

Europe and India: The Need for Greater Mutual Awareness

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The Expansion of the European Community and India's Future Development

The EC is poised to accept several East-European states as new members. In this way it will be preoccupied with its own integration and will not pay much attention to developments in distant places such as India. A consolidated "Little Europe" would certainly be more effective in dealing with the outside world, but it seems that nobody in Europe would opt for a minimal solution — least of all the East Europeans who wish to join the EC as soon as possible.

At the same time India is on the verge of becoming a major power. Its industrial progress is encouraging — particularly in the new field of information technology. It has a large pool of highly qualified engineers and technicians and will do well in international competition. This also augurs well for international cooperation — particularly with the USA where many highly qualified Indians reside who are able to forge important links with India. This is a trend which literally bypasses Europe.

In the near future India will also benefit for the demographic transition which will free it from the incubus of the "population explosion" which has so far delayed its economic growth. Even in the field of agriculture which has been neglected in the past, India is set to make rapid strides in the near future. For many types of agricultural produce the yield per acre is still fairly low in India. Productivity could be easily improved — and if this happens, India could become a major exporter in this field.

All these developments in India should be closely watched by the people of Europe as they are bound to affect the European economy. But before we return to the urgent need for greater mutual awareness we should survey the past.

India's Historical Experience: British Rule and Protectionism

India's experience with Europe was determined by British colonial rule. But the long freedom struggle against this rule did not imply any rancour against Europe. The teachings of Europe's liberal philosophers were studied by Indians nationalists who used their arguments against colonial rule. Indian nationalists also drew upon the findings of European Indologists in their quest for a useful national past. In economics, they found in Friedrich List a witness who supported their criticism of the

imperialism of free trade. They demanded protection for India's infant industries which was, of course, denied to India by the British. But under the impact of the Great Depression of the 1930s, the British turned to imperial preference and market-sharing. This was an imperfect system of protectionism which benefited the British more than the Indians. Therefore they clamoured for perfect protectionism and saw their salvation in import substitution.¹ This greatly influenced the economic policy of independent India. Moreover, the Second World War forced the British colonial rulers to introduce the instruments of state interventionism which were then taken over by the Government of India under Jawaharlal Nehru.² Using those instruments, India cut itself off from the world market for about three decades and followed a policy of rigid protectionism and import substitution. India could do this because it had a huge internal market which had been only marginally developed under colonial rule. But due to this policy India's share in world trade dwindled after the attainment of independence. However, for the development of its industry India depended on imports of investment goods and petroleum. For this it had to earn foreign exchange — or ask for development aid. European manufacturers of investment goods were the best lobbyists for development aid. They wanted to sell their goods to India, but they did not wish to provide credit to their customers. They would rather see to it that their governments spent the money of the taxpayers on granting development aid.

India got its first major share of development aid in 1957 at the time when the European Community was born. But this community was not seen in a favourable light by India's leaders. Jawaharlal Nehru regarded it as a "rich men's club" from whom not much could be expected.³ Nehru was on the same wavelength with the British socialists who also showed no enthusiasm for the European Community at that time. Nevertheless, India opened a special embassy in Bruxelles in 1962 accredited to the European Community. It was the first embassy of this kind which was established by a state not associated with the EC.⁴ India took this step, because Great Britain had applied for EC-membership in 1961. This was then delayed by De Gaulle's veto, but India's ambassadors remained at the EC-headquarters. Some of them were excellent diplomats with a profound knowledge of international economics. But this was of no avail as long as India and the EC remained indifferent to each other. India insisted on self-sufficiency at that time and for the EC the economic as well as the political contacts with India were only of marginal relevance.

India and the European Community after 1973

Until the early 1970s Great Britain remained the most important trading partner for India. At this time Great Britain was not yet a member of the EC, when it finally

1 D. Rothermund: *India in the Great Depression, 1929- 1939*, New Delhi 1992.

2 D. Rothermund: *An Economic History of India*, London 1993 (Second ed.), p. 115 f.; 130ff.

3 Interview of the author with J. Nehru in January 1961.

4 C.D. Wadhwa and S.K. Mitra: "EC 1992 and Future of India's Exports: A Competitive Strategic Perspective", in: K.B. Lall et al. (eds.): *India, Germany and the European Community*, New Delhi 1993, p. 8f.

joined in 1973, India had to sign a separate agreement with the EC.⁵ In the years after 1973 the first oil crisis forced India to step up its exports in order to pay for its oil imports. In this context India's exports to the EC also increased, but the imports from the EC increased even more and this caused a serious deficit in the balance of trade. In those years India's trade with Germany also increased and nearly paralleled that with Great Britain. Belgium, France and the Netherlands had about equal shares of the remaining 46 per cent of India's trade with the EC.⁶

While the agreement of 1973 was still a necessary sequel of Great Britain's joining of the EC, the extended agreement signed in June 1981 had an altogether different character. This "Agreement for Commercial and Economic Cooperation between the EEC and India" contained articles concerning joint ventures and partnership in the field of scientific research. The negotiations which led up to this agreement had taken two years.⁷ The concessions which the EC made to India in this agreement were still far less than those made to the African associated states many of whose products competed with Indian ones. Even then Indian trade with the EC increased in the 1980s at a faster rate than in the previous decade. The respective European countries profited more from this increase than India did. Whereas in 1980 only about one fifth of Indian imports came from the EC-countries, they amounted to one third by the end of the decade. This, of course, led to a significant deficit in the balance trade, because Indian exports to the EC were rather limited. Indian imports from the EC totalled 6 billion US\$ while Indian exports to the EC fetched only 3.4 billion US\$.⁸

Rajiv Gandhi wanted to lead India into the 21st century and wished to expose it to international competition. This is why he liberalised foreign trade to a significant extent. At the same time this was an approach which faced little political resistance and also filled the coffers of the central government. Internal liberalisation faced many obstacles which Rajiv Gandhi avoided by concentrating on external liberalisation. Imports increased rapidly under this new trade regime and this enhanced revenue income from customs duties which are an exclusive domain of the central government. Unfortunately this also enabled the central government to spend lavishly on subsidies and new jobs in the public sector which should have been curtailed in the interest of internal liberalisation.⁹

The EC-countries undoubtedly profited from India's new trade regime. The ranking of European partners remained more or less the same: Great Britain and Germany had a share of about one quarter each of Indian trade. Belgium showed a surprising advance in this period. It had a share of 22 per cent of EC-exports to India, but only 18 per cent of imports from India. France lost its former position, it had less than half of Belgium's share in Indian trade.

5 Ibid.: p. 9.

6 Ibid.: p. 23.

7 G. Sundaram: *India and the European Union*, New Delhi 1997, p. 108.

8 Ibid.: p. 125.

9 D. Rothermund, (ed.): *Liberalising India. Progress and Problems*, New Delhi 1996, p. 13 f.

Economic Change in India and in the European Community after 1991

Two important events which were not causally connected but subsequently led to significant interactions characterised the early 1990s. The first event was the sudden balance of payments crisis in India in 1991 which precipitated a major attempt at economic reform by the new government which was headed by P.V. Narasimha Rao as Prime Minister and Dr. Manmohan Singh as Finance Minister who pioneered major advances in the deregulation of the Indian economy.¹⁰ At almost the same time the European Community inaugurated its "market without limits". India had to take notice of this new development and think of new ways of keeping in touch with the EC.

The Indian ambassador to the EC, Dr. Arjun Sengupta, proposed at that time that India should become an associate member of the EC. This bold plan was not very well received — neither among the members of the EC nor by the Government of India.¹¹ The reservations on both sides were due to rather different reasons. India had all along been proud of its "nonalignment" and therefore the government may have been reluctant to opt for such close ties with the EC. The EC on the other hand may have felt that associating India would create a precedent for other Asian countries and this seemed to be too risky a commitment. But after this abortive attempt at closer association, there was at least a further advance in terms of a new agreement. This had the high-sounding title "Cooperation-Agreement between the European Community and the Republic of India on Partnership and Development".¹² It was initiated by the end of 1992, ratified in 1993 and became operative in 1994.

At the special request of the EC the respect for human rights was mentioned in the agreement which also transcended the usual scope of such agreements in many other ways. Thus it contained references to culture, science and technology, to the protection of the environment and to education and training. In this latter context the EC allocated an amount of 150 mill. ECU to India to be used for the extension of primary education. Arjun Sengupta's bold plan which was bound to fail had nevertheless prompted this new advance in EC-India relations. Sengupta remained convinced of the relevance of his plan and was sorry for its having been shelved.¹³ His counterpart at EC-headquarters in Bruxelles, Emiliano Fossati, felt that Sengupta was "far ahead of his times", but had sympathised with his endeavour.¹⁴ Indian diplomats — even Sengupta's staff at the Bruxelles embassy — were also sceptical and did not support his plan.

The EC became more interested in Asia in subsequent years and co-sponsored the ASEM (Asia-Europe Meeting) held for the first time in Bangkok in 1996. Unfortunately India and other South Asian states were not invited to this meeting.¹⁵ India took this exclusion very much amiss. It was certainly not due to European reserva-

10 Manmohan Singh: "Inaugural Address", in: D. Rothermund (ed.): *Liberalising India*, New Delhi 1996 p. 21-28.

11 G. Sundaram (1997): p. 164.

12 Ibid.: p. 163f. and pp. 200-219 (Text of the Agreement).

13 Interview of the author with Arjun Sengupta in New Delhi in 1995.

14 Interview of the author with Emiliano Fossati in Bruxelles in 1998.

15 G. Sundaram (1997): p. 171.

tions, but the Southeastasian hosts who had taken the initiative in getting ASEM going were obviously not interested in inviting India for various reasons. ASEAN had strained relations with India for a long time due to India's friendship with Vietnam. Although this should now be a matter of the past as Vietnam has joined ASEAN, it takes time for the rest of the ASEAN states to get closer to India. Diplomatic contacts have, however, been intensified recently. Not inviting India to ASEM was probably also related to not willing to invite Pakistan. The hosts may have been afraid of South Asian tensions spoiling their cosy conference. India obviously hoped that the EC would use its influence in getting it invited to ASEM2 in London and ASEM3 in Seoul, but nothing happened and India remained excluded. Instead, Portugal when it had the EC presidency in the latter half of 2000 took the initiative of arranging a special Europe-India summit in Lisbon which was attended by the Indian Prime Minister, A.B. Vajpayee, accompanied by a large delegation of Indian businessmen. Unfortunately, this meeting was hardly taken note of in other European countries, although it did mean a new departure in EC-India relations. Another EC-India summit is planned for 2001 in India. Getting invited to ASEM is no longer a of great interest to India as it now enjoys an individual relationship with Europe.

India's balance of payments crisis of 1991 and its subsequent economic reforms had an immediate impact on India's trade with the EC. While India's imports from the EC amounted to 7 billion US\$ immediately before the crisis, they were reduced to 5.6 billion in 1991 and attained the pre-crisis level only once again in 1993. They then increased to 10.2 billion in 1995, in subsequent years they receded somewhat to 9.9 billion in 1998. Whereas Indian imports from the EC initially experienced a rather drastic reduction due to the crisis, Indian exports increased steadily from 4.9 billion US\$ in 1990 to 8.7 billion in 1995. In the subsequent years it stagnated at that level. The devaluation of the Rupee by 18 per cent in the summer of 1991 helped to stimulate exports, of course, although the demand for Indian export commodities is in general rather inelastic and does not respond immediately to a decline in prices.

The deficit in the Indian balance of trade with the EC amounted to 1.5 billion US\$ in 1995, but if this is seen in relation to total EC-India trade (imports + exports) of 12 billion, then the deficit is rather small as compared to that of 1988 when total trade of 9.4 billion corresponded with a deficit of 2.6 billion. By 1998 total EC-India trade had further increased to 18.6 billion and the deficit had shrunk to 1.2 billion. In general the development of EC-India trade has thus shown a positive trend in recent years. But India remains concerned with EC-tariff policies which have been drastically changed in 1995.¹⁶ Earlier these policies were determined by the General System of Preferences (GSP) and quotas for certain types of imports (e.g. Indian textiles). In 1995 the GSP was simplified and standardised. There were now only four categories of preferential tariffs graded according to the kind of competition which the respective imports would mean for goods produced in Europe. The highest grade amounted to 85 per cent of the normal tariff, the second and third to 70 and 35 per cent respectively, and the fourth category was that of duty-free

16 *Ibid.*, p. 147 f.

items. The scale could be applied in a differentiated manner. Thus the products of poorer countries can be placed in a lower category than those of more developed ones, e.g. readymade garments made in Bangladesh could get a better deal than those from India. Revisions of such decisions always require hard bargaining, the more so as these matters have not been dealt with in the above mentioned agreement of 1993 which merely contains an article indicating that there will be mutual consultations with regard to tariffs.

India is also worried about obstacles to trade which are not caused by tariffs but by European industrial norms.¹⁷ The article in the agreement which refers to this matter only contains some promises about the training of experts and the establishment of Indian institutions in this field. But there is no doubt about it that the EC sets the norms and India must conform to them. Some people in India feel that this may have a healthy influence on the improvement of Indian industrial production, but such views are usually expressed by economists and not by Indian industrialists who have until very recently lived under protectionism and did not need to worry about quality control. Indian industrialists who mostly produce for the internal market prefer to forget about exports rather than trying to adjust to European norms. The Government of India, on the other hand, which is vitally interested in export promotion must insist on these norms. In this way these norms also have an impact on India's internal market which for most Indian industrialists is still much more important than the world market.

The Changing Pattern of Indian Trade with the European Community

The type of goods which India imported from the EC remained more or less the same for a long time. They were mostly investment goods needed for the expansion of Indian industrial production. Before 1974 they had the lion's share of Indian imports, but after that date they were surpassed by oil imports which, of course, did not come from the EC. Whereas investment goods and oil dominated imports, the structure of Indian exports changed a great deal over time. There was a continuous shift from raw produce to manufactured goods. Typical Indian products like raw cotton, hides and skins, tea, coffee and spices were exported throughout but their relative position receded. Instead of this the export of precious stones and jewellery gained an increasing share of Indian exports. The cutting of diamonds was of particular importance in this field. The diamond cutters had to import all raw stones from London or Antwerp, the European centres of this business which also control the trade in cut and polished diamonds. In India this business is almost exclusively in the hands of entrepreneurs coming from one town in Gujarat: Palanpur. These people are also well represented in Antwerp.¹⁸ The ratio of the value of uncut diamonds to cut and polished ones is about 1:2.5. In 1995 India imported uncut stones worth 2.1 billion US\$ and exported cut and polished ones worth 5.3 billion. This means that India earns a great deal of foreign exchange from this business. Moreover, Indian craftsmen are good at working with the very small diamonds which are

17 S. Jagannathan: *EC and India in the 1990s. Towards Corporate Synergy*, New Delhi 1993, p. 80 ff.

18 G. Sundaram (1997): p. 136.

sold cheaply as "industrial diamonds" in the European market. Rings and bracelets adorned with these tiny diamonds sparkle as nicely as big diamonds but are much less expensive. In this way the Indian diamond merchants have been able to create a new and expanding market. Whereas earlier diamond studded jewellery was only available to rich people, the Indian products are also affordable by the middle class.

India exports also more and more manufactured leathergoods whereas it had earlier exported raw hides and skins. By 1995 leathergoods worth 1.7 billion US\$ were exported by India worldwide. Readymade garments — mostly cotton textiles — fetched 3.7 billion worldwide. Carpets and knitwear were also exported to an increasing extent. In addition to such more "traditional" items there were also "modern" export products such as machine tools, car parts (e.g. industrial fasteners) and computer software. It is very difficult to get adequate statistics about the latter items, because software is exported via satellite and thus escapes the attention of the usual "gatekeepers". But the respective trade association (NASSCOM= National Association of Software and Service Companies) keeps track of this and reports on the rapid progress of this type of export in recent years. Much of it goes to the USA. Europe is not yet the major target of Indian software exports.

International trade in "traditional" items is not a very complicated affair, but the sale of "modern" products either requires a partnership of Indian industrialists with foreign ones or they must establish their own agencies and service networks abroad. The consolidation of the European common market creates special problems for Indian entrepreneurs in this field. The supply of car parts, for instance, is controlled by a handful of big European firms and Indian industrialists must be accepted as "sub-contractors" by these big firms if they want to have access to the European market.¹⁹ Tough competition in the European market means that "outsourcing" is an attractive proposition for European firms, if India can produce items conforming to European norms with workers who are satisfied with comparatively low wages.

Transfer of Technology and Joint Ventures

India's relations with Europe are of vital importance as far as technology transfers are concerned. This transfer can be made by granting licences and supplying plans and instructions only for which fees are due. But more often such transfers require joint ventures in which the European partner contributes his know-how and some capital.²⁰ The European partner shares the profits of such a joint venture. As long as the Indian partner concentrates on the Indian market, this is a cosy relationship, but if he wishes to export his products and thus competes with his European partner in the world market, there will be trouble. The more so as the Indian export product can be sold cheaply due to lower wages. Such joint ventures were very popular before India liberalised its external trade. After that they became burdensome as they put a brake on export promotion. They had some negative features even earlier,

19 S. Jagannathan (1993): p. 141 ff.

20 T.C.A. Kalyani: "Technology Transfer from EC to India. Experience with France and West Germany in the 1980s", in: K.B. Lall et al. (eds.) (1993): p. 138 ff.

because they prevented Indian entrepreneurs from investing in research and development (R&D) as technology was transferred by their foreign partners.

The Government of India supports about 40 high-class national laboratories and research institutes under the Council of Scientific and Industrial Research (CSIR). Many of these institutes were established in the Nehru era. They were supposed to supply Indian industry with new technologies. But since Indian industrialists rather bought technology from abroad, these institutes had hardly any links with industrial production and concentrated on "fundamental research". Only very few Indian industrialists were interested in indigenous R&D. Even the military trusted foreign technology more than that developed by Indian "civilian" research organisations under the Government of India. The military always had the good excuse that the enemy was equipped with modern Western weapons and that it would therefore be dangerous to rely on indigenous products.²¹ This argument would also be valid for the competition of private firms in the world market. In the long run cheap labour does not help to get a competitive edge in this market as others move in who have the same advantages. State-of-the-art technology is important in this field. But if one only buys foreign technology it is difficult to face international competition in the long run. One must promote one's own R&D in order to keep abreast with competitors worldwide. The old partnership between Europe and India was more or less an one-way street. Nowadays a genuine partnership is required which helps both Europeans and Indians to survive in a competitive market.

Aspects of Political Partnership between Europe and India

So far foreign trade and economic partnership were the main themes discussed here, and, indeed, this has been the dominant aspect of EC-India relations. Political relations still followed the classical pattern of the diplomacy of nation states. But the member states of the EC have more or less coordinated their foreign policy and India must take note of that. It cannot rely on its special relations with some European countries, hoping that they will help them with regard to EC-India relations. In recent years a common Asia policy of the EC states has emerged. It is flawed by a lack of attention to India, but for this very reason the Indian government has to stress a more active policy towards Europe. India is at least as important as China and Japan which have so far claimed most of Europe's attention.

The Indian nuclear tests of May 1998 which were soon followed by a similar exercise in Pakistan have suddenly created the need for a "security dialogue". Earlier Europe just like the USA considered India of no relevance for international security, it was only a regional power — and that in a region which was only of marginal interest to the Western powers. Since this region is now the scene of potential nuclear escalation, it cannot be neglected any longer. Initially the European countries followed the USA in imposing sanctions on India and Pakistan. But since President Clinton visited India in March 2000 and openly sided with India, taking Pakistan to task for its brinkmanship at Kargil in 1999, the European states also have to follow suit. The Kargil attack launched by Pakistan was the first conventional encounter of

²¹ E. Arnett, ed., *Military Capacity and the Risk of War. China, India, Pakistan and Iran*, Oxford 1997.

two nuclear powers. Hitherto the doctrine of mutual deterrence had excluded this scenario. But at Kargil it was shown that this doctrine does not apply here. However, the potential of nuclear escalation was not neglected in this affair. India had to literally fight an up-hill battle but refrained from crossing the "line of control" so as to cut off the supply lines of the Pakistan army — a move which could have been made in a conventional encounter. However, India had generally refrained from crossing this line even earlier as it regards it as a boundary while Pakistan still sees it as a ceasefire line where hostilities may be resumed. In attacking Kargil the Pakistan army has demonstrated that a special kind of brinkmanship is feasible under the conditions of "mutual deterrence". European defence analysts must study this new development very carefully.

Another important element in the EC-Indian security dialogue would be the rapid emergence of new delivery systems in terms of intercontinental ballistic missiles (ICBM) which could carry nuclear warheads. So far the rockets available in South Asia are of medium range, just sufficient for a conflict between India and Pakistan. But in March 2000 India managed to get a 2000 kg-satellite into orbit with "home-made" rockets. Such rockets use liquid fuel whereas military ones are usually powered by solid fuel. But India could soon produce ICBMs with a range of about 8000 km. Europe is within that range. Of course, rockets based in Europe have been able for a long time to reach targets in India. Just as Europe does not wish to attack India, India certainly has no intention of attacking any state in Europe, but India's potential is important. Europeans can no longer afford to regard India as a distant regional power, irrelevant to European security.

The Need for Greater Mutual Awareness

Unfortunately it takes such changes in the security environment to alert international attention. But there are many other reasons which call for a greater mutual awareness of Europe and India. Some of these reasons have been stated at the outset. Europe's passivity with regard to India's exclusion from ASEM has also been mentioned. The Portuguese initiative of arranging an EC-India summit in Lisbon was certainly a step in the right direction. Since the Portuguese found the sea passage to India in 1498, they perhaps thought that they should now sponsor an Indian passage to Europe. But whereas the feat of 1498 caught the imagination of the whole of Europe at that time, this new Portuguese initiative was hardly noticed elsewhere in Europe.

India is a proud, but somewhat introvert nation. It is certainly convinced of its own importance, but it does not make much of an effort to convince others of it. They should find out on their own about it. If they do — India is pleased, if they don't India takes it amiss. It can easily take a lack of attention as an insult. Europe is in general more extrovert, but in recent years the process of "European expansion" has preoccupied the European mind. This kind of European expansion is different from that which followed Vasco da Gama's passage to India. At that time Europeans aggressively moved to Asia. A great deal of mutual awareness was created in this way, although the Asians hardly benefited from it. The present European expansion

is not concerned with Asia. It is aimed at European consolidation, not at extending European influence abroad. In this way an independent India and a consolidated Europe should be ideal partners in a global context. The new type of awareness is not that of the discoverer, the conqueror and coloniser, but of partners in many fields of endeavour including economic as well as scientific cooperation.

The creation of such mutual awareness requires institutional support. It cannot be left to individual curiosity and accidental contacts, it must be nursed in schools and colleges, in research centres and institutes of area studies. The number of experts who concentrate on contemporary India in Europe is very small and Indian experts familiar with the new Europe are few and far between. It is true that the average educated Indian knows more about Europe than his counterpart in Europe would know about India. There are Indian textbooks on many aspects of European history and politics etc., but they usually convey rather stereotyped and antiquated visions of Europe — they are rarely up-to-date. European textbooks at various levels of education would at the most contain some stray references to India — and hardly anything which would contribute to an understanding of modern India. Much has to be done to change this state of affairs. The creation of greater mutual awareness is an urgent task for both sides.

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