

"Which way out of the Euro-debt crisis ?"
Concluding Remarks to Belgian Vice-Prime Minister speech
New Delhi, 3 August

Your Excellency Foreign Minister Reynders,
FICCI Vice-President Naina Lal Kidwal
Your Excellencies Ambassadors,
Distinguished members of the audience,

It gives me great pleasure to be here today to make a few brief concluding remarks after the very stimulating speech by one of Europe's most distinguished and long-standing members of Government. His experience in the matters which he discussed today is almost unrivalled, and this was clearly visible in the depth and the breadth of the views that he has shared with us this morning.

I would like just to add a few remarks regarding the EU-India relationship, and the first point that should be made is that our relationship is a broad-based one, and indeed it is becoming increasingly broad-based. Take security for example; today, as a result of the institutional transformations in the European Union, and indeed as a result of the changing global challenges that India and the EU both face, we have developed a very significant degree of cooperation in such vital matters as counter-terrorism, counter-piracy, and cyber-security. This would not have been possible a few years ago, and it underpins an increasingly strong political dialogue about mutual geopolitical concerns.

Our scientific communities are working closely together in a variety of domains, charting out the ways of the future, and this includes cooperation in fields ranging from nanotechnology to civil nuclear issues. Energy policy and energy security, which is not only a vital concern for India but also a central

matter for Europe is another area of increasing cooperation. On international climate change negotiations it is public knowledge that we have different perspectives but this should not obscure the reality of very considerable EU-India cooperation in this field, and indeed in wider environmental matters. Skills development for the labour market is another area where India is undertaking a tremendous push, indeed it is one of the most ambitious and potentially transformational public policies anywhere in the world, and interaction with the European Union is a very important ingredient for the success of this programme.

I could continue with references to the many domains in which the EU-India relationship is strong and growing but I believe that I have already justified my point, which is that although the trading relationship tends to garner most attention, we actually have an agenda that is far broader and indeed healthier than is perhaps visible in the media.

But of course the economic relationship that we share is a central plank of EU-India relations, and in this regard I would like to make a second point, which is that the economic relationship between the EU and India is actually doing very well. Not just well, but very well. The newspapers constantly tell us about the difficulties of the Euro, and far too frequently we find politicians in different parts of the world suggesting that perhaps certain negative developments are the fault of the Eurozone crisis. But Europe is indeed resilient, as Minister Reynders has pointed out, and although the press is quite right to focus on critical issues that the Eurozone is working through, it is also important to take on board some hard facts. And what these facts tell us, in a nutshell, is that the economic relationship between the EU and India is excellent, it has been improving from year to year, and indeed it has never been better.

So let's look at these facts.

Firstly, our bilateral trade in goods grew by 17 % between 2010 and 2011. And 2010 was also a good year, recovering well from 2009 which was when we felt the consequences of the financial crisis in the US. So 2011 was the best year ever for bilateral trade in goods. Furthermore, the recent figures for the first quarter of 2012 continue to show healthy levels of growth with a close to 7% growth for this quarter as compared to the first quarter of 2011. So at the current rate it looks as though 2012 may break the record that was set in 2011.

Secondly, in 2011 we have also achieved our best ever result for trade in services, with some 20 billion euros in two-way trade. This means that taking goods and services together we have for the first time gone over the 100 billion euro mark, which I think is a landmark result.

Thirdly, we should put this in context by remembering the following characteristics:

- The EU is India's first trading partner whereas India is the EU's eighth trading partner in goods and services closely followed by Brazil and South Korea. For Europe this means that we maintain our number one position, despite the growth in Indian trade with China, whereas India is climbing gradually from number ten to nine and now eight.
- Indian exports in services to the EU have more than tripled since 2000 (**+230%** until 2010).
- EU exports in services to India have more than quadrupled since 1999 (**+330%** until 2010).

Fourthly, I think that it is pretty remarkable that our trade is extremely balanced, which is quite different from what we see with other important trading partners, either of India or of Europe. In goods the trade is basically even, 49% going to Europe and 51% from Europe to India. In services there is a slightly wider gap, but this is diminishing: last year Indian services exports to the EU grew by 12%. Indian export of goods to the EU is higher than India's goods exports to China, Japan, Brazil and Russia together. And the same trend holds for trade in services.

Fifthly, Europe is also India's largest source of foreign direct investment with a stock of 34.4 billion euros. Last year saw the largest amount of FDI from Europe ever, and this would have been true even without the 7 billion euro investment by BP in its partnership with Reliance. India's investments in Europe are also fast reaching 7 billion euros. EU investment in India is bigger than made by the US and Japan combined. However, European FDI in India for instance is only half the amount of that in China, or a quarter of that in Russia, or a fifth of that in Brazil; or 2% of that in the US. In short, with appropriate reduction of barriers to investment in India, India may expect a considerable boost in FDI from Europe.

In short, the simple reality is that if we look at the hard facts, we find that despite the eurozone crisis, the economic relationship between the EU and India has never been better and it continues to improve, so this says something about the resilience of Europe, and about the mutual confidence that Indian and European economic agents actually have in each other.

India and Europe matter to each other. The EU is the world's largest internal market, larger than that of the US. Over 20% of Indian exported goods and just under 10% of its services exports go to the EU. Similarly, India matters increasingly to the EU: it provides a pole for global growth in the next decades, bringing larger markets for EU exports of goods and services and new opportunities for business, including in infrastructure.

But the story is not just about quantities, it is also about quality.

EU companies in India are represented in sectors such as Machinery, Power generation, Construction & Engineering, Automobiles and Pharmaceuticals. All of these make a very valuable contribution to the industrial development of India and assist in its on-going modernisation. There are numerous other more niche but fast growing markets (such as biotechnology, biopharma) in which European companies are active.

There is equally a presence in parts of the services sector, which can be expected to increase if and when liberalization of this part of the economy continues e.g. banking, insurance and retail. Investment in sustainable/renewable energy is also an important emerging trend. Furthermore a number of European companies have or plan to set up innovation centres in India, thus significantly contributing to its rising R&D investment. Solvay's recent investment can be mentioned in this respect.

The challenges that European companies face are similar to the ones confronting national companies. Infrastructure bottlenecks, in transport and energy sectors in particular, are significant impediments. But there is a sense that European companies can make significant contributions to India's ambitions in these areas.

FTA

So things are going well, but does this mean that we should be satisfied with where we are? Not at all, because we realize how much more we could achieve if we manage to finalize the Free Trade negotiations. It would be the world's most significant trade agreement, touching the lives of 1.7 billion people. And the fundamental reason why it could be so significant is that our economies are extremely complementary, and a trade agreement will increase competition in some sectors but much more importantly it will unleash an enormous amount of possibilities for synergies. It will create business opportunities by offering new access for exporters and for investors, and by reinforcing transparency and predictability.

Indian exporters in sectors such as agriculture, textiles and clothing, or Indian providers of IT and business support services, for example, can all be expected to gain from additional business opportunities in Europe, helping generate additional earnings and jobs in India, while Indian consumers will benefit from wider choice and more competitively priced imports. And by "consumers", I don't just mean consumers of finished European products like wine and spirits – I also mean Indian industries importing quality intermediate goods, machinery and parts and components for use in further manufacturing here and drawing on European expertise in services, technology and innovation to improve their competitiveness here in India and worldwide.

Negotiators from India and the EU are working hard to bring the negotiations to a successful conclusion. They have a clear mandate from the political level – confirmed at the India/EU Summit of last February – to achieve an ambitious and comprehensive outcome on the various issues under negotiation, including tariffs, non-tariff barriers, services, investment and procurement.

What matters at the end is to get the substance right so as to ensure the agreement delivers significant benefits to both sides, over many years.

The more ambitious the FTA, the bigger the welfare gains that can be expected for both the EU and India. India also stands to gain more than the EU. For example, under a limited FTA, India would benefit € 9.6bn but under a more extended FTA, would benefit by up to € 17.7bn (representing about 1.6% increase in GDP). Under the most ambitious scenario, India would increase its overall exports value by 10% over the long term.

So we are optimistic. We cannot know for sure whether the negotiations will actually produce a result, but we know that there is plenty for both sides to gain, and in a rational world I am sure that this will provide the incentives that are needed for the last stretch of the negotiations, which as we all know is always the most difficult part.

Ladies and Gentlemen,

It has been an honour to participate in this session with so distinguished a European political leader as Minister Reynders and I would like to thank him for his words on behalf of the European Union. And I would also like to thank FICCI, both for its work in organising this session and for its continued commitment to ever-improving EU-India relations.