The Modi-Juncker Era: New Opportunities in India-EU Trade and Commerce

New political administrations in India and Europe hold promise of a reset in trade relations and cross-border business ties between the two economic partners. This statement is ironic given that the EU is India's largest trading partner (a partnership worth more than US$130 billion in the trade of goods and services annually), but borne under the circumstances generated by the stalled India-EU Broad-Based Trade and Investment Agreement (BTIA), a Fair Trade Agreement (FTA) framework, that has been on the negotiating table since 2007. A new Modi government in Delhi that accords high priority to trade and commerce is expected to revive the BTIA and the Indian Minister of Commerce Nirmala Sitharaman has publicly expressed this in the last two months. While a pro-FTA sentiment is evident, it would be naïve to think that the new political leaderships in Brussels and Delhi will be able to move rapidly and sign the BTIA in the next six months.

Our view is that the India-EU BTIA could be a reality in the medium-term, i.e. in the next 18-24 months. In the interim, there are a couple of opportunities for collaboration that could be beneficial for policy makers and business decision makers in India and the EU to pursue. Most of the short-term opportunities are in-bound into India from Europe, with upside for both Indian and European players. At the same time, it is important to highlight that Indian companies have invested US$56 billion in Europe since 2003, a point made by a recent Europe India Chamber of Commerce study, reiterating Indian investor affinity for Europe. We juxtapose these opportunities with the recent shuffle of political actors in Delhi and Brussels, keeping an eye out for those who hold the keys to the next phase of India-EU engagement at a policy level.

Five Areas of Mutual Interest

Defence Manufacturing

The world's largest arms importer, India, accounted for 14% of all international arms imports from 2009-2013, as per data collected by global think tank Stockholm International Peace Research Institute (SIPRI). India's imports of weapons, a vast majority of them from Russia, are three times that of China. In the next decade, India is expected to spend US$250 billion on modernising its military. The US$15 billion purchase of 126 fighter jets from France's Dassault Aviation is one of the largest defence purchase deals that is pending approval and is expected to be taken up by India's new Defence Minister Manohar Parrikar. In this context, the new government's announcement to raise foreign direct investment (FDI) limits in domestic defence manufacturing from 26% to 49% is understandable.

The Modi government wants to substitute defence imports with local defence manufacturing, albeit with foreign partnerships and investments, presenting significant collaboration opportunities for Indian and European players. Indian players such as state-owned Hindustan Aeronautics Limited (HAL), state-owned and run Defence Research and Development Organisation (DRDO), Bharat Electronics, Pipapav Defence, Larsen & Toubro, the Mahindra Group and the Tata Group are actively forging partnerships with foreign defence players, including European ones, to acquire technology expertise and capital in defence ventures. European players such as Dassault Aviation, MBDA, European Aeronautic Defence and Space Company (EADS), Eurocopter and Alenia Aeronautica are actively participating in arms supplies to India. Tata's defence subsidiary Tata Advanced Systems (TASL) recently tied up with European defence consortium Airbus Defence and Space to bid for the Indian Air Force's US$3 billion order for 56 medium transport aircraft. It remains to be seen how many of these collaborations will include the setting up of manufacturing bases in India in their plans.

Renewable Energy

Despite India's dependence on coal, the Indian government has reiterated its commitment to grow the share of renewable sources such as wind and solar in the national energy mix. Piyush Goyal, Indian minister for coal, power, and renewable energy, announced that the government is working towards US$100 billion worth of investments in the Indian renewable energy sector over the next few years.

The ambitious National Solar Mission, part of India's National Action Plan on Climate Change and backed by the Asian

Development Bank (ADB), the European Investment Bank (EIB) and Germany's KfW, has aimed to develop and deploy 20,000 megawatts of grid connected solar power by 2022, using both solar photovoltaics (PV) and solar thermal technologies. There is interest from industry players based in Denmark, Germany, France, UK, Poland and Austria, as well as European pension and investment funds for asset financing. Players like Abengoa, who have been present through partnerships with local players like Bharat Heavy Electricals (BHEL), have also expressed interest in expanding their Indian presence and making investments in this regard.

With installed capacity of over 21,000 megawatts, India is the fifth-largest wind power producer in the world after China, the U.S., Germany and Spain. The Indian government plans to expand wind energy generation, adding an ambitious 10,000 MW every year. India has proposed reintroducing a depreciation incentive that will improve financial feasibility for wind power projects and attract more project investment in the sector. A National Wind Energy Mission, along the lines of the National Solar Mission, is expected to be announced soon and a global renewable energy investors summit is planned in February 2015, where wind energy is expected to find prominence. European players such as Vestas and Gamesa are increasing their Indian footprint as they compete with a strong local player like Suzlon. Gamesa recently announced investments of EUR100 million over the next five years in India, most of it in wind energy investments. Offshore wind is a new area and the Indian Ministry has announced its intent to support this segment, with private sector interest from both Suzlon and Gamesa.

Smart Cities & Digital Technologies

The Modi government's 100 Smart Cities programme aimed at developing satellite towns of larger cities and modernizing mid-sized cities (with populations over 1 million) is part of the administration's focus on urbanisation in the face of rapid growth. Despite a meagre budgetary allocation towards this programme, the Indian government has spoken about bringing the private sector in through the implementation of a public–private partnership (PPP) model in order to make the necessary investments across the smart infrastructure & utilities, smart grid and e-delivery of public services projects. This is a bold and integrated policy initiative that ties in with the 'Digital India' programme for nationwide broadband connectivity, right up to the rural/village level.

Europe and European players have a unique opportunity to participate in this programme. For instance, ERDF, a subsidiary of Électricité de France in charge of managing 95% of the electricity distribution network in France, can share much about the company's Linky Smart Metering programme — a noteworthy example of large-scale smart grid deployment that Indian planners and administrators can learn much from. Meaningful engagement will be required across industry, policy administrators and makers, on both sides to realise India's 100 Smart Cities ambition. With Japan and the U.S. expressing preliminary interest (the U.S. announced its intent to partner with India in developing three of these smart cities during the Prime Minister Modi's visit to the U.S.), EU players will have to move quickly to ensure that they link up with some of the more attractive and lucrative city partnerships. European power utilities, power service companies, ancillary service companies, construction companies, security agencies and service companies, as well as consumer product companies and businesses the high technology and data-powered industries — all have lucrative roles in a national programme of this nature.

Financial Services

The Indian government is expected to introduce the long-delayed Insurance Amendment Bill next month in the winter session of the Indian Parliament. For foreign investors, this is the single most awaited piece of financial sector reform. Almost all international insurance players are present in India, but the current restrictive 26% cap on FDI in the sector forces many global players to hedge their bets in the market. Once the Insurance Bill is passed and FDI limits are raised to 49%, the sector is expected to see re-capitalisations, consolidations and increased international investment that will enable the insurance market in India to mature further. European insurers like AXA, Zurich, ING, BNP Paribas, Allianz, Generali and Aviva have been following the political calendar closely and are hoping the Bill is passed sooner rather than later.

The licensing of differentiated banks, including payment banks, is another area of interest for European financial and technology players. GSM-based telecom players such as Vodafone and Telenor have demonstrated interest in developing the payment banking ecosystem and to drive mobile money adoption to achieve greater financial inclusion in the country. Payment banks could emerge as one of the most innovative policy initiatives in recent times and it is heartening to see European players ready to commit resources to it.

Internationalisation of SMEs — Cross-Border Opportunities for Growth and Job Creation

One of the larger collaboration opportunities are those between the EU's 22 million and India's 48 million Small and Medium Enterprises (SMEs). Cutting across sector lines, these SMEs account for the bulk of economic growth and job creation in both markets. Lack of financing, scale and market access — challenges common to SMEs — can be quickly overcome by the right internationalisation efforts.

As India's economy grows on the back of a stable political environment, European SMEs have a natural opportunity to make the most of the opportunities that are presented as a result. The European Commission is supporting the internationalisation of SMEs and helping them to plug into new business opportunities, for example through the development of an EU business centre in India, provision of information services and introduction of financing programmes. Joint venture partnerships, technology transfer agreements and strategic investments from both sides are expected to take a significant leap. To encourage this, regulatory challenges of market access — particularly in the agricultural produce, services and pharmaceuticals industries — will need to be worked on for the benefit of SMEs on both sides. India's strong reactions to import bans on certain agricultural produce into the EU and the EU's concerns on IP protection in India

make up part of this larger narrative. They are inevitable and should be expected. Such wrinkles in a large cross-continental trade relationship need to be worked on and ironed out, rather than hijacked and used as ammunition for the establishment of reactionary politics.

The EU is India's largest trading partner — US$130 billion in goods and services are exchanged every year between the two partners. The trade relationship is too important to be held hostage to protectionist tendencies or political myopia.

Conclusion

With an agreement on the WTO trade pact in sight, the India-EU BTIA may be closer to fruition than we think. Irrespective, the India-EU strategic relationship is too important to be held hostage to the BTIA, as we see from the five areas above. A strong political mandate in Delhi and Brussels equips the present leaders to create the enabling structures that will create further growth and jobs in both regions.

This is also a moment to resist protectionist tendencies in Europe and rein in overenthusiastic taxmen in India. The good news is that both challenges are essentially political and can be resolved fairly quickly if our leaders put their minds to it.

KEY DECISION MAKERS IN DELHI & BRUSSELS WHO MATTER

JEAN-CLAUDE JUNCKER THE JUNCKER COMMISSION		NARENDRA MODI PRIME MINISTER'S OFFICE (PMO)	
Federica Mogherini *(Italy)*	Vice-President, High Representative – Foreign Affairs & Security Policy	Nrupendra Misra	Principal Secretary
Miguel Arias Cañete *(Spain)*	Commissioner – Climate Change & Energy	Dr. PK Mishra	Additional Principal Secretary
Elżbieta Bieńkowska *(Poland)*	Commissioner – Industry, Entrepreneurship & SMEs – incl. access to non-EU markets	Bhaskar Khulbe	Additional Secretary – Cabinet Secretariat
Cecilia Malmström *(Sweden)*	Commissioner – Trade	BVR Subramanyam	Joint Secretary – Finance, IT & Communication
Pierre Moscovici *(France)*	Commissioner – Economic & Financial Affairs, Taxation and Customs	AK Sharma	Joint Secretary – Commerce, Power, Infrastructure, SMEs
		Jawed Ashraf	Joint Secretary – External Affairs, Defence

EU PARLIAMENTARY COMMITTEE CHAIRS		INDIAN UNION MINISTERS	
Elmar Brok *(Germany, EPP)*	Foreign Affairs (AFET) – 71 members strong	Arun Jaitley *(BJP)*	Finance Minister, Minister of Corporate Affairs
Jerzy Buzek *(Poland, EPP)*	Industry, Research and Energy (ITRE) – 67 members strong	Manohar Parikkar *(BJP)*	Defence Minister
Roberto Gualtieri *(Italy, S&D)*	Economic and Monetary Affairs (ECON) – 61 members strong	Sushma Swaraj *(BJP)*	Minister of External Affairs
Bernd Lange *(Germany, S&D)*	International Trade (INTA) – 41 members strong	Piyush Goyal *(BJP)*	Minister of Coal, Power & Renewable Energy
		Nirmala Sitharaman *(BJP)*	Minister of State for Commerce

MUMBAI
Amrit Singh Deo
Senior Director
Strategic Communications
+91 9167 428242
amrit.singhdeo@fticonsulting.com

BRUSSELS
Arne Koeppel
Head of Research, Brussels
Strategic Communications
+32 2 289 0939
arne.koeppel@fticonsulting.com

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