



CARIM INDIA – DEVELOPING A KNOWLEDGE BASE FOR POLICYMAKING ON INDIA-EU MIGRATION

Co-financed by the European Union

EU-India Migration & Trade Linkages

Chinmay Tumbe

CARIM-India Research Report 2013/05



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CARIM-India
Developing a knowledge base for policymaking on India-EU migration

Research Report
Thematic Report
CARIM-India RR2013/05

EU-India Migration & Trade Linkages

Chinmay Tumbe
Researcher, Migration Policy Centre, Robert Schuman Centre for Advanced Studies,
European University Institute, Florence

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Requests should be addressed to India-EU.Migration@eui.eu

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European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
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CARIM-India – Developing a knowledge base for policymaking on India-EU migration

This project is co-financed by the European Union and carried out by the EUI in partnership with the Indian Council of Overseas Employment, (ICOE), the Indian Institute of Management Bangalore Association, (IIMB), and Maastricht University (Faculty of Law).

The proposed action is aimed at consolidating a constructive dialogue between the EU and India on migration covering all migration-related aspects. The objectives of the proposed action are aimed at:

- Assembling high-level Indian-EU expertise in major disciplines that deal with migration (demography, economics, law, sociology and politics) with a view to building up migration studies in India. This is an inherently international exercise in which experts will use standardised concepts and instruments that allow for aggregation and comparison. These experts will belong to all major disciplines that deal with migration, ranging from demography to law and from economics to sociology and political science.
- Providing the Government of India as well as the European Union, its Member States, the academia and civil society, with:
 1. Reliable, updated and comparative information on migration
 2. In-depth analyses on India-EU highly-skilled and circular migration, but also on low-skilled and irregular migration.
- Making research serve action by connecting experts with both policy-makers and the wider public through respectively policy-oriented research, training courses, and outreach programmes.

These three objectives will be pursued with a view to developing a knowledge base addressed to policy-makers and migration stakeholders in both the EU and India.

Results of the above activities are made available for public consultation through the website of the project: <http://www.india-eu-migration.eu/>

For more information:

CARIM-India

Robert Schuman Centre for Advanced Studies (EUI)

Convento

Via delle Fontanelle 19

50014 San Domenico di Fiesole

Italy

Tel: +39 055 46 85 817

Fax: + 39 055 46 85 770

Email: India-EU.Migration@eui.eu

Robert Schuman Centre for Advanced Studies

<http://www.eui.eu/RSCAS/>

Abstract

This paper reviews the relationship between migration and trade between India and the European Union (EU). It provides an overview of EU-India trade across various dimensions and links it with migration in three specific contexts: (a) The \$ 14 billion EU-India diamond trade that represents nearly 15% of total EU-India merchandise trade, and that is attributed to the direct and active role played by Indian immigrants and the diaspora (b) The trade in food products such as lentils, beans, rice and spices that reflects the pull of goods towards the EU to meet the preferences of the Indian immigrants and (c) The trade in services in the computer & information, education and entertainment sectors and the mobility of professionals, students and tourists respectively.

1. Introduction

The last two decades witnessed the opening up of the Indian economy to greater participation in international trade. In this period, the European Union (EU) emerged as one of India's major trading partners accounting for over 15% of India's international trade. During the same period, there was significant emigration of Indians to traditional destinations within the EU such as the United Kingdom (UK) as well as to other countries such as Italy, Germany and France.

There are currently over one million Indians residing in India's second largest trading partner - the EU. Could there be linkages between migration from India to the EU and EU-India trade in general? How are these linkages formed and how significant are they in the context of overall trading volumes?

This paper explores these questions through an analysis based on secondary data sources and interviews conducted with stakeholders in a specific industry. It focuses on the link between migration and merchandise trade in the diamond and food industries as well as migration and trade in services in the computer & information, education and entertainment sectors.

The rest of the paper is arranged as follows: Section 2 reviews the literature on migration and trade linkages. Section 3 provides an overview of EU-India trade and migration. Sections 4 and 5 study the linkages between migration and international trade in the diamond and food sectors respectively. Section 6 examines the connection between migration and trade in services in specific sectors and Section 7 concludes.

2. Literature Review on Migration & Trade Linkages

A large number of empirical studies over the past two decades have shown that migration and goods trade flows are complementary in nature, and not substitutes, as theorized in the preceding literature. In a review of nearly fifty studies, it was found that immigration to the host country had a significant positive effect on the trade flows between the host and home country, that the impact was usually greater for imports to the host country and lower for trade in homogenous goods where there was less requirement for customization (Genc. et al. 2011).

There are two main channels through which migration has an impact on goods trade flows. First, migration can help in 'trade creation' as it lowers the transaction costs involved in international trade. These transaction costs are mainly informational barriers about knowledge of foreign markets, laws, business practices, languages, customs and culture and migrants provide useful skills and resources in overcoming these barriers. Through this channel, migration can boost both exports from the host country and/or imports to the host country (Gould 1994, Head and Ries 1998, Dunlevy and Hutchinson 1999, Girma and Yu 2002, Rauch and Trindade 2002, Dunlevy 2006). Trade, can in turn, lead to greater demand for immigrants if firms in host countries wish to expand their operations in the immigrants' country of origin. The second channel is the 'preference effect' channel whereby immigrants prefer to consume certain products of their native countries such that it draws imports to the host country. This largely includes trade in food products though it can cover any item that is uniquely produced only in the native region.

The *size* of the immigrant stock can also affect trade in different ways. For example, a larger immigrant stock may increase the number of potential networks that can be built between the host and home region and increase the volume of international trade (Rauch 2002). The size of the immigrant stock would matter in developing trade through the 'preference effect' but there could also be certain thresholds beyond which migration does not have any substantial effect on international trade (Egger et. al 2011). Further, even small diasporas and emigrant stocks could have a large influence in 'trade creation' if they are able to control large parts of specific industries and swing trade towards their countries of origin.

In India, a couple of studies have explored the relationship between migration and merchandise trade between India and West Asia and Canada respectively. Karayil (2007) studied the relationship between migration and trade with the six GCC (Gulf Cooperation Council) countries in West Asia. India imports most of her oil requirements from West Asia and is involved in large scale ‘manpower or labour export’ as over five million Indians, nearly half the emigrant stock, reside in West Asia. While these labour flows have yielded substantial remittance flows to India, it also *boosted* exports to West Asia through the ‘preference effect,’ to meet the requirements of the large Indian emigrant population.

Walton-Roberts (2009)’s micro level study on the relationship between migration and trade linkages with Canada had several interesting insights. For example, visa restrictions on mobility of professionals appeared to be the major barrier in hindering the development of trade flows. ‘Indian language’ skills was not an important criterion for trade development as English was widely spoken in India and at times business people preferred speaking in English to connect with a pan-Indian audience. As a large majority of the Indian immigrants and diaspora in Canada originated from a small area within India (Doaba region of Punjab), the lack of familiarity with other Indian regions constituted a disadvantage for more broad-based trade development between India and Canada. Thus, regional specificity in international migration from India through networks need not necessarily overcome the informational barriers in international trade due to unfamiliarity of immigrants with other parts of India.

These studies show that the linkages between migration and goods trade are complex, even if they are by and large complementary in nature. Indian immigrants do not necessarily constitute as one category – there could be Punjabi immigrants, Gujarathi immigrants, and South Indian immigrants – and these divisions across various dimensions have implications for the linkages between migration and trade. The section on the diamond trade in this paper illustrates this specificity of communities and networks in ‘trade creation and’ the section on the food sector shows the operation of the ‘preference effect’ in international trade.

The link between migration and trade in services has been well documented and is integral to the definition of trade in services under the World Trade Organisation’s (WTO) General Agreement on Trade in Services (GATS). There are four modes through which international trade in services takes place: Mode 1 refers to the *cross-border supply* of services, Mode 2 refers to *consumption abroad*, Mode 3 refers to *commercial presence* of service suppliers in other countries usually through firm subsidiaries and Mode 4 refers to *presence of natural persons* in foreign countries supplying services. Mode 4 is the most obvious link between migration and trade in services though services supplied through other modes can also involve mobility. For example, tourism or student migration is associated with tourist or educational services that are largely covered under the Mode 2 definition.

The information technology and information technology-enabled services (IT-ITES) and health sectors are two particularly important sectors where migration and services trade are deeply related, particularly in the Indian context (Chanda 2008a, b). The dramatic growth of the IT-ITES sector in India can be attributed in part to an earlier generation of high skilled migration of computer professionals to the USA and the concomitant development of firms in India that provided on-shore and off-shore services. These services include software exports, consulting, support and training, outsourcing, systems integration among many others. Mobility of IT professionals is key to the success of the industry as the services require a high degree of Intra-Company Transfers to worksites outside India on short-term and long-term contracts.

The migration of doctors and nurses constitute the clearest link between migration and trade in health services and there has been a long standing relationship between India and the UK in this sector. Other aspects such as medical tourism are also relevant and are increasingly gaining importance.

Apart from these two sectors, there are various other professional services offered by lawyers, accountants, architects, etc. across international borders on a contractual basis that generate substantial economic activity. Tourist travel and purchases abroad also constitute a significant route through

which migration and services trade are interlinked, especially in the EU-India context as Europe is a popular destination for Indian tourists. Trade in educational services and international student mobility has also increased tremendously in the past decade. Apart from the UK, the traditional destination for most Indian students, other European countries have also witnessed an increase in the uptake of Indian students (Mukherjee and Chanda 2012).

As with merchandise trade, migration and services trade also involve networks, trade-creation effects, and preference effects. In this paper, we will briefly examine some of these connections in the EU-India context in the computer & information, education and entertainment sectors.

3. EU-India Trade and Migration: An Overview

There are strong trade linkages between India and the EU. Table 1 shows that EU-India total trading volumes were over \$ 110 billion in 2010, of which nearly 80% was accounted by merchandise trade and the remaining by trade in services. EU exports to India (\$ 44 billion) were more than the imports (\$ 42 billion) and this balance in favour of the EU has been a general feature of the past decade. India enjoys a large trade surplus with the rest of the world in the account of trade in services but holds a small trade deficit against the EU in this aspect.

Table 1. EU-India Trade, Billion USD, 2010

	Total Trade	Exports to India	Imports from India	Indian Trade Surplus
<u>India & EU 27</u>				
Trade in goods	87	44	42	-2
<i>as % of Total Indian Trade</i>	<i>16</i>	<i>13</i>	<i>20</i>	
<i>as % of Total extra-EU Trade</i>	<i>3</i>	<i>3</i>	<i>2</i>	
Trade in services	25	14	11	-3
<i>as % of Total Indian Trade</i>	<i>11</i>	<i>12</i>	<i>9</i>	
<i>as % of Total extra-EU Trade</i>	<i>2</i>	<i>2</i>	<i>2</i>	
Trade in goods and services	111	58	53	-5

Source data: Eurostat database (Accessed on 15 December, 2012), IMF Direction of Trade Statistics; rounded figures.

Note: Services ex- govt. services.

Table 2 shows the major trading partners of the EU and India. India ranks as the 8th most important trading partner of the EU and accounts for 3% of extra-EU trade. For India, the EU-27 accounts for 20% of exports (top rank), 13% of imports (second rank) and over 15% of total trading volumes. That is, the EU-27 bloc is a bigger trading partner than China or the USA and is on par with the Gulf Co-Operation Council (GCC) countries in West Asia.

Two industries account for over 20% of the total EU-India trading volume – the diamond industry and the textiles & clothing industry. The diamond industry, discussed in further detail later, accounts for nearly 20% of the EU's exports to India and 4% of imports from India. In contrast, the textile and clothing sector, represents a small fraction of EU's exports to India, but represents nearly 20% of imports from India and satisfies nearly 20% of the industry's total import demand.

Table 2. Major Goods Trading Partners of EU and India EU 27 (2011)

Rank	Import	%	Export	%	Total Trade	%
1	China	17	USA	17	USA	14
2	Russia	12	China	9	China	13
3	USA	11	Switzerland	8	Russia	10
4	Norway	6	Russia	7	Switzerland	7
5	Switzerland	5	Turkey	5	Norway	4
6	Japan	4	Japan	3	Turkey	4
7	Turkey	3	Norway	3	Japan	4
8	India	2	India	3	India	3

India (2010)

Rank	Import	%	Export	%	Total Trade	%
1	GCC countries	20	EU27	20	GCC countries	18
2	EU 27	13	GCC countries	15	EU 27	16
3	China	12	USA	11	China	10
4	Switzerland	6	China	8	USA	8
5	USA	6	Hong Kong	4	Switzerland	4

Source: Eurostat and Ministry of Commerce, India (accessed on 15 Dec, 2012). GCC=Gulf Cooperation council includes Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, United Arab Emirates (UAE).

Table 3 shows country-level data on goods trading volumes of India and immigrant stocks. Germany is the largest trading partner of India within the EU and is a surplus exporter, especially in the chemicals and machinery industries. Germany is followed by Belgium, due to its unique location in the supply chain of the diamond industry. The United Kingdom (UK) hosts a large Indian diaspora and immigrant stock, partly due to the colonial legacy, and it is not surprising that it has extensive trading relations with India. Netherlands is a net importer from India on a significant basis due to heavy imports in the mineral oil and textile sectors. France, Spain and UK are net importers, while Italy, Sweden and Finland are net exporters. The annual trading volumes with the other countries were generally less than a billion dollars.

Table 3. Goods Trade with India, \$ million, 2011-12

Country/ Region	Exports to India	Imports from India	Trade balance	Total Trade	Est. Stock of Indian Immigrants
GERMANY	15,719	7,939	7,780	23,657	43,000
BELGIUM	10,451	7,161	3,290	17,612	15,000
UNITED KINGDOM	7,593	8,597	-1,004	16,190	700,000
NETHERLANDS	2,672	9,145	-6,473	11,818	17,000
ITALY	5,414	4,878	536	10,293	115,000
FRANCE	3,833	4,564	-731	8,396	10,000
SPAIN	1,802	2,982	-1,179	4,784	35,000
SWEDEN	2,004	825	1,180	2,829	16,000
FINLAND	2,051	314	1,737	2,366	3,000
POLAND	658	786	-128	1,444	2,000
AUSTRIA	1,076	342	734	1,417	15,000
DENMARK	620	757	-138	1,377	8,000
CZECH REPUBLIC	713	272	441	985	1,000
GREECE	116	789	-673	906	12,000
MALTA	45	849*	-804	894	100
PORTUGAL	311	525	-214	835	11,000
IRELAND	394	423	-28	817	18,000
HUNGARY	426	316	110	742	300
ROMANIA	417	269	147	686	1,000
SLOVENIA	137	227	-90	364	100
ESTONIA	233	110	122	343	100
LITHUANIA	202	135	67	337	100
LATVIA	142	96	45	238	100
BULGARIA	98	109	-11	207	200
SLOVAKIA	91	95	-4	186	100
CYPRUS	22	57	-34	79	4,000
LUXEMBOURG	56	9	47	65	500
EU27 Total	57,295	52,570	4,724	109,865	1,028,000
USA	23,388	34,353	-10,965	57,741	1,655,000
China & Hong Kong	68,233	30,835	37,398	99,068	90,000
West Asia (GCC)	100,223	45,279	54,944	145,502	5,400,000
Africa	43,061	24,660	18,401	67,721	175,000
Other regions	196,981	116,926	80,055	313,908	2,652,000
World (ex-India)	489,181	304,624	184,557	793,805	11,000,000

Source: Indian Ministry of Commerce & Industry, Trade Statistics for financial year Apr 2011-Mar 2012. Immigrant statistics are for 2010 from MOIA (2010, NRI stats) and Eurostat (Birthplace criterion); higher values taken; UK figures taken from ONS (2011, Table 1.3) and US figures from USA Census Bureau (2010) on place of birth definitions.

* Possible typo error by the Ministry of Commerce or reflects intermediate trade flows that exploit tax regulations.

EU-India trade in services now amounts to over \$ 20 billion with a slight trading surplus in favour of the EU. Table 4 shows the sectoral distribution of trade in services in 2010. The EU's overall trading surplus is derived from a significant trade surplus in the transportation sector and a slight surplus in the construction, financial and IT sectors. India's slight trade deficit in the IT sector is in stark contrast to the large surpluses it enjoys with the USA and other regions of the world.

India has a trade surplus in the 'travel' segment and in 'other business services' which includes legal, accounting and management consulting services among others.

Table 4. Sectoral Distribution of EU-India Trade in Services, 2010, %

	Exports to India	Imports from India
<u>Total</u>	100	100
Transportation	33	21
Travel	11	19
Other services	56	60
of which:		
Communications services	2	2
Construction services	4	2
Insurance services	1	1
Financial services	3	2
Computer and information services	17	18
Royalties and license fees	2	1
Other business services	25	33
Personal cultural and recreational services	0.3	0.4
Government services	1	1

Source: Eurostat News Release 22/2012, 9 February 2012: EU-India Summit.

Table 5 shows country-level data on services trading volumes with India and immigrant stocks. The UK emerges as the largest partner of India in services trade, followed by Germany, France and Finland. Germany appears to have the largest trading surplus, though adequate data was unavailable at the time of the analysis. Finland and Ireland have large trade surpluses with India, presumably in the information and financial services sectors. Denmark, Italy, Netherlands and Belgium are the other countries with billion dollar trading volumes.

Table 5. Services Trade with India, \$ million, 2010

	Country/ Region	Exports to India	Imports from India	Trade surplus	Total Trade	Est. Stock of Indian Immigrants
1	GERMANY	3,498	2469*	1,029	5,967	43,000
2	BELGIUM	538	498	40	1,036	15,000
3	UNITED KINGDOM	3,127	3,512	-385	6,639	7,00,000
4	NETHERLANDS	740	855	-115	1,595	17,000
5	ITALY	629	466	163	1,095	1,15,000
6	FRANCE	1,388	1,192	196	2,580	10,000
7	SPAIN	172	309	-137	481	35,000
8	SWEDEN	341	343	-2	684	16,000
9	FINLAND	1,600	821	779	2,421	3,000
10	POLAND	79	49	30	128	2,000
11	AUSTRIA	136	139	-3	275	15,000
12	DENMARK	756	451	305	1,207	8,000
13	CZECH REPUBLIC	48	73	-25	121	1,000
14	GREECE	103	64	39	167	12,000
15	MALTA					100
16	PORTUGAL	13	34	-21	47	11,000
17	IRELAND	1,044	150	894	1,194	18,000
18	HUNGARY	55	32	23	87	300
19	ROMANIA					1,000
20	SLOVENIA	7	8	-1	15	100
21	ESTONIA	3	4	-1	7	100
22	LITHUANIA					100
23	LATVIA					100
24	BULGARIA					200
25	SLOVAKIA	2	3	-1	5	100
26	CYPRUS					4,000
27	LUXEMBOURG	73	40	33	113	500
	EU27 Total	14,352	11,512	2,840	25,864	10,28,000
	USA	10,383	13,692	-3,309	24,075	16,55,000

Source: OECD Trade in Services Database accessed on Jan 12, 2013, Stat Extracts. Immigrant statistics are for 2010 from MOIA (2010, NRI stats) and Eurostat (Birthplace criterion); higher values taken; UK figures taken from ONS (2011, Table 1.3) and US figures from USA Census Bureau (2010) on place of birth definitions.

* Calculated as residual between EU27 total and country totals. Finland export figure for 2009.

While there appears to be a broad positive relationship between trading volumes and the economic size¹ of the trading partner, there is no clear monotonic relationship between immigrant stock and imports, exports or total trading volumes at the aggregate level. For example, Belgium is the second most important goods trading partner of India even though it hosts a relatively small Indian population. However, the Indian diaspora in Belgium has successfully brought the diamond business to India leading to large trading volumes between the two countries. This underscores the trade creating potentials of migration even with small migration magnitudes, an aspect that is studied in further detail in the next section.

¹ GDP data not shown in tables.

4. Migration and the Diamond Trade

The \$ 12 billion diamond trade between India and Belgium is a classic example of how migration – both international and internal – and trade can be interlinked through community networks, especially in the context of global supply chains.²

The supply chain of the diamond industry today broadly works as follows: ‘Rough’ diamonds are first mined (mainly in Southern Africa, Russia, Canada and Australia), sorted and then released to a select group of diamond merchants known as ‘sightholders,’ based in Antwerp and London.³ Sightholders pass on the ‘roughs’ to dealers and commission agents, mainly based in Mumbai in India, who in turn pass it on to a large network of small-sized firms and a handful of recently built large factories (mostly based in Surat city) that specialize in ‘cutting and polishing’ activities. These diamonds then go back along the supply chain through export networks for retail sales around the world, a significant share of which travels again through Belgium. Today, global diamond exports alone account for nearly 10% of India’s total exports and the industry sustains a workforce of over 500,000 people in India. Over 80% of diamonds in the world are estimated to pass through Indian firms or through India in the global supply chain.

However, India was not an important part of this supply chain before the 1960s. Its dramatic rise in the past five decades can be attributed primarily to the success of Gujarathi communities in wresting control of the trust-based diamond market in Antwerp and the cost arbitrage of outsourcing cutting and polishing operations to India. The *Palanpuri Jains*, in particular, with a long history of gem trading, acted as the pioneers of the diamond trade. They entered the European diamond trading market in the early 1950s by importing ‘roughs’ in exchange for newly offloaded diamonds by Indian princes in the post-independence era, and later participated in the trading activities of Antwerp (Pathak 1984). One of the first Indian companies in Belgium – Gembel or Gem of Belgium - was set up in 1953 by Kirtilal Mehta, from Palanpur.⁴

The Indian government recognized the potential of diamond exports and began providing infrastructural and policy support to the industry in the 1960s. A major shift in consumer preferences in the 1980s aided the growth of the ‘small diamonds’ segment of the market, in which the Indian merchants held a comparative advantage. The Indian *diamantaires* share of trading activities in Antwerp grew from 2% in 1968 to 25% in 1980 to over 60% in 2003 (Kapur 2010, p. 100), effectively capturing the market once dominated by the Hasidic Jewish community. Indian firms also improved their representation among the select group of ‘sightholders,’ which is crucial for securing a steady supply of rough diamonds and signaling credibility.

All along, a large part of the diamond business was swung in favour of India through the transnational networks cultivated between diamond merchants in Antwerp (and London) and enterprises in Mumbai and Surat in India, mostly along familial lines. The diamond merchants in Antwerp, either born in India or of Indian origin, have flourished in export markets around the world, but continue to maintain their Indian base for cutting and polishing activities.

At the same time, new communities such as the Saurashtra Patels (*Kathiawaris*) from Gujarat have emerged bottom-up in the diamond industry, further strengthening trading ties between India, Belgium and the wider world. This community, unlike the Jains, had a farming background and migrated in large

² This section is based on interviews with employees of an Indian diamond exporting firm, small shop owners and workers in Surat city and the relevant literature – Pathak (1984), Kashyap and Tiwari (1987), Engelshoven (1999), Westwood (2000), Munshi (2007), Kapur (2010, Ch. 4) and Kapoor (2011).

³ The Diamond Trading Company of the De Beers group controls a large part of the distribution system.

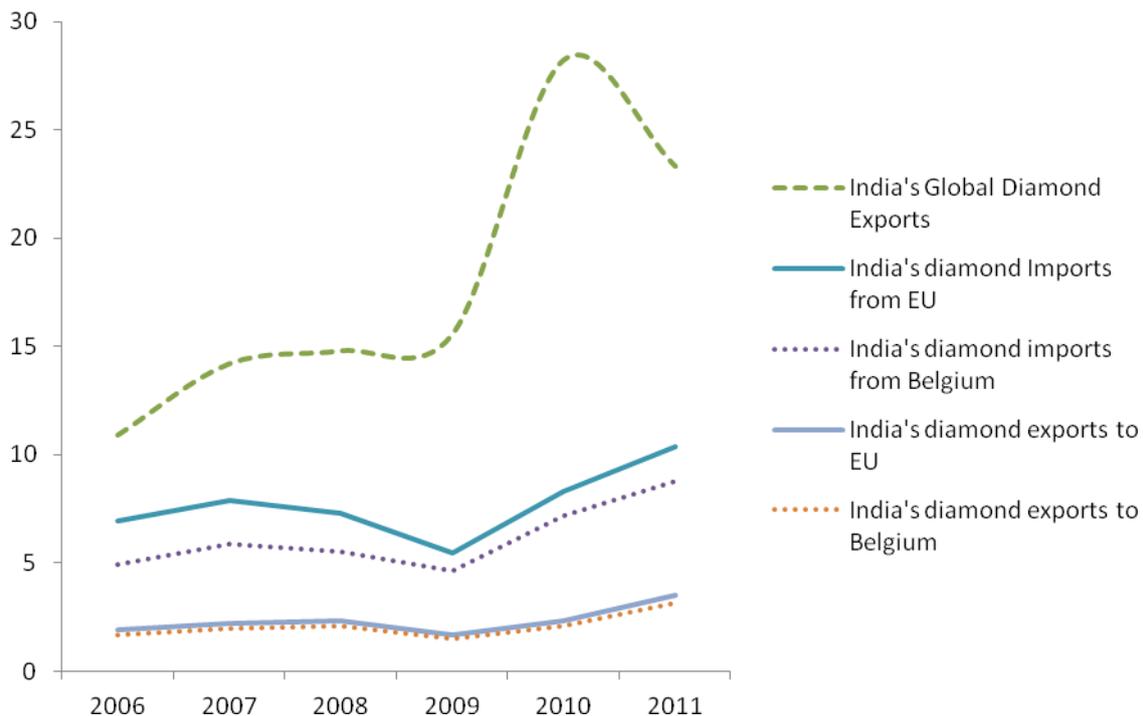
⁴ “Kirtilal Mehta- Founder of the Indian Community in Israel.” Diamond News Center. <http://www.israeliamond.co.il/english/news.aspx?boneid=2524&objid=11095>, accessed on Jan 8, 2013. He was later conferred with a prestigious civilian award by the Belgian govt. for his contribution to the diamond industry.

numbers to Surat city. They have come to dominate the ‘cutting and polishing’ segment of the supply chain and have also emerged as the dominant community in the export business in the past two decades.

There are around 15,000 Indians in Belgium today, and the diamond trade between Antwerp, London, Mumbai, and Surat forms the backbone of the industry’s global supply chain. Figure 1 shows the evolution of Indian diamond trading activities over the past five years. India imports about \$ 10 billion worth ‘roughs’ from the EU (80% Belgium, 20% UK), and exports back most of the cut and polished diamonds that are worth nearly \$ 25 billion, to the outside world. Of this, less than \$4 billion was directed towards the EU (mainly Belgium) as the major destinations were the USA and West Asia.

Growth faltered with the financial crisis of 2008 and the industry reached its nadir in 2009, adversely affecting all ends of the supply chain (Kapoor 2011). However, trade picked up in 2010 and the industry is now slowly but surely getting back on its feet.

Figure 1. India, Belgium, EU and the Diamond Trade, USD billion



Source: Eurostat (product codes 66721, 66722, 66729) database accessed on 15 Dec, 2012. Gems & Jewelry Export Promotion Council (India) website (accessed on 15 Dec, 2012).

The diamond trade between India and the EU represents nearly 15% of total EU-India trade and this ‘trade creation’ can be attributed to the direct and active role played by Indian immigrants and the diaspora. While the comparative advantage of India lies in the low cost of labour in cutting and polishing diamonds, this fact alone would not have brought the business to India. It is the unique nature of the industry that relies on trust and close cooperation that led the initial Indian diamond merchants in Antwerp to cultivate links in India rather than in *any* low-cost country in the world. Unlike the textiles and clothing business where importers can shift among various countries in search of low cost production capabilities, the diamond industry relies on community based networks with other countries that can be fostered only through linkages with migration. The next section explores these linkages in further detail.

4.1 Migration Networks and Trade Facilitation

Govind *Bhai*, as he is affectionately called by his co-workers, runs a small diamond cutting and polishing workshop in Surat city in Western India. Belonging to the traditionally agrarian community of Saurashtra Patels, he migrated at the age of sixteen in the 1980s to Surat city to work with his uncle in one of the thousands of workshops that dot the city. After ten years of cutting and polishing activities, he ploughed back his savings into starting a small enterprise of his own that currently employs ten workers and has an annual turnover of roughly \$ 1 million. This transition from farmer to worker to entrepreneur is representative of thousands of other migrants, who have made their millions and prospered in Surat's diamond industry that is characterized by low establishment costs and informal community based enterprises.

However, the story does not end there. So far, Govind *Bhai* only undertook cutting and polishing jobs but ambitions and aspirations are rising and he now intends to focus on other aspects of the supply chain. The diamond crisis of 2009 underlined the need for a more secure source of rough diamonds such that Govind *Bhai* intends to diversify his sources by establishing direct contact with firms in Mumbai, Antwerp and London instead of relying exclusively on dealers in Surat. Further, he is keen on entering the export market but is hesitant as he himself lacks the professional expertise to do so. He has a clear strategy for both issues: International migration of younger (male) members of his family. His nephew is currently studying a management course in the UK (funded by Govind *Bhai*) and is poised to join a mid-sized Indian diamond export company in Antwerp to gain the relevant work experience. His own son is currently studying Engineering in Surat and is expected to study further in Belgium to gain knowledge of the latest diamond cutting technologies. International exposure is important not only for understanding external markets and technologies but in the case of the Patels, also important for competing with other Indian communities as they have to overcome some of the stereotypes attributed to a rural background. Govind *Bhai* is confident that within five years, he can realize his dream of entering exports markets, a goal that is shared by thousands of others in Surat city. He says: "Having a presence in Belgium is not important to reach where I am today, but is important to reach where I want to be tomorrow. This is only possible if my family members have some international exposure and substantial '*foren*' knowledge..... I can trust only my family and I pray every day that they do not think of leaving the diamond trade."

These sentiments and actions are widely reflected in the rise of the Saurashtra Patels in India's diamond trade over the past two decades as the community has steadily captured market share from the *Palanpuri Jains*, the traditional trading community. International exposure of family members usually starts with foreign education but more importantly involves family members working on a temporary or permanent basis in different parts of the world, especially in Antwerp and London. Almost all the exports outlets of Indian diamond firms located outside India are staffed by a considerable number of Indians and supervised by managers who are directly related with diamond family firms based in India.

Consider the case of a particular mid-sized diamond exporting firm with revenues over \$ 100 million and a workforce in India of over 500. The firm has ten employees in Belgium – eight Indian and two Belgian. The Indian employees work on work permits for 3-4 years and are generally not expected to settle in Belgium as the company has an active rotation policy that strives to give more employees in India exposure to the trading world of Antwerp. Some Indian employees do not belong to the specific communities mentioned above but are still preferred for the jobs due to two main reasons: (a) The high trust factor that is involved in the jobs such that '*Indianness*' is welcomed as a sign of familiarity and (b) Perceived '*adaptability*' of the Indian working style that is not overly restricted by strict work-hour preferences. The firm also prefers to hire Indian employees in their export outlets in other European countries, especially in the UK and Germany. There are many such firms with a presence in Europe and industry sources suggest that more than 2,000 Indian employees work in Indian diamond exporting firms in Europe itself, mostly based in Antwerp and London. These employees are either recent graduates from European universities or represent Intra-company Transferees.

The diamond industry reveals multiple pathways through which migration and trade are connected between India and the EU. First, the initial migrations of the *Palanpuri Jains* were instrumental in establishing the diamond trade between India and European countries, through procurement and exports. These initial migrations led to the emergence of a small Indian diaspora in Belgium that still maintains trading links with India. Second, the emergence of the Patel community in the diamond trade within India led to a new wave of migration and contacts between India and Europe in the past two decades. These migrations include Intra-Company Transfers but also, increasingly student migration of the younger generation. These new migration networks have facilitated a massive expansion of the existing diamond trade, not only between India and Belgium but also with other countries in Europe. Expansion of trade has led to further migration of Indians working in diamond export firms. Lastly, it should also be pointed out that Antwerp has emerged as a major destination for Indian tourists, precisely because of the diamond connection. Leading tour operators choose Antwerp as a destination point in their ‘Europe package’ to showcase the diamond capital of the world and take advantage of the many Indian restaurants that are popular with Indian tourists abroad. Thus, the diamond industry shows the intimate linkages between EU-India trade and mobility of merchants, professionals, students and tourists.

5. The Preference Effect in the Food Sector

One way in which migrants may influence trade is through the ‘preference’ effect such that Indian migrants may prefer to consume goods in the EU that are imported from India. This is particularly true in the food sector as food tastes of migrants seldom change and there is always demand for basic food ingredients from the native country either for home cooking or for ethnic restaurants.

The volume of these imports should vary positively with the magnitude of the Indian immigrant stock in the host country. From Table 3, we infer that the UK has, by far, the largest immigrant stock of nearly 700,000 Indians followed by Italy with over 100,000 Indians followed by other EU countries. Thus, imports to the EU from India which are predominantly directed towards the UK may be interpreted as being drawn through the preference effect of migration.

On analyzing a large dataset of EU-India trade transactions at a disaggregated product level, we observed four products that were disproportionately drawn towards the UK among all the EU countries. Not surprisingly, all these four products were food items: Lentils, Beans, Spices and Rice. Table 4 shows the distribution of these products in the import stream to EU.

Table 6. Imports from India to the EU, 2010

	UK	Italy	Rest of EU	EU27	\$ million
Lentils	78%	12%	10%	100%	1
Beans	73%	23%	4%	100%	2
Rice	51%	8%	41%	100%	250
Spices	48%	5%	47%	100%	120

Source: Eurostat database accessed on Dec 14, 2012; Product codes 0524, 05423, 042, 075.

Lentils, which include various types of ‘daals’, the staple protein supplement in the Indian diet, exhibit a strong preference effect on migrants’ food requirements. Nearly 80% of the imports from India were towards the UK, 12% towards Italy and 10% to the rest of the EU countries, consistent with the magnitude of migrant stocks in those regions. A similar result is obtained for beans. However,

these items were worth only \$ 3 million in trading volume, insignificant in comparison to total EU-India imports of \$ 42 billion.⁵

Rice and spices were imported mainly by the UK but had a relatively more even spread across other EU countries than in the case of pulses and beans. In total, we can infer that about \$ 370 million worth food items or nearly 1% of EU's imports from India arise directly through the preference effect of immigrants. This figure could be higher if certain food exports are not periodically banned in India for export markets (in order to curb price speculation).

6. Trade in Services and Mobility

6.1 Computer and Information Services

EU-India trade in 'Computer and Information Services' amounted to over \$ 3 billion or nearly 20% of the total trade in services in 2010.⁶ The EU exported \$ 1.8 billion worth services and imported \$ 1.5 billion worth services from India and the EU's trade surplus is somewhat surprising given India's edge in services. It perhaps reflects the fact that Indian firms' engagement with the EU in this sector is relatively limited in comparison to trade with these services with the US and other parts of the world.

Currently, Europe's contribution to the revenue share of major Indian IT companies is under 20% (largely from Germany and UK) and the lion's share of the revenue is sourced from USA. However, this is likely to change as companies aim to increase their revenue share from the EU due to perceived growth opportunities emerging four years after the financial crisis. For example, Infosys, the second largest IT firm in India, aims to double its revenue share from Europe to 40% by 2014.⁷

Professionals working in the IT sector move across borders for business visits and work on short-term and long-term contracts, mostly through the channel of Intra- Company Transfers. The success of the IT sector is therefore highly dependent on the nature of the visa regime in destination countries. While the visa regime in the EU is broadly in sync with the requirements of the IT sector, the recent recession has imposed certain pressures that are greatly resisted by Indian IT firms. In the UK, for instance, there was a proposal to consider Intra-Company Transferees on par with 'prospective immigrants' and this generated a strong reaction from the Indian govt. and IT firms who threatened to relocate to other European countries.⁸ This shows that the mobility of IT professionals is integral to the provision of various services offered by IT firms.

6.2 Education Services

EU-India student mobility grew tremendously in the past decade and currently there are around 45,000 Indian students in the EU, nearly 80% of who study in the UK (Mukherjee and Chanda 2012). Education exports constitute a fast growing segment for many European countries but they are difficult to fully measure in the balance of payments framework as they do not necessarily count as exports if international students work in destination countries after their studies. However, education services constitute a significant source of monetary flows from India to Europe towards tuition expenses and most students eventually do return to India.

⁵ These volumes appear to be rather low and could be because of insufficient reporting at the highly disaggregated level.

⁶ This figure is much lower than the figure presented by Indian associations for the IT-ITES sector exports to Europe which is above \$ 10 billion.

⁷ "Infosys banks on Europe, Asia to boost growth." Oct 19, 2011. Reuters. <http://in.reuters.com/article/2011/10/19/idINIndia-59985720111019>, accessed on January 15, 2013.

⁸ "India warns UK on tough visa norms; Indian IT firms may relocate to other European countries." The Economic Times, April 16, 2012.

For example, the UK earned nearly \$ 2.5 billion in tuition fees from non-EU students in 2008/09 (Conlon et. al. 2011). Assuming that Indian students formed 20% of the non-EU student body,⁹ one can estimate that Indian students paid over \$ 500 million in tuition fees in UK. Taking other countries of the EU into account, this figure would be even higher and could be close to 10% of the amount of remittances sent back by Indian migrants in the EU back to India (Tumbe 2012). This marks a significant monetary contribution by Indian migrants to the European economy.

6.3 Entertainment Services

Entertainment services, especially through the medium of Indian films (Bollywood and other regional cinema), Indian television channels, and performance concerts, are in great demand primarily through the ‘preference effect’ of Indian immigrants and the Indian diaspora. Recent estimates suggest that annual Bollywood exports amount to over \$ 200 million with USA and UK being the major markets (Lorenzen 2009). Cable television subscribers outside India form another significant source of revenue for Indian television companies. Nearly every major film and entertainment TV producer in India aims to raise their export to revenue share over 20% and entertainment content itself is being shaped by the expectations and requirements of overseas Indians.

Europe occupies a special place in Bollywood films not only because of the presence of the Indian diaspora but also because many countries are actively depicted in the movies to evoke a sense of aura for the audiences in India. As a result, Bollywood’s connection with Europe has also increased mobility through tourism and many European countries offer incentives to Indian films for film-shooting, in order to advertise specific destinations or local cultures. Switzerland, a non-EU country, has long been a favorite among Indian tourists and the government even honored Yash Chopra, a famous Indian director and producer, for “rediscovering Switzerland” in his films and generating Indian interest in Switzerland. Following the release of “*Zindagi Na Milegi Dobara*” in 2011, a high-profile film shot in Spain with a govt. tie-up, there was a substantial increase in Indian tourist arrivals in Spain and special packages arranged for the *La Tomatina* festival that was depicted in the film.¹⁰ All these examples show that mobility is an important part of the trade in entertainment services between India and the EU.

7. Conclusion

This paper has highlighted certain cases of the close inter-relationships between migration and trade between India and the EU.

In the first case, a small Indian diaspora in Belgium swung the bulk of the diamond business towards India generating large trading and employment opportunities. The diamond trade represents nearly 15% of total EU-India merchandise trade or nearly \$ 14 billion and operates through a migrant community based network spanning Antwerp, London, Mumbai and Surat. In contrast, imports to the EU on account of migrants’ preferences for staple food products such as lentils, beans, rice and spices are much smaller in magnitude but represent a direct link between trade and migration in the EU-India context. Trade in computer and information services, education and entertainment sectors also exhibit clear linkages between trade and migration and can be valued at over \$ 2 billion.

While this paper has not delved into the policy issues involved in the EU-India migration and trade nexus, it is evident that the nature of the visa regime is an important criterion in influencing the trade creating potential of migration. Further, diasporic associations and lobby groups of overseas Indians also play an important role in forging trade and investment ties across various industrial and services sectors.

In the near future, the growing Indian immigrant workforce and diaspora in the EU is likely to play an important role to play in facilitating EU-India trade at multiple levels.

⁹ Overall, 10% of international students in the UK were from India.

¹⁰ “India’s Tourists Flock To Spain.” September 19, 2011.

<http://travel.cnn.com/mumbai/life/indian-movie-boosts-spanish-tourism-694426>, accessed on Jan 15, 2013.

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