

EUROPE INDIA CHAMBER OF COMMERCE

Trade and Investment Partnership Summit (TIPS) 2016 “EUROPE AND INDIA – ANCHORS OF ECONOMIC STABILITY IN TODAY’S CHAOTIC TIMES”

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*Summit Venue: BNP Paribas Fortis Auditorium Chancellery
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Introduction:

i. Trade and Investment Partnership Summit (TIPS) 2015, the flagship of Europe India Chamber of Commerce’s annual events, was held in the European Parliament in Brussels on 30 September 2015. The Summit was dedicated to fostering bilateral trade, investment and economic relations between European Union and India around the theme **“Changing Dynamics in EU-India Relations: Business & Strategic Implications in the Next Decade”**. The TIPS 2015 brought together business partners playing a crucial role in turning the European Union – India trade and economic relations into force. With close to more than 175 participants from about 20 countries, the TIPS aimed at maintaining the momentum for accelerating progress in business and trade, while taking stock of lessons learned from efforts to reinforce importance of strategic relations so as to help EU and India and to realise the importance and gravity of geo-political and economic challenges.

ii. In search for a transformative moment, it's time for EU to reset relations with India, was the core message that came out of TIPS 2015. The summit took place in an unpredictable economic and social environment in Europe and in the shadow of the skewed pattern of global growth, its implications for bilateral relationships, and the need for greater emphasis that EU and India are required to put on their bilateral relationships. The Summit deliberated specific issues and took innovative steps to engage various business and interest groups in Europe and in India. Some of the issues highlighted were:

- Ever since coming to power in 2014, the Indian government under Prime Minister Narendra Modi has taken a number of steps to bolster the FDI scenario in India. The situation will only get better once sectoral conditions are further relaxed and the terms that have been used in the policy are clarified up to a greater extent.
- The growing economic relationship between the EU and India has been a foundational element of the EU-India Strategic Partnership. EU and India are committed to working together to facilitate greater investment in both directions, to open new Indian sectors to private investment, and to address impediments to growth that will enable trade between the two continents to grow further.
- India needs to improve its regulatory environment to attract more foreign investment and avoid being left behind. A strong Intellectual Property rights regime would lead to good market conditions for inviting FDI in India.

- To enhance cooperation in clean energy space, India and the EU need to aggressively work on financing options for encouraging generation of power through renewable sources. The Summit stressed on the need for both to actively enhance generation of energy from renewable and low carbon resources, and in this context, the possibilities of large scale cooperation in integration of renewables with the grid, storage technologies, and RE technologies is important.
- Political and security cooperation are at the core of the EU-India Strategic Partnership that bonds them since 2004. Both India and the EU share the values of peace, stability and the promotion of human rights, democracy and the rule of law.
- The EICC is strongly committed to an ambitious, balanced and comprehensive Free Trade Agreement (FTA) – officially known as Broad-based Trade and Investment Agreement (BTIA) which would deliver significant economic benefits and economic growth for European Union (EU) member states and India. A free trade agreement between European Union and India would build on the existing strong relations between them to simultaneously boost nearly a decade of strategic relations between them. Also, a free trade agreement would encourage greater innovation and manufacturing efficiencies by stimulating joint technological development, practical applications and new cooperative ventures.
- Improving economic relations between the EU and India is essential for Indian and European companies, whose business links extend beyond import and export to include alliances and partnerships in supply chains, joint research projects and significant direct investments. This will act as a catalyzer of important administrative and economic reforms that would improve the overall business environment for companies in both entities.
- Although the free trade negotiation talks at the highest ministerial level remains inconclusive, both India and EU should take immediate steps to chalk out a roadmap to complete their Free Trade Agreement (FTA) negotiations by the end of this year. The BTIA will be the most comprehensive agreement between many of the great democracies. With this in mind, the Summit urged the European Commission and the Government of India to make every effort to capitalise on a great opportunity to give fresh vitality to the European and Indian economies and move rapidly to the completion of the EU-India FTA.

iii. Taking into account the issues that were highlighted, the EICC will once again focus its objectives for creating greater collaborative approach for mutual economic benefit. The Trade and Investment Partnership Summit (TIPS) 2016 takes place in the background of some important developments:

- EU-India Summit which took place in Brussels on 30 March 2016 after a lull of four years
- India Economic Mission led by Minister-President of Flanders Government from 23-28 April 2016
- India becoming the fastest growing major economy in the world and announcing of sweeping liberalization in FDI policies by the government
- Socio-economic and political developments in Europe threatening disintegration of the European Union as an institution
- Continued uncertainty in Europe after the BREXIT referendum

iv. This document has been prepared as a 'Background Paper' for the EICC Annual Flagship event, the Trade and Investment Partnership Summit (TIPS) with the theme **“Europe and India – Anchors of**

Economic Stability in Today's Chaotic Times" focusing in opportunities for joint venture, technical collaboration and business opportunities between Indian and European companies in the following specific sectors: Clean Energy, Smart Cities, Digital India, Make in India and Skilling India. The background paper is a reflection of growing mutuality of interest between European and Indian in general and companies in Flanders in particular. The objective behind putting together this paper is also to provide the conceptual background for facilitating discussions on aspect of broader framework of EU-India relations. In addition to EICC's own research and study, this paper has taken note of observations and opinions of expressed o various aspects of economic cooperation.

v. The Summit is being organized in association with the **Embassy of India** and in collaboration with **BusinessEurope, Eurochambres, Belgo-Indian Chamber of Commerce and Industry (BICC&I)** and **Europe India Foundation for Excellence (EIFE)** and with the support of **Flanders Investment and Trade (FIT)**. A total of specially invited 175 participants from India and European countries will attend. As ever, a diverse group of political leaders and experts from industry, finance, academia and the media are being invited.

vi. The TIPS is an annual meeting designed to foster dialogue between European and Indian companies. Every year, between 175-200 policy makers, experts from industry, finance, academia and the media are invited to take part in the conference. For last several years the TIPS has become a forum for informal discussions about major issues facing the EU-India trade and economic relations. However, the TIPS 2016 will see a strategic shift in the policies, programme and approach as this time the focus is to bring Indian and European companies in general and companies in Flanders in particular on one platform to review the prospect of enhancing trade and economic relations with India. It is designed as a follow-up of the India Economic Mission of the Flanders Government which took place from 23-28 April this year in an open and transparent manner with the objective of strengthening business collaboration. Thus in the background of economic reforms in India, the Summit will discuss the market access issues both in India and in the EU countries in order to benefit European companies that are already engaged with doing business in India or are planning for some collaboration. Although all economic programmes announced by the Modi government has relevance for European companies, the TIPS 2016 will only focus on specific sectors in which companies from Europe and India can make presentation of their technology and services in order for Indian and European companies to demonstrate the potentials and opportunities. Following the day long Summit, one full day has been reserved for plant visit, B2B meetings and business negotiations.

vii. Government has made efforts to make India an easier place to do business and has also taken steps to improve the potential growth rate of the economy, even though these are incremental in nature. Raising the FDI limits, steps taken to introduce a bankruptcy code, reform the public sector banks, making auctioning and environmental clearance process transparent, pushing forward financial sector reforms and on-going efforts to modernise the monetary policy are some of the notable reforms initiated by the government. However, the government needs to ensure that FDI inflow increases in the big sectors such as manufacturing which will help in increased capital formation but reviving stalled projects. The use of latest technology has been given prominence in the New Industrial Policy. Therefore, foreign technological collaboration has been allowed. India incorporates a giant socio-economic class and 55% of its population is below the age of 25. High economic growth and escalating per capita income has resulted into higher growth in the national market, which is the prime growth engine for Indian marketplace.

viii. In June Indian government announced sweeping economic reforms and has taken bold decisions in liberalizing foreign direct investment norms in a number of sectors. In what showed a mindset shift among India's policymakers, the government opened the floodgates for foreign direct investment (FDI) by easing the terms for nine sectors. Showing scant signs of legacy inhibitions, it virtually paved the way for even foreign airlines to acquire their Indian counterparts, removed the condition of domestic access to state-of-the-art technology for 100% FDI in the defence sector and put in abeyance the fractious 30% local sourcing norm for FDI in single-brand retail of advanced-technology products. This was the second wave of such major reforms government has initiated under which most of the sectors for FDI would now be under the automatic approval route, except a small negative list. With these changes, India is now the most open economy in the world for FDI.

ix. Government of India highly emphasizes on the development of infrastructure in highways, ports, railways, airports, power, telecom, etc and is constantly looking for domestic and foreign private investment to further enhance its economic prospect. Changes introduced in the policy include increase in sectoral caps, bringing more activities under automatic route and easing of conditionalities for foreign investment. These amendments seek to further simplify the regulations governing FDI in the country and make India an attractive destination for foreign investors. These reforms have resulted in India's FDI inflows increasing to \$55.5 billion in FY16 from \$36 billion in FY14. Net FDI inflows stood at \$36 billion in FY16 compared with \$32.6 billion in FY15.

In the context of the above, the broad objective of the event is to:

- Promote awareness about the current FDI regime in India
- Promote awareness about opportunities for the European businesses in following sectors: Defence, Pharmaceuticals, Food Processing and Civil Aviation.

The TIPS will provide business leaders and decision makers with the opportunity to:

- Discover and analyze how Indian companies and firms can serve as potential buyers of European businesses or viable partners in their economic growth;
- Learn the lessons that CEOs and dealmakers have experienced when successfully completing cross-border transactions between India and Europe;
- Gain inside knowledge about augmentation of business capabilities through cross-border acquisitions or direct in-country growth;
- Network with major influencers and decision makers in the European and Indian business communities.

Importance of EU-India renewed cooperation after the EU-India Summit:

1. EU-India economic relations in the form of bilateral investments and trade negotiations constitute important elements in EU-India bilateral relations particularly because India is now the fastest growing economy in the world. On the state of play and current thinking on EU-India economic relations, Chamber's perspective is that most of the longstanding irritants in the relationship have moderated as a result of several economic reform policies during the last two years. Given the

significant interest in the economic relationship and the structural factors moving India and its economic system more into the direction of global incumbents' economic policies, the atmosphere for building further confidence in policy cooperation between EU and India is relatively getting stronger. These conditions however will not last forever, and whether there is sufficient goodwill in the relationship to offset the challenges likely to arise from the period of painful economic adjustments soon needed on both sides depends on what the two sides do now to demonstrate mutual interests. Both EU and India should reinvent potentials for their long term interest rather on concentrating on regional and smaller issues.

2. The EU and India should prioritize the need to advance the multilateral trading system. They can accomplish this by adopting bilateral trade and investment measures that they would like to see other countries emulate. This should begin with the signing of the long pending free trade agreement. To further enhance bilateral trade flows, the EU and Indian governments need to engage more actively with regular meetings of business leaders of various sectors to harvest specific ideas, including on such issues as green technologies, agricultural production, collaboration in higher education, and the protection of intellectual property. The EU should also liberalize its visa regime so that additional talented Indians can contribute to its economy. It is also important that India takes several steps of its own. To encourage greater economic activity with the EU, the Indian government should establish robust rules for protecting patents and other intellectual property and adequately enforce those rules. It should also increase access to the Indian market by lowering tariffs, eliminating off- set requirements, increasing investment caps and facilitating business visas.

3. A decade has gone by which brought several new elements in the EU-India economic relations. Just as the India of 2016 is different from the India of 2006, EU too is very different today what it was in 2006, both geographically and structurally. Both countries have faced crisis of confidence - internal and external with terrorism becoming a serious global issue - and are trying to address the emerging challenges. While European Union faces a social breakdown due to migrant crisis, India is equally facing several economic and social challenges. History shows that many nations have lived through stagnation and nations have always survived however, the EU is not a nation, it is an association that is in formation and will not survive a decade or more if the current situation continues specially after the BREXIT. Although the 17-nation Euro zone is only just coming out of a recession, new political and financial risks are emerging. A growing Indian economy provides benefits for the health of the world economy, as well as the European economy through bilateral trade and investment activities. India and Europe are both democracies and the extent to which Indian and European interests and values coincide is crucial to countering this authoritarian tendency. It is in the interests of Europe to see a world in which democratic societies prosper. India is the world's largest democracy, and the ability of Europe and India to work together will boost the climate for democratic ideas. Both countries will also reap the benefits that come from closer bilateral economic and defense ties.

4. Series of reforms announced by India in particularly increasing Foreign Direct Investment in a number of sectors is going to provide a fillip to the potential of EU-India trade and economic relations. The widened scope of FDI norms in defence, civil aviation, broadcasting services, and pharmaceuticals will make foreign investors more comfortable and confident in the country's economic policies which will further help EU-India bilateral trade. These sweeping reforms are aimed at shoring up confidence in

the Indian economy among foreign investors at a time of uncertainty over European economy and the post vote situation arising out Britain's vote to remain in the European Union. In the next decade, India will see substantial investment flowing into energy (generation, distribution and transmission), mining, water, waste treatment and ports infrastructure. In technology, India's software sector has evolved from the low-cost, "back office" operations set up to an integral part of corporations' global manufacturing enterprise. FDI will flow into advanced communication, visuals, automobile, biotechnology and healthcare. In order to take benefit of growing Indian economy, Europe needs to resolve to facilitate greater movement of professionals, investors and business travelers, students, and exchange visitors between their countries to enhance people-to-people contact as well as their economic and technological partnership.

5. The TIPS 2016 looks for stronger joint-venture approach to economic relations. The joint-venture is a metaphor drawn from business where firms from Europe and India have kept their overall independence rather than merge, but have cooperated deeply on certain issues where both have benefitted. EICC is of the view that this is a good model for EU-India economic cooperation and for developing stronger relationship.

6. India now has a higher rate of economic growth than China. And though it is still a smaller economy than China's—about a fifth the size of the Chinese economy—it is getting to a range where the growth of the Indian economy can help global demand and be useful to the world economy. This is especially true as Chinese growth rates slow down. In that sense, a growing Indian economy provides benefits for the health of the European and the world economy through bilateral trade and investment.

7. There are significant opportunities for India and the EU to deepen the bilateral trade and investment relationship. While the economic relationship has seen impressive growth over the last 10 years, this has been off a low base and there remains significant room for improvement. Indian barriers to trade and investment, including lack of intellectual property protection and enforcement, continue to undermine the potential of the economic relationship. Although an extraordinary growth in business ties and bilateral trade and investment have been witnessed, the EU-India economic relationship has not achieved its full potential. The negotiation of a Bilateral Trade and Investment Agreement would be an important step to addressing barriers to investment and would promote the rule of law and stability at a time of great uncertainty in the global economic environment. Where both share common interests and competitive strengths, such as in high technology, the United States and India should not only mutually eliminate barriers in their own markets, but also move together to open markets globally. Taking this thought forward, Indian companies, too, should look at these agreements as stepping stones to build value chains across countries.

8. With green shoots in the economy looking to strike roots, the government's decision to open up a bunch of sectors serves one big purpose: it prepares the country for attracting funds as global corporations scout around for better returns with easy ownership rules in promising markets. Amidst global headwinds, India still is an economy with comparatively brighter growth prospects over the coming two years. It was only in November 2015 that the government undertook an overhaul in the FDI regime targeting more than a dozen sectors including construction, airport services, banking, defence, broadcasting, etc. The recent measures are a continuation of the progressive liberalisation process. But the government could have dared to be even more radical given the fact that appetite for investment is

low, and the scope for improvement both in terms of 'ease of doing business' and FDI rules in certain sectors leave many investors only half-convinced about the India story.

India takes bold reforms but needs to modernize economic policy to attract FDI:

9. India needs to modernise and reform its economic governance to expand trade and attract the kind of foreign direct investment it needs to build infrastructure. For India to attract the investment it needs, and to expand trade, it will first need to modernise and reform its economic governance and improve its ease of doing business. The measures that India needs to take, like updating its intellectual property regime so that technology and innovations have adequate safeguards, ensuring transparency, predictability, and consistency in its corporate tax code, and providing for an efficient system of adjudicating disputes are needed.

10. In order to substantially increase bilateral trade, Europe and India should address new opportunities to break down barriers to the movement of goods and services, and support deeper integration into global supply chains, thereby creating jobs and generating prosperity in both economies. India has the potential to grow to \$10 trillion economy in the next twenty to thirty years if it can maintain its current growth rates, let alone attain sustained double digits. Although India must overcome its own domestic political challenges to its economic reform process, Europe should support and assist in its support for India's reform agenda. Europe should take steps to enhance trade and offer technical assistance that India seeks to advance its reform goals.

11. India and Europe have much in common as the world's two largest democracies, but differ in their tactical approaches to advancing democracy and human rights. The transformation of the EU-India strategic partnership stands as one of the greatest changes of the past decade, but there is much room to grow. It is indeed gratifying that after a lull in the economic and trade dialogue, the EU-India Summit took place in Brussels on 30 March 2016 paving the way for renewed, definite and unmistakable dialogue on the long awaiting Bilateral Trade and Investment Agreement.

12. There is a history of collaboration between Indian and European companies. The biggest reason is the high potential of Indian market and economy. Along with China, India is the only country that can make a difference to majority of the companies' bottom lines. One can learn from a simple statistics the reason why European companies are coming down to India. India needs to expand the basis for collaboration. India ought to take advantage of the wealth of technologies available only to Europe's closest partners and establish greater operational ties with the EU States to boost its military effectiveness without forfeiting strategic autonomy. At the same time Europe should take urgent steps to ink a free-trade agreement with India. Brussels should pursue such an accord on a specified deadline while negotiating various arrangements to lower bilateral trade barriers in the interim.

Opportunities for European companies to benefit from the growing Indian economy:

13. The Indian economy is growing at a rate of nearly 7.5 per cent per year, and, as a result, the spending power of the middle class has been growing rapidly. Indian companies are certainly capable of addressing the development and volume manufacturing of basic technology products, but the market is beginning to demand more sophisticated products and services, which Indian companies are not able to offer, at least not yet. That creates opportunities for European companies to step in. An example is the development of world class websites. Indian software companies clearly do not need help with

developing software for complicated websites in a cost effective way. However, good technology does not necessarily make a great website.

14. With the wave of new reforms India has now become the most open economy of the world. This opens business opportunities for investors in the new areas which they never expected to be thrown open. By unleashing these reforms, India has also disarmed the concerned investors and also the European Union which has been seeking reforms to FDI rules ever since the FTA negotiation started in 2007.

15. Small and medium sized Indian companies need help to overcome the challenges of the European market. Traditionally they have been relying on referrals by “friends and family” in Europe, but to scale their business they need partners to help them with marketing, sales, and account management. Such a partnership can create a win-win situation for both European companies and the Indian companies. It allows the European partner to complement their core expertise with cost effective add-ons, which may make them more competitive in their own market.

European Union faces the challenges of change after BREXIT

16. Much to the dismay and disbelief, the BREXIT has happened and the 27 European Union now has to chart out its future without Britain in the EU. Brexit continues to send shock waves around the world. If 9/11 will be remembered as the watershed event of the century which changed people’s lives, global economy, security, social interactions and international relations; the BREXIT will be remembered as the most important event of Europe since the fall of the Berlin Wall. This development is going to have far reaching consequences for peace, security, stability and development of Europe. Brexit will go down as one of the defining events in the history of international relations and the first such exit for the EU since its foundation. It is also one of the rarest occasions when a government sought public opinion on a decision that could leave a long-term impact on their future. In general although immigration and other social issues were the focus of the LEAVE campaign for BREXIT - it goes beyond that - it expresses a general mistrust of transnational arrangements which impose a common set of economic, legal and cultural rules.

17. The EU has emerged as the most significant entity in the post-Second World war, and the most advanced example of institutional cooperation between countries of Europe. Centred on an understanding of power embodied in its institutions and norms EU is a model never seen before in the history of nations. Its scope should not be underestimated nor should the symbolic power it possesses in a continent whose nations have fought wars for centuries. Preserving unity and flexibility within a diverse system is the secret of EU’s success and strength. It has built a federal system which has brought the Union to an unparalleled and historic level of federalism – the best antidote to the emergence of nationalism.

18. However, BREXIT has exposed the fragile nature of this unity. The tragedy of the European Union is that here policy reforms start with good intentions but as it grinds through political interest of various member states, they lose momentum, purpose and objectives. Many member states of the EU time and again have made the Union the scapegoat for their failure to address the domestic issues. This is the tragedy of a paradise called the European Union, and, a victim of this tragedy is the unfortunate exit of Britain from EU. These are uncertain times for Europe and Eurozone, and major challenges to the future of Europe lie ahead. The Europe is undergoing a period of instability, and it is far from clear how,

or when, or if, it will end. Thus the risk to the European Union is primarily not in Brussels, but in the domestic political landscape of the member states.

19. Prediction about the demise of the European Union is overblown and without strong credentials although the Brexit has definitely pushed the EU into a period of introspection about its most fundamental tenets. Whether they are strengthened or discarded depends on the ability of the 27 remaining members to redefine the future of Europe should look like. Also, to overcome the after effect of the BREXIT, the EU will have to introduce a political process to its workings as majority of EU countries have been demanding changes in the functioning of the institution. Therefore the EU now has a choice about whether and how to reform its institutions, whether to continue to try to bring in new members, and what forms of integration it will pursue among the member states that remain.

20. The EU remains a unique form of political and economic partnership among sovereign nations and its trade policy is one of the most- developed and integrated evolved along with the principles of common market. To defeat the fear of disintegration due to BREXIT, catalysing further cohesion in the EU through greater economic integration and cooperation is now a necessity.

21. Britain's leaving Europe means giving up its alliances, forsaking its position at the negotiating table and abandoning its international responsibilities. It risks setting off a domino effect that undermines its allies. The economic impact of Britain leaving the EU will depend on a number of tough decisions in the UK and Europe. Also, the economic advantages and disadvantages of Brexit will depend to a large extent on the future relative economic dynamism of the EU and how it negotiates its future trade relations with the EU. By leaving the EU, the U.K. would need to renegotiate trade agreements individually with other countries. This will be challenging when creating deals with major nations such as the U.S. that currently have an agreement in place with the 27-nation partnership.

22. It must be mentioned that Britain's relationship with Europe has always been ambiguous. Britain joined the postwar club constructed on other countries' terms late, and never felt quite comfortable inside. It reacted with hostility whenever it felt its judicial, parliamentary or governmental sovereignty were being questioned. In some logical sense, Britain was never a part of the EU in spirit or in letter as ever since it joined in EU 43 years ago. However, one cannot disagree that three trillion Euro British economy is the fifth largest economy of the world (EU is 18 trillion Euro), is a member of the NATO and a Permanent Member of the UN Security Council. It is a part of Europe and has considerable global influence and plays major role in international affairs. The BREXIT has only changed its trade and economic equations with the EU but there is no denial of the fact that UK is one of the most important countries of Europe and plays a global role with larger global ambitions. Britain, along with France and Germany, has been crucial to many of the EU's efforts to work together on foreign, security, and defence policies. Losing Britain will undermine such efforts, potentially further weakening much sought for efforts to strengthen the European side of NATO.

23. With Britain leaving EU may create a degree of uncertainty but is doubtful if it shall have long term consequences for the EU's stability as an institution. Brexit has posed questions about understanding European integration and policy questions about how the rest of the EU is going to respond to the UK's leaving the Union. It is true that the BREXIT has dealt a serious blow to the unity and integrity of the EU but its inherent strength and appetite to remain united will see them sail through this crisis. The economic recovery though slow in European countries but coupled with combined synergy to deal with economic consequences of the BREXIT and "fear of fall" will make them more resilient to face the challenges of change. The EU leaders will do anything and everything that it takes them to keep the

Union insulated from future such shocks. The EU has overcome the Greece economic crisis with its timely and apt handling of the situation. It has overcome its monetary crisis and Euro has regained faith. It has proved that it can rise to the occasion and it has a strong will and means to deal with the crisis. Under this scenario, in the long run the EU could finally emerge stronger, resilient, forceful and dynamic.

24. Transforming Britain into the deregulated, free trading economy outside the EU sounds easy in theory, but in practice it could come up against some serious political resistance within the UK itself. The worst scenario is if the UK pursues protectionist policies. The UK is the largest recipient of FDI in the EU and the Brexit is set to reduce the attractiveness of the UK as a gateway to Europe. It could also lead to a reduction in investment from the rest of the EU, which is the biggest source of FDI in the UK. It may become harder to attract corporate HQs. Half of all European headquarters of non-EU firms are in the UK, with the UK hosting more HQs than Germany, France, Switzerland and the Netherlands put together. The UK would either need to negotiate third-country treatment under the directive or a series of new double taxation agreements with member states. That would take a considerable amount of time.

25. Over the years, Members of the European Parliament representing Britain have played a major role in the affairs and functioning of the European Parliament with their colourful debating skill and sometimes directionless mission. India has enjoyed an effective and engaging relationship with British MEPs in particular (the Chair of the Delegation of European Parliament's Relations with India is a MEP from Britain) as they have been of great support and strong voice for India in the European Parliament. European Parliament will not be the same without British MEPs and India will miss their presence.

26. The issues that were debated and highlighted by the LEAVE campaign in the run up for the referendum cannot be entirely ignored nor rejected. It is therefore important that the European Union rediscovers itself against new development, redefines its vision in the face of uncertainty to remain relevant in this turbulent and prolonged economic and social crisis in Europe. With Europe's economic fortunes still not out of woods and prospects for a rapid turnaround remaining elusive; lack of coherent migration policies by member states, it is important that all 27 remaining EU countries speak with one voice and one mind over Europe's future.

27. While as a result of BREXIT, the EU is now confronted with some unexpected challenges, the new developments in the EU has some challenges for India too. Business in India and Europe have a stake in the "United" Europe. So long India has been dealing with Europe with Britain as a part of the Union but the BREXIT requires new policy approach from India, new strategic direction and shifting of economic interests and priorities into two major entities. On the trade front, India will have to negotiate pacts with both the EU and the UK. Post BREXIT, India will need to rework the proposed free trade agreement with the European Union. However, Britain is likely to go out of its way to keep Indian investors interested to offset a fall in trade and investment from the EU. Besides, India's trade with the UK has remained stable over the last decade, even as the share of EU in its imports and exports has dropped over this period. India's historical ties with the UK have kept the economic alliance going — and that may actually improve with Brexit. Britain leaving the EU is going to be a temporary setback for Indian companies with operations in the UK but this also opens new pathways for India to open bilateral trade negotiations with individual countries. Indian companies will continue to command sizeable market share in the EU and there is no risk for trade barriers increasing. India has been pursuing multi-faceted relationship with most European countries including Britain and the EU. It has more contacts with individual European countries than the EU.

28. While EU will reassert its power and influence to see that EU remains United and resilient one issue which will confront India is should India pursue other alternatives, should India reduce its bilateral cooperation with the EU, should India take recourse to change its policy of engagement. India cannot ignore the fact that EU today world's largest exporter of goods and also the second importer. This bears testimony to the importance of trade to EU.

29. To many in India, the European Union may not sound too attractive primarily because of the lack of knowledge and interest in India about EU; and also to many the changing institutional dynamics and emerging complexities in the EU structure may sound too confusing and directionless, but those have witnessed the recent developments in Europe and how India is becoming an integral part of Europe's economic system it would not be unrealistic to say that India and Europe not only share historic relations, they also share common economic vision.

30. Indeed Europe and India are at a complex and interesting crossroads in their relationship. As the role of India and Europe grows in a globalizing world, the two sides find they have an increasing range of interests or at least increasing contact - in economic, political, diplomatic, and security terms - in an increasing number of places around the world. Both sides see value in deeper relations but also have doubts about how far and how fast. As the largest open societies in the world, the EU and India share a commitment to participatory democracy, human rights, good governance, and rule of law. The EU is India's largest trading partner and one of the largest sources of foreign direct investment for India.

31. In the corridors of trade and economic diplomacy in Brussels and New Delhi, one issue which has received the widest interest, publicity and concern is the ongoing free trade negotiations between EU and India. While it is true that EU-India relation does not have the same hyper-resonance as India has with the US, it is nevertheless of strategic importance to both. As both seek to broaden their co-operation, much will depend on how they tackle the challenge of reconciling their positions on numerous issues. Both sides are claiming to have resolved many differences with much of the discussion focused on content and modalities, they seem miles apart. From the Indian business perspective, although India has softened its stand on trade liberalisation of a large number of products including on EU's demand on intellectual property protection, procurement policies including data exclusivity and enforcement, there seems to be never-ending demand from the EU side. There is resistance to India's core negotiating demand to gain better access for Indian investors and service suppliers, and allowing greater mobility of skilled Indian professionals in Europe.

32. Negotiations for an EU-India Broad-based Trade and Investment Agreement (BITA) began in 2007 but have hit speed bumps over complex issues including tax, market access and free movement of labour. A recent high-level summit between the EU and India in March 2016 has reinvigorated the process. Prospects for a Free Trade Agreement between European Union and India now appear good after the EU-India Summit held on 30th March in Brussels but there remain potential obstacles as the result of protectionist storm seems to be shaking EU's single market. The EU today seems less homogeneous but perhaps most disturbing aspect of this is that protectionist measures in one country appear to trigger protectionist response in other EU member states. India's rapidly expanding role in the world economy as a buyer and seller makes it an important target for the EU. From the Indian side, the free trade agreement would be a move from its reliance on a unilateral liberalization policy with extreme reluctance to commit multilaterally.

33. While Europe's exchange of goods and services with India has continued to register encouraging growth even in the absence of a Free Trade Agreement, a deal would give the economic relationship a considerable additional boost. This would notably be the case with respect to European investment in India, which has been slipping lately primarily due to lack of further liberalization. Despite all uncertainties, the conclusion of the agreement remains the most tangible deliverable in the EU-India partnership, and without parallel in the EU-China relationship. Brussels, for its part, certainly entertains no such plans with Beijing for the time being. Any serious consideration of a Free Trade pact with China remains unlikely without the prior conclusion of the elusive Partnership and Cooperation Agreement, and as long as the severe imbalances in the economic relationship persist.

34. The European Union is India's second largest trading bloc, accounting for around 20% of Indian trade and India was the European Unions' 9th largest trading partner in fiscal year 2014-2015. Whilst EU-India trade had continued to progress in absolute terms for the past several decades, the past couple of years have shown a decrease in trade. The European Union's commercial presence in India has been dropping at an alarming rate: market-share in India for goods and services from the European Union has fallen by more than 50% over the past decade. Statistics from 2015 indicate that India-European Union trade in goods and services are on the decline. During the fiscal year 2014-2015, trade in goods dipped by about 4% to US\$98 billion (€88 billion) while trade in services pulled-back by 2.5% to US\$26 (€23 billion) billion in 2013. At stake is an agreement that would create one of the world's largest free trade zones. India's relations with bigger European countries have prospered on a bilateral basis over the decades. India enjoys robust economic and trade relations with Germany and France, and Britain.

35. The big TWO after BREXIT which now wield the most influence within the EU – Germany and France - have developed multi-faceted ties with India irrespective of the EU. India has preferred to give weightage to bilateral ties with individual EU states and bigger countries. However, Delhi's growing economic relationship with the two have underperformed and has not translated into robust trade ties. The under-performing EU-India Strategic Dialogue has been described as high on rhetoric and low on substance. Indian dialogue with institutions of the EU is conditioned through the lenses of bilateral strategic relationships with this EU TWO.

36. In last two years India has initiated major changes in India's economic policies marking a new phase in India's development strategy. The broad thrust of the new policies is not very different from the changes being implemented in other developed countries. They aim at reducing the extent of Government controls over various aspects of the domestic economy, increasing the role of the private sector, redirecting scarce public sector resources to areas where the private sector is unlikely to enter, and opening up the economy to trade and foreign investment. These changes have been accompanied by a lively debate in India and have also attracted interest abroad. International opinion has typically welcomed the reforms and generally urged a much faster pace of implementation, especially in view of changes taking place in other countries.

37. In these uncertain times and slow economic recovery, Europe needs greater economic and political integration to maintain the four pillars of freedoms, the principles on which the foundation of EU is based – the freedom of movement of people, goods, capital and services. EU and India are well placed to address these emerging challenges provided there are framework conditions in place that encourage these linkages. The EU and India need to demonstrate the political will and maturity to work

for common ambitions in the areas that will dictate and determine the challenges they face. To achieve this, India will need to seize the opportunity to reinforce mutual economic synergy and strategic alignments. Without active Indian efforts in this direction, the India-EU relations may not live up to its full potential for either party. Against this geopolitical and economic backdrop, business community have a role to play for enduring friendship between EU and India.

38. Europe offers Indian companies opportunities to make joint ventures, M&A and open shops in Europe. Already top Pharmaceutical companies in India have shifted a major part of their manufacturing bases to major pharma markets of the world and particularly Europe as the export is becoming the key to higher profits. Many Indian companies have acquired strategically placed European companies. The Indian outsourcing providers are increasingly focusing in Europe in order to gain traction in the continental Europe. The EU is extremely important for India's burgeoning information technology and outsourcing sectors and it can continue to take advantage of India's pool of knowledge-based workers.

39. India, among the European investors, is a good investment despite bureaucratic hassles, infrastructural deficiencies. India, which presents a vast potential for overseas investment, is actively encouraging the entrance of foreign players into the market. The changes in the FDI rules and other economic policy reforms is a testimony to the fact. Amongst the European investors what is missing in doing business with India is the right attitude and awareness. The EU and India could improve synergies between companies, corporations and sectors and bridge this gap. There is higher awareness among US companies about investing in Research & Development in India whereas the presence of European companies in this field is not very significant. This is where effective role of business's role comes in. The entry of greater number of Indian firms through green-field projects into Europe offer valuable competitive challenges to local firms to further improve their productivity, quality, and technologies. In this way the rise of Indian MNCs competitors can play a positive role in the improvement of efficiency at a European level. What is therefore required is how the EU and India could improve synergies between companies, corporations and sectors.

40. In the fast growing world of trade and investment between EU and India there is always an element of dependence that requires exclusive and special need to enhance business interest. Given the state of affairs today, the economic cooperation between India and EU may make sense in the long run but as yet its impact on both sides are very limited. At the center of the debate is how India will balance its business, economic and strategic interest with Europe and US. India's passage to power in the world stage suggest that India will be a pillar of cooperation together with Europe and US as a tripod. Notwithstanding India's promise and potentials, economic growth will require business, government, academics and key members of the society to confront and overcome the challenges. Business, economic and social actors should address how EU and India can really operationalize and to make the "Partnership" really strategic that manifestly serves interest of both countries and stability and prosperity it would bring to both countries.

BREXIT: Opportunities to re-kindle UK-India trade relations

41. European Union loss could be India's gain given India's historic relations with Britain. With Britain carving its own identity in Europe away from EU, UK-India relations which has been 'imprisoned by past' for too long is set to become dynamic with big fillip to trade and economic relations. In this new scenario both nations are set to focus on current shared interests such as global trade and finance, counter-terrorism and energy security, rather than harking back to negative legacies of coloniser and

colonised. As India becomes increasingly powerful on the world stage, the UK will need to position itself carefully to ensure that both countries are partners in progress. Beyond economic and military parameters, residual strengths continue to provide areas of sustained strategic convergence and co-dependence. Core economic values maintain their relevance, particularly in the post-BREXIT era. These linkages underpin dialogues on sustainable development and climate change, and forging collaborative policies in international negotiations.

42. It is expected that after its exit from the European Union, Britain is likely to focus on its direct bilateral trade agreements with India, which means that the sluggish UK-India trade ties will get a real boost in the coming future. This might provide an alternate route to India, in comparison to the tough and the drawn-out negotiations on the EU Free Trade Agreement which has been hanging on for last nine years, in turn providing a fillip to a slowing India-UK trade. Britain needs to exploit its links with India to become its preferred partner in business and other fields before the increasingly powerful commonwealth country turns its attentions elsewhere. Britain is a big recipient of investment from India. Such private ties matter a lot and may prove more resilient than deals struck for diplomatic gain. As India liberalises its FDI rules and more economic reforms economic introduced during a current round of reforms more British capital is likely to flow.

43. In the emerging uncertain scenario, though still in flux and unpredictable, India will need to utilise the opportunity to forge a more meaningful partnership with Britain as Brexit+ offers new opportunities to engage with a UK that is bound to become economically more free. If India gets into the act fast, it may be possible to negotiate a mutually beneficial FTA that had become impossible under the EU. The UK can remain India's foremost trading outpost in the West. Brexit signals new opportunities for India and Indians.

44. India had emerged as the third largest source of foreign direct investment for the United Kingdom last year, after United States and France. Britain's exit from the European Union will make Britain's engagement with India more important to its future and Indian firms will see opportunities to invest in the UK despite uncertainties over its trade ties with the EU.

45. India is now the third-largest source of foreign investment in the U.K. In fact, Indian companies invest more in the U.K. than in the rest of the European Union combined, despite the fact that Britain's economy is just 17.5 percent of the whole EU. The bilateral trade between India and the UK stood at \$14 billion in 2015-16 as against \$14.33 billion in 2014-15. India has received \$23.10 billion FDI from Britain during April 2000 and March 2016.

46. Brexit is set to provide a "massive boost" to trade ties with India. New opportunities for the UK and India to cooperate more closely and develop stronger trading links would emerge as the UK re-aligns its foreign policy and trade priorities. Brexit would allow businesses set up by Indians in the UK to build on trade deals with India-based organisations. This would also be the case for other British businesses looking to enter the Indian market, allowing for increases in investment partnerships. The UK shares India's outward-looking worldview and is keen to work more closely with India to support its ascent. In closer partnership together we can support more free trade and cooperate on other issues such as international security.

47. Brexit is set to enhance strengthening of India-UK economic relationship in the longer run. It is going to increase UK's focus on being seen as an independent market with a renewed focus to build scale and new markets, which in turn could work in favour of India. India's focus on innovation,

entrepreneurship and high-end work, renders it a very attractive destination from a talent standpoint, and equally in terms of market access. This could work to the benefit of the IT sector in India, since UK currently accounts for about 17% of India's IT exports worldwide. Brexit would make UK less dependent on intra-EU immigration into UK and this could make UK more open to high-skilled immigration from non-EU countries such as India. Further, UK would be under no obligation to adopt restrictive EU data localisation norms which it does not subscribe to in their entirety. All these factors could benefit India-UK bilateral economic relations.

48. Bilateral trade between India and the UK stood at \$14 billion in 2015-16, marginally lower from \$14.33 billion in 2014-15. Although the EU has the power to conclude trade deals on behalf of all of its members, individual states can promote themselves as destinations for investment and trade. And other member states have made progress in pursuing economic links with India. For example, FDI outflow from India into the Netherlands has been steadily increasing, suggesting a Dutch financial gateway for Indian companies into Europe.

Making "Make in India" successful through enhancing business collaboration:

49. "Make in India" was launched with the twin objective, one to increase India's share in GDP and other to generate the employment opportunities to the growing population in India. India's economic success is critical in terms of increasing economic distress caused by falling commodity prices, deflation, currency wars, increasing protectionism and reducing global trade. It said that the development of industrial corridors, investment & manufacturing zones, and 'smart cities' will further bolster investment inflows. "In particular, flows into the manufacturing sector are likely to accelerate as the government seeks to boost the sector's share of gross domestic product (GDP) to 25% by 2022. Government investment in infrastructure and the establishment of a dedicated fund in last year's Budget to foster private sector participation in infrastructure projects will also help address some of India's deficiencies in this area and foster FDI. With green shoots in the economy looking to strike roots, the government's decision to open up a bunch of sectors including defence, aviation, pharmaceuticals and retail to FDI serves one big purpose: it prepares the country for attracting funds as global corporations scout around for better returns with easy ownership rules in promising markets.

50. Opening doors for foreign companies to set up manufacturing plants in India is definitely a very big step that the Modi government has taken as a part of their "Make in India" campaign. The "Make in India" mission can be made successful by growing and existing businesses, especially in the manufacturing and trading sectors.

51. The boundless potential for e-commerce, telecommunications, social media, and endless other business ideas that will arise from enhanced connectivity is staggering. European companies can provide the goods and services needed to upgrade and build India's railroads, airports, power plants, and fiber optic cables. According to one estimate India will need to invest \$143 billion in health care, \$392 billion in transportation infrastructure, and \$1.25 trillion in energy production by 2030 to support its rapidly expanding population

52. As the Indian government itself acknowledges, growth presents its own challenges. Managing growth in a way that includes all segments of society is a top focus of the Modi government. The sustainable economic growth is best achieved by cultivating a broad base of support for market-driven approaches. Many European businesses are spearheading innovative strategies that don't just sell goods

and services in a vacuum, but also can help enable the local ecosystems within which they work. Because activities like strengthening supply chains and training workers have multiple long-term payoffs. Enabling ecosystems will enhance the labor pool, build stronger suppliers, and create millions of new consumers.

53. Chamber's own study emphasizes that questions about whether India can become a manufacturing powerhouse should be laid to rest. Aside from cheap, abundant and skilled labour, and a technologically savvy workforce, India also has an abundance of natural resources. That Indians can harness the strengths of technology has been proved over the years. This advantage will prove vital as India improves its manufacturing process along with bringing in efficiency.

54. Boosting manufacturing and laying the foundations for a better infrastructure go together. Infrastructure spend has been largely stagnant at 5.0-5.5% of GDP over the past decade compared with, say, China which has been spending close to 15% of GDP on infrastructure. To boost global competitiveness, infrastructure plays a critical role as it streamlines movement of goods. With a good manufacturing base, investments in infrastructure will improve. This is where European companies have a huge opportunity.

55. One area that needs to be addressed is smooth movement of goods in the country. The cost of logistics eats into the effort that can make India a manufacturing powerhouse. With the passing of goods and services tax (GST) productivity will improve tremendously, which will, in turn, reduce costs in the manufacturing process. It will boost India's manufacturing image globally as a producer of quality goods at considerably lower costs. India's Upper House of Parliament on 3rd August passed a landmark tax reform bill that will pave the way for the introduction of a new national sales tax, creating a common market across the country for the first time. GST will turn India into one common market, leading to greater ease of doing business and big savings in logistics costs from companies across all sectors. The GST law is the most important reform towards creating a single market in India. It can help to boost the India's GDP growth by 1 to 2 percent as this will help faster and cheaper movement of goods across the country with a uniform taxation structure. GST successful implementation would give a strong signal to the foreign investors about our ability to support business, besides it will enable wide-scale changes in the tax structure which will have long term positive effects on India's economy.

56. GST is a tax on goods and services with comprehensive and continuous chain of setoff benefits from the producer's point and service provider's point up to the retailer's level. It is tax only on value addition at each stage, and a supplier at each stage is permitted to set off through a tax credit mechanism, the GST paid on the purchase of goods & services as available for setoff on the GST to be paid on the supply of goods & services. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with setoff benefits at all the previous stages. GST is one of the widely accepted indirect taxation system & prevalent in more than 150 countries across the globe.

57. A strong manufacturing sector also needs a robust investment environment. Capital availability is the biggest factor that can lead to investments into the manufacturing sector. To achieve this India has to not only improve the investment rate, but also improve the utilization of capital so that the most productive and priority sectors get the right capital funding. However, new manufacturing capacities may take a little while to get started as the balance sheets of many companies are stretched with the weight of loans. The banking system, too, is facing high amounts of non-performing assets, which includes restructured assets, and tots up to nearly 12% of gross advances.

58. It is essential that the government's "Make in India" manufacturing initiative is linked to a strong investment environment as this is one of the ways to attract households and other segments of society to play a part. Manufacturing currently contributes just over 15% to the national GDP. The aim of this campaign is to grow this to a 25% contribution as seen with other developing nations of Asia. In the process, the government expects to generate jobs, attract much foreign direct investment, and transform India into a manufacturing hub preferred around the globe.

59. For the Make in India campaign, the government of India has identified 25 priority sectors that shall be promoted adequately. These are the sectors where likelihood of FDI (foreign direct investment) is the highest and investment shall be promoted by the government of India. In view of the above, the Chamber believes that both EU and India should

- Commit to a deadline to conclude a Bilateral Investment Agreement. This will signal Indian government support for growing European investment and provide a rules-based framework within which this can occur. It will also support growth in services trade which can be provided through FDI.
- Develop a dialogue with Indian regulators to address how India's "Decade of Innovation" can be supported by stronger protection and enforcement of intellectual property rights.
- Indian government should address issues of investors' concern. There is also a need to present an opportunity to develop a dialogue with India as to what Indian economic reforms could facilitate it to continue the economic progress the country needs.

The Trade and Investment Partnership Summit (TIPS) is set to create awareness on international business opportunities and feasibility of cross-border expansion for Indian and European businesses.

60. Based in Brussels, EICC provides a platform for profitable interaction between the European and Indian business to enhance trade and commerce in their respective countries. In doing so, the EICC directs its energy in assisting Indian inbound investments into Europe, and leverages on this experience by assisting European companies and organizations through the various networks which have been built in India. The EICC is the only chamber of its kind at the Apex level to the existing bi-lateral chambers across Europe and by bringing "Pan-European" perspective to its activities and policies, EICC ensures serving the larger interest for European and Indian businesses and to meet its objectives, it is closely collaborating with Eurochambres and EBTC to create new pathways to serve the interest of Indian and European businesses. The TIPS 2016 will thus address the shared difference, create synergy and bring new elements to the EU-India economic relations.

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