
UNIT 13 INDIA AND THE EUROPEAN UNION

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13.0 INTRODUCTION

India traditionally had a multi-dimensional relationship with the European Union (EU), which is its largest trading partner, biggest source of foreign direct investment, major contributor of developmental aid, an important source of technology, and home to a large and influential Indian diaspora.

India was one of the first developing countries and the first Asian country to establish diplomatic relations with the European Economic Community (EEC) of six West European nations (Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands) and accredit its Diplomatic Mission to the Community in January 1962.

Initially, India was primarily concerned with securing better access to the Community market and safeguarding its access to the UK market in the wake of the British application to join the EEC. The collapse of the 1961-63 negotiations for Britain's entry in the Community, led in 1964 to the suspension at zero its tariffs on

a major Indian export, viz. tea in bulk. This was followed by bilateral agreements on jute, coir, handloom fabrics, and handicrafts. The Generalized System of Preferences (GSP), which was introduced in 1971, helped to open the Community market to Indian exports.

By 1972, trade relations between the European Economic Community and India had developed to a point where both the EEC and Britain felt that the existing framework of bilateral and other arrangements, especially the GSP, could be relied upon to safeguard India's exports to the UK market. As a result, a Joint Declaration of Intent, issued by the EEC and Britain in 1972, proclaimed the Community's "will to strengthen and extend its trade relations" with India (and other developing countries in Asia) and to examine with them "such problems as may arise in the field of trade with a view to seeking appropriate solutions". This was a kind of an intermediate position between the "associated" countries under the Lome Convention and other developing countries because of their historical links with the UK, their close relationship with the EEC built up even prior to Britain's entry in 1973, and the number and extent of special trade preferences and sectoral agreements linking them to the Community. [European Commission, *The European Community and India* (Brussels, September 1982), pp. 4-5.] There after there has been a continuous process of development of close relations and partnership between the two. In this unit we discuss these in detail.

13.1 OBJECTIVES

After going through this unit, you will be able to understand and assess:

- the history and development of relations between India and European Union;
- nature of relationship between the two in political, strategic and trade matters;
- nature of foreign direct investment and developmental aid coming to India from European Union particularly since 1991;
- issues of common concern for India and European Union and some of the problematic areas in the relationship; and
- emerging trends and prospects in India – EU relations.

13.2 INDIA-EEC COMMERCIAL COOPERATION AGREEMENTS OF 1973 AND 1981

Ten years after India asked for a non-preferential trade agreement and more than ten years after it submitted its *aide-memoire* calling for a commercial cooperation agreement, towards the end of 1972, the European Economic Community agreed to enter in to negotiations, which began in April 1973. The delay in the commencement of the negotiations was the result of the Community being greatly preoccupied with its internal problems, and negotiations for the first enlargement. The Community therefore remained content to follow a limited policy conceived in the framework of old colonial relationships of its Member States.

When the United Kingdom, Ireland and Denmark joined the EEC in 1973, the enlarged Community agreed to conclude a formal trade agreement with India. This was the first-ever commercial agreement signed by the EEC with a non-associate member developing country. India's success was partly a question of timing as it was among the first countries in the developing world to recognize the importance of the nascent Community and partly because of India's large population and landmass and being the world's largest democracy. The five-year non-preferential Commercial Cooperation Agreement, which came into force in April 1974, provided both a focus and a contractual basis for India-EEC relations and set the pattern for similar agreements with other Asian countries.

The dual aim of the 1973 agreement was the "development and diversification" of imports of each other. As the agreement was non-preferential, the EEC's Generalized System of Preferences was expected to facilitate access of Indian manufactures and semi-manufactures to the Community market. The agreement, among others, provided for the establishment of a high-powered Indo-EEC Joint Commission to sort out periodic

interests between the two parties on a rational basis. The agreement was followed by a number of other **sectoral** agreements in various products.

The 1973 agreement was enriched and expanded both in its contents and scope by the conclusion of a new economic and commercial cooperation agreement on 23 June 1981 (in force 1 December 1981). The new agreement, like the first one, remained non-preferential, but cooperation was extended to a wider number of sectors (industry, technology, and science) with development possibilities excluding no field. It was to be valid initially for five years and thereafter it was to be automatically extended unless expressly stated otherwise by either of the parties. The agreement was managed by a **Joint Commission**, which was to meet once a year alternately in New **Delhi** and Brussels. Under the agreement, India and the EEC agreed to grant each other Most Favoured Nation treatment as laid down in the General Agreement on Tariffs and Trade. The agreement also contained provisions on trade and economic cooperation as well as for scientific, financial and development cooperation.

13.3 THIRD GENERATION COOPERATION AGREEMENT, 1994

In the early 1990s, India urged an overhaul of its cooperation agreement with the European Union and an upgraded political dialogue since the EU was not merely another **trading** area, but increasingly becoming the collective diplomatic centre for Western Europe. A wide-ranging "third generation" agreement on Partnership and Development was signed between India and the European Union on 20 December 1993 (in force since August 1994). The agreement was non-preferential and the two parties agreed to grant each other **most-favoured nation** treatment in their trade relations. The Agreement provided for a Joint Commission as "the central guardian mechanism" to oversee and inspire the entire range of cooperation activities between India and the European Union. Three separate sub-commissions on trade, economic cooperation, and development cooperation were also set up to cover a more detailed agenda and report directly to the Joint Commission. A joint statement on political dialogue was issued expressing their resolve to reinforce and intensify their mutual relations on political, economic, technological and cultural fields in order to achieve "a closer and upgraded relationship". The agreement facilitated high-level political dialogue with the "troika". Broad in scope, the agreement included, among others, (a) development and diversification of trade and investment in mutual interest; (b) encouragement of understanding and strengthening of ties between the two regions in respect of technical, economic and cultural matters; and (c) promotion of exchanges and communication between business communities.

13.4 POLITICAL RELATIONS

Since 1983, meetings between the Indian Foreign Minister and the European Community Troika led by the Community's President-in-Council, who is the Foreign Minister of the Member State holding the **EEC's** rotating presidency have been held. In the early 1990s, India urged an overhaul of its cooperation agreement with the European Union and an upgraded political dialogue since the European Union was not merely another trading area, but increasingly the collective diplomatic centre for Western Europe.

- The Joint Statement on Political Dialogue (issued along with the 1994 "third generation" agreement on partnership and development) expressed the resolve of India and the European Union to reinforce and intensify their mutual relations on political, economic, technological and cultural fields. The joint political statement, Ministerial and Senior Official's meetings have **carried** forward the dialogue. In 1997, it was decided to further enlarge **political** dialogue by the introduction of five new "mechanisms", viz. (1) Senior Officials Meetings; (2) meetings between Commission and Indian planners; (3) bilateral meetings in margins of multilateral **fora**; (4) working groups of specialists on subjects like export controls, terrorism experts, and consular affairs; and (5) launch of a Think-tank network. Subsequently, the first **EU-India Summit** (Lisbon, 2000) decided to have annual **Ministerials**, Senior Officials Meetings twice a year, and Summits on "a regular basis". The summits have subsequently been held on an annual basis.

13.4.1 The Summits

The Joint Declaration of the first India-EU Summit (Lisbon, 28 June 2000), resolved that India and EU would build "a new strategic partnership" (see 13.7 below) in the twenty-first century in the political and economic areas. "The India-EU Partnership in the 21st Century" recognized the need to build a coalition of

interests in order to meet the challenges of the 21st Century, emphasized the importance of this partnership in the shaping of the emerging multipolar world. A 22-point Agenda for Action, appended to the Declaration, listed areas in which the two sides resolved to enhance cooperation in a comprehensive relationship straddling political, economic, development cooperation, trade as well as scientific and technical cooperation. Each summit has been accompanied by a **Business Summit**. The first Business Summit focused on the key sectors infrastructure, information technology and telecommunications, pharmaceuticals and financial services.

The **Second India-EU Summit** (New Delhi, 23 November 2001) adopted a joint communiqué, a Declaration against **Terrorism**, an **IT Vision Statement** and the signing of agreements on Science and Technology, and the universalization of elementary education under the "**Sarva Shiksha Abhiyan**". The bi-annual official level meetings of the Joint Working Group on International Terrorism have been a useful mechanism to ensure a regular exchange of views and to share our perceptions with the EU on this issue. The **Indo-EU Round Table** and the **Think Tank Network** had added a new dimension to civil society dialogue between India and the EU. The **Second Business Summit** identified key areas of biotechnology, food processing and pharmaceuticals, IT and telecommunication, engineering and manufacturing and financial services and insurance as areas deserving special attention.

The **Third India-EU Summit** (Copenhagen, 10 October 2002) expressed satisfaction with the positive results of the summit and its contribution to the consolidation of the comprehensive relationship between India and the EU, and reiterated the determination of the two sides to expand and deepen their cooperation in all areas. The **Third Business Summit** adopted a set of specific recommendations to facilitate and improve India-EU trade and investments in four sectors, namely biotechnology, textiles and clothing, power and energy as well as financial services.

The **Fourth India-EU Summit** (New Delhi, 29 November 2003) reviewed developments since the previous summit renewed their commitment to strengthen multilateral institutions, as embodied by the United Nations in particular. They also reiterated their determination to fight terrorism in all its manifestations, and called upon all nations to fulfill their commitments under UN Security Council Resolution 1373. The summit led to the signing of a Customs Cooperation Agreement; a Financing Agreement for the India-EU trade and Investment Programme (TIPP); and the decision to commence negotiations on a Maritime Agreement, and on an Agreement to formalize India's equitable participation in the Galileo Joint Undertaking. The **Fourth Business Summit** (28 November 2003) held parallel sectoral sessions on tourism, manufacturing, agro products, pharmaceuticals, and IT.

The **Fifth India-EU Summit** (The Hague, 8 November 2004) resolved to take forward the implementation of key actions in the following areas:

- a to jointly elaborate a comprehensive EU-India Action Plan for a Strategic Partnership and a new Joint Political Declaration based on the Commission's Communication, the Council's Conclusions and India's response paper, for approval at the Sixth Summit meeting;
- to encourage the holding of regular, institutionalised parliamentary exchanges between the Indian Parliament and the European Parliament and promote cooperation between political parties, trade unions, business associations, universities and civil societies;
- to install a dialogue on disarmament and non-proliferation;
- to consider regular exchange of views on possibilities for cooperation on themes like resolution of conflicts, peace operations and reconstruction;
- to strengthen the flow of students and scholars between the EU and India through the funding of an India-specific scholarship programme under Erasmus Mundus;
- to set up an energy panel to coordinate joint efforts;
- to organize joint workshops on automotive engineering, genomics and life sciences and nanotechnology; and

- to organize an EU-India environment forum to exchange views and information on issues of mutual interests, knowhow, technologies and on research and analyses of specific themes.

The **Sixth India-EU summit** (New Delhi, 7 September 2005) adopted a Joint Action Plan to implement the EU-India Strategic Partnership in five key areas:

- *dialogue and consultation mechanisms*: It was decided to further strengthen existing mechanisms and initiate dialogues in new areas. It was agreed to place a report on the implementation of the Joint Action Plan before each annual summit and an overall assessment would be submitted at the 2008 summit;
- *political dialogue and cooperation*: The subjects that would be initiated or pursued included a dialogue on pluralism and diversity; regular exchange of views on regional cooperation in the EU and SAARC; promotion of initiatives in the area of democracy and human rights; effective multilateralism; peacekeeping, peace-building and post-conflict resolution; establishment of a security dialogue on disarmament, non-proliferation of weapons of mass destruction, and regional security issues; and establishment of regular contacts between Indian and EU Counter-Terrorism Coordinators;
- *bringing together people and cultures*: This chapter sought to enhance better contacts between peoples and civil society. It included a dialogue on migration and consular issues; greater parliamentary exchanges; enhancement of educational, academic and civil society exchanges; greater cultural cooperation; and increased mutual visibility;
- *economic policy dialogue and cooperation*: This chapter covered the full range of sectors of economic cooperation and policy dialogue in the areas of industrial policy, finance and monetary affairs, environment, clean development and climate change, energy, information and communication technologies, employment and social policy, etc. It sought to strengthen collaboration in science and technology, especially in areas like genomics, nanotechnology and high energy physics. It launched the Energy Panel and a Business Round Table. The two sides also agreed to work towards the conclusion of an agreement on maritime transport;
- *trade and investment*: The activities envisaged in this chapter included the establishment of a High Level Trade Group; the establishment of expert groups in the area of public-private ownership, technical barriers to trade and sanitary and phytosanitary issues. It was also agreed to strengthen cooperation in intellectual property rights and cooperation on Geographical Indications, activate meetings of experts on trade defence instruments, etc.

The **Seventh India-EU Summit** (Helsinki, 13 October 2006) considered the report of the High Level Trade Group and approved the launch of negotiations for the conclusion of a broad-based bilateral trade and investment agreement aimed at boosting trade and building on WTO rules. The Summit also witnessed the EU-India Business Summit and the first meeting of the EU-India CEO Round Table. Other Summit "deliverables" included the establishment of new consultation mechanisms such as the launch of a regular macro-economic policy dialogue and the establishment of a fourth Working Group on Petroleum and Natural Gas. It was also agreed to sign a Memorandum of Understanding on Cooperation in Employment and Social Affairs. The summit also reviewed the implementation of the Joint Action Plan

13.5 INDIA-EU STRATEGIC PARTNERSHIP

Recognition of India's growing stature and influence regionally and globally, growing economic interest in a rapidly and consistently growing economy of a billion-plus people with an annual GDP growth rate of over 6 per cent for over a decade, the world's fourth largest economy, acquisition of nuclear weapons, steadily improving relations with the United States, and the acceptance of India as a potential global player in international politics and World Trade Organization negotiations – all contributed to India's admission into the elite club of nations with which the EU has an annual summit (others being the United States, Canada, Japan, Russia, and China) and choice of India as a strategic partner.

In recent years, the **term** "strategic partnership" is used frequently by many nations. India has forged "strategic relations" or strategic partnerships with major global players. There is, however, no clear-cut definition of what a strategic partnership entails.

The Joint Declaration of the **first** India-EU summit (Lisbon, 28 June 2000) resolved that the EU and India shall build "a new strategic partnership" in the twenty-first century, founded on shared values and aspirations, and characterized by enhanced and multi-faceted cooperation. A 22-point Agenda for Action, appended to the Declaration, listed areas in which the two sides resolved to enhance cooperation in a comprehensive relationship straddling political, economic, development cooperation, trade as well as scientific and technical cooperation.

The Union's **first-ever Security Strategy** (12 December 2003) – "A Secure Europe in a Better World: The European Security Strategy" – urged that the EU "should **look** to develop strategic partnerships" with Japan, China, Canada and India as well as with "all those who share our goals and values and are prepared to act in their support".

After working for **over** a year, the European Commission's Communication on "An EU-India Strategic Partnership" (June 2004) **proposed** to develop a **strategic** partnership with India in four key areas: a) cooperation, especially in multilateral **fora**, on conflict prevention, the fight against terrorism, and non-proliferation of Weapons of Mass Destruction; b) **strengthened** economic partnership through strategic policy and sectoral dialogues; c) development cooperation; and d) **fostering** intellectual and cultural exchanges. It urged that India and the EU should forge "**a strategic alliance**" for the promotion of an effective multilateral approach, **proposes** "strategic **policy dialogues**" and **stresses** the need for "strategic **sectoral dialogues**". Building on a close relationship, based on **shared** values, objectives and challenges and respect for each other as international **global players** and **regional** leaders. **Both**, the Communication states, both "now want to put a greater strategic edge on the partnership", **which** will entail "dialogue on ways of enhancing cooperation, on a sector-by-sector basis". The Communication highlighted **both** the specific **areas** of cooperation that are needed to forge "a genuinely strategic **partnership**" and the specific actions **needed** to achieve it. The Communication stated that the Action Plan and a **new** Joint Political **Declaration**, which to be endorsed at the sixth summit in 2005, would be the "starting point" of a joint reflection that leads to "a **firm** and visible upgrading of the EU-India **relationship** from the existing dialogue between **good** friends to a truly strategic partnership between two major international players".

A 46-page "Commission Staff Working Document" annexed to the June 2004 **Communication** proposed over a hundred actionable points in various sectors, the great majority of which concerned trade and commerce. After a sector-by-sector **examination**, it suggested how **current** activities could be streamlined into a tighter institutional architecture. The EU sought to deepen and widen its engagement in a broad range of **sector-specific** dialogues and develop new instruments to institutionalize cooperation. The EU also sought to further intensify and broaden political dialogue.

Six weeks later, in a detailed 31-page response to the Communication – the first-ever Indian strategy paper on relations with an outside entity – New **Delhi** presented a number of proposals for enhancing more meaningful and systematic interaction with the European Union in its Strategy Paper to the Commission Communication. India envisaged "a relationship of sovereign equality based on comparative advantage and a mutuality of **interests** and benefits" – a relationship, which would be "immune from the vicissitudes of either side's relationship with a third party".

The strategic partnership was endorsed at the fifth India-EU summit (The Hague, November 2004). Prime Minister **Manmohan** Singh described India and the European Union as "natural partners". The EU especially after its enlargement to 25 member states, he acknowledged, was emerging as "a politically influential, economically powerful and demographically diverse regional entity" in the world.

The sixth summit (7 September 2005) adopted a new Political Declaration and a Joint Action Plan divided into four sections (political, trade and investment, **economic** policy, and cultural and academic) on issues of mutual concern. The Action Plan – the first such comprehensive Action Plan that India has with any of its partners – seeks to promote effective multilateralism, cooperate in UN peacekeeping and in post-conflict

political and economic rehabilitation and reconstruction. Apart from a number of **sectoral** initiatives, and a High Level Trade Group was launched to study and explore ways and means to deepen and widen the bilateral trade and investment relationship. It was decided to launch a security dialogue at senior officials' level, which would hold regular consultations on global and regional security issues, disarmament, and non-proliferation "to increase mutual understanding and identify possible areas of cooperation".

13.6 TRADE

In the early 1960s, about 37 per cent of India's foreign trade with the member states of the European Community, with bulk of the trade with the United Kingdom and West Germany. India-EU trade increased from US \$1.638 billion in 1973 to US\$ 5.701 billion in 1980. Over the decade 1981-1990, India-EU trade increased by about five times. In 1989-1990, about 25 per cent of India's exports and more than one third of its imports were from the European Community. In fact, there was a substantial growth in India's trade deficit with the EC, which accounted for more than half of India's trade deficit. There is an essentially asymmetric trade relationship between India and the EU: for India, the EU is an extremely important trade partner as it was the largest economic bloc in terms of population, purchasing power and international trade. In the context of EC's global transactions, India's share is marginal.

In the first four years of the 1990s, **Indo-EU** trade recorded an annual rate of growth of around 20 per cent. Indian exports to the EU grew impressively over the years, from •4.4 billion in 1980 to •9.9 billion in 1991 (when economic reforms began). During 2001 and 2005, India-EU trade increased with an annual average of 11.1 per cent. In 2005, India-EU trade amounted to •39.95 billion with EU imports from India amounting to •18.9 billion (covering mainly **textiles/clothing**, agricultural products and chemicals) while EU exports to India amounted to •21.1 billion (covering mostly machinery and chemical products). India ranked as EU's tenth trading partner accounting for 1.8 per cent of EU exports and imports.

Bilateral trade in services has grown substantially in recent years. In 2001, India exported Euro 2.5 billion worth of services to the EU, while EU service exports to India amounted to Euro 2.4 billion. In 2004 India's exports of services to the EU amounted to •3.8 billion (up from •3.0 billion in 2003), while the EU's exports to India amounted to •3.2 billion in 2004. [Delegation of the European Commission in India, New Delhi.] The European Union is also a major sources of technology transfer to India.

Problems in India-EU trade include the concentration of trade in several member states (Germany and the United Kingdom) and three commodity categories (textiles, leather and diamonds). For many years, a recurring problem was India's trade deficit. Indian exporters also encounter various problems which adversely affect market access, including tariff and non-tariff barriers, anti-dumping duties, new technical standards, sanitary and phytosanitary measures, and technical barriers to trade. Other problems include restrictions on movements of professionals, stress on environment and fair labour practices, and preferential trading arrangements between the EU and the countries of Eastern Europe and the Mediterranean. Brussels attributed the slow growth of Indian exports to poor quality, uncompetitive pricing, inability to meet delivery schedules, unfavourable cost structures, bureaucratic red-tapism, poor infrastructure and so on.

13.7 FOREIGN DIRECT INVESTMENT

The European Union has been the largest source of FDI inflows for India since the country began economic reforms in 1991. During August 1991 to September 2004, actual FDI from the European Union to India was US \$6.72 billion, accounting for 21.9 per cent of the total. The corresponding figure for the United States was US\$4.33 billion, which accounted for 13.6 per cent. [Delegation of the European Commission to India, The European Union and India (New Delhi, 2005).] In 2003, EU investment outflows to India amounted to Euro 820 million, whereas India's inflows to the EU amounted to Euro 600 million (against Euro 140 million in 2002). In 2004, EU FDI into India increased to around Euro 1 billion. Numerous Indian companies have also raised Euro-funds to decrease loan liabilities and high interest burdens and to improve efficiency of capital.

Sectorally, the EU has a substantial financial stake in industrial machinery, transport, electrical goods and electronics, **power/energy**, telecommunications, and transport, chemicals and consultancy. However, there is

clearly scope for higher investment levels given the vast potential of the Indian market and the fact that India accounts for less than one per cent of total EU foreign direct investments.

In recent years, thanks to the emergence of a number of multinational players at the global level, India is now also emerging as a major investor itself, especially in areas where it has a core advantage such as IT and biotechnology. India's outward FDI stock has grown from \$ 600 million in 1996 to \$5.1 billion in 2003, taking India to fourteenth place in terms of outward FDI stock among developing economies.

The quantum of foreign direct investment that India is able to attract is much smaller than China (which has a 13-year old headstart over India). However, India has several advantages over China – a vibrant democratic polity, the rule of law, respect for private property, a highly organised legal and bureaucratic framework offering protection to foreign investors, high use of the English language, the largest pool of trained manpower among the developing countries, a strong base of competent managers, a flourishing private sector, a thriving entrepreneurial class, and an apolitical military. These attributes are now increasingly beginning to attract the attention of foreign investors.

13.8 DEVELOPMENT COOPERATION

The European Commission has been engaged in development cooperation with India since the 1970s. Starting with support for India's Operation Flood (which sought to help about 10 million families through the increased production and marketing of milk), the project ran from 1970 to 1996. Since 1976, the European Commission has committed Euro 2 billion (Rs. 9964 crores) to India in development assistance. Of this amount, nearly Euro 660 million is channeled to large bilateral programmes in health and education, but the European Union also supports many projects undertaken by NGOs. Currently, EC cooperation with India involves an expenditure of over Euro 100 million per year.

Since 1995, India shifted the emphasis from individual projects to Sector Support Programmes in health (for which the EU committed •240 million in 1996 and 2001) and basic education (for which the EU committed •150 million in 1993 and •200 million in 2000). This sectoral approach has been complemented by support for focused projects in fields such as rural development, irrigation, forestry, environmental rehabilitation and integrated watershed management.

The European Union provides assistance for implementation of certain development programmes as per priorities that are mutually decided. In the past, the assistance was project-oriented, but, with experience, the focus has turned to sectoral rather than project-based assistance. Till 31 March 1995, the EC assistance followed the procedure of the Additional Central Assistance (ACA) with regard to channelling of funds to the States or the agencies involved. From 1 April 1996, the EC funds are released as 100 per cent grants to project accounts through Government of India. Although, the EU commitments are of the order of around Euro 2 billion, the cumulative EU inflows since 1991-92 for various development projects in India are around Euro 350 million approximately primarily because of complex sanction and disbursement procedures. [www.indembassy.be/EU_DevelopmentCooperation.asp.]

EU assistance is currently focussed on the areas of environment, public health and education. Elementary education has the largest outlay. The District Primary Education Programme (DPEP), which was implemented partly with EC assistance of Euro 150 million, came to an end in December 2002. As a second phase of this project, EC has made a commitment of Euro 200 million in 2001 for the Sarva Shiksha Abiyaan, which aims at "Universalisation of Elementary Education". Another major Sector Investment Programme (pre-2002) was in health (health and family welfare programme) sector with an outlay of Euro 240 million, which was being implemented in 13 States of India for the last seven years.

The European Commission's *Country Strategy Paper for 2002-2006* devoted Euro 225 million to development and economic cooperation. One of the important elements sought to be introduced through this strategy paper was the shift from support to the central government towards a comprehensive development partnership with two reform-minded States, viz. Rajasthan and Chhattisgarh. A sum of Euro 160 million (with Euro 80 million for each state) was allocated for multi-sector policy programmes aimed at poverty alleviation. These projects were scheduled to be launched in 2006 and were to be implemented over a period of 6-7

years. In order to abandon the traditional sector-wise approach and provide assistance in a single partnership package in order to deploy bulk of the resources in one or two States for health, education and poverty alleviation.

The European Commission's new Country Strategy Paper for India for the period 2007-2013 is likely to give a substantial thrust to help India meet the Millennium Development Goals by allocating around 60-70 per cent of the resources to the healthcare and education sectors.

In the sphere of economic and cultural cooperation, major projects include the EC-India Civil Aviation Project (Euro 32 million), the EC-India Maritime Transport Project (Euro 10 million), the Trade and Investment Programme (Euro 13.4 million), the Economic Cross Cultural Programme (Euro 30 million), a Small Projects Facility Programme (Euro 4 million), and the India Window of the Erasmus Mundus Scholarship Programme (Euros 33 million for 2005-2006).

13.9 INDIA AND EU ENLARGEMENT

India welcomed the May 2004 eastward enlargement of the European Union, which increased the number of EU member states from 15 to 25. Enlargement has not led to any immediate or appreciable change in the near future on the nature and content of India's political and strategic dialogue with the European Union, since much prior to their accession, the Accession Countries had already realigned their foreign policy priorities with those of the European Union and its member states. In fact, they were either less appreciative of or openly critical of India's stand on issues of vital concern to India, viz. nonproliferation, Kashmir, human rights, and policy towards neighbours. In most of the new member states, India has yet to forge closer political ties with new elites in Central and East Europe since the traditional *bonhomie* has virtually disappeared. In recent years, many Indian companies are discovering the potential of Eastern Europe as a gateway to the European Union and as an investment opportunity to improve their market status in Europe.

13.10 SOME MAJOR ISSUES

While India-E.U. relations and cooperation have continued to increase and extend in various areas there have also been some areas of concern.

13.10.1 Non-proliferation and Civilian Nuclear Cooperation

Most Europeans neither adequately appreciated nor shared India's security concerns about its deteriorating external security environment and compulsions about exercising its nuclear option after keeping it in abeyance for decades. The Europeans were not convinced of Indian criticism of technology denial regimes, erected in the name of non-proliferation, which were being maintained even in the face of mounting evidence of their failure to prevent proliferation. Despite India's impeccable track record as a non-proliferator and responsible handling of its nuclear and missile capabilities, most Indian policymakers realized that EU member states were not likely to easily relax the stringent norms for the transfer of dual-use technologies vital for modernization despite repeated requests that the EU "revisit and review" technology export control regimes that created a restrictive environment for technology transfers to the country. A quantum leap of the nature of the Indo-US civilian nuclear energy agreement (2 March 2006) would have been inconceivable in case of the European Union.

13.10.2 Combating Terrorism

Despite a recognition by the EU and its member states dislike for Pakistani *adventurism* in Kargil (1999), neither the United States nor Europe were willing to confront Pakistan on its sponsorship of crossborder terrorism. During the first (Lisbon, June 2000), Brussels resisted attempts by India – a victim of terrorism for two decades – to bring terrorism onto the agenda on the specious excuse that it was an issue best left to direct talks between India and individual member states of the Union.

Post 9/11, India has sought to use the new global norms being created by the war against terrorism to force an end to the Pakistani sponsorship and sustenance of cross-border terrorism. To that end, Indian policymakers realized that the key to success was to bring Washington around to the Indian point of view rather than

expending effort in lobbying the EU's diverse membership, which would have a very limited influence on Pakistan.

After the tragic incidents of 11 September 2001, the European Union itself accepted that terrorism had to be henceforth among the topics of discussion and has since then figured on each summit and a Joint Working Group on Terrorism has been meeting since then. At the second summit (New Delhi, 23 November 2001), there were some difficulties in formulating the text of the Declaration against International Terrorism. After the terrorist attack on the Indian Parliament (13 December 2001) and India's threat to go to war with Pakistan in the summer of 2002 led to a significant increase in pressure by the international community on Pakistan. A number of EU ministers visited the region to defuse the situation. At the third summit (Copenhagen, 10 October 2002), the Europeans were concerned about the consequences of escalating tension which could lead to a military conflict among two nuclear powers. The EU Coordinator on Counter-terrorism Gijs de Vries was in India in October 2006 for preliminary discussions.

13.10.3 Greater Political Dialogue

There are many distinct differences in terms of foreign policy goals between the European Union and India. The EU has clearly not been able to evolve a common position on many politically important issues. Indian leaders acknowledge that "when the European Union can have a convergence of views on economic, political and strategic matters which are globally important, the EU will perhaps be a counter balance and force in the international global situation".

Political dialogue has nevertheless its benefits. India has shed its initial inhibitions about engaging the European Union in developments in Nepal, Sri Lanka and Bangladesh. There may be some utility in trying to have a better dialogue with the EU on regional crises in South Asia. For instance, in recent years both the United States and the EU have looked to India for leadership regarding the Maoist insurgency in Nepal. Brussels has made a major contribution in brokering peace in Sri Lanka.

The EU is widely acknowledged in India as an economic superpower and a formidable negotiator in multilateral trade negotiations. India's democratic polity or the China card do not necessarily earn it very high points in Europe. There is a distinct difference between the European Union and the United States. For India, it is much easier to deal with the United States which is characterized by effective leadership and a dedicated pursuit of interests whereas the EU foreign policy is considerably more problematic as it is driven forward by committees and compromises. It is not really a question of either the United States or the EU, but within the web of relationships, some will naturally be closer than others. Indian preferences are not unique.

There is a qualitative difference in the attention and focus given by the European Union to China and India because Beijing is more central to European interests than India. The dense traffic of EU officials' visits to China is not yet evident in EU-India relations, but could pick up as more and more issue areas are added to the steadily enlarging dialogues. India-EU strategic partnership is unlikely to be at the same level as China even though India does not have the problems encountered in the relationship with China (e.g. human rights, the arms embargo, lack of status as a market economy, Chinese military's growing capabilities vis-a-vis Taiwan, etc.).

China would continue to remain far more important in the EU's Asia strategy because of its political clout, its economic potential, the substantially higher economic stakes and trade (EU's trade with China is five times that of India which in many ways defines the degree of political interest that the EU and its member states take in other countries.

13.11 PROBLEMS

There are a number of problems in India-EU relations. Firstly, a key difficulty in transforming the India-EU relations is the absence of political will in Brussels. It is partly due to the preference of the larger member states for dealing bilaterally with India. The strategic partnership is essentially driven by those member states which have substantial trade and economic ties with India. It is they who provide the vision, the ideas and the expertise.

Secondly, in Brussels the number of officials in the Commission dealing with India is only a handful; far less in their number and profile to those dealing with China. The problem is compounded by the fact that there is an inadequate number of experts who are capable to understand the complex problems that India confronts today.

Thirdly, Indians understand the complexity of doing business at the EU level. Since the EU is constant work in progress, Indian policy-makers often find it bewildering to deal with it.

Fourthly, there is considerable time lag in decision-making within the EU because of its compulsion to work by committees and consensus. The dispersal of decision-making power among the different institutions hinders the EU's ability to interact in strategic terms with India.

Fifthly, despite the shared values and common ground on many issues, there are basic differences in both perceptions and interests between India and the European Union in many fields, including trade, development and globalization. The EU has taken a stand contradictory to that of India on many issues in the WTO negotiations.

Sixthly, there is a considerable information deficit in India about the European Union in general and the new Accession Countries in particular. Both confront a problem of visibility. There has been a steadily increasing awareness of the European Union in India in recent years.

13.12 PROSPECTS OF INDIA-EU RELATIONS

The realization of India's extensive terrorism agenda is contingent on effective intelligence cooperation, prevention of terrorist access to financing, and the disruption of international money-laundering networks. The 11 September 2001, Madrid (11 March 2004) and London (7 July 2005) attacks have undoubtedly reinforced the perception that radical **Islamist** terrorist events have changed in terms of scale, types of attacks and countries targeted and that many of those involved in **Kashmir** terrorism also have links with networks of terrorism operating in Europe and other parts of the West. Though both India and Europe have shared values, they face different security contexts and do not have shared threats. Thus, whereas India confronts traditional security issues that impinge on its territorial integrity, border control, insurgencies and separatist tendencies, the EU, more of a security community, mainly confronts non-traditional security threats such as organized crime, terrorism, etc. **Moreover**, most EU member states neither share the same urgency nor interest in, immediate and pressing need for the other. To them, India is not a genuine security "partner" from halfway around the globe nor a solution to each other's security needs. Thus, given the mismatch of context, concerns and goals, a security dialogue between India and the Union would tend to be more declaratory. Initial steps are more likely to be in "soft" areas of cooperation such as money laundering, technical cooperation, and exchange of information. The prospects of practical, ground-level cooperation is rather limited as this is within the ambit of competences of Member States and not the EU.

There are bright prospects for greater scientific and technological cooperation, which has recently begun with the EU as a collectivity with the signing of a Science and Technology Cooperation Agreement in 2001. There is considerable potential for India and Europe to move increasingly towards partnership in cutting-edge technologies in a manner which combines India's strengths with European capabilities. Energy is another area of considerable potential between India and the European Union. India hopes that this will lead to the provision and transfer of technologies which can lead to a more efficient use of coal and natural gas. The inclusion of India in the International Thermonuclear Experimental Reactor (ITER) in November 2005 was supported by the European Union and other countries.

Europe's demographic profile and a graying Europe means that it must consider the problems and **opportunities** of insourcing immigrants or outsourcing services. India's greatest asset today and in the near future is its demographic profile. With 54 per cent of the population below 25 years of age and 80 per cent of them educated, there is considerable potential for services since the availability of **skilled** workforce and **the numbers** required to maintain current productivity and efficiency levels in Europe.

India and the European Union are at **the** beginning of a process of building a strategic partnership, which will

develop incrementally. There is a proliferation of the areas in which we will witness growing dialogues, cooperation programmes and projects. Many of these dialogues have a lead time and will generate an inherent momentum and dynamism which should gradually lead to concrete results where a common, mutual interest is identified.

EU-India relations have been, and will continue to be driven by trade and commerce. with limited prospects of really substantial cooperation in political and strategic issues. There is a demonstration of political will on both sides to take the relationship forward. Both sides routinely stress shared values, but though shared values tend to facilitate the widening and deepening of a relationship, they do not necessarily lead to improved relations. In the ultimate analysis, it will be shared interests which will determine the scope and content of the India-EU strategic partnership.

The India-EU relationship is not based on any specific short-term or immediate exigency, but on long-term interests in which both sides seek to widen and deepen mutual cooperation on a broad range of issues. The prospects and potential of the India-EU relations are indeed considerable.

13.13 SUMMARY

In this unit, you have studied the evolution and multifaceted growth of Indo-EU relations since the early 1960s up to the present and how the essentially trade and economic relationship has expanded to greater political dialogue in recent years. The annual summits have led to a gradual expansion of sectoral dialogues and the growth of institutional mechanisms to discuss issues of mutual interest and concern. Even if dialogue does not narrow differences, it is useful in increasing clarity and understanding of one another's positions and interests. The conclusion of a bilateral trade and investment pact (probably in 2-4 years), according to the Confederation of Indian Industry, can treble two-way trade with the EU to Euro 120 billion (from the existing Euro 40 billion in 2005), of which trade in services is likely to comprise Euro 75 billion.

India increasingly realizes the growing political importance and foreign policy profile of the European Union in world politics and economy. Europeans tends to perceive China as a direct immediate threat to European jobs in some manufacturing sectors whereas India is seen as a latent and potential threat taking away service-sector jobs, though pressures would increase as both move up the value chain. A growing China and India do pose challenges, but they also provide opportunities since it contributes to greater growth worldwide, it means more exports, especially to a swelling consumerist middle class, which will make more demands of European goods, technology, and services.

13.14 EXERCISES

- 1) Discuss the evolution of Indo-EU relations.
- 2) Examine trade and commercial relations between India and the EU in the recent past.
- 3) Critically examine the nature, limitations and potential of the India-EU strategic partnership.
- 4) Analyze the issues and problems in India-EU relations.
- 5) What are the prospects of India-EU partnership in near future?

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