

Globalization: The India- European Union (EU) Free Trade Agreement

Reciprocal terms missing in the Proposed India-EU pact

By [Kavaljit Singh](#)

Global Research, April 08, 2009

The Economic Times 8 April 2009

Region: [Asia](#), [Europe](#)

Theme: [Crimes against Humanity](#)

Since 2007, India and European Union (EU) are negotiating a free trade agreement (FTA). The negotiations do not merely cover trade in goods but also include liberalisation of trade and investment in banking services.

EU is seeking greater market access and national treatment for European banks through cross-border supply and direct investments. Unlike other bilateral agreements, the potential implications of India-EU FTA would be far-reaching since nine EU-based banks together controlled 65% of total assets of foreign banks in India in 2008. By asset size, out of the top 10 foreign banks in India, six are European.

Since 2000, several European economies have registered a significant growth in their banking services net exports. UK's financial sector net exports reached a record £38.8 billion in 2007. Banks were the largest contributor with net exports of £23.2 billion.

For European banks, India provides immense profit opportunities given the favourable demographics and growth potential. However, big European banks are primarily interested in serving three niche market segments: up-market consumer finance, wealth management services and investment banking.

One of the key policy issues determining market access is reciprocity. How much market access Indian banks would get in return? Except UK, other big European countries are restrictive in this regard. The popular perception that India's regulatory framework discriminates against foreign banks lacks evidence. Unlike Singapore and China, foreign banks are free to undertake any banking activity in India, which is allowed to domestic banks.

On the contrary, foreign banks are given undue favour when it comes to priority sector lending and branch licensing. The Indian authorities have imposed lower priority sector lending requirement at 32% for foreign banks as against 40% for Indian banks.

Foreign banks have the freedom to decide the location of their branches. While for new private banks, it is mandatory that after three years of operations, they should open one out of four new branches in the rural or semi-urban areas. This lopsided policy works in favour of foreign banks because rural branches generate less profit due to low-value transactions.

Not a single European bank has opened a branch in rural areas though many of them have

been operating here for more than 140 years. Their lending to agriculture, SMEs and weaker sections has been negligible. It is distressing to note that European banks are not serving the poor and low-income people residing in urban areas.

Since many big European banks are in the midst of turmoil since 2007, it raises serious questions about their efficiency, 'best practices', state-of-the-art risk management models, corporate governance and transparency norms. Keeping these in view, policymakers should rethink about the benefits of opening up banking sector under India-EU FTA.

Kavaljit Singh is Director of Madhyam, a Delhi-based NGO

The original source of this article is The Economic Times
Copyright © [Kavaljit Singh](#), The Economic Times, 2009

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Kavaljit Singh](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca