

INDIA-EUROPEAN UNION FREE TRADE AGREEMENT: A PRELIMINARY ASSESSMENT

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



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Introduction

The European Union (EU) Commission published a Communication called “Global Europe: competing in the world” on October 4, 2006. The report had two parts; First discussed the internal EU trade policies and the second detailed its external policies. The latter highlighted the importance of multilateralism while recognizing the need to bypass the World Trade Organization (WTO) to establish bilateral agreements on trade and investment.² Under the auspices of its external trade policy the scheme is to gain access to potential markets through Free Trade Agreements (FTA), to which India presents as a great opportunity. On the other hand, FTA with the EU is also of interest to India as it would enhance India’s growing economy and support its agenda of a regional power and a global economic power.

¹ “India-EU FTA Negotiation to Start on 27 June,” *Apparel Resources*, June 20, 2022,

<https://apparelresources.com/business-news/trade/india-eu-fta-negotiation-start-27-june/>.

² “On the Communication ‘Global Europe: Competing in the World,’” *The European Trade Union Confederation*, December 6, 2006, <https://www.etuc.org/en/document/communication-global-europe-competing-world>.



Figure 1: The EU trade and import of goods in billion Euros.³

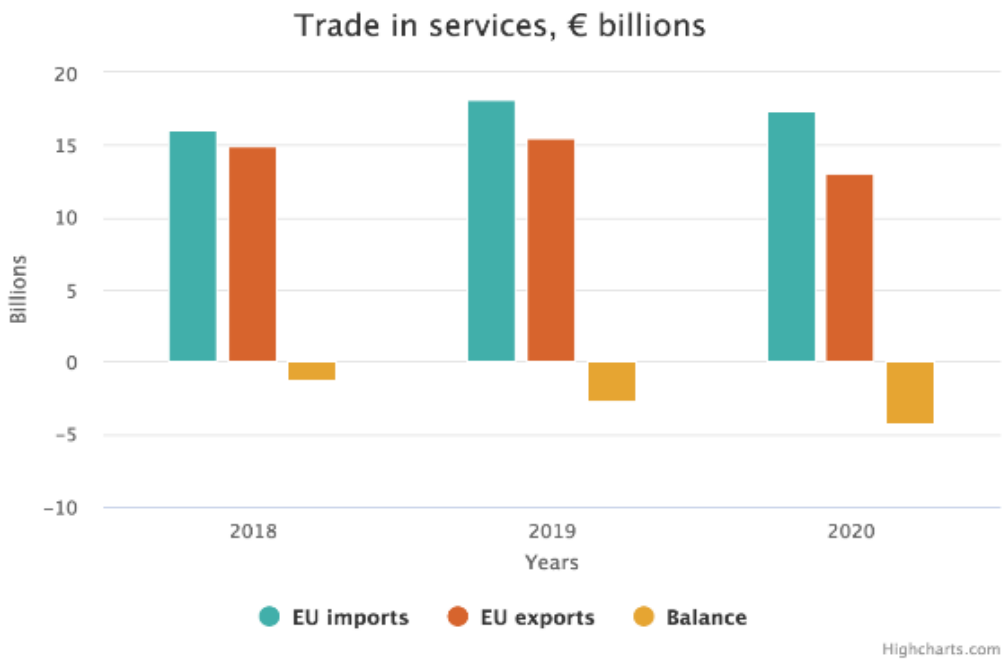


Figure 2: The EU trade of services in billion Euros.⁴

The fact that EU is the third largest trade partner to India, and India is the 10th largest trading partner to EU, in 2021,⁵ has necessitated the need for trade agreements which would not only

³ "EU Trade Relations with India," *European Commission*, 2022, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india_en.

⁴ Ibid.

⁵ Ibid.

enable trade of goods and services but technology transfer as well. Similarly, the EU seeks to enhance its access to the rapidly growing economies in the Indo-Pacific where China possesses a greater influence. An FTA with India would certainly aid the EU in increasing its access to the Indo-Pacific region with the aim to curb China's increasing hold over the region.⁶ Similarly, in the pursuit of global interests, the integration brought about by such a FTA might also enable the EU to dissuade India of its reliance upon Russia as a strategic partner.⁷ As a result, the two have repeatedly engaged in negotiations to assemble an agreement that would benefit both the parties, since 2007. Nonetheless, the India-European Union Free Trade Agreement got stalled in 2013 due to conflicts upon matters of pharmaceuticals, access of Indian professionals to EU markets, high import duties upon certain European consumer goods and automobiles, issues of regulations on data protection etc.

After a long stalemate of over eight years, the two partners resumed the talks on June 17, 2022, that continued for about a week.⁸ A study carried out in 2020 by the European Parliamentary Research Service, provided an estimate that gains for the EU are between €8 billion and €8.5 billion (0.03 percent of the initial welfare), and for India a similar increase (0.3 percent of the initial welfare) from the agreement.⁹

Potential complications

In light of the resumed negotiations, it is likely that the EU would impress upon reducing tariff duties on goods like agricultural food products, automobiles etc., whereas, India has more interest in trade of services and greater access for its professionals to EU labor markets.¹⁰

Analysts argue that lower or zero tariffs would adversely impact India as it would lose a major source of revenue. For example, goods such as dairy products and liquor are characterized by up to 60 percent (for powder milk only; cheese and yogurt have 40 percent) and 50 percent basic customs duty respectively in India, as of 2021. As EU states are major producers of dairy products and liquor

⁶ "EU, India Relaunch Talks for Free Trade Agreement," *Reuters*, June 18, 2022, <https://www.reuters.com/markets/commodities/eu-india-relaunch-talks-free-trade-agreement-2022-06-18/>.

⁷ Mark Linscott, "As the EU Courts India on Trade, Here's What to Watch," *Atlantic Council*, April 27, 2022, <https://www.atlanticcouncil.org/blogs/new-atlanticist/as-the-eu-courts-india-on-trade-heres-what-to-watch/>.

⁸ "India-EU FTA Talks: Next Round at Brussels in Sept, Says ComMin," *The Indian Express*, July 3, 2022, <https://indianexpress.com/article/business/economy/india-eu-fta-talks-next-round-at-brussels-in-sept-says-commin-8005779/>.

⁹ Cecilia Navarra, "Assessing the Potential Impact of an EU-India Trade Agreement," *European Parliament*, July 1, 2022, [https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642841/EPRS_STU\(2020\)642841_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/642841/EPRS_STU(2020)642841_EN.pdf).

¹⁰ "EU, India Relaunch Talks for Free Trade Agreement."

and spirits, they would want to reduce the tariffs, affecting sensitive sectors in India.¹¹ However, it is believed that in order to enable effective negotiations India will be forced to reduce the tariffs, along with the fact that the liberalization in the services industry has a scope for greater paybacks.¹²

Imposition of tariffs is a way for India to protect its markets from external competition that could potentially overtake the indigenous industry due to being more efficient and cost-effective. This can also affect Modi's "Make in India" campaign.¹³

Moreover, the EU comprises 10.8% of total Indian trade, of which EU imports of goods to India is 2.2 percent, as of 2021. This implies that the remaining Indian imports come from non- EU states, which increases the possibility of trade diversion¹⁴ for India that would develop from such an FTA. As a result, the welfare gains made from such an FTA would potentially be reduced for India.¹⁵

Another point of contention might arise from India's insistence upon providing Indian professionals visas and access to EU labor markets. Whereas the EU contends that the authority over issuing visas and work permits resides within the individual states, therefore barring the EU from making any decisions in this regard. Accordingly, there exists a significant disparity between the qualifications and professional standards required in each member state, which further impedes the access of Indian workers.¹⁶

With respect to the recent call by Germany to bring the Transatlantic Trade and Investment Partnership (TTIP) back on the EU's agenda, which got impeded by the Trump Administration in 2017, the timely ratification of EU-India FTA becomes critical for India.¹⁷ The TTIP is a trade and investment agreement between the US and EU, which would increase the access of US goods, services and labor to EU markets. If ratified, the TTIP has the potential to redirect opportunities

11 Siraj Hussain and Jayant Dasgupta, "Liquor Duty to Dairy — What We Can Expect in the India-EU Trade Negotiations," *The Print*, June 3, 2021, <https://theprint.in/opinion/liquor-duty-to-dairy-what-we-can-expect-in-india-eu-trade-negotiations/670454/>.

12 Trade Agreements, Government of India, Ministry of Commerce and Industry, Department of Commerce, 2012, available at http://commerce.nic.in/trade/international_ta.asp?id=2&trade=i.

13 Sangeeta Khorana, "What Does India Think? The FTA: A Strategic Call for the EU and India?," *European Council on Foreign Relations*, October 2020, https://ecfr.eu/special/what_does_india_think/analysis/the_fta_a_strategic_call_for_the_eu_and_india.

14 Trade diversion refers to a situation where the trade or the source of supply, due to a FTA, is switched from more efficient exporters (low cost states) to less efficient exporters (high cost states), resulting in welfare loss for the importing state (in this case, India).

15 "Qualitative Analysis of a Potential Free Trade Agreement between the European Union and India," *Centre for the Analysis of Regional Integration at Sussex (CARIS), University of Sussex*, 2007, <http://www.cuts-citee.org/pdf/EU-IndiaStudyAnnex1May01.pdf>.

16 Khorana, "What Does India Think? The FTA: A Strategic Call for the EU and India?"

17 "Trump Executive Order Pulls out of TPP Trade Deal," *BBC News*, January 24, 2017, <https://www.bbc.com/news/world-us-canada-38721056>.

away from Indian traders and towards the US traders. The EU markets will get flooded by U.S. investors and traders, further narrowing the chance India has of accessing the EU markets.¹⁸

Assessment of the trade sustainability of the EU-India FTA shows that it might also have a deteriorating impact on India's environment. Due to the increased economic activity, it is precedent that the energy requirements in India would increase. This would eventually have an adverse impact upon the environment due to the increased air and land traffic and use of fertilizers that would create grave conditions of air and water pollution.¹⁹

Conclusion

The EU-India FTA has the potential of opening new doors of economic and strategic growth for both India and the EU, however it is not without complications. Most of the issues hindering the agreement today are the same as the ones faced in 2007-2013 EU-India FTA talks. Addressing these challenges, especially for India, would put the government in a complicated trial, since most of the terms call for reduction in tariffs and opening up of its markets for foreign competition. Both of these scenarios have a high potential of inducing a debate in the country, especially by its lower class. Therefore, any decision taken for short-term political gains while ignoring the on ground social and economic realities of the state by Modi's government, could have unprecedented and undesired repercussions.

¹⁸ "Germany Calls for New Talks on Transatlantic Trade Deal," *Reuters*, March 20, 2022, <https://www.reuters.com/world/europe/germany-calls-new-talks-transatlantic-trade-deal-handelsblatt-2022-03-20/>

¹⁹ *Ibid.*

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