrie, which has been a major aircraft supplier to several Indian aviation companies.

Apart from big-ticket purchases, there is another aspect of Indo-EU economic relations that is fast changing with India emerging as a sizeable investor in European industry. It is therefore no surprise that the country remains an important destination for EU businessmen, judging by the number of visits by delegations visiting in the



AIRBUS INDUSTRIE HAS BEEN A MAJOR SUPPLIER OF COMMERCIAL AIRCRAFT: The new airbus A380 at take off

recent past. Says Taneli Saari, Director Location Services for Invest in Finland, "India is a very important destination for us given her depth of human capital and the kind of investments she is making abroad. Indeed the EU countries are vying with each other in attempting to source investments from her."

The UK has remained as a preferred destination for Indian FDI with 36 new projects, up from 28 last year. Prominent investors in the country include IT majors such as Tata Consultancy Services and Wipro, pharmaceutical company Wockhardt and others across industry like Avestha Gengraine Technologies, HCL Technologies BPO Services, Indo-European Foods Ltd, Softspin UK Ltd. etc. Another company which is investing in a European future is Sona Koyo Steering Systems Ltd which has a turnover of \$13 million and is a prominent manufacturer of steering gears. It recently bought a 21 per cent stake in French company Fuji Autotech France.

Says Dr Surinder Kapur, CMD, Sona Koyo Steering Systems, "We share excellent relationships with our European cus-

tomers and it was they who suggested that we buy in their equity to strengthen our relationship." Fuji Autotech France SAS is the fourth largest steering column supplier in Europe. In a similar vein, Satish K Kaura, chairman and managing director of Samtel Color Ltd, a TV picture tube manufacturer which has been investing in Europe Inc. says, "Buying into European companies makes strategic sense for Indian companies which are keen to expand their presence abroad."

Complementing India's investments in the EU, the EU too has been the largest investor in the country with FDI inflow totalling \$4.1 billion since 1991, which accounts for 13.5 per cent of total FDI inflow. A sectoral break-up of the approved investments from the EU shows that the highest investment proposals have been in the power and oil refinery sectors which account for 22.8 per cent of the total FDI approvals for EU. Telecommunications was in the second spot and the transportation industry ranked third.

While Indo-EU trade relations have always been relatively hassle-free, and two have regular trade summits, there remain several areas of concern. The foremost among these are tariff and non-tariff barriers. The ten countries that have acceded to

the EU last May have added their external tariffs with the common external tariff of the EU, adversely affecting the export interest of India, particularly agricultural produce and textiles. Non-tariff barriers which are more restricting have been another major area of concern. There is a plethora of EC legislation relating to sanitary, phytosanitary and food safety issues which are applied in a very stringent manner on imports from developing countries, such as India, putting them at a disadvantage.

There is also the lingering problem associated with dumping. Says a spokesperson for Moser Baer, the third largest manufacturer of CDs and DVDs in the world with a turnover of \$33 million and one of the largest exporters to the EU, "We have faced several anti-dumping suits in the EU. But despite having won most of them in international courts, we are still facing anti-subsidy cases there." Moser Baer currently exports more than 50 per cent of its turnover to Europe.

These, however, are minor hiccups in a fruitful economic relationship which has stood the test of time. There is change coursing through that equation. But beneath it is a link resting on a firm foundations; one which has weathered the break-up of the largest empire in the history of mankind. 🌍

On the Web

The European Union: www.europa.eu.int