



## Towards an EU-India Partnership on Urbanisation

By Gauri Khandekar

- *The EU-India Strategic Partnership is in need of an urgent reboot.*
- *A Partnership on Urbanisation could prove truly transformative for the EU-India strategic partnership and provide an alternative to stalled FTA talks.*
- *Tapping into Modi's 'Make in India' project can be the way forward.*

More than a decade since the EU-India strategic partnership was launched, there is more pessimism than promise about its future. Negotiations on the EU-India free trade agreement (FTA), the partnership's biggest initiative, remain at an impasse and cooperation on foreign policy issues is minimal. Overall, confidence has waned from the relationship and the EU-India strategic partnership is in desperate need of a relaunch. Both sides however seem to be at a loss on new avenues for cooperation which could prove truly transformative for the EU-India strategic partnership.

But as India strongly pursues its urban development agenda and transformation to a global manufacturing hub, one such alternative could be the establishment of an EU-India Partnership on Urbanisation. Such a partnership would not only open up significant mutually beneficial opportunities thereby circumventing jammed FTA negotiations, but would also reinstate the strategic quotient in the partnership. As a long-term investment, the EU-India Urbanisation Partnership could effectively contribute to enhancing the perception of the EU as a strategic partner in New Delhi and allow the EU to confirm its commitment to promoting sustainable development in India.

### **The Sisyphean Task: Infrastructure and Urbanisation in India**

India's unprecedented urbanisation and infrastructure-upgrade challenges are both multifarious and dramatic. First, India's urban sprawls will have to accommodate at least an additional 250 million inhabitants by 2030 - or a total of nearly 590 million (out of

nearly 1.47 billion projected). It's already congested metropolitan cities face rising densification levels - 2,450 persons per km<sup>2</sup>. By 2030, 68 cities will each have a population of 1 million plus, up from 42 today (35 in the EU today). This means that India faces the Sisyphean task of having to build each year, according to McKinsey Global Institute (MGI) estimates, 700-900 million m<sup>2</sup> commercial

and residential spaces – or the equivalent of a city like Chicago annually.

Along with the need for more urban space, is the equally daunting challenge of urban services. Essential services - which include sanitation, clean water, transport, healthcare and housing - currently work at below-optimum levels and rarely extend outwards of the urban core. With a quarter of urban India residing in slums (half of Mumbai lives in sub-standard housing), 180,000 tonnes of urban garbage is produced daily but waste treatment remains poor – more than 80 per cent is sent to dumpsites.

The problem will only intensify as the Indian economy transforms from an internal-consumption-based model to an export-oriented one. An exponentially expanding industrial/manufacturing sector will further fuel the country's already inflating intra-urban settlements as well as migration from rural to urban areas.

Second, an additional 270 million Indians will join the country's workforce by 2030 (the total number will constitute a quarter of the global workforce), 70 per cent being urban jobs. Concurrently, India's middle class will figure at 475 million. In the next decade itself, half the country's population is set to cross the \$10 per day mark, constituting 23 per cent of global middle class consumption. Demand for food, water, and energy, notwithstanding price volatility, will shoot up. Delivering urban development is critical as an increasingly alert, well-connected and demanding middle-class will inevitably have

a direct impact on national and regional politics.

Third, trans-Indian transport networks along with inter and intra-urban links require a makeover. Railways and roads dominate the country's transport landscape – India has the fourth largest rail network in the world. But only two per cent of road length carries 40 per cent of all road traffic of the country, and one-sixth of the rail network carries over two-thirds of all rail traffic. Road surfaces are furthermore abysmal. Indian trucks clock the world's lowest average speeds and used for 60,000-100,000 km annually – less than half of the average in developed states. The MGI estimates that between 19,000 and 25,000 kilometres of road lanes and 7,400 kilometres of subways and transportation would need to be built every year. As urban cores will become increasingly inaccessible due to overwhelmed transport arteries, connecting existing and new transport infrastructure from metropolitans to new cities must become the skeletal frame upon which economic growth and urban optimisation could be expanded, helping it act as an enabler for connectivity, mobility and greater foreign investment.

India's favourable demographics mean that by 2030, 70 per cent of the country will be between 15-69 years of age. India will need to anticipate elastic infrastructure – that which can be easily expanded to accommodate both increases in population and technological advancements. India's Twelfth Five Year Plan (2012-2017) estimated infrastructure investment at around \$1.25 trillion, with 40 per cent

emanating from the private sector. This implies an eightfold increase in India's current annual capital spending of \$17 (which is 14% of China's \$116 and 4% of UK's \$391).

The Modi government's flagship 'Make in India' programme is acting as an enabler by allowing 100 per cent FDI in townships, city and regional level infrastructure, urban infrastructure (transport, water supply, sewerage and sewage treatment) as well as 'Industrial Park' projects (developed for industrial activity).

### **Reaping opportunities in India – Japan, China, US, Canada, Australia**

According to the Indian government, India's construction industry contributes more than 10 per cent to India's nearly \$1.9 trillion GDP (2013). Cities contribute around 62 per cent of the urban share of the GDP (2009-2010), a share projected to increase to 70-75 per cent by 2030. India's foreign policy priorities have now become strongly enmeshed with its vast urban development agenda, and the new government is actively moulding international cooperation around this sector. Beyond India's immediate neighbourhood, during his first year in office, Modi has conducted state visits to those countries or met with leaders who could concretely help advance India's huge urbanisation agenda.

Modi led a five-day visit to Japan in August-September 2014 where Japan elevated its relationship with India to a 'special global strategic partnership' alongside a pledge to

invest \$35 billion in Indian infrastructure and energy development, besides doubling its FDI over the next five years. Japan and India also signed an agreement to construct a bullet train or Shinkansen project worth \$10 billion. Japan is already committed as an equal funding partner in India's biggest ever infrastructure project - the \$100 billion Delhi-Mumbai Industrial Corridor (DMIC). The DMIC will develop Industrial zones as well as smart cities and connectivity (rail, road, port, air) across six states between Delhi and Mumbai. Future smart city Dholera SIR in Gujarat for instance is foreseen to be 6 times the size of Shanghai. The backbone of the project, the Dedicated Freight Corridor, expected to be completed by 2017, is envisaged to cut logistical costs of manufactured goods to the lowest in the world. The Japan International Cooperation Agency (JICA) is also modernizing the Alang ship-breaking yard in Gujarat state, Asia's largest shipyard, into an international-grade ship recycling yard. Other examples include a metro project between Ahmedabad and Gandhinagar.

In September 2014, Chinese President Xi Jinping concluded a three-day visit to India along with 135 Chinese business leaders. Twelve agreements were signed in all as China pledged to invest \$20 billion in Indian infrastructure and manufacturing sectors. China will build high-speed rail links and construct two industrial parks in Indian states of Gujarat and Maharashtra. The visit also saw the twinning of commercial capitals Mumbai and Shanghai as well as Ahmedabad with Guangzhou. China has also offered to finance up to 30 percent of India's

infrastructure needs (approximately \$300 billion) in the next five years in road, rail, telecom and power infrastructure. While the previous Indian government has rejected China's proposal, it is unlikely that the Modi government would do so as well given Modi's "India is open for business" attitude.

Canada and India concluded a nuclear deal similar to the landmark India-Australia nuclear deal in virtually record time in October 2014 during a visit of then Canadian Foreign Minister John Baird to India who declared that the deal starts "a new chapter in relations with India". Nuclear energy is not only an integral part of Modi's plans for a

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clean and ecologically viable urban transformation of India but would significantly cut India's energy import bills in the future. India and Canada are also cooperating on skills development, green energy, clean water technologies with a focus

on 'Prime Minister's Clean Rivers Mission', as well as alternative wastewater treatment technologies in the Ganges. Both countries have so far held four Canada-India infrastructure forums, a dedicated platform for infrastructure sector dialogue between Indian and Canadian stakeholders.

The US too has reached out in a major way. President Obama was the chief guest at India's Republic Day Parade in Delhi on 26 January 2015, the first US President to do so. He is also the first US President to travel to

India twice while in office. In India, Obama committed \$4 billion to boosting bilateral trade and investment especially in renewable energy and support to small and medium businesses across India. The US and India also agreed to collaborate on the development of three Indian smart cities: Allahabad, Ajmer and Visakhapatnam. Two US trade missions, focusing specifically on transport and connectivity, will travel to India later this year. During the visit, Modi and Obama also agreed to work together on climate and energy issues and are likely to soon make more big-ticket announcements involving American loans, green bonds, venture capital, and pension funds. On 13 January, a US-India Infrastructure Collaboration Platform was launched in New Delhi to promote U.S. industry participation in Indian infrastructure.

### **The EU and India - Opportunities for collaboration**

As one of the major global actors, the EU remains relatively absent from the urbanisation scene in India when compared to other players like China, Japan, or the US. There is no dedicated platform for EU-India urban development cooperation under the strategic partnership, and even an official working group or sectoral dialogue on the same remains starkly missing. The EU has so far focused more on the research side of urbanisation with a number of projects under its financial programme 2007-2013 targeting waste or water treatment issues, flood resilience, innovation, urban mobility, or reduction of greenhouse gas emissions. The

EU has also hosted some seminars focusing on urbanisation of large cities like Mumbai, also tapping into Mumbai First, a leading public-private initiative set up in 1994 which involves all relevant stakeholders and aims to transform Mumbai into a world-class financial capital. But what the partnership really needs is a broader dialogue and concrete cooperation at the supranational, ministerial and national expert levels as well as one which brings together public-private stakeholders from all across the EU with their counterparts in India.

A handful of mainly bigger EU member states like Germany, France or the UK are active when it comes to sustainable urbanisation cooperation with India. Germany focuses heavily on clean development with extensive cooperation on renewable energy. German Development Bank KfW financially supported the construction of the Sakri Solar Power Plant - one of the largest of its kind in India and the world. KfW has also promoted energy efficiency in new residential buildings and Hydro Electric Projects (HEP) in India. Since 2012, Germany has committed €750 million for supporting Inter and Intra-State projects under the Green Energy Corridors Project. GIZ, the German Federal Enterprise for International Cooperation, has been operating in India for 60 years with 10 integrated experts handling only sustainable development projects worth about €25 million per annum. Germany will also develop three smart cities in India and a six-member joint committee has been set up to this extent. During a visit to Germany in April 2015, Modi jointly inaugurated with

Chancellor Merkel the Hannover Messe, the largest industrial fair in the world.

France and India too hold a number of high level exchanges in the field of sustainable urban infrastructure development. In 2008, following a joint political decision to enhance bilateral co-operation, the French Development Agency AFD, provided financial and technical assistance to India in three main areas of cooperation: renewable energies and energy efficiency, low-carbon urban infrastructure, and protection of the environment and biodiversity. Of the total AFD funds, 18 per cent were allocated to the infrastructure sector. France too is now keen to collaborate with India on the development of Smart Cities, an initiative of Narendra Modi. Such cooperation will be included under an October 2012 Memorandum of Understanding on Cooperation in the Field of Sustainable Urban development signed between France and India and include feasibility studies, building capacities at national, region and local levels, organizing workshops/trainings, forging business-to-business partnerships and implementing any other projects mutually determined. French companies Veolia and Alstom as well as Germany's GIZ have already signed on as official investors in Modi's Make in India project.

But expanding such cooperation with India to other EU member states would be extremely advantageous for four specific reasons. For one, urbanisation is not only about foreign investments, it is also about economic opportunities. Tapping into India's rapidly growing infrastructure market would drive

home much economic respite for EU member states stuck in the recession rut. Two, by providing a valuable platform to its 28 member states to facilitate cooperation with India, the intrinsic and strategic worth of the EU-India relationship would be appreciably raised, to the benefit of the EU which suffers from chronic low-visibility in Delhi. Three, EU member states singularly are no longer able to compete with the 'China's' of the world. Pooling cooperation amongst EU member states would enhance the EU's ability and status of global actor. Four, India too has much to benefit. Different EU member states have different strengths and a platform which brings them together only makes cooperation richer. For instance, Sweden has reduced its waste to landfill sites from 62% to 4% while buildings in Belgium are being designed to generate their own energy. Spain's construction industry is the fastest-growing in Europe, followed by Slovenia, Hungary and Poland. Taken together, the EU forms an attractive sustainable societal model which could match global competitors.

The EU already has a pan-European Smart Cities platform called the 'European Innovation Partnership on Smart Cities and Communities' initiated by the European Commission in July 2012. The initiative brings together European cities, industry leaders, and representatives of civil society to smarten up Europe's urban areas with concrete commitments involving more than 3,000 partners from across Europe. Tapping into the European Innovation Partnership on Smart Cities and Communities would be a practical first step within any EU-India Partnership on Urbanisation.

The EU-India strategic partnership could also draw from good practices and innovation in other important EU relationships such as the EU-China Partnership on Urbanisation. The EU-China Partnership on Urbanisation is a comprehensive urban platform which offers all 28 EU member states the possibility to explore opportunities of China's path to modernisation. The partnership engages a wide range of stakeholders, from experts and the private sector to city mayors and politicians around issues such as climate change, low carbon economy, city planning and business. A Sino-EU Sustainable Urbanisation Park set up by Euro-Sino Invest and the EU Chamber of Commerce in China is a pilot project in the context of this partnership wherein EU companies can establish themselves in the business park compound and showcase their model of sustainable urbanisation. This park efficiently enables the transfer of sustainable high technology, quality and standards to China. The EU and India could successfully expand their partnership along similar lines with an EU-India partnership on urbanisation.

### Conclusion

While negotiations on the hotly anticipated EU-India free trade agreement remain in a cul-de-sac, there is little imagination on how to orient the EU-India strategic partnership. Interest has drained from the relationship and the absence of newer avenues for cooperation has left the EU-India strategic partnership on a strategic low. Political engagement too remains at an all-time low

given that the EU and India have not held an annual bilateral summit since their last one in 2012. If the EU is serious about becoming a global power it needs to punch much above its weight. And the world's third largest economy moreover, India is a country that the EU simply cannot afford to ignore.

The EU-India partnership is in serious need of a reboot. At this juncture, an EU-India Urbanisation Partnership could be the way forward. India's transformation towards a developed country opens many mutually-beneficial opportunities for collaboration with the EU. Political will on the Indian side to power through the change alongside an assurance of investor protection provide much incentive for the EU to engage dynamically in what is essentially the new gold rush of the 21<sup>st</sup> century. Certain EU member states have developed cooperation with India on an individual basis but cannot compete with global actors like China, the US or Japan. However, an EU-India partnership on urbanisation bringing together the EU's 28 member countries could match any global rivals and successfully relaunch the EU-India strategic partnership.

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