

EU-India: Trade prospects

The EU-India Summit held in July 2020 agreed to establish a regular high-level dialogue at ministerial level on bilateral trade and investment relations. In this way, the EU and India expressed a clear political will to work together to overcome issues that have hampered their trade relations in recent years and impeded advances towards a bilateral trade and investment agreement – where negotiations have been stalled since 2013 – and achievement of the potential of economic relations between the world's two biggest democracies.

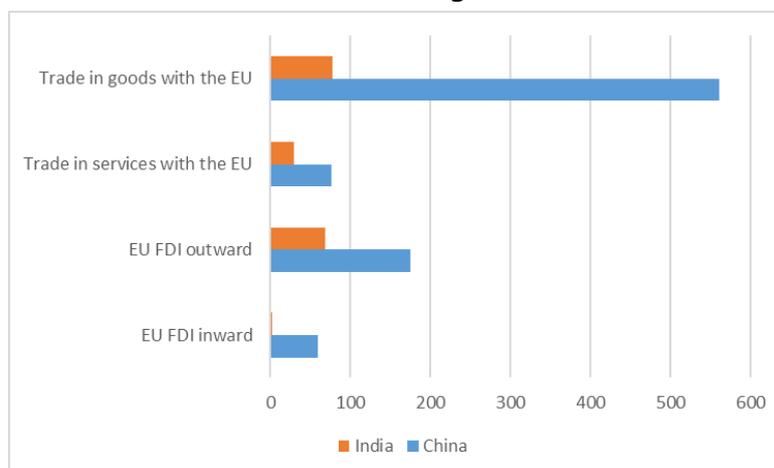
Trade and investment relations: Untapped potential

The EU and India have been strategic partners since 2004. Negotiations for a bilateral trade and investment agreement (BTIA) began in 2007, but reached deadlock over a number of unresolved issues in 2013. Prospects for a BTIA dimmed further in March 2017, when India [terminated bilateral investment treaties](#) (BIT) with dozens of countries, including most of the EU Member States. Currently, only [Latvia and Lithuania](#) have an agreement in force. Delhi took this decision as the consequence of a large number of claims against India from foreign investors seeking compensation for alleged violation of existing investment treaties. The Indian government wants countries to sign new agreements based on a [new BIT model](#) from 2015, which would reduce protection of foreign investors.

The EU is India's [largest trading partner](#): trade in goods amounted to €79.6 billion in 2019, a slight decrease compared to the previous year, and making up 11.1 % of total Indian trade (slightly ahead of the United States of America and China. India, in turn, is the EU's 10th largest trading partner, accounting for 1.9 % of EU total trade in goods in 2019. After several years of a positive EU balance of trade in goods with India, the balance became negative in 2019 (-€1.3 billion). The EU balance of [trade in services](#) was also negative in 2018, at -€1.2 billion, with a value of total trade in services reaching €29.6 billion. EU foreign direct investment (FDI) stocks in India amounted to €67.7 billion in 2018 (India invested €2.6 billion in the EU). Some 6 000 European companies are present in India, providing 1.7 million jobs directly, and a further 5 million indirectly, in a broad range of sectors.

Considering the size of the two economies, these figures are evidence of an untapped potential. Both imports and exports of goods with India are stagnating, at a mere 2 % of all the EU partners. Compared with the flows with [China](#), the main EU trade partner, trade in goods with Beijing is seven times larger than trade in goods with India, while [trade in services](#) with China is almost three times higher (see box). Despite the number of companies in India, EU FDI is two and a half times higher in China than in India.

EU-India and EU-China trade in goods, services and FDI



Source: European Commission, [DG TRADE](#). Data are expressed in € billion. Trade in goods: 2019. Trade in services, FDI outward, FDI inward: 2018.

Negotiations for a free trade agreement deadlocked

Negotiations on a BTIA are hampered by a number of issues. These include: the liberalisation of Indian tariffs on certain goods, including automotive, wine and spirits, and dairy products; liberalisation of services, including legal and accounting services; access to Indian public procurement; introduction of measures to strengthen intellectual property rights protection in India, which may hinder Delhi's production of generic pharmaceuticals and poor people's access to medicine; inclusion of human rights clauses. The EU does not consider India a data secure country, which limits Delhi service providers' chances to access EU markets. A [draft data protection law](#) introduced to the Indian Parliament in December 2019 has raised [controversy](#) on the [intervention powers](#) it affords the central government's [security agencies](#).

According to an EPRS study on [Assessing the potential impact of an EU-India trade agreement](#), partly liberalising trade in goods and services between the EU-28 and India would increase exports from the EU to India by about 52-56 %, while imports from India would increase between 33 % and 35 %. Gains from increased trade for the EU would amount to around €8-8.5 billion.

A high-level dialogue to unleash bilateral trade potential

Some trade issues go beyond the impasse on achieving an agreement on a BTIA. India – which benefits from preferential tariffs for its exports of goods under the EU's generalised system of preferences ([GSP](#)) – has a protectionist trade policy: in the European Commission's 2019 [report](#) on trade and investment barriers, it is ranked fifth by number of barriers to trade. The measures adopted in May 2020 by the Indian government (*Aatma Nirbhar Bharat Abhiyan*), promoting the local economy in the wake of the economic crisis provoked by Covid-19 may have launched a further bout of protectionism. Trade relations have also been hampered over the years by a number of [disputes](#). In April 2019, the EU initiated a World Trade Organization (WTO) dispute against Indian [technology tariffs](#). Delhi's draft law on data protection mentioned above calls for data localisation, requiring companies to store all critical data within India. If adopted, this law would complicate bilateral negotiations to acknowledge India as a data secure country.

Meanwhile, the coronavirus pandemic has raised questions about China's centrality in global value chains. Against this background, the EU and India may wish to raise their degree of mutual trust as economic partners within a rules-based order. The [EU-India Summit](#) held in July 2020 agreed to establish a regular high-level dialogue at ministerial level. Providing guidance to bilateral trade and investment relations and addressing multilateral issues of mutual interest, the high-level dialogue 'will aim at fostering progress on the trade and investment agreements, addressing trade irritants and improving conditions for traders and investors on both sides as well as discuss supply chain linkages'. This is consistent with the trade pillar of the [EU strategy for India](#), adopted in November 2018, which specifies that the 'EU's main objective is to work towards a sound, transparent, open, non-discriminatory and predictable regulatory and business environment for European companies trading with or investing in India, including the protection of their investments and the protection and enforcement of intellectual property'. During the summit, the EU and India confirmed their intention to preserve and strengthen the WTO, as well as a rules-based multilateral trading system. They also agreed to enhance coordination on global economic governance, notably in the framework of the G20.

The European Parliament's position

In June 2017, the European Parliament adopted a [report](#) on EU political relations with India. The Parliament reiterated its support for a comprehensive and ambitious FTA between the EU and India, the negotiations for which should be conducted in a spirit of reciprocity and mutual benefit. This agreement should be 'economically, socially and politically valuable for both sides' and respectful of the international standards established in the framework of the WTO and the International Labour Organization (ILO), as well as of the principle of corporate social responsibility. Members underlined that such an agreement should benefit both European and Indian citizens, including by fighting poverty and promoting respect for human rights.

