

"India Will Be The Knowledge And Manufacturing Hub To The World..."

The Indo-European Union bilateral summit is being held in New Delhi later this week. On the eve of the occasion, India's Minister of Commerce and Industry, **Kamal Nath**, speaks to **Sailesh Kottary** about Indo-EU economic co-operation, regional trade, India's investment policies and other issues.



Kamal Nath was educated at the prestigious Doon School in Dehra Dun and subsequently obtained his Bachelor's Degree in Commerce from St. Xavier's College, Kolkata. He has been a parliamentarian winning every general election since 1980. First inducted to the council of ministers in 1991, when he was made Minister for Environment and Forests, he was later the Minister for Textiles in 1995.

As the Minister for Environment and Forests, Kamal Nath emerged as one of the chief spokesmen for developing countries at the Earth Summit in Rio de Janeiro in June 1992. Subsequently, he piloted India's negotiations in the Biodiversity Convention, the Climate Change Convention and the International Forestry discussions.

Since 2004, Kamal Nath has been Minister of Commerce and Industry.

Hon'ble Minister, what, according to you, is the state of Indo-EU co-operation?

It is very good relationship and it is a very dynamic one. The EU is our largest trading partner as well as the largest investor. The relationship has benefited from the fact that we have had historic ties with several EU countries since centuries. Trade and economic links have existed since almost four hundred years, especially with Britain. On the multilateral front, we are engaged with the EU in many arenas. And yes, the quality of our relationship has undergone a qualitative change. Until a few years ago, the EU countries were investing in India. Now, India is emerging as an investor too in the EU. Actually, last year India's investments in UK were roughly the same as UK's investments in India!

Trade with the EU has been rising at a healthy rate of about 16 per cent annually. But imports have been marginally outweighing exports. What are your views on this negative balance of trade, considering our long record of economic links?

There is nothing wrong in a negative balance of trade per se. We have negative balances with several countries. It is not technically feasible to achieve parity between imports and exports each year nor is it possible for every country to achieve positive balances. We have to look at the picture in its entirety; in a holistic framework. There is nothing wrong in imports exceeding our exports. Imports are being used to induct higher technologies in the

production processes to make our manufactures more competitive. It will not only give consumers a better end product at a more economic price but it also has the potential to make our export products competitive. A fast growing economy like India has a healthy appetite. Imports are an indication of that.

You have mentioned India's historic links with the UK a while ago. Isn't the UK being used by India Inc increasingly as a gateway for investment in the EU market?

Yes and no. I mean that Indian corporates are buying out companies all across Europe, so there is no question of routing investments only through UK. But then there is also the comfort factor for industry. It is not just a connection which we have had with EU countries. The links go deeper. Many of our businessmen have been educated in England. UK and Germany have been among the earliest investors in India and Indian industrialists have had long experience in dealing with them. Hence at a personal level, there will always be preferences...

European industry is increasingly being afflicted with the problem of high costs. Particularly UK, which has seen a grave erosion of its traditional strengths in automobiles, shipbuilding and other industries. Do you think India can emerge as the manufacturing hub for European business in the way that Korea was to Japan in the sixties?

I do not rule out the possibility but that is up to European business to ultimately decide. I am sure they are strategising that option right now, even as we are talking. But looking at the larger picture, there are two great forces currently shaping global economic co-operation. Globalisation and internationalisation. They may seem the same at first glance, but they do not always converge. India is too large a market for anyone to ignore and the demographics of a young and growing population are being understood better by continents which are graying. If we have our demographic strengths, Europe has its demographic problems. And this is the time for its planners to find an equation which will unleash synergies for both of us.



THERE IS A SHIFT IN THE INDUSTRIAL PLATFORM TOWARDS INDIA: Monitoring a textile unit



India is emerging as a major player in the pharmaceuticals industry. It is an area in which we have tremendous strengths. There also are the IT and biotech industries in which we have proved our prowess.



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AN INDUSTRY WITH ENORMOUS POTENTIAL: Research at a biotech laboratory

India has the market numbers. What does Europe have to offer?

That is a simplistic view. There is the question of technology, a strength which Europe has across the board. There are several more specific strengths in specialised industries. UK for example also has great strengths in the financial and trading markets. Even today, in these days of instant and direct communications, by virtue of its historic Empire and Commonwealth links, UK is the hub for much of the trade that takes place between countries.

What are the priority sectors, as you see them, in Indo-EU co-operation?

India is emerging as a major player in the pharmaceuticals industry. It is an area in which we have tremendous strengths. There also are the IT and biotech industries in which we have proved our prowess. Looking at non-traditional areas, there is enormous scope for co-operation in fruits and vegetables, or agri-based industries. We are the largest producers of fruits and vegetables but over 40 per cent of our produce is lost due to spoilage. We are looking at technology, such as setting up cold chains or refrigeration facilities, which can get these perishables to the market — and even for exports — with minimal losses. Such technologies will confer many benefits in the agriculture sector — on the income from which over 75 per cent of our population survives. It has wide ramifica-

tions across the entire economy.

The EU has been expanding continuously; eight states joined in 2004 and ten more, including Poland, Bulgaria and Slovenia are slated for membership in 2007. What are the implications of this expansion for India?

An enlarged EU means a larger market with many more countries but with different standards of development. Tariff barriers could become the main issue as we would be competing with some countries in some industries. Then there is also the matter of anti-dumping investigations on specific complaints. These investigations can go on and on but even if nothing is found at the end of it all, the market gets effectively foreclosed for you as the buyers are not prepared to wait till the investigations are over. They will prefer to source the products from the competition. And then it becomes tough for you to regain your clients.

Despite all the attention to issues of world trade, it is a fact that regional trade is much more than trade that takes place through global mechanisms. What are your views on regional trade versus global trade?

Regional trade agreements will always remain the building blocks for us. There are over 200 regional trade agreements existing throughout the world; in fact, there are

more such trade agreements than there are countries! I am a firm believer in regional trade; we are negotiating comprehensive economic co-operation agreements with the Association of Southeast Asian Nations [ASEAN] and with Singapore. We are part of the South Asian Association for Regional Co-operation [SAARC] and we are working on bridging the two major regional groupings, ASEAN and SAARC. We have established a Free Trade Zone with Thailand and are looking at establishing a kind of South Asia Free Trade, or SAFTA. The important point about Regional Trade Agreements is that they confer greater bargaining power in multilateral negotiations by tying in partner countries through regional commitments.

What are the main issues India faces with the WTO?

The main issue has been agriculture where foreign countries are seeking market access at artificially low prices. This is because of the domestic subsidies they give their farmers. We first want prices to be realistic so that we are all on a level playing field. The other issue is about small-scale industries. We have to ensure that these industries are not affected by products from other countries since they really cannot be expected to compete with their more developed counterparts. The developed nations have had decades of lead time to build up their small-scale industries. Hence, in fairness, our small-scale manufacturers must be given some kind of preferential treatment.


Access to India's markets may be what the farmer's lobby and the services sector may want. But aren't corporates more interested in the fine print of our investment policies?

That is indeed true as given the size of the Indian market, many corporates are more concerned about our investment policies than about market access. For example, a top ranking Fortune 500 company such as General Motors is no longer going to be looking at the favourable tariff terms it is going to get for exporting its cars out of Detroit. It would be more concerned in assessing the investment climate for a facility in India. And this is indeed what I have been telling everyone; to be more concerned about investments than market access.

So what are the speedbreakers to such investment?

It is basically a mindset problem. Our investment policies are among the most liberal in developing economies, particularly in this part of the world. There are no restrictions on FDI in most sectors. There are no restrictions on repatriation of either the investment or profits. At 130 billion dollars, India holds the sixth largest reserves of foreign exchange in the world. It is a market in which is witnessing the addition of over 20 million people between the ages of 28 to 35 every year; a statistic which is making it the fastest growing market in the world for many products and services. A point of distinction I would like to make is that FDI in India is domestic-market driven. In most countries, it is largely export-driven. So there is no question about India being a foreign investment destination.

I think much of that mindset has been changing in recent times with aggressive attempts to tell the India story, to launch Brand India. You are associated with much of that effort. But don't you wish that a large part of the India story should have been manufacturing-led rather than being IT-led?

Yes it is true that the India story has been led by the services sector. But that is because we have got a skilled workforce to leverage our advantages. We have been consciously building institutions to hone such skills. But it is premature to write off India as a manufacturing hub. We have great skills in manufacturing, which is why many companies are setting up manufacturing bases in India. There is an investment and trade metamorphosis which is taking place in the world. The markets are shifting East. And within the East, qualitative changes are taking place akin to what happened 50 years ago when the industrial shift took place from Japan to Korea. Now the industrial platform is once again shifting; this time to India and China. This is what the first decade of the 21st century has shown. The effects will be even more dramatic in the next decade. Therefore, it is wrong to believe that India is the backoffice to the world and China the factory. India will not only be the knowledge hub, but also the manufacturing hub.... 



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