Speech by Ambassador João Cravinho

Mumbai, 10 May 2012

Ladies and gentlemen,

Distinguished guests,

It is a pleasure to join you today for the celebration of Europe Day, celebrated since 1950 on the occasion of the declaration of the then French Foreign Minister Robert Schuman calling on France, Germany and other European countries to pool together their coal and steel production marking the beginning of what is today a European Union of 27 Member States. This year also marks the 20th anniversary of the entry into force of the Single Market Act (1992) which has proved to be a keystone of economic growth in Europe as well as the foundation of it's political expansion.

I also want to take this opportunity to share with you some reflections on the EU- India partnership and how it is a key pillar of Europe's foreign policy and its international economic strategy.

The Eurozone Crisis

Firstly though, I would like to contextualise my comments by bringing you up to date on the crisis that has plagued the eurozone for the past couple of years. And what I have to say about that can be summarised quite easily: in the EU we are not yet out of the woods, but we have found the way and the worst is clearly over.

For the EU, the focus is no longer on the financial crisis; now the question is all about returning to growth.

The business people amongst us know better than I do that growth requires confidence, the confidence to invest, to make educated assumptions and take calculated risks. And confidence is fostered by stability. The transformations that the EU has undergone are in fact much more profound than is commonly understood, and I would like to describe them briefly. These transformations, taken together, give us plenty of reason for confidence in the EU.

- **First**, and most important of all, 25 Member States of the European Union signed a new Treaty for increased fiscal discipline and convergence. This treaty is now going through the process of ratification (a process that will be much swifter and less complicated than others in the past). This is a powerful and game-changing economic instrument, but it is also a clear political statement that the Euro is the currency not just of some countries but indeed the currency of the EU as a whole, and that Europe will complete its current monetary union with a true economic union. In other words, this responds to the criticism that many have made that it is difficult to maintain a common currency without a fiscal union; we are now well on the way to a fiscal union.

- **Second**, we have agreed on a massive firewall, the European Stability Mechanism. With 620 billion Euros, the ESM will have more callable capital than any other financial organisation in the world and will be able to make up to 500 billion Euros in loans, more than the IMF itself. The practical result of this is that we now have full capacity to insulate the Euro from difficulties in any one particular country, so that the Euro is not hostage to market movements related to one country. By the way, the IMF itself is also following this same process through increasing its own capital, and incidentally it is useful to recall that it was the European Union Member States who have by far provided the largest amount of support for the IMF, support that can be of benefit for all 188 members of the organisation.

- **Third**, the European Central Bank has been acting decisively by launching two long term refinancing operations and this is of course very important for overall confidence. European banks now have access to long-term credit on very favourable terms and this of course means that the European economy has the liquidity it needs for growth.

- **Fourth**, we now have the tools for a new economic governance with a more stringent economic co-ordination, oversight and enforcement system; and with the so-called 6-Pack of measures – the six legislative proposals the Commission put forward that were adopted by the Council and by the European Parliament - we are now better equipped to ensure sound budgetary policies and tackle macroeconomic imbalances.

Frankly some of the decisions that Member States have taken to date would have been completely unthinkable only two years ago. But this is because the EU traditionally operates in precisely this manner: it transforms itself when it comes across a major political challenge or difficulty. We did this twenty years ago when the Berlin Wall came down and we embarked upon an ambitious path to respond to that major geopolitical tectonic shift. We created a single market, unifying our economies, and we laid the groundwork for the single currency, as well as welcoming with open arms the countries of central and eastern Europe that had been under the dominion of the Soviet empire. What we are doing now is essentially completing some of the work that was left undone during that extraordinarily ambitious leap.

Of course, this is not so easy to comprehend because we are in the thick of things at the moment, and also because the economic details are not easily understood by a wide public. But in reality I think that we shall look back upon these current changes as being another momentous step on the unique path that the European Union has chosen for itself.

The institutional transformations have now been dealt with, and this allows the leaders of Europe to turn back to concentrating upon growth. Financial stability was the urgent priority that had to be dealt with before all others, but it is growth that will allow our economies to regain the role in the world economy that their fundamental strengths merit. So the question is how we can promote growth. We cannot return to growth through pumping up public expenditure. We have to do it through boosting business, and this means doing so on two fronts.

- First, ***completing the single market***;

The Single Market is the crown jewel of the EU.

Over the past two decades, the Single Market has transformed the way Europeans live, work, travel, do business and study. It has opened up opportunities for businesses to expand and learn how to become successful globally.

More importantly, it has allowed for human, cultural and social contacts across borders in a way, which many of us in Europe could never had imagined only a couple of decades ago.

Today most Europeans and visitors to Europe take the freedoms of the Single Market for granted, precisely because they are such an integral part of the daily lives of its 500 million European citizens and 23 million European businesses.

But twenty years after 1992, it is important that we take a moment to pause and reflect. Reflect not only on what a tremendous achievement the Single Market is. But also on how we can best put this unique tool to Europe's best advantage as an engine driving forward sustainable growth and jobs.

Completing the Single Market means fully extending it to the realm of services, which still encounter some obstacles in working across borders in Europe, and to the digital economy, which is paradoxically still very national-based. The process of completing the single market in these fields is very much underway and we expect it to boost our economies in a similar fashion to the way the Single market for goods did in the 1990s.

Second, ***external trade*** is equally offering exciting new prospects for growth. I shall come in a moment to the Free Trade agreement that we are negotiating with India but I should begin by referring to the fact that we are creating a web of free trade agreements that will play to the fact that historically Europe has always known that being open to the world is good for Europe and it is good for the world. We recently concluded a Free trade agreement with Korea that is already registering an important two-way increase in trade; we are finalising an agreement with Canada; we have renewed expectations that we will be able to conclude a deal with the Mercosul countries – Argentina, Brasil, Uruguay, Paraguay and Venezuela. We are beginning to investigate the possibilities of a free trade agreement with Japan. And we are deepening the transatlantic marketplace.

EU-India looking for a FTA

It would be ironic if India were to be left out of this process, considering how complementary our economies are, and how comparatively easy it should be to conclude a deal between the EU and India. And indeed we hope that India is not left out. India is our eighth largest partner, and it can and should rise up the ranking if we do conclude a deal. For India, the EU is of course the single largest trade partner. So where are we with these negotiations?

Firstly, although it is of course a source of some frustration for all that we have not yet reached an agreement, it is important to say that this is because we have a high level of ambition; the Broad-based agreement that we are pursuing is something much more ambitious than India has with any other trading partner, and this is the source of the relatively slow pace of negotiations.

Last February, when Prime Minister Manmohan Singh hosted the 12th EU-India annual Summit in New Delhi, an important political signal was sent with regard to the strong mutual interest in concluding a deal. This strong political interest is a vital ingredient ; without it there cannot be a deal, and so we were greatly encouraged by the manner in which leaders on both sides addressed the issue.

The trade relationship between India and the EU has for long been the central axis of our bilateral ties and it will remain an important aspect of what we do together. Despite the recent economic and financial global turmoil, our bilateral trade in goods grew by 17 % between 2010 and 2011. Moreover, I would like to draw your attention to a very significant fact: if we break down the two-way trade into imports and exports, we see that 50.7% of the trade was in the EU-India direction, and 49.3% in the opposite direction. In other words, trade between us is almost equally balanced. This underlines the extraordinary opportunity for mutual benefit that we can expect. The **Free Trade Agreement that we are currently negotiating would be in many aspects the world's largest ever, encompassing over 1.7 billion people**.

- The EU is India's first trading partner (close to **100 billion** Euros [over US$ 130 bn] in goods and services in 2011) whereas India is the EU's eighth trading partner in goods and services closely followed by Brazil and South Korea (both 105 billion USD)
- Indian exports in services to the EU have more than tripled since 2000.
- EU exports in services to India have more than quadrupled since 1999.

- The EU itself provides a single market of 500 million consumers with a GDP of €12 trillion ($16 trillion), larger than the USA. It is important to underline this because I have the sense that it is often forgotten. Our internal market is the largest in the world.
- According to the World Bank, the Indian economy should become the 5th largest in the world by 2025. Even with a conservative growth forecast of 7%, the Indian middle class would represent 130 million households in 2025, a tenfold increase in 20 years.
- Today, the importance of the EU is especially clear as an export market for Indian products. Just over 20% of Indian exported goods and just under 10% of its services exports go to the EU. Indian exports 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.
- 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.

I will not get into the details but the scenario for Foreign Direct Investment is very similar.

- Europe is India's largest source of foreign direct investment with a stock of 34.4 billion euros and India's investments in Europe are also fast reaching 7 billion euros. EU investment in India is bigger that of the US and Japan combined. But we should underline that this is still far below potential. 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.

Our economies complement each other in many ways and this overall complementarity is behind the positive trends in our bilateral trade and investment flows. For these reasons we need to remain committed to unlocking all the potential of the relationship. Both sides face challenges in responding fully to expectations of the other, but the overall complementarity of the two economies makes it realistic that a deal can be achieved. I would go further, and say that the overall complementarity of the two economies means that we shall be failing in our obligations to our populations if we fail to reach an agreement, but I can tell you from the perspective of a witness to conversations at the last Summit that there is a very high degree of political commitment on both sides.

I realise that I have mainly spoken about trade and economics, which is perhaps the result of being inspired by the air that we breathe in this city which is recognized around the planet as a hub of economic creativity. But I would like to end with two brief comments, one about politics and one about history.

Regarding politics, I would like to emphasise that trade is but one facet of a rich relationship, that is today growing very fast in fields that come close to the heart of issues of sovereignty, namely security. We are cooperating now in relatively new fields of security such as the fight against piracy, counter-terrorism and cyber-security. This only happens when partners have confidence in each other. Indeed, there is nothing more political than cooperating in the field of security, so while the traditional perspective views our relationship as being a trading relationship, i would like to contextualise that by saying that it is a trading relationship within a broader political framework, and that this political framework is becoming increasingly relevant to both sides.

Secondly, turning now to history, I would like to share with you that one of the most fascinating aspects of history for me is its relative unpredictability. Of course we can all be great experts in explaining why things happened in a certain way, but our crystal balls tend to work only backwards rather than forwards...

As I said at the beginning, Europe Day celebrates the day when the French foreign minister proposed a High Authority for controlling coal and steel between France and Germany. It was an ambitious statement at the time, but when we look back we realise who minuscule this ambition was when we compare it to what happen, this tremendous adventure called the European Union. Who could have predicted it at the time? The answer is simple, nobody could have predicted it because nobody did. This is what leads me to smile when I hear journalists and commentators these days, basing themselves perhaps on a hunch or just the latest set of statistics, proclaiming with great certainty that in twenty or fifty years the world will be this way or that. In these projections into the future, so often we find that the commentator is condemning Europe to some inevitable decline. Let me just say the following: the world never turns out to be quite what the world expects it to be. And if we take a step back from the day to day concerns of markets or newspapers, and we think for a moment about what Europe's fundamental strengths and capacities are, and what the world is likely to need over the next decades, then I think that there is very good reason to be very optimistic about Europe. I am certainly optimistic about Europe, just as I am optimistic about the EU-India relationship.

We have a lot to look forward to!

Thank you for joining us here to celebrate Europe Day!