Konrad-Adenauer-Stiftung e.V.

MULTINATIONAL DEVELOPMENT POLICY DIALOGUE

ELISABETH SANDFUCHS

September 2012

www.kas.de/bruessel

# Indian Chief Economists' Visit to Brussels and Luxemburg

THE EURO CRISIS AND EU-INDIA RELATIONS

**From 12th to 15th September a delegation of Senior Economic Experts and chief Economists from India was invited by Konrad Adenauer Stiftung for a dialogue programme which took place in Luxemburg and Brussels with the aim to facilitate an exchange of views on the euro crisis and to provide a comprehensive opinion picture on the current developments in EU-India relations.**

The delegation met amongst others with representatives from the European Financial Stability Facility (EFSF), the Directorate General for Economic and Financial Affairs (DG ECFIN), the Directorate General for Trade (DG TRADE) and the Directorate General for Energy (DG ENERGY) of the European Commission, with representatives from the European External Action Service (EEAS) and the Policy Department of the General Secretariat of the European Parliament, Representatives of Brussels based Media and Think Tanks.

**Euro zone already on its' way to recovery but some homework still needs to be done**

The meetings with representatives from the EFSF and DG ECFIN of the European Commission provided a comprehensive picture of the current situation. The 2008/2009 crisis has lead to a 4.5% loss of GDP in the affected countries which will not be recovered for a long time. In some countries the reduction of nominal incomes has been significant, not to speak of the high unemployment rates and most importantly the high unemployment amongst youths. The effects were partly smoothed through an increase in public spending and some countries such as Germany has reached the pre 2007 level in 2011, but other countries still have a long way to go before recovery.

Europe has reacted to the crisis both at national and at EU-level. Besides significant fiscal consolidation and structural reforms at national level, economic governance was improved at euro area level. Additionally, a reinforced banking system and the financial backstopping through the European Financial Stability Facility and later on the European Stability Mechanism (EFSF and ESM) will further enhance the recovery of the euro zone countries. However, some systemic problems will need to be overcome such as the oversized banking sector and the high current account deficit. Another issue of importance is the revision of divergence in competitiveness within the Euro area as well as competition of the EU with foreign economic powers. Since the introduction of the Euro, Portugal for instance has lost 30% of its competitiveness compared to Germany. In addition to this, companies have moved cheap labour production to facilities outside of Europe.

Whereas important indicators such as nominal unit labour costs, current account balance and the fiscal balance are developing positively since 2008, this has until now not been reported adequately by the media. One of the major challenges will be to overcome the negative public opinion as well as the negative assessments of the Euro zone countries on the financial markets. Concerning the further improvement on economic governance an increase in Europeanization, i.e. a convergence of policies be it through harmonization on the national level or through transfer of competencies to the European level, of important areas such as in the banking sector, on fiscal coordination as well as advanced economic policy coordination will be negotiated on in the months to come, however the outcome will depend to a large extent on the political will of the countries of the Euro zone. Not least, discussions will focus on the question of how to improve democratic legitimacy and accountability in the EU.

**Stakeholders shouldn't leave behind the general public**

Media representatives from the German public media ARD/MDR, the newspaper „Die Welt" as well as the news agency Thomson/Reuters provided an answer to the question why reforms have not always been implemented as smoothly as would be necessary. Whereas German public opinion wants to see more control power given to the European level, it has to be done "in a German way" otherwise the public support for Germany's contribution to countries such as Greece, Portugal, Spain, Italy and Ireland which is already shaky could dwindle away even more quickly.

The delegation questioned whether the current crisis might be start of an increasing divide within Europe between a group of economically robust countries such as Germany, Finland, Sweden and the Netherlands on the one side and the Southern Euro countries on the other. Their interlocutors made clear that until now the potential for the financial crisis to force the hand of greater integration is not visible and paradoxically, even though lacking democratic legitimacy is being criticized, Europe might have to ask itself whether it can actually afford to enhance democratic control of economic governance without making the process to cumbersome.

In the session with European Think Tank representatives from the Center for European Policy Studies, Bruegel and the Center for European Studies the general picture provided by the meetings with EU Institutions was supplemented with a more independent take. The interlocutors criticised that the Stability and Growth Pact does not work but welcomed the announcement of the President of the European Central Bank, Mario Draghi, to enter more forcefully into the Euro rescue. It was also considered that it will be possible to implement the important decision of the German Constitutional Court on the legitimacy of the EFSF/ESM which was taken only days before the meeting with the delegation from India. Some aspects of the crisis which had not been covered in previous discussions included the important role of the informal sector in the crisis countries, which is often overlooked, however performing much better. In terms of an outlook to how the Euro zone will develop from now onwards, cautious optimism seems to be justified with an outlook of a potential end of the crisis in three years from now.

**New EU-India cooperation in the field of Energy**

Whereas EU-India relations have not been prominent aspect of the EU's energy policy which is more dominated by its' relationship to more important energy providing countries such as Russia, there has been a promising increase of cooperation which was agreed upon in early 2012 and is to focus on clean coal energy, smart grids and renewable energies, amongst others. The goal of the newly agreed Declaration on Enhanced Cooperation on Energy will be to foster business cooperation and joint initiatives in the research and technology field. The status of implementation however is lagging behind some of which might be due to the structural changes currently underway in many EU-Delegations in Asia which will be downsized considerably in order to reflect the changes of policy strategy towards the region which will not be recipient of development aid to the same extent as before.

The European Union's view on the current state of the Energy Sector in India was supplemented by the evaluation of the Indian delegation and provided some useful insights on the Energy sector from a nongovernmental perspective. Whereas the technological know how in the energy sector is not a problem in India, governance structures need to be reformed. Especially the privatization of energy providers should be encouraged in order to ensure an improved functioning of cooperation between the different energy providers in the Indian states. An example is the large scale grid failure which occurred in India in early 2012 and which was due to the incapacity of the regulating authority to enforce the distribution of electricity between the different regional entities. The discussion also touched upon the possibility for providing decentralized energy supply at the level of villages in order to enable access to electricity also in the rural areas.

**Negotiations on EU-India Free Trade Agreement are dragging on**

Not least in the light of the crisis, there has been a change in attitude on the European side concerning the negotiations on the EU-India Free Trade Agreement and whereas compared to comparable negotiations with other countries the start-up of negotiations was characterized by openness and positive declarations the negotiations are taking more time then anticipated. "Now the EU is not in a position to make a lot of gifts" as one of the interlocutors phrased the current situation. Maybe also the potential advantages of an EU-India FTA would be greater for the EU then for India. Whereas in the services sector a mutual advantage for both partners exists, in other sectors such as the automotive and textile sector this is not the case. At the moment the negotiations have reached a stage where it is a question of political will on both sides of the negotiating table whether to go on with the FTA.

**Members of the Delegation of Indian Economic Experts were:**

**Dr. Ramgopal Agarwala**, Distinguished Fellow at the Research and Information System (RIS) for Developing Countries

**Mr. Saugata Bhattacharya**, Senior Vice President and Chief Economist, Axis Bank

**Mr. Sunil Jain**, Opinion Editor, The Financial Express

**Dr. Geethanjali Nataraj**, Director Defence & Capital Goods, Federation of Indian Chambers of Commerce and Industry (FICCI)

**Dr. Soumya Kanti Ghosh**, Director Economic Affairs / Research, Federation of Indian Chambers of Commerce and Industry (FICCI)