EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

WORKSHOP

THE LONG ROAD TOWARDS AN EU-INDIA FREE TRADE AGREEMENT

INTA

EN

2013

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

WORKSHOP

THE LONG ROAD TOWARDS AN EU-INDIA FREE TRADE AGREEMENT

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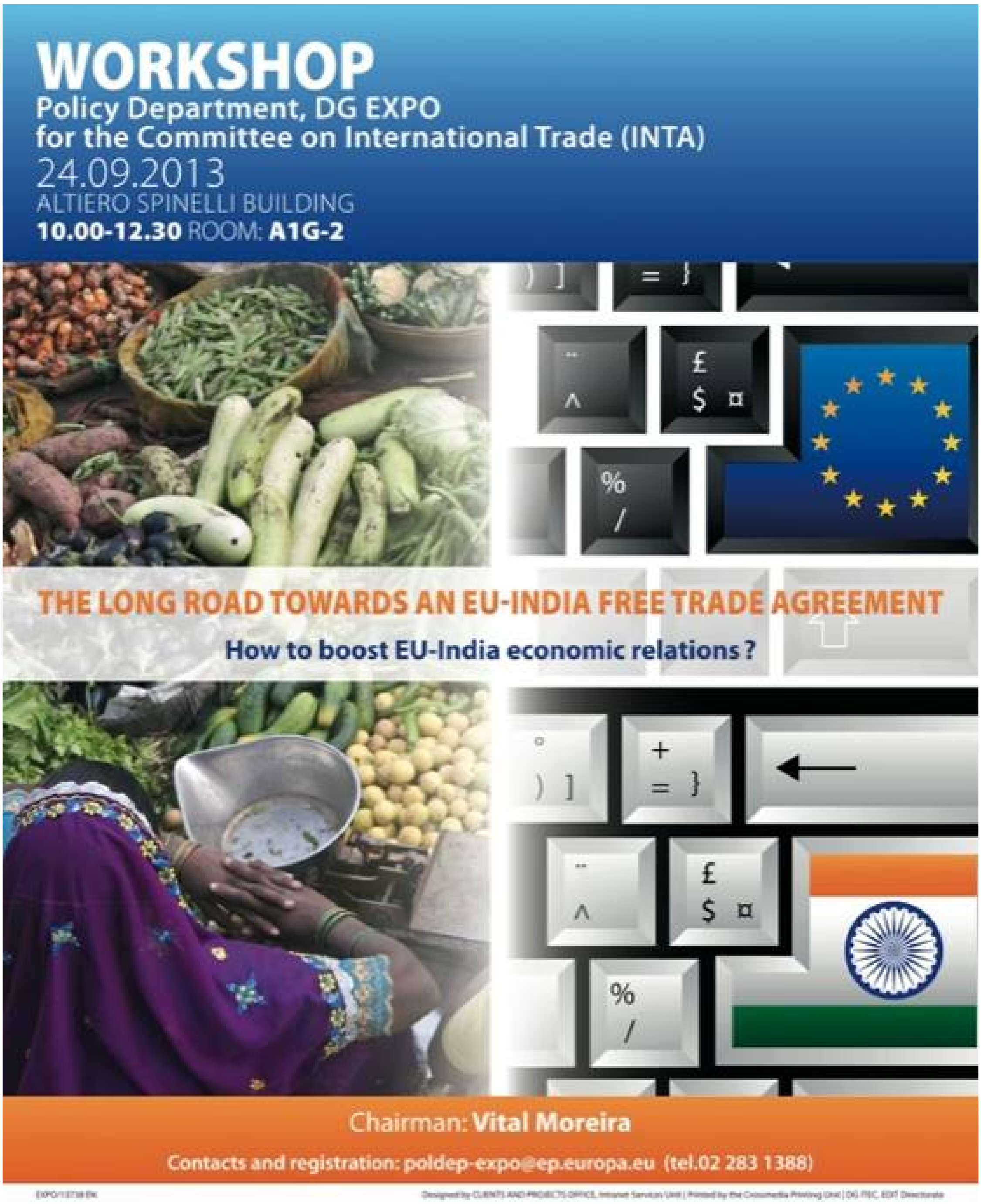
WORKSHOP
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for the Committee on International Trade (INTA)
24.09.2013
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THE LONG ROAD TOWARDS AN EU-INDIA FREE TRADE AGREEMENT
How to boost EU-India economic relations?
Chairman: Vital Moreira
Contacts and registration: poldep-expo@ep.europa.eu (tel.02 283 1388)

This workshop was requested by the European Parliament's Committee on International Trade.

AUTHORS:

Dr Arpita MUKHERJEE, Professor, Indian Council for Research on International Economic Relations (ICRIER), India
Paul WYMENGA, Director Sustainable Economics, ECORYS NEDERLAND BV, The Netherlands
Eline VAN DEN BOSSE, Research Assistant, ECORYS NEDERLAND BV, The Netherlands
Tanu M GOYAL, Research Associate, ICRIER, India
Ramneet GOSWAMI, Research Associate, ICRIER, India

ADMINISTRATOR RESPONSIBLE:

Elfriede BIERBRAUER, Roberto BENDINI
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 079
rue Wiertz 60
B-1047 Brussels

Editorial Assistant: Györgyi MÁCSAI

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EUROPEAN PARLIAMENT

WORKSHOP

THE LONG ROAD TOWARDS AN EU-INDIA FREE TRADE AGREEMENT

Brussels
Altiero Spinelli Building
Room A1G-2
Tuesday, **24 September 2013**
(10.00-12.30h)

PROGRAMME

10.00	**Welcome and introduction to the workshop by INTA Chairman Professor Vital MOREIRA**
10.15	Panel 1: **European and Indian expectations towards the conclusion of a Free Trade Agreement: How to reach a mutually beneficial deal?**
Speakers:	**Mr Ignacio GARCIA BERCERO,** Director, European Commission, DG Trade **Ms. Nausheen JAHAN ANSARI**, Adviser, Embassy of India, Brussels
10.55	Panel 2: **EU-India trade and investment relations** - What will be the challenges to boost economic relations in the current socio-economic and political context? - An assessment of trends, benefits and expectations against the backdrop of India's limited integration into the world economy
Speakers:	**Professor Arpita MUKHERJEE,** Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India **Mr. Paul WYMENGA,** ECORYS Research and Consultancy, Rotterdam, Netherlands
11.35	Comments by the INTA Standing Rapporteur, **Ms Maria BADIA i CUTCHET** followed by a **Questions & Answers session**
12.15	Closure of the workshop by INTA Chairman **Prof. Vital MOREIRA**

BIOGRAPHICAL SUMMARIES OF THE SPEAKERS

EUROPEAN PARLIAMENT

DIRECTORATE GENERAL FOR EXTERNAL POLICIES

Policy Department and Committee on International Trade

WORKSHOP
THE LONG ROAD TOWARDS AN EU - INDIA FREE TRADE AGREEMENT

Brussels - Altiero Spinelli building, Room A1G2
Tuesday, 24 September 2013 (10.00-12.30)

Professor Arpita MUKHERJEE

Professor, Indian Council for Research on International Economic Relations (ICRIER), India

Dr. Arpita Mukherjee is a Professor at ICRIER. She has several years of experience in policy-oriented research working closely with the government in India and the UK.

She has conducted studies for various international organizations such as UNCTAD, WTO, ASEAN Secretariat, ADB, ADBI, OECD, Konrad-Adenauer Stiftung (KAS), Italian Trade Commission, Taipei Economic and Cultural Centre in India (TECC) and the European Commission. She has completed projects for Indian industries' associations such as National Association of Software and Services Companies (NASSCOM), Express Industry Council of India (EICI).

Her research is a key contributor to India's negotiating strategies in the Doha Round of WTO negotiations and in bilateral agreements with countries such as Singapore, Thailand, Indonesia, Turkey and regional blocks such as the EU and ASEAN. Her research has contributed to India's domestic policy reforms in the services sector.

Dr Mukherjee has a Ph.D. in Economics from the University of Portsmouth, UK. Her research interest includes WTO; issues, including services; bilateral/regional agreements; infrastructure; FDI; agriculture reforms; retail; migration and labour market programmes. She has over 60 publications including books, journals, working papers and government reports. Dr. Mukherjee has presented her research in various international and national conferences.

Mr Paul WYMENGA

Paul Wymenga is a senior partner of ECORYS Netherlands. He is the leader of an Advisory Group Economic Policy Analysis. With a dozen consultants, this Advisory Group specializes in the themes of competitiveness, trade, competition and private sector development work.

Mr Wymenga's expertise is in the field of industrial and trade policies as well as private sector development. He has had long-term positions in Indonesia at the Ministry of Industry in Jakarta as well as in Curaçao/Netherlands at the chamber of commerce/business Curaçao.

He has previously conducted studies for the ADB, DGIS, the European Commission, the World Bank and the Dutch government. He has led evaluations of complex technical assistance projects in Lithuania, Jordan, Kenya and Yemen. In the last two years, Mr Wymenga has been dealing with the studies for the annual reports of the European Small and Medium Business 2010/11 and 2011/12.

PART I - SUMMARY OF THE WORKSHOP

1. WELCOME AND INTRODUTION

Chair's Opening Remarks (INTA Chairman Professor Vital Moreira)

Welcome to the workshop on the negotiations of the EU-India FTA is organized by the European Parliament Policy Department on behalf of the Committee of International Trade. The EU-India FTA negotiation was launched in 2007. Yet, the conclusion is still not in sight. The primary objective of this workshop is to answer the following questions:

- Where do the negotiations stand now?
- What are the next steps?
- What are the various perspectives of concluding these agreements?

As have seen in the past years, the negotiations between the EU and India proved more challenging than previously anticipated. The financial crises have further affected both the EU and India; the presence of new conditions has to be addressed.

Thus far, there have been 14 rounds of negotiations. As both India and the EU approach forthcoming elections, this could imply a pause in the EU-India FTA negotiations. So would it be possible to reach an agreement before such potential pause? Should the negotiations be suspended so as to wait for the new government in India to be installed? What are the major hurdles remaining for an agreement?

After the Lisbon Treaty, the European Parliament has played a major role in monitoring the trade policy of the EU, and this Parliament remain fully committed to deepening the relationship between the EU and India. This is reflected in the set-up of a permanent monitoring group to follow the negotiations, and better understand the difficulties hindering an agreement.

In October 2013, an INTA delegation will travel to India to assess the mood of India. This is why this workshop was organized in the lead-up to the visit.

1.1 PANEL ONE

European and Indian Expectations towards the Conclusion of a Free Trade Agreement: How to Reach a Mutually Beneficial Deal?

Ignacio Garcia Bercero (Director, European Commission, DG Trade)

As the EU and India walk into politically significant moments, and having engaged in five years of negotiations, it is important to take a step back and understand the reasons for why the negotiations started in the first place.

Mr. Bercero remains convinced that there is a major economic incentive for this EU and India investment and trade agreement for both economic and strategic reasons. From an economic perspective, the EU is India's largest trade partner, and India is a very important destination for EU exports. From a strategic standpoint, the EU will benefit from engaging with a major democracy that is India, and an overlapping strategy to engage with Asian emerging economies as like its engagement with the major American economies.

Investment is a crucial parameter in the EU-India relationship, because the investment data show that significant investment flows between India and the EU, and the great potential for investment to increase. If one look into the data on India, one would see that European investment in India is more than US and Japan investments combined. Yet, if one compares European investments in India with other emerging market economies such as Brazil or South Africa, investment in India by Europe is still significantly lower than those major emerging economies.

Both the EU and India began the negotiations with a mutual understanding that the negotiations will only succeed based on a high level of ambition. The high level report before the launch of the negotiations in June 2007 reflects the two party's agreement in this regard for a comprehensive trade agreement. After five years of negotiations, most of the trade negotiating issues have been reached. The remaining outstanding issues are challenged by difficulties reaching a political resolution. There are three key explanations for why the negotiations are still not there:

1. A particular difficulty in the negotiations is that there has always been a close correlation to what the EU were negotiating with India and certain issues on which the Indian government was committed towards taking processes of reform but where the outcome would only be achieved following legislative action in the Indian Parliament. The political process of India has made this legislative process much more complex than the EU initially expected. There are still some outstanding issues where action from the Indian government is needed in order to come to a mutually agreeable resolution.

   The two most prominent issues are: (i) insurance – the EU knows that the Indian government is trying its best efforts to have the legislation adopted by the Indian Parliament, but it has not yet achieved the desired outcome; and (ii) procurement – the high level trade negotiation report made clear that both sides agreed to transparency and market access to procurement, and this is an important part of the negotiations. The EU recognises that there has been an important process in India to reform the domestic legislation on procurement at the central level because the state-level reform is not feasible in the short- or medium- term. Even so, the negotiations are taking much longer than the EU's initial expectations.

2. The EU-India FTA negotiations have placed services at the centre; that is, to achive an ambitious outcome on the services. The EU has offered its greatest flexibility on Mode 4, for instance, than it has done for any of its previous negotiations with other trading partners. Yet, there remain some sensitive issues in services as expressed by the Indian government. This issue is at the forefront of challenges faced by the current negotiations.

3. For any agreement, there needs to be a balance on the classical market access issues, including tariffs. Progress has been made in the tariff discussions and Europe accepts the principle that due to different levels of development, the outcome of the tariff negotiations has to be an asymmetrical one, to the benefit of India. This being said, the negotiations have not reached such balance which the interests of both sides are met.

There are other important issues including sustainable development, which is very important for the European Parliament and require further discussion with the India government. At this point in time, being able to achieve a political agreement means being able to tackle the outstanding issues and a willingness to discuss and find a solution.

Nausheen J. Ansari (Representative, Indian Embassy to EU)

The EU-India FTA negotiations have achieved substantive progress since 2007, when the negotiations first began, and considerable grounds have been covered. India has offered the EU significant coverage and commitments unlike it have done so for other trading partners.

India encourages a forward-looking approach to the difficult areas of negotiations, and looks for a realistic and mutually beneficial outcome. In this context, India would also like both sides to take care of the trade sensitivities that are already known to the two parties.

1.2 PANEL TWO

EU-India Trade and Investment Relations

The intent of this expert-based panel was to assess two primary questions:

- What will be the challenges to boost economic relations in the current socio-economic and political context?
- What are the trends, benefits and expectations against the backdrop of India's limited integration into the world economy?

Professor Arpita Mukherjee (Indian Council for Research on International Economic Relations (ICRIER), New Delhi, India)

In an attempt to discuss the potential problems that hinders further progress in the EU-India FTA negotiations, Professor Mukherjee presents her academic perspective. India is one of EU's largest trading partner, but the share of European trade in India is declining; and there is a major shift in India's negotiation strategy and pattern to the East (i.e., towards ASEAN). As well, the EU is looking away from India. In this context, both sides are looking away from each other.

In spite of this trend, there remains a strong interest in the EU, not least because of the positive trade balance with India in both trade of goods and services. The trade pattern for services is slightly different because whilst India has a positive trade balance in services with the rest of the world, it has a relatively moderate trade balance with the EU. In terms of the investment flows, there are real gains for India; the EU is one of the largest investor in India, and partner in technical cooperation. Meanwhile, Indian investment in Europe is largely by Indian conglomerates for the purpose of accessing advanced technologies.

The biggest problem in the EU-India FTA is that both sides have unequal tariff patterns. Although the EU has some peak tariffs, the tariffs are generally lower in the EU than in India. There are two core reasons for keeping the tariffs high:

1. To protect domestic industries. India's manufacturing sector, for instance, does not do as well as countries like China; and in addition to a fear of competition, there is always a fear of getting too much manufacturing goods from elsewhere so as to cause a large current account deficit.
2. Tariffs are a big source of revenue for the Ministry of Finance.

These two reasons often prohibit the government from giving in to a tariff reduction – which is a key aspect of the EU-India FTA negotiations.

In addition, India has faced challenges dealing with the standards of the EU and between its member-states. While there is one standard for the EU, there are different standards among the European states. This has created further difficulty for the Indian government.

With respect to agricultural products, India and EU have relatively closed agricultural markets. India has kept most of its agricultural products out of the negotiations, including dairy products and certain products such as wheat – which is very sensitive in India. A key concern in India is that the EU has highly subsidised its agricultural sector. Unlike the WTO, the FTA does not have safeguards or similar mechanisms in place to protect fair trading practices in agricultural goods. This makes India hesitate to liberalise these areas.

India is a large importer of electronic goods, and in recent years, come out with a new concept – though not yet a policy – where there will be a local content requirement on electronics and electronic devices. As such, India is not very happy to sign the ITA2 agreement, which is a multilateral agreement for promoting the trade of electronic goods – this could become a key issue in the trade agreement.

There is, at present, a global support for India to liberalise its generic drugs sector. Already, several cases are under assessment, including the most well-known one on the Novartis Company and generic drugs. The concern is how this issue can be managed under the IPR chapter of the trade agreement. India has given collaboration regarding IPR but the EU would like to have domestic regulation with certainty in place. Here, a key concern is the data exclusivity issue, which is contentious on both sides, and for both goods and services. Indian companies are going for a safe harbour clause, which is difficult under the present regime as it does not have a strong implementation clause.

In services, the problem lies in India's quasi-federal government structure, which requires the state government to take action. Yet, on issues such as indirect investment and tax barriers, the authority is in the hands of the central government, which implies that many areas remain closed. This is the case for the postal services, insurance, and retail (though this sector is partially opened). For certain sectors of insurance, India needs Parliamentary approval. Yet, the ruling party does not have the ruling majority in parliament. This gives them the reason to worry whether they can have that approval or not. Concerning Mode 4 services, India faces several issues in the EU, especially because Mode 4 authority rests in the hands of the EU member-states rather than EU as a whole. Moreover, Mode 4 grants movement only of the individuals, without a provision for company-level movements within the EU. Maybe if the ICT directive was put in place, it would make things much easier for third countries such as India to participate in this area. In general, India does not commit to forward-looking commitments on services, and that is one of the key issues under contention. India has not done so thus far as it is difficult to get it through the Indian Parliament.

In banking, the EU finds itself at a disadvantage within the Indian market. However, foreign banks in India are actually at an advantage as they do not have to meet all the social service obligations. In terms of the foreign banks' access to the market, they do have an advantage and should look deeper into this.

With respect to investment, India has signed bilateral agreements with different EU member-states, and the problem here is that no one knows which one should be the model incorporated into the EU-India FTA agreement. Moreover, India also has multiple ministries negotiating investment. For instance, the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce negotiates the investment chapters; while investment agreements are negotiated by the Ministry of Finance, and the two Ministries do not necessarily on the same plane. The domestic system therefore further complicates things.

India is going through a lot of changes in its tax regime, including the implementation of the retrospect tax, new direct tax codes, and transfer pricing. Many of these are also happening in Europe, where many countries are re-hashing their tax systems.

Europe is interested in the Indian government signing onto the revised government procurement agreement (GPA). There is a chapter on government procurement in the FTA, but the problem is that, not only is the bill is still pending in the government, but there are also some problematic preferences given to the public sector. In India, there are reservations for SMEs. For certain contracts, there are also monopoly among big contract providers like railways and postal services. More importantly, even if the Indian government gives in to the government procurement in the trade agreement, it does not necessarily provide Indian companies a bigger government procurement market in the EU. These are core considerations on the government procurement issue.

One of the key issues that have impacted the negotiations is that while there is a lot of negative lobbying within India about the negotiations, the negotiation process is actually hashed up. There is not a lot of research in the public domain, and this has allowed the stakeholders and lobbyists the space and capacity to play a bigger role in the negotiations decision-making processes. As a result, there have been strong sentiments against the negotiations rather than in favour of it.

In 2014, India is going into an election. As of now, the reform process has been slow, which impacts the EU-India FTA negotiations. India is also spending much effort in the Regional Comprehensive Economic Partnership (RCEP) negotiations, which is the regional comprehensive economic partnership. As a result, negotiations on resources are going in this direction. What is more, trade talks in India have been considered a strategic issue. For this reason, the Ministry of External Relations (MEA) plays a key role in trade talks. However, the MEA does not have any one looking after the EU. The MEA and the joint secretaries have sections looking after Eastern and Western Europe – models of governance that pre-dates the EU. For this reason, the strategic push for the EU-India FTA is missing within the Indian government.

The way forward: in order to negotiate with bigger partners like the EU, India needs to first initiate a lot of domestic reforms. It would be difficult for EU to expect an outcome like the EU-Korea one, and it is likely that the outcome will be with lower ambitions. India needs to have a three-point strategy:

1. *Manufacturing:* unless India improves its manufacturing sector or joins the global production network, it will not be interested to reach a resolution in the negotiations. Having said this, the EU-India FTA negotiations are definitely beneficial to the EU because having India – a high tariff country, a large emerging market – it will give it an edge over the other trading partners in terms of accessing the markets like China and the US.

2. *Tariffs:* there are areas of sensitivity but there can be consensus which can be reached in terms of services and investments, and regimes can be bound. This may not be the best trading agreement but it will give the EU an edge over the other trading partner in the EU and Indian markets.

3. *Government procurement:* a chapter should be written in the terms of the India-Japan agreement which allows the future regulations to come to binding mode.

In terms of the Mode 4 offers from the EU, which are claimed to do "miracles" in the Indian market, it does not necessarily lead to direct market access for India as was seen in the cases of Korea and Japan. India has not gained different kinds of visa or whole value-chain of service provisions in its FTA with Korea and Japan. This is something the EU should think about.

Finally, there is a need for a parallel varied good investment protection agreement.

Paul Wymenga (ECORYS Research and Consultancy, Rotterdam, Netherlands)

At ECORYS, a study was conducted to update the investment and trade trends. The study looked at the total trade of 2012, which indicated that the EU is more important to India than vice versa. Approximately 17 percent of total Indian trade is with the EU, while less than three percent of total EU trade is with India. This puts into perspective the trade relations with India.

From 2003-2012, EU trade with India has been low, although the trade balances was positive over the past decade. The investments trends indicate that the EU played a large role in FDI than India. Since 2007, the FDI inflow from India into the EU is still very low. However, the FDI outflow from the EU to India is increasing, except for 2008 and 2009. Since 2011, the outflow was very large again. The EU has a negative investment balance with India, based on the outflow balance between the EU and India. Still, there is a restrictive business environment in India for the EU businesses, especially in financial, banking, transportation, and business services. Consequently, this generates a negative impact on trade.

ECORYS further conducted an impact assessment of the EU-India FTA on trade and sustainable development. The study was completed in 2009. The impact study looked at three dimensions:

1. *Economic impact* (generated through computable general equilibrium models): the study looked at changes in economic structure when the most extreme models of liberalization in investment and trade are prescribed. For India, the effect is substantial. For EU, it is moderate. The EU will gain €1.6 billion per annum in terms of GDP. India will gain €17.7 billion per annum. In percentage of GDP, this implies the EU will gain an insignificant additional growth of less than 0.1 percent; while India will receive an additional growth of 1.6 percent per annum. The average export will increase by 0.39 percent for the EU, based on the most ambitious scenario. The average export increase for India is 10.3 percent. For the EU, these export increase will come from sectors including business services, machineries and transport equipment. For India, the sectors including wearing apparel, leather and automotives.
2. *Social impact:* in the EU, the social impacts of the EU-India FTA will be low, with some labour displacements in the same sectors that are expanding in India. However, the social impact for India is much more positive, including poverty alleviation and increased standard of living.
3. *Environmental impacts:* in the EU, there are hardly any impacts on the environment. However, for India, the environmental impacts negatively via increased use of fertilisers and increased production.

The benefits the agreement could bring for the EU include some economic growth (though not too much); consumer benefits through more varieties of consumer goods to choose from; labour benefits in certain expanding sectors; reduction of trade barriers and NTBs; have access to the fairly fast-growing market in India and South Asia; and commercial presence in India for the services sectors. For India, the benefits include substantial economic growth added to the already high GDP growth of 8-10 percent per annum; consumer benefits through higher purchasing power; labour benefits through better remuneration and more jobs; access to the European market; technological spin-offs from services, trade and investment, especially from more FDI inflows, which are currently hindered by foreign ownership restrictions and transparent custom procedures, as well as a lack of IPR enforcements.

The FTA can help address the shortcomings faced by the EU. This include first, the trade and investment Mode in services, notably Mode 3. Europe would like commercial presence abroad (i.e., insurance, banking and other business services). This is a very important effect on India with enormous effect on their productivity and technological spill-overs. As well, high barriers to FDI will be abolished (i.e., pharmaceuticals, beverages and tobacco). IPR issues such as counterfeiting and piracy (i.e., in pharmaceuticals) will be abolished. Security and certification requirements for Telecoms, tyres and steel products will be dealt with. Unequal opportunities with regard to procurement procedures (i.e., Telecom equipment) will be dealt with. Existing sanitary and phytosanitary measures in India (with respect to agri-food sector) will be dealt with. Restrictions on exports of raw materials will be taken away. Finally, there will be more relaxation on the movements of natural persons (mode 4) to overcome shortages of high knowledge experts in engineering, nursing, ICT, medicals, and so on, in the EU. This will also be of immense benefit to India. This is one aspect the EU is particularly interested in.

In terms of the strategic impact assessment of the FTA, although there are less advantages to the EU than India, once the agreement is reached at the most ambitious level, then the FTA fits in the EU Trade Policy strategy which envisions a global system for fair and open trade (as reflected in the DG trade mission), open markets with major trading partners (what the EU wants), every trading partner abides by the rules (what the WTO wants), and sustainable development of trade (what the EU will get out from the FTA on a strategic level). Alongside these benefits, the current openness of India in the world trading system can be further increased.

The views of various interest groups in the EU were collected as part of the impact assessment, through consultations with different groups of society. Some of the sample viewpoints are as follow:

Parties in favour:

- EFPIA (pharmaceutical association): there is already collaboration, but the FTA is a way to build further cooperation
- Foreign Trade Association: strongly favours concluding a FTA with India because of the access to a growing market
- ACEA (automotive): supports an EU FTA with India provided it meets the provision of the 'zero-for-zero' tariff.

Parties against:

- TRAIDCRAFT: FTA can be problematic for the less developed partner – because they reduce national policy space for India that can play an important role in the growth of its domestic industries..

1.3 Q&A (Part One): MEP

Remarks and Questions: Maria Badia I Cutchet (Socialist & Democrats Group in the European Parliament)

The workshop provided the rationale for boosting the EU-India relations, the current state of play of the negotiations, some avenues of addressing existing problems and some ideas for the way forward. The presentations made clear that India and the EU are not there yet in bridging the remaining gap for concluding a trade agreement. But there are a lot of mutual benefits which can be harvested if successful in boosting India-EU trade relations.

EU has a positive trade balance in goods and services. However, in the long-term picture, it appears that the trade relation could be relatively complimentary. The increased investment flow between the EU and India as well as the technical cooperation are good signs for boosting trade relations. Currently, the EU is a far more important trading partner to India than vice versa. If India's economy continues to grow, the importance of the Indian economy to the EU is, however, likely to grow. Concluding the EU-India trade agreement will not only be a strong leverage of growth for India but also a strong leverage of poverty alleviation.

Trade agreements do matter in this respect, the success story of the Bangladesh textile sector, thanks to the EU's initiatives give an example of how preferential access to the EU can lead to developing a global comparative advantage for a specific sector. The presentation by Mr. Wymenga shows how a trade agreement with the EU can act as a stimulus for India. However, with elections in India and the EU approaching, both parties are at a crucial point of reaching an agreement, and the window of opportunity is narrowing too quickly.

The presentations also made clear that both the EU and India are not yet at a political agreement. It is now time for the Indian government to deliver the following:

- The banking guidelines need to be published on the conditions from foreign banks to become wholly owner to subsidiaries in India as close as possible to national treatment.
- The insurance bill needs to be passed by parliament, hopefully during the next winter session of the Indian Parliament in December.
- India must in some point in time provide market access to some key sectors, currently protected by high tariff duties, such as automotive, and wine and spirits sectors.
- Public procurement cannot be left aside; increase market access and transparency need to be ensured.
- Agreement need to provide some provisions for sustainable development. The EU believes such chapter is first and foremost for the benefit of India – it allows them to engage in the dialogue on this matter with the EU and learn from Europe's experience. Only a comprehensive agreement can ensure for both sides free and fair trade.

But the EU must also deliver by providing all possible support to India for reforming its regulatory framework for data protection, to enjoy as quickly as possible 'data adequacy status'. Member-states must not be afraid of opening up their Mode 4 services supplies from India to allow India to further benefit from their comparative advantage, notably in the IT service sectors.

As the benefits in the long-run can be substantial, the EU believes efforts should not be pushed aside to build a stronger trade relation with India. When Ms. Cutchet will be chairing a delegation visit of Members of the INTA to India in late-October, these issues will be discussed.

Questions:

- What impact can a change of government in India have on the EU-India relations in general and trade relation in particular?
- On public procurement, it seems that the EU only ensures the public procurement market at the federal level, while it is up to the states to decide if they would like to open up their public procurement markets. Do you believe this will provide sufficient market access for EU companies and contribution to the speed-up modernization of the Indian infrastructure?

Remarks and Questions: Professor Vital Moreira

From the workshop, two things were learned:

1. The agreement in its best scenario does not bring to the EU significant benefits, regarding growth and jobs. If this agreement does not deliver on this issue, why should the EU fight for it?

   Additionally, it was learned from the Indian perspectives that India is not ready to move on some of the key issues, especially on tariffs. FTAs are supposed to move tariff barriers to trade. India is not willing to liberalise trade, let alone public procurement services, or in investment, or sustainable development. So does this agreement fits with what the EU perceives as a comprehensive trade agreement? Perhaps it does not. So then the problem becomes, provocatively, is there a point of continuing the negotiations that in the end, does not meet the EU trade strategy?

2. It is clear from the current political circumstance of India the agreement has no chance of being concluded. What should the EU do? Take a pause? Take stock of what has been achieved, if any? Might the new political circumstances in India stem new political will to make more concessions for the EU? Or should the EU come to a conclusion as it has for other negotiating partners that there is not enough room for a viable trade agreement with India?

Another question is about labour and environmental standards. The European Parliament will not pass a FTA without high commitments on labour and environmental standards. India should not be the exception.

Remarks and Answers: Mr. Ignacio Garcia Bercero

It is convincing from an economic perspective that a FTA with India at the right level of ambition will be significant to the growth of the EU, in terms of increased export and jobs. The more important question is whether the EU can achieve an agreement with India at the right level of ambition. The EU need to temper ambition with pragmatism. Without a critical mass of ambition, it is difficult to conclude an agreement, and the EU would never ratify such an agreement anyway. So there is a need to calibrate what the right level of ambition is.

If we consider the case of Korea, the EU achieved 100 percent duty elimination with one exception, and most elimination was done on entry to three years period. As well, the EU has retained no equity restrictions on most services sectors. These will not be possible with India. Realistically speaking, India's tariffs are not much higher than what the EU applies. If one looks at the chemicals or car parts sectors, the Indian tariffs are 7.5-10 percent in most areas. These are areas that India is competitive and without very significant effort from India, an agreement would not be possible. Similarly, it is not possible to imagine the EU concludes an agreement with India with tariffs on some key sectors such as cars, where tariffs are at 60-100 percent. There will have to be substantive efforts to bring this down. Again, without key outcomes on sectors such as banking, and insurance, then it will not be possible to conclude the negotiations. On the issue of banking, to be clear, the current situation is that the European banks established in India have limited opportunities to open new branches. The EU hopes the new policy announced by the Reserve Bank of India is going to be implemented quickly, which would imply that foreign banks will be required to the same requirements as Indian private banks but they will also have the rights to Indian private banks to open branches in India. This is currently not the case.

On government procurement, the EU needs to find the right balance with India. The EU desires to have commitments at the state level but this will not legally or politically possible at this point of time. However, a Japan model of postponing these issues will not work with the EU. There will have to be significant commitment. These are some of the core issues that need to be addressed.

IPR is not a core issue in the negotiations and the EU does not require India commitments to modify its domestic legislation in this regard.

Finally, both the EU and India are in dialogue about labour and environmental standards. If a FTA is concluded, there will be a chapter on sustainable development.

Remarks and Answers: Nausheen J. Ansari

India believes that the EU-India FTA is mutually beneficial to both sides. Although there was an early understanding by both sides that the ultimate agreement will be asymmetrical in favour of India. Having said that, the amount of movement India has made since the negotiations began has been very significant. India has moved forward more than it has done in any other trade agreement that India has entered into. In areas where India is competitive, India has moved much more.

However, there are areas, where development is not equal across sectors, so it is important that sectors with weak growth are taken care of, which is why sensitivities of both sides need to be resolved before the final deal is worked out, preferably before the elections.

Remarks and Answers: Professor Arpita Mukherjee

When discussing trade agreements, it is not necessarily a good idea to model agreements, be it the CG model or the gravity model; rather, it is important to come down to the ground reality and look into the picture of how one should trade and how one's companies trade – it is a global production platform. European companies, if they have to save on their labour costs and efficient production network, they have to establish their presence in China, or India, or ASEAN. None of these agreements are going to be easy. Companies need to compare who they would like to enter a trade agreement with and where they find their comfort zone.

When the EU is talking of country GDP trend comparisons, it is only thinking of a bilateral trading pattern. What about the trade diversion that the trade agreement creates? If all these are considered, the EU is not that bad. Otherwise, it would not have spent seven years negotiating with India.

Studies in India show that the FTA would be in favour of the EU. When looking at a large market, large production base and large consumer base, as well as a market that is restrictive, a FTA means the EU will get a preferential access to that market. Having said that, India is a difficult country – it is easier to work between member-states than cities across India. This is certainly a problem.

On the new government question, India's policies have not changed over time. But one policy, known as the 'Look East' policy provides the notion that India would bring down its tariffs to the ASEAN five percent level. If today India had a tariff of ASEAN five percent level, given the European and Indian tariff peaks, the negotiations would have been a different ball game altogether, because there will be a unilateral liberalisation. So if India brings down tariffs, and if there is a change of government that supports this, the story would be quite different. But in that case, the gains for Europe will also not be preferential as it will be treated the same as American or Chinese companies.

Regarding banking, India has a strong reciprocity principle as seen in the trade agreement, and the Reserve Bank of India uses this in bank branching. Banking is not a major restriction as it stands today – when both sides agree on a FTA, banking reforms will not be a big issue. Rather, insurance is because the insurance bill is pending in the Parliament. Automotive lobbying is a big issue; and many issues today are not issues just of the EU-India FTA. The biggest lobbying in automotive is actually by the Japanese and Korean companies who are lobbying against opening up the market to the EU. So countries to which India has FTAs are lobbying against the India-EU FTA. This shows the pattern of the trade diversion, which is explanatory of the sensitivities and political reasons impacting the negotiations.

Remarks and Answers: Mr. Paul Wymenga

From an economic standpoint, the trade impact study shows the biggest gains can be reached with the most ambitious scenario. So if India or EU go for less ambitious scenarios, there will be much less to gain.

1.4 Q&A (Part Two): General Public

Remarks and Questions: European Services Forum

The studies presented in the workshop by the expert panellists seem to present deviant findings. The Indian argument is that it will not win much, while the European argument is India will win much more than the EU. There seems to be a problem with the assessments of the agreements. It would be good if the two studies can be merged and see if there is a possible mutually complimentary solution to the current problems facing the negotiations. In particular, it may be good to ensure both experts are saying the same thing rather than different things, especially when advising the governments.

It is clear to see that this agreement will bring many advantages to the EU, and as usual, computer models do not take into account the factor of investment. In services, the services sector would like to increase their investments and expand their services in India, which will increase jobs and growth for Europe. The two comparative studies did not take into these considerations.

The workshop discussed much about banking, and the policy of the Reserve Bank of India is interesting. But the banking services sector in Europe need more branches in India. At present, only a few foreign banks are going into the retail banking line, while many other banks are in the wholesale and commercial banking sector. So it would be beneficial to these banks to increase the investments in India through wholesale and commercial banking activities.

On insurance, it is suggested that the winter session is when progress on this will be achieved. The talks have been going on for 10 years only to go from 26-49 percent, which is not a big deal. The services sectors hope something will be done in this regard.

Public procurement is important for services also. Too often it is assumed that public procurement is for goods only, but services are also interested in the public procurement and hopefully something will be done to further then benefit of public procurement for services.

Mode 4 is perceived as offensive to India, but it is also offensive to the EU. The services sectors want better possibilities to get access to the Indian market for its professionals to India. At the same time, for the Indian professionals to come to the EU to attend business. The beneficiaries here are not only the Indian providers but also the EU companies.

Remarks and Questions: ACEA (European Automotive Manufacturers' Association)

The principle of asymmetrical liberalisation is fully accepted by the ACEA. That said, when the tariff dismantling process ends, India's commitments should be substantially better than what is on the table, which is still prohibiting volume manufacturers. On car parts, India already has low tariffs, so it is not credible that India cannot make further efforts to fully liberalise on car parts. ACEA still support a FTA with India but with the right conditions. The quality of the agreement is much more important than one of urgency.

Remarks and Questions: European Chemical Industry Council

It is essential that the agreement has a high level of ambition.

For tariff dismantling, India needs longer phasing, although India's chemical industry, especially on specialty chemicals, is very competitive and it is already exporting to Europe. Therefore, it is difficult to accept that on some tariff lines, India is seeking exceptions on liberalisation. If a country can export to Europe and be competitive on the European market, why then does it need protection on its own domestic market?

More importantly, data protection is essential for this industry. A lack of data protection for agri-chemicals, for instance, will impede European companies from benefiting from a trade agreement with India. If the data is not protected, then European companies will not export to India. Consequently, not only will exporting companies to India lose out but the Indian agriculture will also be victim of such outcome as they will be left to work with old products due to limited accessed to new products. Therefore, India's agricultural products will not be competitive

Remarks and Questions: ECR Group (European Conservatives and Reformist Group)

Three questions:

1. Mr. Bercero said he do not expect the EU to get public procurement at the state level through the FTA. However, does Mr. Bercero believe the EU should negotiate or foresee the possibility of a Rendezvous Clause in order to come back to this crucial question at a later date?
2. The European Parliament has been at the forefront of fighting against forced child labour. Reports indicate forced child labour is a problem in parts of India, including in European companies that produce there. How will the FTA address this concern?
3. To Professor Mukherjee, what is the impact of the RCEP and the bilateral negotiations between India and the EU on the multilateral trade negotiations?

Remarks and Questions: Eurotex

The textile and clothing sector is supportive of the FTA. The question is what kind of agreement are we talking about? And what kind of scope will this agreement have? If in the textile and clothing sector can reach an agreement on tariffs, then it is clear that tariffs are not the main problem. If the EU and India do not solve access to public procurement, then it creates difficulties for European companies to access raw materials such as cotton yarn. As such, it is clear that this agreement primarily focused on tariffs is not enough. So is the EU and India talking about the same level of scope, and of comprehensiveness of this agreement?

Remarks and Questions: European Rubber and Tyres Association (ERTA)

The ERTA agrees with the high level of ambition for the FTA, otherwise it is not worth having a FTA. In India, the tyre industry is growing at 20 percent per year, which is a huge possibility for the European tyre industry. But the sector also see that Indian companies are exporting more and more to Europe – only in the last two years, they have grown by 46 percent. So India's tyre industry does not seem like a fragile industry in need of support. Yet, there is not a significant movement from India in tariffs, which creates problems for EU companies to enter the Indian market.

Remarks and Questions: Jaguar Land Rover

Indian car makers are not in favour of the FTA, and yet Jaguar Land Rover's mother company (Tata Group) is Indian. At the same time, Jaguar Land Rover is very British and subscribe to the issues ACEA has put on the table, one of which is the European Annex, which is very much opposed by India. Without it, ACEA will not accept the agreement. How should the talks move forward with such differences between the EU and India?

Remarks and Questions: EuroCommerce

Last year, India announced the reform of multi-brand and single-brand liberalisation in the retail sector. How can one be assured that this is a sustainable solution, especially given that the provinces and federal states in India are not obliged to implement these reforms? Will this also be a part of the discussions?

Remarks and Questions: Wine and Spirits Industry Representative

The wine and spirits industry is a highly protected sector in India, with 150 percent tariffs on European wine and spirits products. European companies would like to keep the tariffs down to the level of advanced developed countries. The wine and spirits industry in India is one of the biggest in the world, and the level of import of wine and spirits is below one percent. So it is imaginable that reductions in tariffs will increase competition.

Remarks and Questions: AmCham EU

The negotiations should continue because if it stops, how are we to continue the process of convergence and building understanding about the way we can move forward with the factory world?

Remarks and Answers: Mr. Ignacio Garcia Bercero

EU does not intend to stop the negotiations, and the gap is bridgeable. At the same time, the EU is not talking about a tariff only deal; rather, there are discussions on technical barriers to trade, SPS, technical areas of the car sector, export restrictions, and so on.

On public procurement, it is important not to underestimate the central level of public procurement in India, especially if the coverage is broad, covering goods and services, and public sector undertakings. This is a significant market. Of course, the EU would aim for a 'rendez-vous clause' but the legal constraints should not be ignored; that is, at present, there is no legal framework the EU can apply with. The EU hopes the Indian government will in the future engage in this issue, but it will not happen immediately.

On child labour, India has legislation in the Indian Parliament, which if adopted, would allow India to ratify the ILO Conventions on Child Labour. On retail, it is important to ensure that a domestic retail reform is implemented with no roll-backs, and that all States in India comply with it.

Remarks and Answers: Ms. Nausheen J. Ansari

India believes this is more than just a tariffs agreement and movement has been made on not only tariffs but also other areas. More importantly, it is important that this is not a one-sector-to-one-sector agreement; rather it has to be across the sectors and create a sort of balance where some sectors have higher tariffs and others lower ones. As such the agreement and its benefits need to be viewed on a holistic standpoint, as a whole.

Remarks and Answers: Professor Arpita Mukherjee

On the issue of child labour, from the perspective of Indian industries, if the industry is exporting to the EU, it will have to meet the quality standards and the requirements of its clients. So if European companies are sourcing from Indian providers, it is already meeting the environmental and labour standards, otherwise the European companies will not be sourcing from them. So whether there will be a FTA or not, the standards will be met nonetheless. Where the issue lies for India is that there are a lot of SMEs and it is difficult for a lot of them to upgrade to the level of standards accepted by European clients. This is one dimension that should be considered under the FTA.

With regards to negotiations, as the WTO negotiations are not going well, a lot of attention has been put into regional negotiations. RCEP talks are taking a lot of India's energy because it is a different kind of negotiation from a strategic point of view, with the presence of China. So it is one of the most important for the Ministry of Commerce. The RCEP also has a lot of backing from the MEA, in terms of the presence of India in the East. So there is a lot of pressure in India to make the RCEP happen, though there is a lot more protest against the RCEP than against the EU.

On tyres, it is not a very serious issue in the negotiations. Many of the import restrictions were for controlling products from countries like China, and as a blanket policy, it was not necessarily designed specifically for EU, but simply applied across all trading partners. In the automotive sector, a problem for India is that the domestic industry is fragmented and they do not know how to lobby it out. That is why there is a very high tariff. If other issues are resolved, this would not be a break-or-make issue.

In retail, wholesale, and distribution services, this is one area where India has been changing its regulations pretty frequently. The best one is through a notification which came up in August 2013. If this can be sealed, this can be a good move as India is also trying to open-up the e-Commerce regulation. But these are opened-up in such a piece-meal manner that there is a possibility that there is a roll-back. So this is a real gain to seal in the trade agreement.

For the wine and spirits sector, Indian companies are not lobbying for a higher or lower tax as many Indian companies are sourcing from Europe. This is a big revenue earner for the central and state governments. So for the FTA, it is not really sensitive from a company point of view. Studies in India and those commissioned by the Italian Trade Commission found that even if tariffs were at zero percent duty, European wine and spirits companies will still be less competitive than Indian companies. For the same price, Indian wine is considered to be of better quality due to the lower production costs.

Finally, the Indian government recognises the need to pass the public procurement bill. The problem is that the government does not have the majority to pass the bill. If they do, they will most likely pass it. The public procurement bill will additionally increase India's own governance in terms of corruption.

Remarks and Answers: Mr. Paul Wymenga

The chemicals association spoke of tariff dismantling. From an economic theoretical perspective, it is advantageous for the Indian government to dismantle protection because in the end, if you get a high cost economy, the protection and inputs becomes more expensive, so India would be undermining its own competitiveness for products. So it is wise to stop this protection from an economic standpoint.

PART II:- INDIA AS A TRADING PARTNER: ISSUES IN INDIA-EU BTIA AND WAY FORWARD *(By Arpita Mukherjee, Tanu M Goyal, Ramneet Goswami)*

EXECUTIVE SUMMARY

India and the EU have a long standing relationship that dates back to 1962. In the year 2000, the two economies decided to enter into a 'strategic partnership' and in order to deepen and widen their bilateral trade and investment relationship, in 2007, they began to negotiate a Broad-based Trade and Investment Agreement (BTIA). The BTIA is a comprehensive agreement, which aims to liberalize trade in goods, services and investment and have chapters on economic cooperation, government procurement, intellectual property rights and sustainable development, among others. This will be India's first trade agreement with a developed country and the most comprehensive trade agreement. It is also the EU's first trade agreement with a large emerging market. India and the EU have significant trade and investment complementarities. To date 14 rounds of negotiations have been completed.

There are both economic and strategic reasons for entering into the bilateral trade agreement. The EU is one of India's largest trading partners in goods. India has high tariff and other market access restrictions on FDI. Removal of barriers under a trade agreement with India will enable European companies to access a large, unsaturated and growing emerging market. India needs FDI and technology in infrastructure and manufacturing and thus there are complementarities. India's low-cost educated workforce complements the ageing population of many EU Member States. India and the EU Member States have been engaged in several collaborations. The Doha Round of WTO negotiations have not progressed much and, therefore, both India and the EU are actively exploring bilateral trade agreements. Inspite of the trade complementarities and perceived benefits of the EU-India Free Trade Agreement, progress has been slow in the negotiations. Existing domestic difficulties have been made worse by slower economic growth in both India and the EU. While the global slowdown and Eurozone crisis has prompted the EU to adopt protectionist measures, the reform process has slowed down in India. Despite these difficulties there is still strong inclination to conclude the India-EU BTIA.

Given this background, this paper highlights the challenges to the successful conclusion of the India-EU BTIA and suggests the way forward. It presents a brief overview of the India-EU trade and investment relationship and then focuses on issues which are adversely impacting the BTIA negotiations. Finally, it makes suggestions on how both sides can work together for the successful conclusion of the India-EU BTIA so that it is mutually beneficial. The paper is based on secondary information analysis and in-depth discussions with 30 stakeholders.

The unwillingness of India to reduce tariffs in areas of EU's export interest such as automobile and auto-component sector and wines and spirits have been a key issue in the negotiations. The exclusion of certain agricultural products from the negotiations on ground that they can adversely impact the livelihood of poor farmers in India and subsidies given to the agriculture sector in the EU have been bone of contention in the negotiations. The requirement of local manufacturing/local content in India for certain products such as electronics, high technical standards in the EU which act as non-tariff barriers and frequent anti-dumping measures imposed by the EU have impacts the trade in goods' negotiations.

The lack of harmonization in the EU market for services is a barrier for Indian service providers. Apart from this, the Mode 4 negotiations suffer from other issues such as definition and coverage of professionals, what should be the ideal quota of Indian professionals which will be allowed easier entry into the EU, among others. In India, there is FDI restriction in a number of services sectors including

insurance and multi-brand retail, which the EU would like to be reduced under the BTIA. While there are political pressures against liberalization of some of these sectors for others the present government does not have majority in the Parliament to push the reforms. Both sides have concerns about liberalization of banking and other financial services and data protection issues. While EU would want to secure both market access commitments and regulatory certainty through the trade agreement, India is only willing to bind the autonomous regime in services. India's investment agreements are weaker than those of the EU and there have been a number of changes in the Indian tax regime in the past few years, which are creating operational uncertainty for the EU companies. India has not taken any commitments in government procurement in its trade agreements and the EU would like India to take commitments not only at the central government level but also at the state level. The rigid environment and labour standards in the EU and the requirement to take commitments in these areas in the BTIA has also adversely impacted the negotiations. There is a lack of political will and strategic vision to take the negotiations forward.

Inspite of these various roadblocks, the paper finds that given their trade complementarities the gains from the BTIA to the two economies are likely to be significant. Since India is a developing economy in which the reforms process in evolving, the BTIA is likely to be less comprehensive than the EU-Korea FTA, but gains for the EU are likely to be more than was the case for the EU-Korea agreement. The EU will have a first mover advantage over its competitors such as the US. Similarly, India will gain access to a large developed country market. The paper suggests various ways in which EU and India can work together to reach consensus on issues such as greater Mode 4 access and in according safe harbour status to India for data protection. There is need to implement domestic reforms in India, which will not only enable the country to take commitments but will also improve production efficiencies; enhance FDI inflows from the EU and enable Indian companies to be a part of the production network of the EU companies. There is a strong need for political will to push the trade agreement forward and the two governments should work with different stakeholders to address their apprehensions and generate support for the agreement.

1. ABSTRACT

India and the EU are negotiating a Broad-based Trade and Investment Agreement (BTIA), which aims to liberalize trade in goods, services and investment and will have chapters on economic cooperation, government procurement, intellectual property rights and sustainable development, among others. This will be India's first trade agreement with a developed country and its most comprehensive trade agreement. It is also EU's first trade agreement with a large emerging market. India and the EU have significant trade and investment complementarities. Nevertheless, even after six years and 14 rounds of negotiations both sides have not been able to reach a consensus. This paper attempts to understand the challenges to the successful conclusion of the India-EU BTIA from the Indian perspective and suggest the way forward. It presents a brief overview of the India-EU trade and investment relationship and then focuses on issues, which are adversely affecting the BTIA negotiations. Finally, it makes suggestions on how both sides can work together for conclusion of the India-EU BTIA ensuring that it is mutually beneficial. The paper argues that since India is a developing economy wherein the reform process is evolving, the BTIA is likely to be less comprehensive than the EU-Korea FTA, but gains for the EU are likely to be more than the EU-Korea agreement. There is need to implement domestic reforms in India that will not only enable the country to take commitments but will also improve production efficiencies and enhance FDI inflows from the EU. The two governments should work with the stakeholders to address their concerns and generate support for the agreement.

2. INTRODUCTION[1]

In the past two decades there has been proliferation of regional trade agreements (RTA), preferential trade agreements (PTAs) and free trade agreements (FTAs). Slow progress of the World Trade Organization's (WTO) Doha Round of negotiations, snowballing and domino effects where countries did not want to be left behind, political and strategic reasons, among others have encouraged WTO members to enter into FTAs/PTAs [Park, I. and Park, S. (2011), Brown, A. G. and Stern, R. M,(2011), and Horn H, *et al* (2010), and Menon, J. (2009)]. The WTO allows its member countries to enter into such agreements and the European Union (EU) is one of the most successful regional blocks. Among developed countries - the EU and among large developing countries - India have been active players in the recent 'global race' for 'new age' FTAs that are comprehensive trade agreements covering trade in goods, trade in services, investment flows other issues such as cooperation, government procurement, sustainable development and trade facilitation. These two large economies are negotiating a comprehensive bilateral trade agreement known as the India-EU Broad-based Trade and Investment Agreement (BTIA). Up to September 2013, 14 rounds of negotiations have been completed.

The economic relationship between India and EU dates back to 1962 when India was among the first set of countries to set up diplomatic relations with the European Economic Community (EEC). This relationship deepened in the 1990s when both India and the EU started liberalizing and globalizing. The relationship took a new turn at the Lisbon India-EU Summit of June 2000 where the focus was on building a "Strategic Partnership". In the 5th Summit at Hague in November 2004 the relationship was upgraded from an economic one into a strategic partnership. India was the sixth country (after the United States (US), Russia, China, Japan and Canada) to have a strategic partnership with the EU. At the 6th Summit in September 2005, a High Level Trade Group (HLTG) was established to explore ways and means to deepen and widen the bilateral trade and investment relationship. This HLTG recommended a BTIA in the 7th Summit in Helsinki. Based on this recommendation, in June 2007, the EU and India began negotiations on BTIA in Brussels, Belgium.

There are several reasons for India and the EU to enter into a trade agreement. First, such an agreement would create a liberalised market for more than 1.7 billion consumers in India and the EU.[2] The EU is one of the largest trading partners of India in goods and the largest trading partner in services. It is a large source of FDI inflows and technology transfer. India needs FDI and technology in infrastructure and manufacturing and thus there are strong complementarities. India's low-cost educated workforce can complement the ageing population of many EU member states such as Germany, France, Italy, Netherlands and Sweden.[3] Existing studies such as the Centre for the Analysis of Regional Integration at Sussex (CARIS) and Consumer Unity & Trust Society (CUTS), (2007) and ECORYS and Centre for Trade and Development (Centad) (2009) show that the India-EU bilateral trade agreement will be mutually beneficial. Apart from these, India, the EU and its Member States including Germany, France, Italy, Sweden and the UK[4] have been engaged in several collaborations at different levels: government-to-

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[1] The authors would like to thank S.B. Woolcock and Shuxiu Zhang of The London School of Economics and Political Science for their valuable feedback and to the participants at the Workshop on "The Long Road towards an India-EU Free Trade Agreement" for their valuable inputs and comments.

[2] Based on the population estimate given by the CIA World Economic Factbook

[3] The median age of EU-27 has increased from 35.4 years in 1991 to 41.2 years by 2011. Over the period from 1991 to 2011, the median age increased in all of the EU Member States, rising by at least six years in Germany, Latvia, Spain, Austria, Malta, the Netherlands and Italy. In 2011, the median age of Germany was 44.6, 40 years for France, 43.5 years for Italy, 41 years for Netherlands, and 40.8 years for Sweden. Source: http://epp.eurostat.ec.europa.eu/statistics_explained-/index.php/Population_structure_and_ageing (last accessed on October 1, 2013).

[4] For details, see http://www.oir.iitm.ac.in/wp-content/uploads/2013/05/Overview.pdf (last accessed on October 1, 2013).

government, industry associations and business-to-business level. India and the EU also have commonalities in terms of multi-cultural democracy and quasi-federal governance structure. Both economies are strong proponent of multilateral liberalization and in recent years are actively engaged in bilateral negotiations. Inspite of the political synergies, trade complementarities and perceived benefits of the EU-India BTIA, both sides have several differences and this is one of the longest trade negotiations that India has been actively engaged in. Even though the EU is one of India's largest trading partners in goods, its share is declining. India is a relatively high tariff country and has other forms of market protectionism such as restrictions on foreign direct investments (FDI). Thus, removal of barriers under a trade agreement with India will enable European companies to access a large unsaturated and growing emerging market (*Global Europe: Competing in the World*, 2006).

Given this background, the purpose of the paper is to understand the challenges to the successful conclusion of the India-EU BTIA from the Indian perspective and to suggest the way forward. The paper first presents a brief overview of the India-EU trade and investment relationship and then focuses on barriers to trade and investment, as perceived in India. The paper then makes suggestions on what needs to be done for successful conclusion of the India-EU BTIA so that it is mutually beneficial. The paper is based on secondary information analysis and in-depth discussion with 30 stakeholders including Indian and EU companies, industry associations, NGOs and lobbying groups, policymakers and former trade negotiators in India.[5]

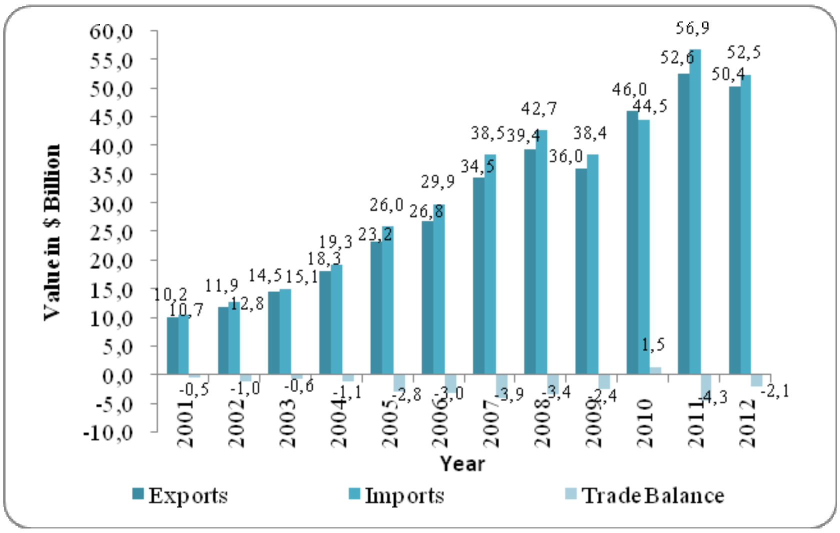
3. OVERVIEW OF INDIA-EU TRADE AND INVESTMENT

India and the EU have unequal position in the world trade and investment flows, which has also reflected in their unequal bargaining power in trade agreements. While India was the 19th largest exporter (with a share of 1.7 per cent) and 12th largest importer (with a share of 2.5 per cent) of goods among WTO member countries in 2011, the EU held the topmost position (with a share of 33.1 per cent for exports and 33.9 per cent for imports respectively). In services, India held the 8th position among exporters (3.3 per cent share) and 7th position (3.1 per cent share) among importers in 2011while the EU had the topmost position (with a share of 42.7 per cent and 39 per cent respectively).[6] Overtime, bilateral trade between India and the EU has shown an upward trend (Figure 1a and Figure 1b) - between 2001 and 2012 the bilateral trade in goods had increased five folds while trade in services increased six folds. The EU had a positive trade balance in both goods and services. Although India had a negative trade balance with rest of the world in goods it had a positive trade balance in services. Thus, the pattern of India-EU bilateral trade in services has been different from India's global trading pattern.

[5]The in-depth interviews were funded by Konrad-Adenauer-Stiftung (KAS), Germany.

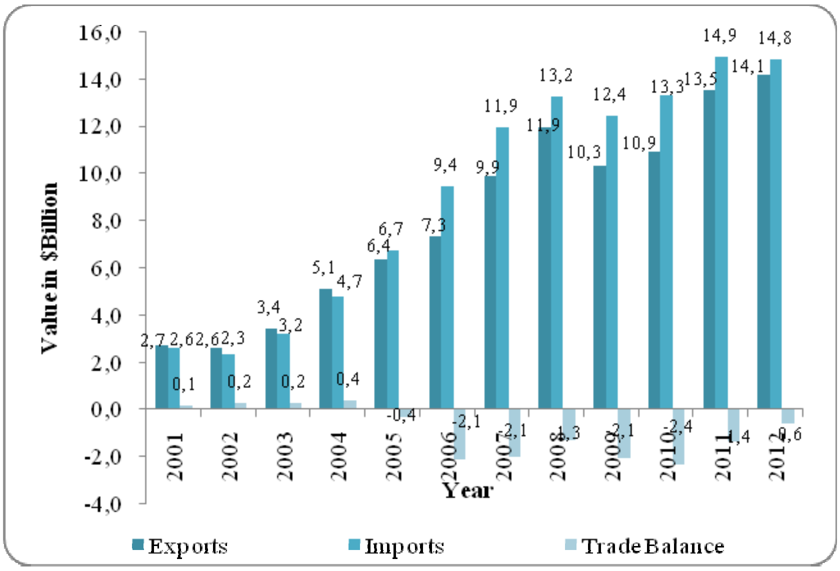
[6]World Trade Organization, 2012 (a).

Figure 1a: Bilateral Merchandise Trade between India and EU



Source: Compiled by author from Export Import Databank, Department of Commerce, Ministry of Commerce and Industry, Government of India.

Figure 1b: Bilateral Services Trade between India and EU



Source: Compiled by author from 'Eurostat', available at http://epp.eurostat.ec.europa.eu/portal/page/portal/-statistics/themes

Note: (i) Due to expansion of the EU, the data is given for EU-15, EU-25 and EU-27 at different period of time. For the year 2003, data is given for EU-15; for 2004 and 2005, the data is for EU-25; and 2006 to 2012, data is given for EU-27.

(ii) Values are converted from Euro to US Dollar. Exchange rate – for 2001, €1 =$0.9239 (average); 2002, €1 =$0.8961 (average); 2003, €1 =$1.13208 (average); 2004, €1 =$1.24386 (average); 2005, €1 =$1.24539 (average); 2006, €1 =$1.25622 (average); 2007, €1 =$1.40 (average); 2008, €1 =$1.47134 (average); 2009, €1 =$1.3937 (average); 2010, €1 =$1.3267 (average); 2011, €1 =$1.3943 (average), and 2012, €1 =$1.2856 (average), extracted from historical exchange rates, Oanda currency converter, *http://www.oanda.com/currency/historical-rates/*

EU's share in India's merchandise trade is large but has declined overtime – in 2003-04, EU's share in India's merchandise trade was 20.84 per cent which declined to around 13 per cent in 2012-13.[7] During this time period, the share of China and other Asian countries in India's merchandise trade have increased. The share of India in EU's trade in goods is small but has been increasing overtime - it increased from 1.6 percent in 2003 to 2.2 per cent in 2012.[8]

India does not report bilateral trade in services data but Eurostat data shows that India has close to one percent share in EU trade in services, which is lower than many Asian countries. Among Asian countries, in 2011, India was ranked 4th among the services exporters and importers of the EU (after China, Japan and Singapore), with a contribution of 1.9 per cent share in EU's exports and 2.2 per cent share in EU's imports respectively.[9] Bilateral trade in services between India and the EU has increased from $9.8 billion in 2004 to $29.3 billion in 2012 and the EU is India's largest trading partner in services. In 2010, the EU contributed 11 per cent to India's services trade, followed by the US (10 per cent)[10].

The process of liberalization and economic integration of the EU and the process of economic liberalization in India since the 1990s has led to enhanced investment flows between the two economies. In the 1990s, India's FDI inflows were valued at $0.20 billion, which increased to $5.5 billion in 2001 and reached a peak of $31.5 billion in 2011. Similarly, the EU's FDI inflows reached $420.7 billion in 2011 from $97.31 billion in the 1990s. Although India's share in global FDI inflows has increased in the past two decades, the EU's share has declined. In 2011, India contributed 2.07 per cent to global FDI inflows compared to 0.66 per cent in the 1990s while the EU's share declined from 47 per cent in the 1990s to 27.6 per cent in 2011.[11]

According to the Department of Promotion and Policy (DIPP), under the Indian Ministry of Commerce and Industry, the EU is the second largest investor in India. Between April 2000 and April 2013, total cumulative FDI inflows (including goods and services) from the EU were valued at US$49 billion which accounted for 25 per cent of the cumulative FDI inflows into India during this period. This under-reports the total FDI flows between India and the EU as a substantial part of the FDI inflows and outflows are routed through tax haven like Mauritius. Sector-wise investment data shows that between April 2008 and June 2011, the services sector accounted for the largest share of the cumulative FDI inflows from the EU (43.64 per cent). Indian investments in the EU although small, have increased significantly in the past decade. According to Eurostat, in 2011, Indian investments in the EU increased to US$1.3 billion from US$97 million in 2001.[12] India's share in the extra-EU total FDI inflows increased from 0.1 per cent in 2001 to 0.4 per cent in 2011. India's rank among extra-EU investing countries improved from the 27th

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[7] Compiled by author from Export Import Databank, Department of Commerce, Ministry of Commerce and Industry, Government of India.

[8] Compiled by author from 'India-EU Trade Statistics, September 2008 and July 2013', European Commission, available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113390.pdf

[9] Extracted by author from Table 1.2, pp. 22, WTO (2013).

[10] The share is calculated by author from UNCTAD Statistics on International Trade: Services; and OECD Statistics on International Trade in Services by Partner Country (EBPOS 2002)', OECD Statistics, http://stats.oecd.org/Index.aspx?-DatasetCode=TIS (last accessed on July 25, 2013).

[11] Calculated by author from UNCTAD Statistics on 'Foreign Direct Investment', available at http://unctadstat.unctad.org/-ReportFolders/reportFolders.aspx (last accessed on July 25, 2013).

[12] Calculated from Table: EU direct investment inward flows by extra EU investing country, Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00048 (last accessed on July 24, 2013). Values are converted from Euro to US Dollar. Exchange rate - for 2001, €1 =$ 0.8962 (average) and 2011, €1 =$1.3943 (average), extracted from historical exchange rates, Oanda currency converter, *http://www.oanda.com/currency/historical-rates/*

place in 2001 to the 15th in 2011.[13] According to the Reserve Bank of India, between July 2007 and June 2013, Indian investment in the EU was valued at US$39.1 billion. Services accounted for 64 percent of this investment, followed by manufacturing (32.3 per cent) while the rest was in agriculture and miscellaneous.

In India, preference is given to foreign investmentsthat are accompanied with technology transfer. The EU is the largest sources of technology transfer into India. Between August 1991 and December 2009, there were 8,106 approvals for foreign technology transfer, among which Germany with 1,116 approvals had the 2nd position after the US, the UK with 876 approvals had the 4th position and Italy with 489 approvals held the 5th position. These three EU Member States accounted for 30.6 per cent of total technology transfer approvals into India.[14]

To facilitate trade and investment flows, a number of collaborations,Memorandum of understanding (MoU) and cooperation agreements have been signed by India and the EU Member States. India has a Bilateral Investment Promotion and Protection Agreement (BIPA) with 22 EU Member States.[15]The objective of the Agreement is to promote and protect the interests of investors and create conditions favorable for fostering greater investment by investors of one country in the territory of the other country. India also has Double Taxation Avoidance Agreements (DTAA) with 24 EU Member States,[16]which by eliminating international double taxation helps to promote investment. The EU and its Member States have supported various development programmes in India. These include Operation *Flood*, which helped India to become the world's leading milk producer; Indian government's *District Primary Education Programme (DPEP)*; *Sarva Shiksha Abhiyan* (SSA) Programme; among others. India is one of the key beneficiaries of the EU *Framework Programmes (FP).* In FP7(2007-2013), around 140 Indian research organizationswere selected which received funding under more than 90 projects.[17]

In-spite of the increase in bilateral trade, investment flows and collaborations, there are some areas of concerns. First, the EU's share in India's trade is declining. Second, India's share in EUcompanies' global production network and value chain is small and EU investment in India is lower than in countries such as Brazil or South Africa. Both Indian and EU companies face various barriers in each other's markets. While barriers in India are mostly market access, they are largely regulatory in the EU (Centre for the Analysis of Regional Integration at Sussex (CARIS) and Consumer Unity & Trust Society (CUTS), (2007); and ECORYS, CUTS and Centre for Trade and Development (Centad) (2009) and Mukherjee and Goswami, 2011). There is tremendous scope for enhancing trade and investment flows by removing barriers to trade through the India-EU BTIA. The High Level Trade Group set up by the two governments recognized this and have laid down the blue prints of the bilateral trade negotiations. The group proposed that a comprehensive trade agreement will be mutually beneficial. This was supported by the 2006 '*Global Europe: Competing in the World*' report[18], which shows a shift in EU's policy towards countries such as India which now emphasized on removal of protectionism and promotion of trade

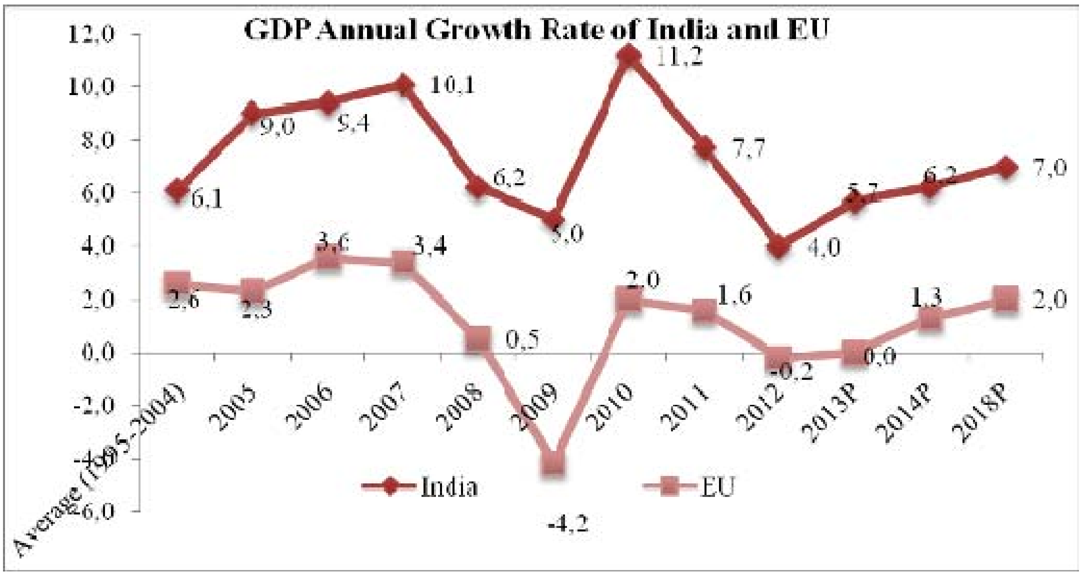
[13] Calculated from Table: EU direct investment inward flows by extra EU investing country, Eurostat, http://epp.eurostat.ec-.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00048 (last accessed on July 24, 2013).
[14]Extracted by author from Table III.B: Country-wise Foreign Technology Transfer Approvals, page number 5, Department of Industrial Policy and Promotion (2010).
[15]These states are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.For details, see, http://finmin.nic.in/bipa/bipa_index.asp (last accessed on July 30, 2013).
[16] These states are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden and the UK.
[17] For details, see http://euroindiaresearch.org/fp7_india_indiaFP7.htm(last accessed on September 27, 2013).
[18] Available at http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130376.pdf

through competition rather than a focus on development objectives. The next section discusses the challenges to the India-EU BTIA negotiations, which have prolonged the negotiating process.

4. CHALLENGES IN THE INDIA-EU BTIA NEGOTIATIONS

There are several challenges to the India-EU BTIA negotiations. In the last couple of years, both the EU and India have been facing macro-economic challenges. The global slowdown affected them at different points in time.The EU was hit by the Eurozone crisis and India has been facing high inflation, currency depreciations and other imbalances. Although the growth rate in India has been higher compared to the EU (see Figure 2),they show similar trends.

Figure 2: Annual GDP Growth Rate and Growth Projections for India and the EU



Source: Author's compilation from World Economic Outlook, April 2013, IMF.

Both economies have been facing demand constraints and have adopted protectionist measures to protect the domestic industry and circumvent the recessionary trends. This has affected the GDP growth rate in the two economies and it has also impacted their negotiating positions in their respective trade agreements. Given the broad scope of the BTIA, there are challenges inreaching a consensus in trade in goods, services, investment, government procurement, and other issues. Some of these challenges are discussed below.

4.1 Challenges to Liberalization of Trade in Goods

4.1.1 High tariffs in India

In India, the average tariffs (14.5 per cent) are higher than that of the EU (4.1 per cent). It is, therefore, expected that if India enters into a trade agreement with the EU, India will have to lower tariffs more than the EU. Thus, the gains are likely to be in the EU's favour. In India, the tariff is used as a tool to protect the domestic industry and it is also a key source of revenue for the Ministry of Finance. India has not reduced tariffs in its existing trade agreements with countries such as Japan and Korea in sectors such as wines and spirits, passenger vehicles and two-wheelers. Moreover, it has kept these sectors and a number of agricultural products including wheat, maize and dairy products (including milk, milk powder, ghee, butter and whey) in sensitive/negative/exclusion list under major trade agreements.

The EU's bilateral trade agreements generally involve broad-based tariff reductions (over 90 per cent) and the EU has requested India to lower tariffs across a wide range of sectors. However, this may be difficult for India as the trade deficit is increasing. The 2012-13 Economic Survey of the Ministry of Finance, Government of India, shows a trade deficit of $167 billion for 2012-13 (April-January). Moreover, India has negative trade balance with the EU and there is a fear among industry and non-government organisations (NGOs) in India that this may further worsen after the tariff reductions. In fact, India has not gained much from tariff reductions under its existing trade agreements with countries such as Japan and Korea primarily because the domestic manufacturing base is weak and the country does not have a major share in global production network and value chains.

In the automobile and auto-component sector there is a strong opposition from the domestic industry and certain industry associations such as Society of Indian Automobile Manufacturers (SIAM) and Automotive Component Manufacturers Association of India (ACMA), against the reduction of import duties on passenger vehicles and two-wheelers.[19] These associations along with companies from countries such as Japan and Korea have argued that reduction in tariffs will give preferential treatment to EU companies *vis-a-vis* others and will shift the manufacturing base from India to the EU. They have further argued that in the case of concessionsfor the EU under the BTIA,similar concessions should be extended to other trading partners with whom India has existing trade agreements. Discussions with industry bodies' highlight that India may offer to reduce duties on certain types of vehicles such as luxury cars if there are substantial offers from the EU in areas of its trade interest such as temporary movement of people.

Wines and spirits is a major revenue earner in India and are heavily taxed at the centre and state government levels. Existing studies show that even if India removes the taxes and duties on imports of wines and spirits, wines and spirits from the EU will still be higher priced than what is manufactured in India for the same quality and, therefore, less competitive in price (European Commission, 2012; and ICRIER, 2010). High duties on wines and spiritshave been used as a bargaining tool by the Indian government in trade agreements, but the industry protest against tariff reduction is not substantial.

4.1.2 Exclusion of agricultural products:

There are protests in India from various NGOs and lobbying groups against the removal of barriers to agricultural product imports (such as wheat) from the EU. They have argued that the EU's agriculture imports from India are over five times the exports, despite high tariffs. If tariffs are lowered in India, this effect might reverse. Moreover, tariff peaks for certain products are much higher in the EU (see Table 1). Even if tariffs are reduced in the EU under the BTIA, Indian agriculture is not competitive and hence market access will not increase in the EU.

[19] Society of Indian Automobile Manufacturers (2013).

Table 1: Applied MFN tariff rates of India and EU by product group

Products	Average Applied MFN Rate		Percentage of duty-free tariff lines		Maximum applied MFN Tariff	
	India (2010)	EU-27 (2011)	India (2010)	EU-27 (2011)	India (2010)	EU-27 (2011)
Dairy products	33.7	55.2	0	0	60	205
Fruit, vegetables, plants	30.3	11.5	1.3	18.8	100	170
Coffee, tea	56.1	6.2	0	27.1	100	25
Cereals & preparations	30.7	16.3	11.9	12.0	150	167
Oilseeds, fats & oils	18.8	7.1	16.9	43.5	100	171
Sugars and confectionery	34.4	29.1	0	0	60	131
Beverages & tobacco	70.8	19.2	0	19.8	150	162
Other agricultural products	21.5	4.8	11.2	65.1	70	131
Textiles	13.3	6.6	0	2.1	106	12
Clothing	15.1	11.5	0	0	315	12

Source: Compiled from WTO (2012).

Apart from high tariffs, India imposes import restrictions/quotas/quantitative restrictions on products such as sugar and cotton yarns,which would be challenged under a trade agreement. In the WTO, India has a defensive position in agriculture negotiations and is a proponent for safeguards and special and differential treatment on the grounds that the agriculture sector in India is highly fragmented with small and marginal landholdings. Around 60 per cent of the population depend on agriculture for their livelihood.Studies in India (ECORYS, CUTS and Centad, 2009) have highlighted that reduction in tariffs and removal of export restrictions without adequate safeguards or special and differential treatment can significantly increase livelihood risk. Moreover, the agriculture sector in developed countries including the EU is highly subsidized which makes it difficult for farmers from India to compete. Even in the WTO India has raised objections to subsidies given by the EU in sectors such as dairy products and fisheries. In fact, the Indian dairy industry (including companies such as AMUL (Anand Milk Union Limited)) have argued that since India cannot match the subsidies given by the EU to the diary industry, India should not open up the market under the BTIA.

4.1.3 Local manufacturing/local content requirements versus imports:

Imports of information technology (IT) products constitute a significant part of India's imports and the trade deficit in this sector has increased overtime. India is a signatory to the WTO's plurilateral IT Agreement (ITA, December 1996),[20] wherein all products listed in the declaration are exempted from tariffs. Since the commitments undertaken in the ITA are on an MFN basis, benefits accrue to all other WTO members including the EU. With the rise in imports of such products in India, certain industry groups have argued that the signing of the ITA has led to an escalation in imports and has adversely impacted the domestic manufacturing base and foreign investment in this sector. More recently, the government came up with the National Telecom Policy in 2012, which recognises the need to promote R&D, design, development and local manufacture of critical telecommunications equipment.[21] The

[20] India joined the ITA on 25th March 1997.

[21] For details, see National Telecom Policy 2012 available at http://www.trai.gov.in/WriteReadData/userfiles-/file/NTP%202012.pdf

government is also proposing to have a local content requirement (around 30 percent) for IT products in manufacturing. In the meanwhile, the implementation of phase two of ITA (ITA-II) has been proposed, which includes some consumer electronic items and certain security related products. While the Indian government is still evaluating the *pros and cons* of signing the new agreement there is a strong domestic lobby in favour of local content that has implications for all on-going trade agreement negotiations of India,including the India-EU BTIA. Similar provisions of local content are also there as in the case of the solar energysector in India (European Commission, 2013).

4.1.4 Difficulties in meeting high EU standards:

Indian companies have raised concerns about the higher standards in the EU which increases the costs of companies, especially small and medium enterprises, to adhere to those standards. One example is REACH (Registration, Evaluation, Authorization and Restriction of Chemical substance).[22]

4.1.5 Non-tariff measures:

The number of antidumping measures initiated and taken by the EU far exceeds that of India. Between 1995 and 2012 the EU has initiated 50 anti-dumping measures and has taken 38 measures against India while India has initiated 34 measures and has taken 19 measures against the EU.[23] Indian companies and industry associations have pointed out that non-tariff barriers in the EU have increased after the global slowdown and Eurozone crisis.

4.2 Challenges to Liberalization of Trade in Services

4.2.1 Non-harmonised EU market

India wants broad-based commitments from the EU in services, especially with respect to temporary movement of people or Mode 4. However, unlike goods, the EU does not have a single market for services and most of the issues related to the movement of people such as work permits and visas are at the Member State level. Regulations and conditions differ across the Member States. Member States have residency and nationality requirements and economic needs tests for foreign investments as well as professional movement. Lack of harmonisation of qualifications and professional standards have made it difficult for Indian professionals to service the EU markets. In an attempt to harmonise the EU labour market, the Blue Card Directive was introduced in 2009. However, this Directive has limitations as each Member State will continue to maintain the right to determine the number of immigrant workers that can be admitted into the domestic labour market through the Blue Card scheme. In addition, while few Member States such as Austria, Cyprus and Greece have not yet transposed the provisions of the EU Blue Card into their respective national legislations, others such as the UK and Netherlands are not in favour of the policy.

4.2.2 Work permit and Visa related barriers

There are several visa and work permit related issues faced by Indian service providers in the EU Member States which restricts their intra-EU mobility. For instance, an Indian software consultant with a work permit in Germany cannot offer services in Spain. While the Schengen visa permits multiple entries for business visitors into states that are signatories of the accord, visa is granted only for a short period. Moreover, the service providers have to first enter the country which gives the visa. There are

[22] For details, see http://ec.europa.eu/enterprise/sectors/chemicals/reach/index_en.htm

[23] Compiled by author from Table Anti-dumping Measures: Reporting Member vs Exporting Country, WTO, available at http://www.wto.org/english/tratop_e/adp_e/adp_e.htm

other issues such as changes in the visa regime and high visa fees. Countries such as the UK have recently changed the visa regime and it has become more restrictive and costly. Since April 2012 the UK government discontinued the Tier I Post Study Work Visa and there are restrictions on Tier II visa in the form of a cap on the number of visas issued to Indian nationals and an increase in the salary limit of professionals eligible to get a visa for five years.[24] In June 2013, the UK has imposed the depositary requirement of $4600 from visitors coming from six countries including India, Pakistan, Sri Lanka, Bangladesh, Nigeria and Ghana on short term visa of 6 months along with other conditions.[25]

4.2.3 Issues relating to quotas for service providers/Other issues to movement of people

While India and the EU are negotiating the number of service providers who can be given liberal entry into the EU market under the BTIA agreement, neither India, nor the EC or its Member States collect data on bilateral movement of professionals. In its absence, it is difficult to estimate the volume of temporary movements of service providers. In addition, mandatory requirement of social security contribution even for temporary workers is a key barrier. At present, India has bilateral social security agreement with only a few EU member states.[26] These include Belgium, France, Denmark, Germany, Luxembourg and Netherlands. Similar agreements have been finalized with Austria, Czech Republic, Finland, Hungary, Portugal and Sweden, Czech Republic but are yet to be implemented.[27] India does not have any agreement nor is it negotiating one with EU Member States such as the UK. Language is also an important hurdle for Indian service providers as most official documents are in local languages of the Member States.

4.2.4 Definition of Professionals

There are also issues related to the definition of professionals under the different categories namely four categories of movement: business visitors, intra corporate transferees, contractual service suppliers and independent professionals. A comparison of India's and EU's definition in their respective Revised Offer submitted to the WTO shows that in general the Indian definition is broader with longer duration of stay (see Table 2)

[24]It is a type of visa granted to foreign students graduating from a university in the UK. Once granted it will allow the student to work in the UK on completion of studies. It is issued for 2 years on a non-extendable basis.

[25]It will come into effect from November 2013. For details, see http://www.bbc.co.uk/news/uk-politics-23044324 (last accessed on September 26, 2013). These include (a) not to work during stay; (b) must not register a civil partnership during stay; (c) present evidence of sufficiency money to fund stay; (d) intend to leave the UK at the end of visit and can meet the cost of return/onward journey; (e) demonstrate evidence of suitable care arrangements and parental consent for stay in the UK if he/she is under the age of 18. He has to apply for a visa in advance through the UK Border Agency, under the British Embassy and have to submit biometric identifiers (all fingerprints and a digital facial image). Nationals of many countries including Afghanistan, China, Hong Kong, India Indonesia, Malaysia and Korea, are required to screen for a test of tuberculosis.

[26] These Bilateral Social Security Agreements are meant to protect the interest of the Indian workers posted in these countries for short-term assignments by exempting them from social security contributions under the host country legislation for a stipulated period of time.

[27]For details, see, Ministry of Overseas Indian Affairs, available at http://www.moia.gov.in/services.aspx?ID1=285&id=-m4&idp=81&mainid=73 (last accessed on July 31, 2013).

Table 2: Differences across India and EU's Revised Offers in terms of Duration of Stay for all 4 Categories

Type of Service Supplier	India-Revised Offer	EU's Revised Offer
Business Visitor	180 days	90 days
Independent Professional	One year	6 months
Contractual Service Supplier	One year	6 months
Intra corporate transferees	Five years (includes managers, specialists and executives)	3 years for managers and specialists and 12 months for graduate trainees

Source: Compiled from World Trade Organization (2005 a) and (2005b).

Notes: (a) In any twelve month period. Commitments are subject to numerical ceiling. In case of Denmark, the Netherlands, Poland, Sweden and the UK (other than computer and related services in the case of the UK)(b) In any twelve month period. In Luxembourg it is for 25 weeks and in Latvia it is for 3 months. Commitments are subject to numerical ceiling(c) In Estonia, for managers and specialists, the period of stay may be extended for up to two additional years for a total term not to exceed five years. In Latvia, for manager the stay may be extended.

4.2.5 Data protection

A key issue that is being discussed in the on-going India-EU BTIA negotiations is data protection. India has not been accorded the status of a data secure nation by the EU.[28] This is despite the fact that India has made necessary amendments to its domestic regulations (the Information Technology Act, 2000) in 2011. The new Information Technology Rules, 2011 (reasonable security practices and procedures and sensitive personal data or information) are in line with the safe harbour principles adopted by the US and the US is accorded a data safe country by the EU. Regulations for data protection in the EU are cumbersome as they require creation of government data protection agencies, registration of data bases with those agencies and, in some cases, prior approval before personal data processing can be done. The EC, which is empowered to identify whether a third country ensures adequate level of data protection has identified a limited number of countries (such as the US), but India is not among them. As a result, the Indian companies and even subcontracting parties have to meet the lengthy and cumbersome requirements laid down under the EU Directive on data protection which increases their cost of operation. Indian industry bodies such as NASSCOM (National Association of Software and Services Companies) have been lobbying with the Indian government to ensure that Indian gets a safe harbour country status under the BTIA.

4.2.6 Going beyond the autonomous liberalization

The EU FTAs not only aim at ensuring significant market access commitments and they also go beyond the market access to ensure regulatory certainty for EU service providers (Horn H, *et al,* 2010 and Marchetti, J. A. and Roy, M., 2008). In India there are several market access restrictions in services sector in the form of FDI restrictions (retail, insurance etc.), government monopoly (railways, postal services, etc.) or other restrictive conditions. During the BTIA negotiations, the EU has been asking India to remove these barriers and undertake commitments. In its existing trade agreements, India has not bound beyond the autonomous liberalization. In a democracy with coalition government it is not

[28] Countries such as Andorra, Australia, Canada, Switzerland, Faeroe Islands, Guernsey, Israel, Isle of Man and Jersey are considered as data secure nations by the EU.

possible for India to take forward looking commitments. Due to the lack of political strength in the Parliament, many reforms are pending and this has adversely impacted the BTIA negotiations.

4.2.7 FDI and other market access restrictions in India

As shown in Table 3 there are FDI restrictions in a number of services sector in India while in others FDI is allowed subject to restrictive conditions. The EU wants India to remove the FDI restrictions under the BTIA in a number of sectors including multi-brand retail and insurance and undertake liberalization commitments in professional services such as accountancy and legal services. While there is political opposition to opening up of the retail sector in India due to the probable adverse impact on local mom-and-pop stores, the present government does not have the majority in the Parliament to push through the requisite regulation for increasing the FDI limit in the insurance sector from 26 to 49 per cent. There is strong opposition from professional bodies such as the Bar Council of India and Council of Architecture in opening up their respective professional services sector, which undermines the capability of Indian government to negotiate greater Mode 4 access.

Table 3: FDI Limits across Different Sectors in India

FDI Limit	Sectors	Route
Prohibited	• Lottery, gambling and betting including casinos, chit funds • Nidhi company, trading in transferable development rights (TDRs) , manufacturing of cigars, cigarettes, of tobacco, etc.; atomic energy ; railway transport	
74%	• Broadcasting carriage services including teleports, direct-to-home, multiple system cable networks, mobile TV and head end-in-the-sky (HITS) • Air transport services (non-scheduled air transport service) • Ground handling services • Banking private sector	Automatic up to 49 percent and government route beyond 49 percent and 74 percent
	• Satellites – establishment and operation	Government route
51%	• Multi-brand retail trading	Government route
49%	• Cable networks (local cable operators) • Petroleum refining by the public sector undertakings • Air transport services- domestic scheduled passenger airline	Automatic route
	• Private security agencies	Government route
26%	• Insurance	Automatic route
	• Defence industry • Broadcasting services (terrestrial broadcasting FM radio and uplinking of news and current affairs TV channels) • Print media (Publishing of newspaper and periodicals dealing with news and current affairs and publication of Indian editions of foreign magazines dealing with news and current affairs)	Government route (subject to certain conditions)
20%	• Banking services – public sector	Government route

Source: Compiled by author from Department of Industrial Policy and Promotion, 2013 (a) and 2013 (b).

The EU wants India to take commitments in financial services, especially with respect to more access to EU banks in opening branches. India generally allows this in trade agreements on a reciprocal basis. After 2009, India has not come up with a road map for foreign banks which has created operational uncertainties for foreign banks, including EU banks.However, studies conducted in India (Centad, 2009 and SOMO, 2009) show that foreign banks do get preferential treatment in India *vis-a-vis* public sector banks. For example, they are exempted from providing a differential rate of interest for concessional loans to people below the poverty line. Studies further show that foreign banks presence in India exceeds that of the EU and within India they are located in metropolitan areas and are reluctant to open branches in un-banked or under-banked areas (SOMO, 2009). Given the adverse impact of the global slowdown on the EU and the Eurozone crisis, there are concerns in India related to opening up of other financial services, including speculative and risky financial products (i.e. trading in derivatives).

There are several other investment related barriers that exist in both the markets. These are discussed in the sub-section below.

4.3 Investment Related Issues

4.3.1 Low Ranking in FDI restrictiveness Index

As shown in Table 4, India is more restrictive in terms of FDI inflows compared to EU Member States.

Table 4: India and Select EU Member States in OECD's FDI Restrictiveness Index, 2012

Country	FDI Equity Restrictions	Screening	Key Personnel	Operational Restrictions	Total FDI Index
India	0.248	0.033	0.008	0.008	0.297
Austria	0.090	0.009	0.000	0.007	0.106
France	0.027	0.000	0.005	0.012	0.045
Germany	0.017	0.000	0.000	0.006	0.023
Greece	0.032	0.004	0.002	0.001	0.039
Hungary	0.048	0.000	0.000	0.001	0.049
Italy	0.046	0.000	0.000	0.004	0.050
Netherlands	0.035	0.200	0.000	0.014	0.249
Poland	0.056	0.000	0.006	0.010	0.072
Portugal	0.003	0.000	0.000	0.004	0.007
Spain	0.021	0.000	0.000	0.000	0.021
Sweden	0.028	0.027	0.000	0.003	0.059
UK	0.036	0.000	0.000	0.025	0.061

Source: Compiled from OECD FDI Regulatory Restrictiveness Index, available at http://www.oecd.org/redirect/daf/inv-/investmentstatisticsandanalysis/fdiregulatoryrestrictivenessindex.htm

Note: The Index measures four types of restrictions: (i) foreign equity restriction, (ii) screening and prior approval requirements, (iii) restriction on employment of foreigners as key personnel such as foreign key personnel are not allowed, economic needs test, time bound limit on employment of foreign key personnel and nationality or residency requirements for board of directors, etc. and (iv) operational restrictions such as restrictions on number of branches, capital repatriation and land ownership, etc. In the Index, values are ranging between '0' and '1' in which '0' represents that there are no regulatory impediments to FDI in country or country is 'open economy' and '1' represents that the country has restrictions in foreign investments. It includes 22 sectors in 55 countries (including 23 EU Member States).

4.3.2 Weak Investment Agreements

India's investment agreements are generally much weaker thanwhat is desired by the developed countries including the EU. It does not include a number of provisions such as transparency requirements, protection of labour and environment regulation. The provisions relating to intellectual property and financial services are weak and India has so far not extended its Bilateral Investment Treaty(BIT) protection to pre-establishment investments.[29]Moreover, the BIPAs are negotiated by the Ministry of Finance while the investment chapter in trade agreements is negotiated by the DIPP (Department of Industrial Policy and Promotion) under the Ministry of Commerce and Industry. There is a lack of coordination between these two ministries. India has BIPAs with individual EU Member States and the scope and coverage of the BIPAs vary. According to the 2009 Lisbon Treaty,[30] individual Member States' BIPAs/ BITs with India prior to 2009 will be valid as long as the EU does not have a trade agreement with India. After 2009, the European Commission has the authority to negotiate new BIPAs/BITs with third countries on behalf of its Member States. In India's existing comprehensive agreements, the BIPA/BITs to an extent have fed into the Horizontal Schedule for the investment chapter. If the EU signs a BTIA with India it will overrule the existing BIPAs that India has with selected EU Member States. There will be both winners and losers in the process, depending upon the modalities of the investment chapter and based on the BIPA selected by the EU to feed into the Horizontal Schedule of the investment chapter.

4.3.3 Market Seeking versus efficiency seeking FDI

Since the cost of doing business in India is high (in 2012, India ranked 132nd among 185 countries in World Bank's Cost of Doing Business Indicators,[31] which is lower than all EU Member States) a majority of the FDI inflows into India is to cater to the large domestic market. Indian industry has pointed out that high tariffs also justify investment in India. If tariffs are lower, then companies may prefer to export into India rather than bringing in FDI. This is further substantiated by the fact that India is not a major player in global production network and value chains. Hence, there is a fear that a reduction in tariffs may lead to a reduction in FDI inflows from the EU.

4.3.4 Issues related to taxes

High and multilayer taxes deter investments in India. India has a high corporate tax 30-40 per cent compared to around 17 per cent in Singapore and up to 25 per cent in China. Taxes vary widely across the different states, which deters pan-India operations. The government has proposed the implementation of a single goods and services tax, but the proposal is still pending. In the Union Budget of 2012-13, the government proposed to impose retrospective tax[32], which has received significant criticism from foreign companies like Vodafone[33]. The government also proposed General Anti-Avoidance Rules (GAAR)[34] for taxpayers that would be imposed retrospectively. The government is

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[29] This implies that an investor is protected against discrimination based on nationality even before investment had been made in the country.

[30] Regulation (EU) No 1219/2012 of the European Parliament and of the Council, 12.2012, Chapter 2, Article 3 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:351:0040:0046:EN:PDF

[31] The ranking of all countries are available at http://www.doingbusiness.org/rankings

[32] The government in the Finance Bill, 2012 has proposed amendments in the Income-tax Act, 1961, with retrospective effect to bring in tax net overseas mergers and acquisitions involving Indian assets.

[33] A tax of $11.08 billion was levied on the company for capital gains made on the acquisition of Hutchison Essar Limited in 2007.

[34] GAAR aims to target tax evaders, partly by stopping Indian companies and investors from routing investments through tax havens for the sole purpose of avoiding taxes.

in the process of implementing a Direct Tax Bill, which can increase the manpower cost for companies. Recently the government withdrew the MAT (Minimum Alternative Tax) exemptions from Special Economic Zones although this benefit was a part of the SEZ Act 2005. This has adversely affected the sentiments of both foreign and domestic investors.

4.4 Concerns related to government procurement

Unlike the EU, India is currently not a member of the WTO plurilateral Government Procurement Agreement (GPA) but has an observer status. Apart from the comprehensive trade agreement with Japan, India does not have a public procurement chapter in its trade agreements.In the India-Japan Comprehensive Economic Partnership Agreement (CEPA), India only agreed to transparency and information sharing in public procurement and has not committed market access. The EU wants transparent access to India's government procurement market for contracts above a certain cut-off value (Sengupta, R., 2012). However, government procurement process in India is complex, involving three layers of governance - centre, state and local. While India can still give commitments at the centre level if the Public Procurement Bill 2012is passed, it is extremely difficult to give commitments at state and local levels in the present political scenario. State government procurement is important for public-private-partnerships in infrastructure projects and the EU companies are very keen that state government procurement is covered under the BTIA.Moreover, they have pointed out that foreign companies are at a disadvantage in India due to price preference given to PSUs (public sector units), policy of reservations for small and medium enterprises, government monopoly in certain sectors like Railways where there are pre-selected vendors, and non-transparent re-tendering process, among others.

Studies in India conducted by organization such as UNCTAD have shown that there are hardly any reciprocal gains for Indian companies in the EU market if India signs a government procurement chapter. Even if the EU government procurement market is opened up under the BTIA to Indian companies, India's likely gain will be only around US$10-12 million due to other barriers such as higher standards in the EU, higher value projects which Indian companies are unable to fulfil, lack of capacity among Indian companies to provide integrated services, and so forth.

4.5 Other issues in India-EU trade negotiations

Environment and labour standards are key components of EU's trade agreements which are covered under the sustainable development chapter. India's existing trade agreements have not covered these issues. In labour standards, the EU would like India to take commitments to prohibit child labour. For India, this is difficult as labour is in the joint jurisdiction of central and state governments and labour regulations vary across states. While Indian exporters do meet the EU's environment and labour standards, to have uniform standards through a trade agreement may be difficult for India as majority of the businesses are in the non-corporate sector run by SMEs. Indian industries have argued that it will increase their operational costs.

Indian pharmaceutical industry and NGOs have raised objection to the EU's demand for data exclusivity and enforcement clauses in the Intellectual Property Rights (IPR) chapter as the present regime in India supports the right of Indian companies to develop generic drugs. India has raised objection to Trade-Related Aspects of Intellectual Property Rights (TRIPS) plus clauses in the BTIA. After the controversial verdict of the Novartis case in India this issue has been resolved at the negotiation level and the EU has adhered to India's request. Nevertheless, the issue is raised by lobbyist for campaigning against the bilateral trade agreement.

The political and strategic push for this trade agreement is weak. In India, the Ministry of External Affairs (MEA) plays a key role in successful conclusion of trade agreements and often strategic issues drive the trade agreements. Although the EU is a strategic partner of India, important agenda items for the India-EU summits such as the maritime or horizontal air services agreement have so far been driven from the EU side and India do not foresee a major gain in these areas. A number of studies (for example, see Allen, D., 2012) have questioned EU's role as a strategic partner. Strategic issues are in the mixed competence of the EU and all EU Member States do not have a uniform view. The EU has been slow in its political response to issues such as the Mumbai terror attack or India's entry into the UN Security Council. This has somewhat prompted India to establish strong political ties with some western EU members countries such as the UK, France and Germany individually rather than going for the partnership with the Union. In the Indian MEA,different bureaucrats look after selected EU Member States and none of them handle the EU. Indian Ambassador to Brussels and the EC is appointed by the Department of Commerce, unlike Indian Ambassador to other countries who are appointed by the MEA. Moreover, with EU's enlargement, while the market has increased so have the complexities. Many EU Member States have similar resource endowments like India. Workers from countries such as Romania and Poland can compensate the labour shortage of Western European countries and this has complicated the relationship between India and the EU. There is a strong push among Indian bureaucracy to work with Western Europe rather than the EU.

In India, the EU is well-recognized as a major donor and the EU's withdrawal of aid from India has been widely debated. While some argue that as a growing emerging market India does not need aid, others pointed out that the country did benefit from EU's aid and development programmes (also see Wouters, J, *et.al*, 2013). Moreover, India, as a developing country, enjoys Generalized System of Preference (GSP) in the EU, which is likely to be withdrawn after the trade agreement is signed. Although the BTIA can lead to lower tariffs than the GSP the implications are not clear to the Indian industry which has led to scepticism.

As mentioned earlier, the reform process in India is slow and there are unlikely to be major domestic reforms before the 2014 central government elections. Thus, at this stage it will be difficult for India to meet the EU's demand in some key sectors such as insurance or in areas such as government procurement. Moreover, in India there are limited efforts to bring the different stakeholders on board to reach a consensus and generate support for the India-EU BTIA. While the Indian government has commissioned studies on the India-EU BTIA and the research has shown positive outcomes, these have been kept confidential. As the negotiations are taking place behind closed doors with limited interactions with civil societies in India, there are apprehensions about the negotiations. The prolonged negotiations have led to reduction in interest among negotiators, and many negotiators have shifted focus to other trade agreements. While the EU is concentrating on the EU-US Transatlantic Trade and Investment Partnership Agreement, India has shifted focus to Regional Comprehensive Economic Partnership (RCEP) negotiations.

5. THE WAY FORWARD

This paper discusses the road to the India-EU BTIA since its inception in 2007. The paper highlights that over the long duration of the negotiations, there have been a series of developments leading to alterations in the expectations and motivation to enter into the agreement. India and the EU started the negotiations due to the presence of trade complementarities and economic interests in each other's markets. While India's interest was in greater investments from the EU and improved market access for temporary movement of professionals, the EU was interested in growing an unsaturated Indian market with investment potential. Over time, due to the global slowdown and other macroeconomic developmentsin their respective markets, the domestic policies of the two economies became more inward looking. While India has shifted focus to the East through its "Look East" policy which aims to diversify the exports markets, the EU has shifted its bilateral engagement to other large trading partners such as the US.

In the meanwhile, both India and the EU have concluded a comprehensive agreement with Korea. Their respective agreements with Korea can be considered as the starting point for the India-EU FTA. The two economies, therefore, started with different levels of expectations. The India-Korea agreement is less comprehensive than the EU-Korea agreement and therefore, to begin with, India needs to understand that that EU prefers a more comprehensive agreement than what India negotiates. The EU, on the contrary, should also realize that India is a developing country with a large number of people below the poverty line. It is not possible for India to undertake commitments in areas that impact livelihood as done by Korea. In addition, India and Korea are at different stages of domestic reforms. By signing an agreement with the US, Korea already had a sound regulatory regime in place before the EU negotiations while in India the regulatory regime is evolving and the BTIA is India's first agreement with a larger trading partner.

Given the size of the Indian market, the gains for the EU will perhaps be higher than what has been achieved from the EU-Korea agreement. This is true in the case of goods, services and investments. One of the reasons being the without the agreement, the level of restrictions in India are much higher than what were present in Korea. As a result, the possibilities of removing the barriers are higher and therefore, the agreement will yield higher benefits. In addition, since at present India is not negotiating a trade agreement with the US, the gains from an agreement with India are higher for the EU compared to its other trade agreements with countries such as Chile, Korea, Mexico and Singapore- all of them have agreements with the US. Therefore, it is in the EU's interest to push for phased tariff reduction under the BTIA in as many sectors as possible. As regards to services and investment, if India binds the autonomous regime, it will ensure operational certainty for the EU companies. In fact, India and EU should explore the possibilities of signing India-EU Investment Protection Agreement. The EU can design a Mode 4 offer to suit India's demands and follow India's definition of Mode 4 with respect to duration of stay and coverage. The EU can take steps to streamline the work permit and visa regime across Member States by implementing Directives such as the proposed *Directive on conditions of entry and residence of third-country nationals in the framework of an intra-corporate transfer.*[35]The aim of this Directive is to remove barriers to entry and movement of intra corporate transferees into and within the EU member states. If implemented, this Directive will generate support for the BTIA in India.

[35]It was proposed under the EC's Policy plan on Legal Migration (COM(2005) 669).The text is available at http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0669en01.pdf

India and EU can work together to find a mutually agreeable solution to most of the issues. For example, the EU can work with India to make necessary changes in the Indian regulations so that India becomes compliant with the safe harbour nation requirements for data protection. Alternatively, the EU can appoint a body to identify data secure companies in India. Similarly, rather than pushing India to have uniform high standards for all industry, clauses can be inserted in the trade agreement so that if any industry is trading with the EU it has to meet certain environment and labour standards. The EU also needs to work more closely with large Indian industry associations such as Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI) and export promotion councils such as APEDA, to generate support for the BTIA and to address the apprehensions.

One of the reasons for the lack of progress in the trade negotiations has been the slow process of reforms in India. There is an urgent need in India to build consensus for reforms. Unless domestic manufacturing is competitive and efficient, gains from liberalization of trade in goods, services and investment are limited. If India has (a) domestic reforms (b) regulatory certainty and (c) and a transparent regime, it will benefit from the India-EU BTIA. This will lead to inflow of FDI from EU into infrastructure services and manufacturing and also enable India to become a part of the production network of the EU companies. With the rise in labour cost in China, India can offer an alternative manufacturing base for EU companies. To build consensus for reforms there is need for greater inter-ministerial coordination across central government ministries and between centre and states. There should be pan-India stakeholder's consultation to understand the concerns and government should work closely with the lobbying groups in a democratic country to get them on-board. The Indian government should also set clear timelines and negotiating targets. As of now, India has not done impact analysis of the existing trade agreements and there are lots of apprehensions within Indian industry and NGOs about their outcomes. The government should do impact analysis of trade agreements through independent research organizations and publish them. This will help to overcome the apprehensions and generate support for trade agreements.

Finally, both India and the EU should realise the mutual benefits of trade liberalization under the BTIA. Both economies have come a long way in the negotiations and have resolved many issues. There are still many areas of concerns which can be addressed through sincere efforts on both sides. While no major breakthrough in the negotiations is expected before the Indian election of 2014, bilateral talks should continue and both sides should use this time to build consensus and support for the trade agreement.

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PART III: EU-INDIA TRADE RELATIONS - AN ASSESSMENT OF TRENDS, BENEFITS AND EXPECTATIONS *(By Paul Wymenga)*

Abbreviation	**Description**
ACEA	European Automobile Manufacturers' Association
CGE	Computable General Equilibrium
EFPIA	European Federation of Pharmaceutical Industries and Associations
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GPA	Government Procurement Agreement
IPR	Intellectual Property Rights
Mln.	Million
N.e.c.	Not elsewhere classified
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SPS	Sanitary and Phytosanitary
TRIPS	Trade Related Aspects of Intellectual Property Rights
TSIA	Trade Sustainability Impact Assessment
US	United States
WTO	World Trade Organisation

ABSTRACT

This paper discusses the trends in trade and investment and foreign direct investment between the EU and the Republic of India.

The paper furthermore outlines the results of a Trade Sustainability Impact Assessment of several liberalisation packages to promote deeper trade and investment relations between the EU and India. It is shown that the more ambitious the liberalisation will be achieved the larger the gains of the reforms will be, in particular for India.

It is furthermore reasoned that the results of the impact study of 2009 still hold in 2013, despite some initial reforms by India.

The long road to obtaining a comprehensive EU India FTA appears to have still difficult roadblocks, such as a Government change coming up in India and the unwillingness of the Indian side to agree on liberalisation of service trade and on access to procurement at State level.

Nonetheless there are pure economic arguments for continuing with these difficult negotiations as the opportunity costs for India of not having a comprehensive FTA with the EU will be high.

1. INTRODUCTION

This paper aims to give a reflection on the impact of a trade and investment agreement between the EU and India, including an analysis of trade and investment trends. In 2009, Ecorys published the report 'Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India' (Ecorys, 2009). In our paper, we want to give a summary of the most important elements of this study. In addition, we elaborate on this with an update of the trends in trade and investment issues that appeared after 2009.

In Chapter 2, a general overview of the current situation and trends of EU-India Trade and Investment flows is given. First, we want to look at the general trade relations between the EU and India. After that, we disaggregate this to sectors. In addition, we look to Foreign Direct Investment (FDI) flows.

In Chapter 3, we employ Computable General Equilibrium (CGE) modelling to look at the quantitative expected impacts of a comprehensive Free Trade Agreement (FTA) between the EU and India. We look furthermore in more detail to FDI flows and poverty impacts. We do so by employing gravity regressions to analyse the expected FDI impacts.

Chapter 4 summarises the most important expected impacts of the FTA once concluded in the Ecorys (2009) study. These effects are categorised under expected economic, social and environmental impacts.

Chapter 5 gives answers on the six questions mentioned in the Terms of Reference. This goes into more detail on how the agreement fits in the EU trade strategy, the potential benefits that the agreement could bring, the shortcomings that can be overcome by the FTA, and the views of interest groups in the EU.

Chapter 6 concludes and Chapter 7 provides the references.

2. EU-INDIA TRADE & INVESTMENT FLOWS

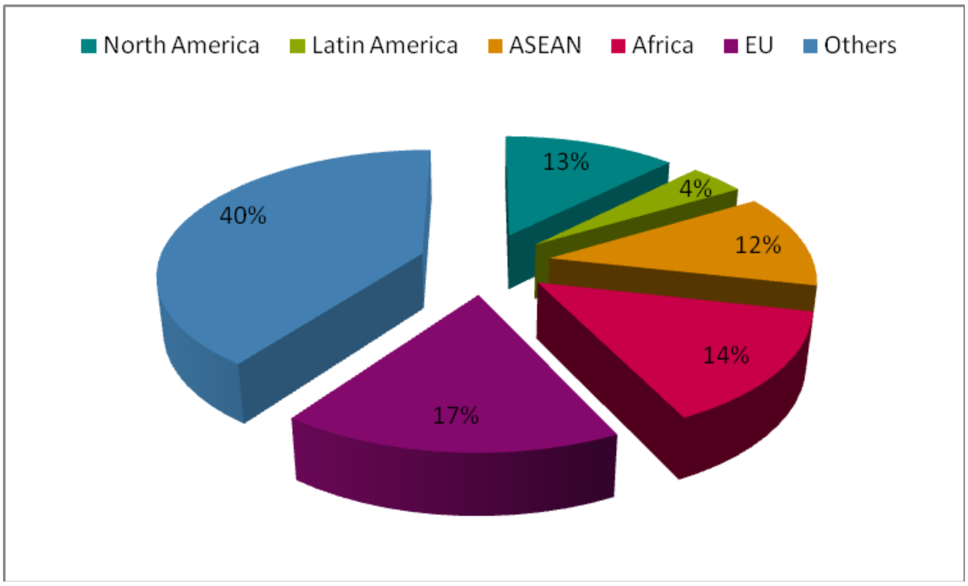
In this section, we look at the trade relationship between the EU and India. First, we want to look at the aggregate trade relations between the EU and India. After that, we present a disaggregate picture by sector. In addition, we look to Foreign Direct Investment (FDI) flows.

2.1 Trade

Based on data of 2011 ([36]), the European Union-27 (EU) represents the biggest trade partner for India with 17% in terms of overall trade (imports plus exports).

[36] The data is yearly data from April 2011-March 2012.

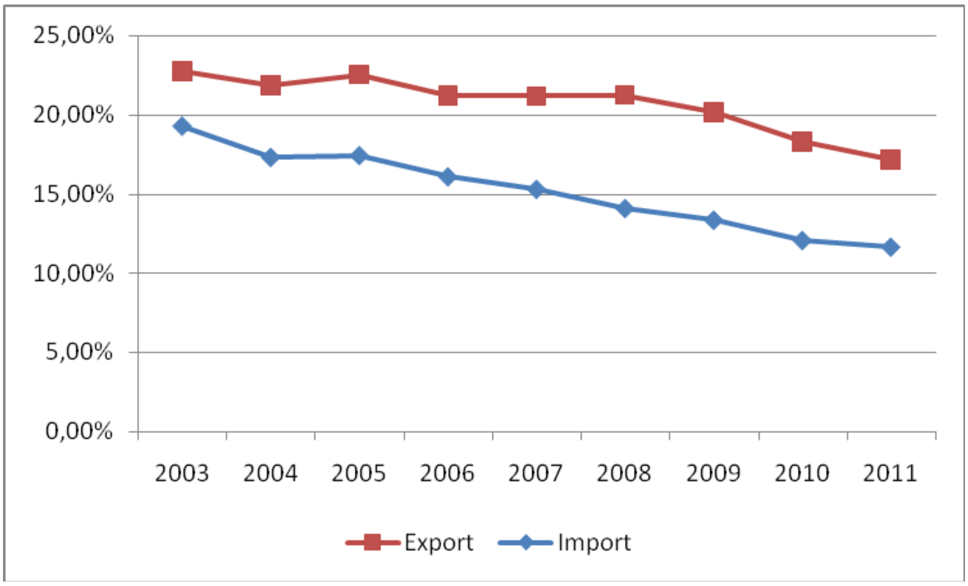
Figure.2.1 Main trading partners (regions) of India (%)



Source: Ministry of Commerce & Industry India

Both in imports and exports, the EU is India's largest trading partner. India's imports from the EU constitute 11.6% of India's total imports. In terms of exports, the EU is even more important with 17.2% of total exports going to the EU. As Table 2.1 shows, even though the EU is India's major trading partner, the last couple of years the share of the EU in the total trade of India is decreasing.

Table 2.1 EU share in total India trade (%)

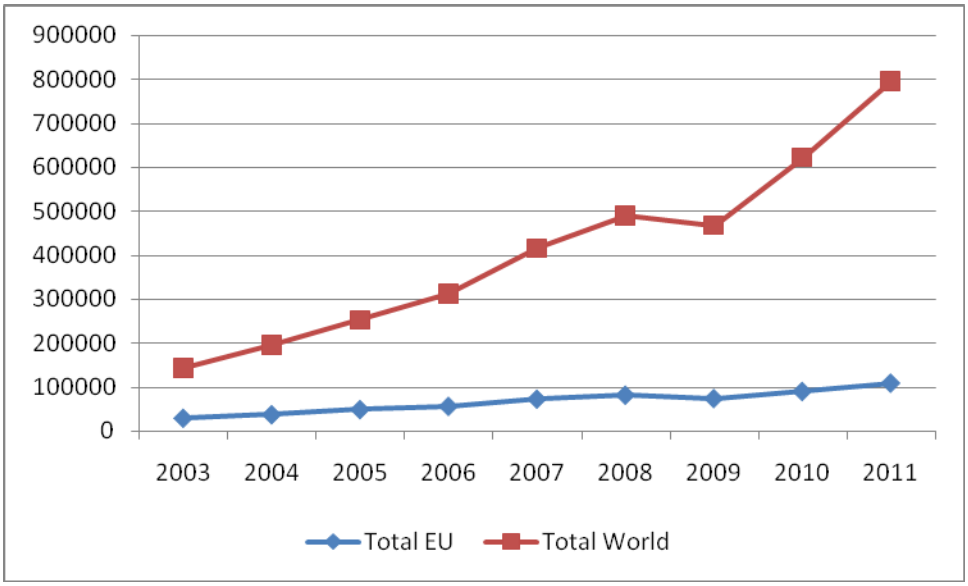


US$	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	22.74%	21.85%	22.53%	21.23%	21.17%	21.24%	20.16%	18.33%	17.18%
Import	19.29%	17.31%	17.42%	16.07%	15.28%	14.07%	13.33%	12.05%	11.62%

Source: Ministry of Commerce & Industry India

In line with Table , Table 2.1 also shows the relative decline of the EU-India trade flow compared to World-India trade. The figure shows a faster growth of trade with the world than with the EU. Main growth in export markets for India comes from other Asian countries, e.g. China.

Table 2.1 India overall trade with the World and the EU (in Millions)

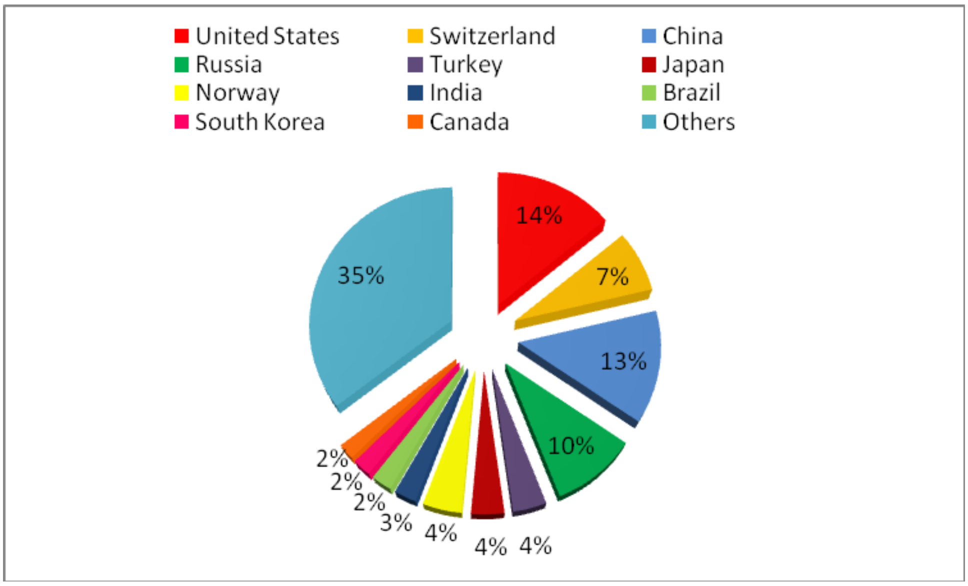


	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total EU	29,591	37,551	49,217	56,688	72,985	82,085	74,461	90,579	109,428
Total World	141,991	195,053	252,256	312,149	414,786	488,992	467,124	620,905	795,283

Source: Ministry of Commerce & Industry India

For the EU, India is only a small trade partner, with 2.5% of total EU trade coming from or going to India. Figure 2.2 shows the main trading partners of the EU in 2011.

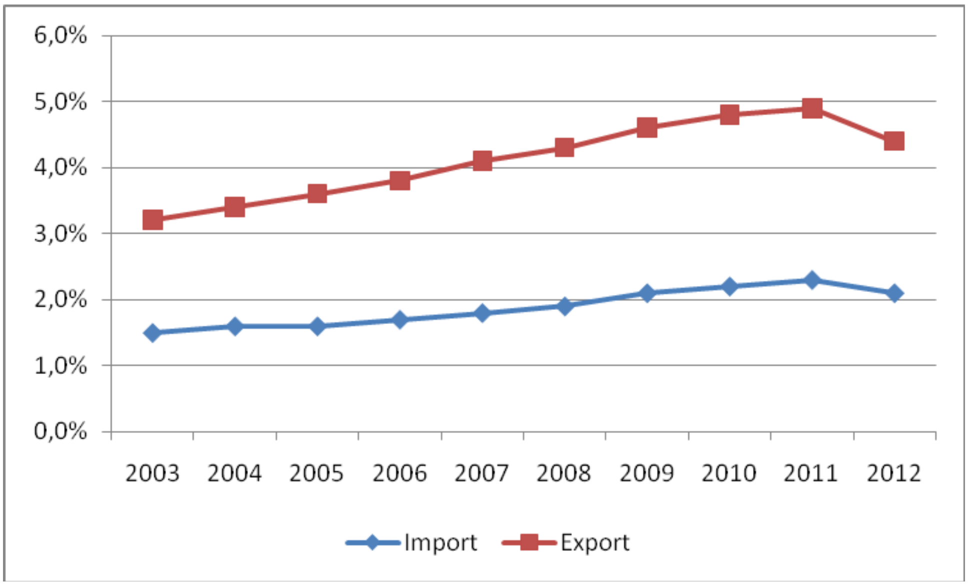
Figure 2.2 Main trading partners of the EU in terms of overall trade



Source: EUROSTAT

India ranks 8th in the list of EU's major trading partners (overall trade). It constitutes 2.3% of total EU imports (8th place) and 2.6% of total EU exports (8th place). Over time, as table 2.3 shows, the share of India in the total of EU trade has grown a bit. With 17% of total trade in India belonging to the EU, is the EU much more important for India, than India is for the EU (only 2% of total trade). Consequently, we expect that the impact of a free trade agreement will be bigger on India than on the EU.

Table 2.2 India share in total EU trade (%)

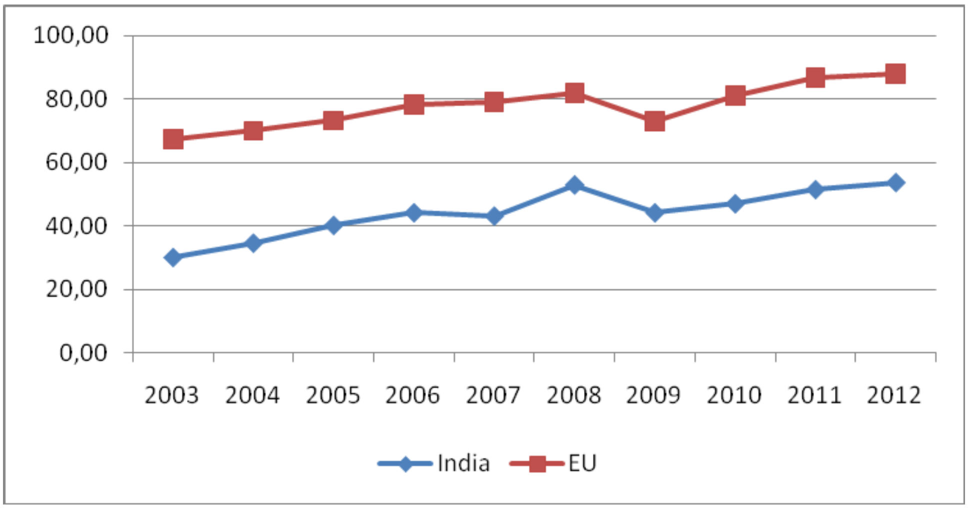


US$	2003	2004	2005	2006	2007	2008	2009	2010	2011
Export	1,7%	1,8%	2,0%	2,1%	2,3%	2,4%	2,5%	2,6%	2,6%
Import	1,5%	1,6%	1,6%	1,7%	1,8%	1,9%	2,1%	2,2%	2,3%

Source: EUROSTAT

The trade openness ([37]) of the two countries differ as well. Both countries have an increasing openness at almost the same rate (Table 2.3). Ten years ago the openness of the EU was 35% higher than the openness of India, and in 2012 this difference is still 34%.

Table 2.3 Trade openness of India and the EU (%)



[37] Average of exports and imports as percentage of nominal gross domestic product (GDP).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
India	30,1%	34,6%	40,2%	44,2%	43,1%	53,0%	44,2%	47,0%	51,5%	53,7%
EU	67,2%	69,9%	73,1%	78,0%	79,0%	81,7%	72,8%	80,8%	86,6%	87,8%

Source: UNCTADstat

2.2 Trade composition

The EU imported in 2011 mainly textiles and clothing from India. Also chemicals, machinery and transport equipment are important import products for the EU from India. At the same time the EU exports to India mainly comprise of machinery and transport equipment and manufactures. We see significant intra-industry trade in specific sectors. Table 2.4 and Table 2.6 show a summary of the composition of trade between the EU and India.

Table 2.4 European Union, Imports from India (2011)

Products (SITC sections) by order of importance	Euro (millions)	%
Total	**39,906.1**	**100.0**
Manuf. goods classif. chiefly by material	9,634.9	24.1
Miscell. manuf. articles	8,562.9	21.5
Machinery and transport equipment	7,256.8	18.2
Chemicals and related prod., n.e.c.	5,159.1	12.9
Mineral fuels, lubricants and rel. materials	5,056.8	12.7
Food and live animals	2,142.8	5.4
Crude materials inedible, except fuels	939.9	2.4
Commodit. and transactions n.e.c.	628.2	1.6
Animal and vegetable oils, fats and waxes	276.4	0.7
Beverages and tobacco	168.3	0.4

Source: EUROSTAT

Table 2.5 European Union, Exports to India (2011)

Products (SITC sections) by order of importance	Euro (millions)	%
Total	**40,558.2**	**100.0**
Machinery and transport equipment	15,755.8	38.8
Manuf. goods classif. chiefly by material	13,548.8	33.4
Miscell. manuf. articles	2,693.5	6.6
Crude materials inedible, except fuels	2,421.3	6.0
Chemicals and related prod., n.e.c.	426.2	1.1
Commodit. and transactions n.e.c.	396.8	1.0
Mineral fuels, lubricants and rel. materials	312.9	0.8
Food and live animals	234.9	0.6
Beverages and tobacco	87.7	0.2
Animal and vegetable oils, fats and waxes	22.4	0.1

Source: EUROSTAT

The EU has a negative trade balance with India in Miscellaneous manufactured articles, Chemicals and related products, Mineral fuels and lubricants, Food and live animals, Commodities, Animal and vegetable oils, fats and waxes, and Beverages and tobacco. The EU has a positive trade balance with India in Manufactured goods, Machinery and transport equipment, and Crude materials inedible. The different trade balances are presented in Table 2.6 below.

Table 2.6 EU trade with India, Trade balance (2011)

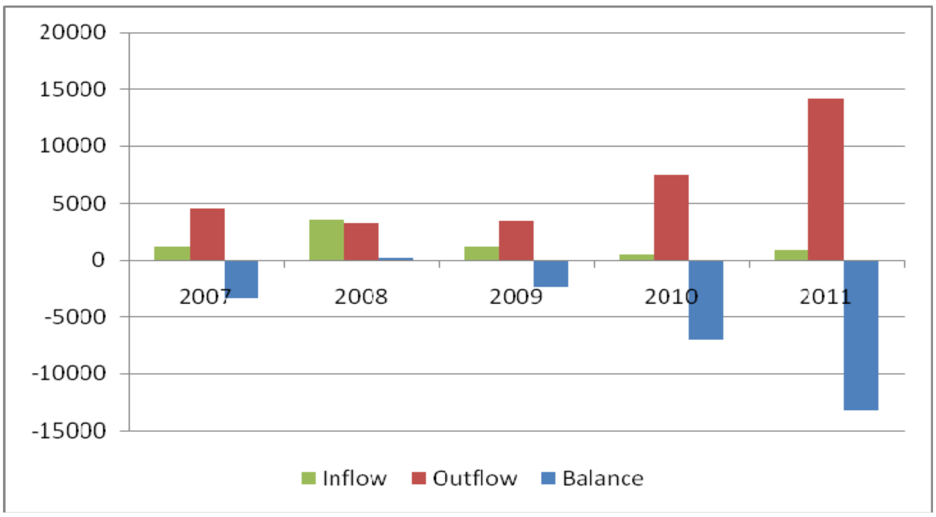
Products	Imports	Exports	Balance
Manuf. goods classif. chiefly by material	9,634.9	13,548.8	3,913.9
Miscell. manuf. articles	8,562.9	2,693.5	-5,869.4
Machinery and transport equipment	7,256.8	15,755.8	8,499.1
Chemicals and related prod., n.e.c.	5,159.1	426.2	-4,732.9
Mineral fuels, lubricants and rel. materials	5,056.8	312.9	-4,744.0
Food and live animals	2,142.8	234.9	-1,907.9
Crude materials inedible, except fuels	939.9	2,421.3	1,481.4
Commodit. and transactions n.e.c.	628.2	396.8	-231.3
Animal and vegetable oils, fats and waxes	276.4	22.4	-254.1
Beverages and tobacco	168.3	87.7	-80.7

Source: EUROSTAT

2.3 Investment

The EU is India's largest source of foreign direct investment (FDI). As shown in Table 2.8, EU investment outflows in 2011 were 14.185 billion Euros. The inflow of 957 Billion Euros in 2011 resulted in the EU having a negative investment balance with India. The investment balance is negative for all years, except for the year 2008. Due to the Global Economic Crisis were the investments from India in Europe very high and were the investments from the EU in India low. This resulted in a positive investment balance in that year.

Table 2.7 Development FDI by the EU with India (2007-2011) (in Millions)



	2007	2008	2009	2010	2011
Outflow FDI	4,530	3,323	3,512	7,482	14,185
Inflow FDI	1,168	3,547	1,196	530	957
Balance	-3,362	224	-2,316	-6,952	-13,228

Source: EUROSTAT

The top five EU countries in terms of investment outflows is given in Table 2.9, illustrating that the UK and the Netherlands are the main investors in India. The top five accounts for 17.3% of all FDI to India. The services sector and the telecommunications sector attract the most FDI inflows to India. These sectors accounts for 20.8% and 8.3% respectively of total inflows to India, see Table 2.9.

Table 2.8 FDI to India, top 5 sending EU countries

Country	Cumulative FDI to India at 1.3.2011 (in mln. USD)
United Kingdom	29,433
The Netherlands	25,627
Cyprus	21,948
Germany	13,376
France	10,267

Source: FDIIndia.in, portal for FDI investments

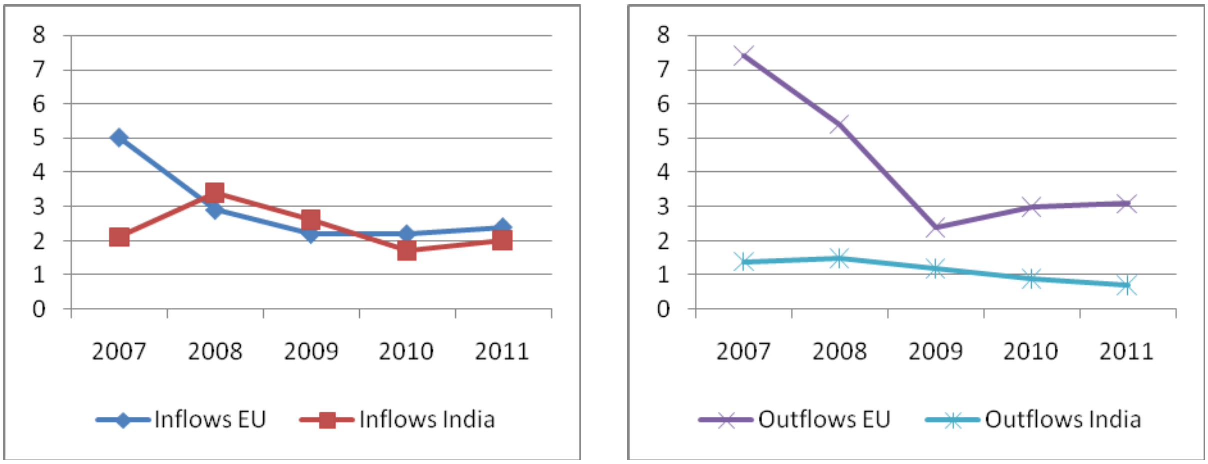
Table 2.9 Top 5 of sectors in India attracting highest FDI inflows

Sectors in India	Cumulative inflows at 1.3.2011 (in mln. USD)	% of total inflows
Services sector (financial and non-financial)	120,771	20.8%
Telecommunications (radio paging, cellular mobile, basic telephone services)	48,220	8.3%
Computer software and hardware	47,700	8.2%
Housing and real estate	43,192	7.4%
Construction activities (incl. roads and highways)	40,770	7.0%

Source: www.FDIIndia.in, portal for FDI investments

The EU is not only a large investor in India, but also in other countries (see Figure 2.3). Before the crisis (2007), the outflow of FDI was as big as 7.4% of total EU GDP. This was an amount of over 1,252 billion US Dollars. The Indian outflow of FDI in 2007 was 19 billion US Dollars (1.4% of total India GDP). The difference between FDI Inflow as percentage of GDP for the EU and India is much smaller. India is an attractive country for investments. Compared to the EU is India a less open economy for FDI investments. The potential for India is in reality much bigger than what we see in the data. When India opens the borders to FDI in all sectors, the FDI Inflow will likely increase.

Figure 2.3 FDI Inflow/Outflow as a percentage of GDP



Source: OECD

3. QUANTITATIVE ANALYSIS

In this section, we employ a Computable General Equilibrium (CGE) model to look at the quantitative expected impacts of the Free Trade Agreement (FTA) for the EU and India economies. In addition we look in more detail to FDI flows and poverty impacts. We do so by employing gravity regressions to analyse the expected FDI impacts. By combining CGE results with household surveys, we look in more detail at poverty impacts. This chapter is based on the Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India (Ecorys, 2009).

3.1 Computable General Equilibrium (CGE)

The CGE modelling exercise aims to quantify the macroeconomic and sectoral effects of the trade measures concluded in the FTA negotiations. Depending on the different scenarios modelled, different effects will result. This quantitative analysis provides a first indication of likely sustainability effects resulting from the FTA at the macroeconomic level; the indicators that we measure at this level are: overall welfare changes, average real income and effects on high- and low-skilled wages. At the sector level, we investigate the effects of the FTA on sector output and sector employment.

India has high overall levels of import protection, although tariff rates have been falling in the last years. The EU tariff rates are lower than the global overall average. The highest levels of import protection are for agriculture and processed foods, most notably so for Beverages and Tobacco products, Sugar and Vegetables, Fruits and Nuts ([38]).

Another important aspect of trade policy concerns non-tariff barriers in services. This includes not only restrictions on cross-border trade, but also regulatory variations, restrictions on foreign investment and foreign ownership, and market share limitations. Estimates of the net effect in tariff rate equivalents of these measures in the service sectors are summarized in the table below.

[38] For a table with the Pre- and post-Doha Round tariff rates, we refer to Ecorys (2009), p. 57.

Table 3.1 Estimated trade restrictions (tariff equivalents) in services

	EU-27	India
Construction	17.2	24.9
Trade	22.1	45.4
Transport	14.2	28.5
Communication	8.6	45.4
Financial services n.e.c.	27.9	57.7
Insurance	26.3	57.7
Business services n.e.c.	21.3	38.6
Recreational and other services	17.0	47.7
Other services	18.0	41.9

Source; J. Francois, B. Hoekman and J. Woerz (2007), "Does Gravity Apply to Nontangibles: Trade and FDI Openness in Services," plenary paper at the 2007 ETSG meetings, and an unpublished 2008 updated version.

Given the information, Ecorys developed three scenarios. A limited FTA agreement, an ambitious FTA agreement and an ambitious FTA plus agreement. The assumptions made in each scenario are presented in Table 3.2 below.

Table 3.2 Trade liberalisation scenarios

	Description	Food	Non-food	Services	Trade facilitation
Scenario 1	Limited FTA agreement	90% bilateral tariff reduction	90% bilateral tariff reduction	25% bilateral services reduction	1% of the value of trade
Scenario 2	Broad FTA agreement	97% bilateral tariff reduction	97% bilateral tariff reduction	75% bilateral services reduction	2% of the value of trade
Scenario 3	Broad Plus FTA Agreement	97% bilateral tariff reduction	97% bilateral tariff reduction	75% bilateral services reduction	2% of the value of trade , plus an additional 1% reduction on certain sectors ([39])

Source: Ecorys (2009)

In the overall changes caused by the FTA, we look at the three different scenarios. For all scenarios we show the long-run effects. The long-run estimates provide a long term view of a 2014 global economy where the FTA has already been in place. Hence the long-run estimates provide an insight into likely dynamic effects that take a longer time to be fully realised.

[39] The sectors mentioned are those sectors where NTBs are high, according to the TRAINS NTM database. The sectors are: paddy rice, wheat, cereal grains nec, vegetables, fruits, nuts, oil seeds, sugar cane, sugar beet, plant-based fibres, crops nec, cattle, sheep, goats, horses, animal products nec, raw milk, fishing, meat, meat products nec, vegetable oils and fats, dairy products, processed rice, sugar, food products nec, beverages and tobacco products, chemical, rubber, plastic products, motor vehicles and parts, transport equipment nec, electronic equipment, machinery and equipment nec, manufactures nec, air transport and public administration, defence, health & education.

Table 3.3 Summary of macroeconomic changes

Variable	Scenario 1		Scenario 2		Scenario 3	
	India	EU-27	India	EU-27	India	EU-27
National income (change in mln €)	9,570	350	15,940	1,370	17,700	1,600
Skilled Real Wage (% change)	1.02	-0.02	1.52	-0.02	1.66	-0.02
Unskilled Real Wage (% change)	1.03	-0.01	1.45	-0.01	1.59	-0.01
Value of exports (% change)	6.7	0.3	9.3	0.3	10.3	0.4

Source: Ecorys (2009)

From the results presented in Table 3.3, it becomes clear that the welfare effects for India and the EU are positive and largest in the extended FTAs; i.e. in scenarios two and three, where the integration is most far-reaching. For scenario three, India gains € 17.7bn in the long run, while the EU gains € 1.6bn in the long run. While large in absolute numbers, in percentages, this amounts to an additional 1.6% growth in the long run for India. Overall, the EU-India FTA will lead to higher levels of national income worldwide in the long run for the scenarios two and three. We observe a significant increase in real wages of both skilled and unskilled workers in India as a consequence of the FTA. There is a very small decrease in wages for skilled and unskilled workers in the EU.
For all three scenario's, the percentage change in the value of exports comes out positive and the more ambitious the liberalisation scenario, the higher the increase in export values. For India, scenario 1 is expected to lead to a 6.7% increase, which goes up to 10.3% for scenario 3. Also for the EU a positive change in export value is predicted of between 0.3% and 0.4%.

3.2 Gravity modelling

Now we turn to our analysis of potential FDI flows and their effects on the EU and India economies. By various measures, the OECD countries are generally the most open to foreign investments. In contrast, India is one of the most closed regimes. For example, in a number of "key sectors" – sectors of strategic interest to the government for reasons of taxation or national defence – India has maintained a policy of compulsory licensing (see Table 3.4). In theory, these are maintained for "security, safety, strategic, social, and environment" reasons. In practice, these can be a significant impediment to foreign investment and are de facto protectionist measures.

Table 3.4 Indian sectors subject to compulsory licensing

Sector
Destillation and brewing of alcoholic drinks
Cigars and cigarettes of tobacco or of tobacco substitute
Electronic aerospace and defence equipment
Industrial explosives, including detonation and safety fuses, gun powder, nitrocellulose, and matches
Coal and lignite
Petroleum (other than crude) and its distillation products.
Sugar
Animal fats and oils, partly or wholly hydrogenated
Drugs and Pharmaceuticals

Source: Indian Ministry of Micro, Small & Medium Enterprises ([40])

[40] A full list can be found at: http://laghu-udyog.gov.in/publications/reserveditems/reservitems.html

One measure of the impediment to inward FDI is the OECD's Regulatory Restrictiveness Index (OECD, 2011). Among the 52 countries surveyed (34 OECD members and 18 non-member countries), India has the 4th highest levels of restrictions to FDI (after China, Saudi Arabia and Indonesia). India's overall index of restrictiveness is estimated at 0.3. Table 3.5 shows the sector specific restrictiveness for FDI in India. In general, the most restricted sectors are Business services and Communications. Meanwhile, Electricity and Manufacturing are among those sectors that generally exhibit fewer restrictions to FDI.

Table 3.5 OECD FDI restrictiveness index for selected countries and regions

	India	EU-27	OECD	Russia	South Africa
Primary sector	0.405	0.062	0.133	0.150	0.010
Manufacturing	0.053	0.006	0.022	0.092	0.010
Electricity	0.050	0.055	0.132	0,030	0.010
Distribution	0.431	0.006	0.022	0.050	0.010
Transport	0.263	0.134	0.231	0.350	0.193
Media	0.463	0.080	0.171	0.117	0.298
Communications	0.425	0.033	0.109	0.100	0.010
Financial services	0.313	0.016	0.034	0.515	0.043
Business services	0.563	0.059	0.067	0.175	0.260
Total FDI Index	**0.300**	**0.045**	**0.081**	**0.180**	**0.054**

Source: OECD (2011) http://www.oecd-ilibrary.org/docserver/download/302012021e1t033.pdf?expires=1378282651&id=id&accname=guest&checksum=CA018E1EF0E92666DC0FDDB181F6EE45

As can be seen from Table 3.5, in India the Business services sectors exhibit the highest levels of restrictions to FDI. The restrictions are already much less than 5 years ago. In 2007, the Business services were completely closed to foreign investments (i.e. the index equal to 1). The Communications sector is also a sector that is highly regulated in terms of FDI. Despite the high levels of restriction, Business services and Telecommunications are the two top sectors in terms of receiving FDI. During the period 1991-2011, they received 21% and 8% of total Indian inward investment, respectively. For comparison purposes, Table 3.5 also presents India's level of restrictiveness relative to a number of other emerging markets, in addition to the average across the EU-27.

In the Ecorys study (2009), trade cost equivalents of FDI restrictions are calculated by using gravity-based analysis. These calculations are based on the OECD FDI restrictiveness indicators for the year 2006. The restrictions declined since 2006, so the trade cost equivalents are lower nowadays.

Table 3.6 The impact of FDI restrictions on services trade

	India	EU-27	OECD	Russia	South Africa
Transport	18.6	4.9	5.2	6.0	4.5
Communications	13.6	5.5	8.3	14.5	19.0
Construction	10.7	2.4	3.6	9.0	7.1
Insurance	18.1	6.3	7.8	22.8	15.8
Finance	8.4	3.0	4.1	11.9	6.4
Trade	14.1	1.4	2.2	3.2	4.7
Business	18.6	4.9	5.2	6.0	4.5
Personal	2.6	2.3	3.5	5.0	5.0

Source: Francois (2008)

The estimates reported above in Table 3.6 provide an indication of the impact of the FDI regime in India on the ability of India's trading partners to export services. Recall from the discussion above that these are the most important sectors, in a dynamic sense, for FDI in India. Reading across the columns, India's restrictions on FDI in insurance raise the cost of selling insurance services in the Indian market by 18.1 percent. In contrast, the impact in the EU27 is only 6.3 percent. Similarly, the impact of Indian restrictions on FDI in business services raises the cost of selling business services to India by 18.6 percent. A similar impact (18.6 percent) is identified for transport services. Overall, the estimates above indicate a very strong impact from India's FDI restrictions, as they significantly raise the cost of selling services in the Indian market. EU policies also have some impact, but generally the cost impacts on India's side are 3 to 6 times higher than on the EU side. This points to potentially significant gains for India in particular, from improved market access through a more liberal FDI regime.

3.3 Poverty impacts

In the era of globalization, most countries, including India, worry whether the gains from trade liberalisation will benefit the poor. Given the economy-wide nature of trade policy, the impact of trade policies is not expected to be uniform. CGE models have useful techniques to capture the inter-linkages of the economy and the complexity of the impact studies on the household poverty. The most frequently used poverty index is de head count index or poverty ratio, i.e. share of population living below the poverty line. The two poverty lines used by the World Bank are $1.25 and $2.00 in purchasing power parity (PPP) per day.

Table 3.7 Poverty head-count ratio in India from 1978 to 2010

Year	Poverty headcount $1.25 a day PPP (% population)	Poverty headcount $2.00 a day PPP (% population)	GINI
1978	65.9	89.0	35.1
1983	55.5	84.8	31.1
1988	53.6	83.8	31.9
1994	49.4	81.7	30.8
2005	41.6	75.6	33.4
2010	32.7	68.8	33.9

Source: World Bank database

The government of India is using a different poverty line, namely a poverty line of 461.54 Rupees (6.86 Euro) per 30 days. Based on this governmental poverty line, the poverty head-count ratio is lower (27.5% in 2005) than the poverty head-count presented by World Bank data.

Based on CGE-modelling, the FTA is expected to result in a reduction in the overall poverty ratio of the Indian economy. The more ambitious the FTA, the higher the growth of incomes and prices. The positive income effect will outweigh price effects ultimately resulting in a decline in poverty in India. Even though this price effect mitigates the positive income effects, the gain in income outweighs the increase in prices resulting in the highest welfare gains in terms of poverty reduction in Scenario 2 and Scenario 3. The impact of the FTA on aggregate poverty of India is expected to vary between -0.38% for Scenario 1 and -0.44% for Scenario 3 using the poverty head-count ratio of the Indian government.

4. MAIN IMPACTS OF A FTA

In this section, we summarise the most important expected impacts of the FTA once concluded, drawn from the Ecorys (2009) study. These effects are categorised under economic, social and environmental impacts.

4.1 Economic impacts

Main economic impacts of the FTA:

- In the extended FTA, India is expected to gain €4.9bn in the short run and €17.7bn in the long run, while the EU is expected to gain €4.4bn in the short run and €1.6bn in the long run.
- For the motor vehicles and automotive sector, effects on output are expected to be positive for both the EU and India, especially when including dynamic FDI effects.
- Significant shifts of production are expected in the wearing apparel and leather sectors, where output in India is expected to increase considerably (38% for both), while the EU will face a slight decline in output (-1.4% and -3.3%, respectively).
- Effects on real income stemming from the financial and banking sector as well as the other business services sector both in India and the EU depend to a large extent on the degree of successful liberalization and non-tariff barrier (NTB) reduction in these sectors – potential gains – shown by gravity analysis – are high, up to 19% of trade costs.
- Increased investment flows as a result of the FTA (directly and indirectly) and reductions in NTBs are expected to have large (potential) beneficial effects, for both the EU and India. Estimates reach up to €17.7 billion for India.
- Presently, FDI restrictions have a very significant negative impact on services trade in India, of up to 18.6% in transport services and other business services and up to 18.1% in insurance services. The impact of investment in the services sectors is very considerable, especially for the Indian economy. The extent to which such potential benefits materialise depends largely on the impact the FTA has on further liberalization of the aforementioned restrictions, sector reform and integration in the global market of the services sectors.
- Improvement in horizontal issues – mainly investment conditions – will considerably affect the potential FDI flows that in turn play an important role in increasing competitiveness of the services sectors, especially for India.
- A major economic boost could potentially come from liberalizing insurance services (e.g. addressing the 26% equity gap) by generating the abovementioned welfare effects, and assisting finance in the Indian economy.

- For the ambitious FTA, an average increase of 10.3% export value for India is estimated and an average 0.39% increase for the EU. The increase for India comes mainly from wearing apparel, leather and automotives, while for the EU the increase stems from other business services and transport equipment.

4.2 Social impacts

Main social impacts of the FTA:

- The FTA is expected to have moderate pro-poor effects with a reduction in the overall poverty ratio in India.
- No direct effects on health and education are expected, but indirectly, increases in incomes, real wages, employment opportunities, and declining poverty ratios could potentially have positive effects.
- Health improvements are expected to be relatively smaller in labour-intensive sectors where the informal market plays an important role and where many females and unskilled workers participate.
- Increased specialisation as a consequence of the FTA can cause some reallocation of production among regions and across sectors, especially in India. These cause restructuring costs in the short-run, but are expected to benefit both the Indian and EU economies in the long-run.
- Increased competitiveness and further investment in productivity can induce some substitution of labour by capital.
- The reinforcement of the FTA of current industrial restructuring processes in the textile and wearing apparel sector is expected to result in increased employment opportunities in India for both skilled and unskilled workers.
- Employment effects for the financial services and other business services sectors in the EU as calculated by the CGE model are expected to be minimal, but the possible impact of FDI (and outsourcing) on employment is not taken into account.
- The FTA is expected to induce a significant increase in the real wages of both skilled and unskilled workers in India as a consequence of the FTA (in the short and long run, 1.7% and 1.6%, respectively).
- Overall in the EU, there is no discernible impact on labour incomes, though there is some labour displacement across sectors.
- The Indian FTA scenarios displace between 250 and 360 workers in the EU27 per 100,000. The Indian figure is higher, between 1,830 and 2,650 workers in every 100,000 shift to another sector. In the Indian case, workers are relocating between sectors because of positive pull-factors (i.e. they are attracted by higher wages).
- The reallocation of labour – especially in the short run – may lead to lower levels of job security in the short run, but will mean higher levels of job security and work quality in the long-run, especially when ILO Core Labour Standards and Decent Work are taken into account.

4.3 Environmental impacts

Main environmental impacts of the FTA:

- Overall, the expected environmental impacts for the EU and India are either insignificant or slightly negative.
- Overall, the impact of the FTA on the atmosphere is moderately negative, especially in India. This comes from an increase in production in sectors such as textiles & wearing apparel and automotives & auto parts, and from increased growth, trade, production and consumption as a general consequence of the FTA.

- Energy production (causing increased levels of GHG emission) is expected to rise as a result of FTA-induced increased economic growth, lower poverty levels, increased trade (transport) and higher incomes, particularly in India.
- More trade between the EU and India may cause an increase in 'green' trade whereby EU technologies are disseminated in India at a higher rate, mitigating some of the negative environmental impacts.
- Increased air traffic caused by higher trade flows in the services sectors may negatively affect global GHG emission levels.
- In India, increased use of fertilizers in the grains sector (and other agricultural sector), as a result of enhancement of productivity boosted by the FTA, might have a slightly negative impact on land and water quality.
- No significant direct impacts on biodiversity have been identified for the EU.
- For India, moderate negative effects on water quality are expected from increased output in the textiles and wearing apparel sector. However, the apparel sector – where most prevalent impacts take place – is far less damaging to water quality than the textiles sector.

5. TRENDS, BENEFITS AND EXPECTATIONS

In this chapter, we want to give answers on the six questions mentioned in the Terms of Reference.

5.1 Trade and investment trends

Current trends in EU India trade relations? How does the agreement fit within each parties overall trade strategy?

17% of total Indian trade is with the EU, and less than 3% of total EU trade is with India. The trade trends are worrying, because EU trade with India has remained low in the past decade and the EU has become less important to India in terms of relative trade. Still, the EU has a positive trade balance with India.

In terms of FDI, the EU plays a larger role than India. The FDI inflow from India into the EU is still very low. The FDI outflow from the EU to India is increasing, except for the years 2008 and 2009. The EU has a negative investment balance with India. The percentage of FDI inflows over GDP in both countries are almost the same from 2008 onwards. The EU FDI outflow as a percentage of GDP is at a much higher level than of India.

In the Communication "Trade, Growth & World Affairs" (Commission, 2010), the EU Trade Policy strategy is envisioned. The EU trade policy is working to create a global system for fair and open trade, to open up markets with major trading partners, to make sure that every trading partner abides by the rules, and to ensure trade as a force of sustainable development (DG Trade, 2013). The way to create such a system is not only by multilateral agreements, but also by bilateral agreements. The Commission writes: "We shall act at the multilateral level through the WTO, and bilaterally. Doha remains our top priority. However, the bilateral is not the enemy of the multilateral. The opposite may hold truer: liberalisation fuels liberalisation" (Commission, 2010).

In the same Communication is written that "Our (i.e. EU) priority in trade policy must now be to gain better access to the largest and fastest-growing economies in the world, and in particular, through ambitious trade agreements" (Commission, 2010). India clearly fits into this description with its increasing importance in world trade and with its fast economic growth of 8%-10% per year.

5.2 Impacts of a trade and investment agreement

Against the backdrop of India's limited integration into the world economy, some reflection on the impact of a trade and investment agreement with the EU, including analysis of trade and investment trends?

In Ecorys (2009) the main impacts of a FTA are divided over three categories: economic, social and environmental impacts.

Main economic impacts

The welfare effects for India and the EU are positive and largest in the extended FTAs; i.e. in scenarios two and three, where the integration is most far-reaching. For scenario three, India gains € 17.7bn in the long run, while the EU gains € 1.6bn in the long run. While large in absolute numbers, in percentages, this only amounts to an additional 1.6% growth per annum in the long run for India. For the EU, the additional growth per annum is insignificant (<0.1%).

Exports will increase with an average of 0.39% of total export value for the EU and with an average of 10.3% of total export value for India. This increase will come from certain sectors. In the EU, it will mainly come from other business services, machineries and transport equipment. In India, the sectors wearing apparel, leather and automotives drive the increase.

A question can be asked what would be the results of the TSIA now that India already made some initial reforms since 2009? Since the largest economic benefits will come from removing the remaining non tariff barriers by India, the direction and depths of the impacts identified by the TSIA of 2009 will by and large still hold.

Main social impacts

There are only minor social impacts for the EU. The FTA will not have any impact on poverty and there are no direct significant effects on health. There is some impact on education, because there is retraining needed for some sectors, e.g. Leather products, Wearing apparel, Electronic equipment, and Cereal grains

For India the FTA will increase the average income in that country. The effects on consumer prices are negligible, so poverty will decrease. There are also some positive health effects via declining poverty, increased employment and increased real wages. As a consequence of displacement of employment across regions and sectors, retraining is expected to be needed in India for e.g. the sectors Paper products, Transport equipment, Beverages and tobacco products, and Processed foods. Some positive indirect effects on education can be expected from a decline in poverty rates, increased employment opportunities and increased real wages in India. In addition, the higher demand for skilled workers and rising wages are expected to have a positive effect on the incentive to attain education and on enrolment and literacy rates.

Main environmental impacts

Overall, the impact of the FTA on the atmosphere is moderately negative, especially in India. The increased output and trade flows in some sectors will have a slightly negative impact. There is no significant impact for the EU on land quality and biodiversity. In India, the increased use of fertilizers in the agricultural sectors might have a slight negative impact on land quality. Increased output in the wearing apparel sector might cause negative effects on biodiversity indirectly, e.g. through the negative impact on water quality.

5.3 Benefits that the agreement could bring

What are the benefits – once concluded – that the agreement could bring for both India and the EU?

The FTA is expected to boost trade and investment flows between the EU and India considerably. For all scenarios in the model of Ecorys (2009), there is a positive expected percentage change in the value of exports. In the long run in scenario 3, the model estimates a 10.3% increase in export value for India and 0.39% for the EU as a result of the FTA. Overall, welfare effects for India and the EU are positive and largest in the most ambitious FTA. India is expected to gain € 17.7bn annually in the long run, while the EU is expected to gain € 1.6bn in the long run. As a percentage of GDP, the additional economic growth for the EU is only minor. For India, the FTA will add substantial economic growth (1.6%) to the already high GDP growth.

The main impacts on consumer benefits differ for the two countries. The FTA will especially bring consumer benefits in the EU via an increase in varieties. The consumer in India benefits especially through higher purchasing power. The labour benefits in the EU are in certain expanding sectors, e.g. business services and transport equipment. The benefits for India are through better remuneration and more jobs. Most jobs are created in the sectors wearing apparel, leather and automotives.

Via a reduction in tariff and non-tariff barriers, the EU will get access to the fast-growing Indian market. At the same time will India get access to the huge European market. The EU wants to gain from a FTA by removing the barriers that barricade the commercial presence in India for the services sector. Consequently, India will gain by technological spin-offs from services trade and investment.

5.4 Shortcomings for the EU that can be overcome by the FTA

What shortcomings can be effectively overcome by the FTA?

By implementing a FTA, there are shortcomings that can be overcome. We mention here only some of these shortcomings.

- High barriers to FDI
  As already mentioned in the Gravity analysis part, India has the 4th highest levels of restrictions to FDI in the world. India's overall index of restrictiveness is estimated at 0.300 (2011). In general, the most restricted sectors are Business services and Communications. Meanwhile, Electricity and Manufacturing are among those sectors that generally exhibit fewer restrictions to FDI. Despite the effort from the European side to open up the Indian economy to FDI, there was no progress to mention in the Trade and Investment Barriers Reports of 2012 and 2013 (European Commission, 2012, 2013). E.g. a potential opening in the multi-brand retail sector is put on hold because of a negative political and social reaction (European Commission, 2012).

- Sanitary and Phytosanitary measures
  The Trade and Investment Barriers Report of 2012 informed about some progress on Sanitary and Phytosanitary (SPS) issues. The progress was made on bovine genetic material, in respect of prospects of alignment to international standards. Despite the commitments, no progress was seen in 2012. There are worries about the general approach of India of keeping unjustified and unnecessary SPS measures as a way to maintain its agri-food market closed to imports (European Commission, 2013).

- Public procurement
  The main international agreement related to public procurement is the Government Procurement Agreement (GPA) from the World Trade Organization (WTO). The EU signed the agreement, but India didn't. India is an observer of the GPA (WTO, 2013a). One of the sectors that

are not open for European applicants is the telecom sector. Part of the published policy framework on telecoms is the local content requirements with a minimum of 20%. This threshold favors domestically produced equipment and electronic products in procurement procedures. Similar rules exist in areas such as solar energy production and renewable energy (European Commission, 2013).

- Security and certification requirements
  There are several sectors with additional requirements for foreign products. This additional security and/or certification requirements are burdensome for the foreign producers via direct costs (e.g. costs for testing) and indirect costs (e.g. costs for delivery of higher quality). One of the protected products is tyres. In September 2012, India removed some barriers, but a number of problems on the certification of tyres remain. There are for example still fees charged, there are lengthy procedures, inspections, guarantees needed, etc. (European Commission, 2012) For steel products, a special BIS certification is asked for foreign producers. The certification requirements are disproportionate and not in line with practices in other countries. There are, for example, excessive testing requirements, fees that must be paid, factory inspections, etc. (European Commission, 2012). In the telecom sector, additional security requirements are in place for foreign producers. Since 2010, these barriers are declining (European Commission, 2011).

- Intellectual Property Rights
  From the perspective of EU investors, one of the main issues with respect to India is the relatively weaker Intellectual Property Right (IPR) (enforcement) system in India compared to the EU. This has a negative effect on the ease of doing business in India for EU investors in sectors that are highly reliant on IP protection. Counterfeiting and piracy are perceived to be the main problems in this respect. Although both the EU and India signed the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement from the WTO, the IPR system in the EU is stronger than India's system and a comprehensive FTA could deal with this weakness.

- Mode 3: Commercial presence abroad
  Under the General Agreement on Trade in Services (GATS), the EU and India promised to open their borders to stimulate trade in services. On both sides, there are still exemptions on the rules that hinder free trade. The EU wants India to open the borders to allow commercial presence abroad (mode 3). According to the WTO, this implies "that service suppliers of a member country may establish a territorial presence (a legal presence) in another member country with a view to providing their services". (WTO, 2013b) An agreement on the allowance of commercial presence abroad will open the Indian borders to European insurance companies, banking companies, telecom services, etc.

- Mode 4: Movements of natural persons
  Under Mode 4 of the GATS, there are barriers for both the EU and India. Mode 4 allows free movement of services providers on a temporary basis. A person of a member country can temporarily enter the territory of another country and deliver there his/her services. These service suppliers include engineers, doctors, ICT specialists, consultants, etc. Opening the borders to temporarily movement of persons will help the EU to overcome the shortage of high knowledge experts. It is helpful for companies with presence in both EU and India to send their personnel to subsidiaries, which will increase the sharing of knowledge. (WTO, 2013b)

5.5 Strategic Impact Assessment of the FTA

How to evaluate the strategic impact assessment on the EU-India trade agreement? Does it still reflect the current state of play? What conclusions draw other impact assessments? How should these findings be evaluated?

The Strategic Impact Assessment commissioned and financed by the Commission of the European Communities was finalised in May 2009. The global financial crisis is therefore not taken into account in the analysis. Overall, this can have impact on the GDP base, but it will not change the basic economic effects of the FTA. Important is to take into account that the results are mainly based on economic modelling. Modelling gives a good indication of the likely effects resulting from the FTA, but theory and practice are never exactly the same. Major concern at this moment is the possibility that there will be no parliamentary majority in India for a far reaching FTA. Furthermore there will be a change of the Government in India soon. Negotiation issues will remain opening up procurement at State level in India and services trade. India seems not ready for these key negotiation issues.

There is no other impact assessment conducted from the Indian side, so there is no comparison possible between various impact assessments.

A strategic question was posed, by the Chairman of a workshop on an EU-India FTA by the European Parliament on 24-9-2013: What should the EU do? Take a pause, or negotiate first with other trading partners, given that India is not willing to close a comprehensive deal?

The authors argue that the opportunity costs for India in the case of taking a pause in the negotiations, or negotiating first with other trading partners, would be too high.

5.6 Views of interest groups in the EU

What are the views of interest groups (business and consumers alike) in the EU and India, which expressed their views in favour or against the agreement?

During the writing process of the Trade Sustainability Impact Assessment of Ecorys (2009), there were various engagements with civil society by Ecorys. Via public meetings, a TSIA workshop, bilateral meetings and digital tools, civil society could express their views in favour or against the agreement. Some interest groups also published Position papers.

Parties in favour:

- The European Federation of Pharmaceutical Industries and Associations (EFPIA) sees the FTA as an opportunity. The facilitation of the access to the Indian market will in their opinion bring benefits for both European and Indian firms in the pharmaceutical sector. They state IPR as an important topic for the pharmaceutical industry. In their opinion, a more robust, stable and predictable legal framework for the protection of intellectual property rights (IPR) is crucial to make use of the full potential of the partnership between the EU and India. Progress on IPR issues will ensure that Europe’s trade in innovative products continues to grow, and will enable India to increase their own contribution to the global economy via an increase in their own innovative capacity. (EFPIA, 2011)
- The European Automobile Manufacturers’ Association (ACEA) supports an FTA with India, but only when it meets various criteria. ACEA is worrying a derogation to the so-called zero-for-zero tariff dismantling principle. Because India is not willing to abolish all tariffs on automobiles, the EU has presented a compromise. This compromise includes a derogation from the zero per cent rule. ACEA is afraid that this will provide greater export opportunities to Indian producers than to

EU industry. Therefore, ACEA asks for no diversion from the zero-for-zero tariff elimination. (European Automobile Manufacturers' Association, 2011)

- The Foreign Trade Association strongly favours a FTA with India. A FTA will provide European companies access to a huge growth market in exports, imports and FDI. The Foreign Trade Association especially emphasizes the importance of an improvement in market access for goods and services, including regulatory transparency. They are concerned about the weak enforcement of Intellectual Property Rights. IPR protection therefore should be improved, both on paper and with respect to enforcement. (Foreign Trade Association, 2007)

Parties against:

- Traidcraft is a combination of a trading company and charity, and envisions to fight poverty through trade. They point out the potential problems for India by signing a FTA with the EU. One of the problems is based on the elimination of tariffs and subsidies. The revenues for the Indian government from tariffs will decrease and the agreement will forbid giving subsidies to some vulnerable sectors in India. A FTA can therefore be problematic for a less developed country, because national policy space is reduced and that can play a negative role on the growth of domestic industries. (Traidcraft, 2008)

During the workshop of the European Parliament on the topic of this paper on September 24, 2013 additional remarks were made by European trade organisations:

- The European Textiles Association asked about the scope of the FTA. Will there be access to public procurement in India and access to cotton yarn, or are the negotiators only talking about tariffs?
- The European Tyre and Rubber Association was of the opinion to go for the most ambitious liberalisation scenario. Otherwise the EU should not make a deal. Also the removal of NTBs should be included in the negotiation.

6. CONCLUSION

For the EU, India is a relatively small trading partner. The EU is a much more important trading partner for India. Therefore the benefits of a FTA will be larger for India than for the EU.

In terms of direct foreign investments the EU invests more in India than *vice versa.*

The more ambitious the liberalisation, the higher the economic benefits will be, in particular for India. The FTA will have a poverty reducing effect in India. The environmental effects of a FTA can be dealt with by India while for the EU these are negligible.

In reality the already long road to an EU-India FTA will be further stretched as it can't be expected that India will sign a FTA with the same level of ambition as the FTA between the EU and Korea. India is unwilling to liberalise trade in services and on procurement there will be no deal at State level.

A "*rendezvous*" type of negotiation as suggested by a participant on the workshop of 24-9-2013 of the European Parliament, implying first negotiations at Federal level and thereafter a second round of negotiations at State level is according to the authors not the way to go.

Reasoning based on pure economic arguments, the opportunity costs of not having a comprehensive FTA between the EU and India will be very high for India.

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INDIA AS A TRADING PARTNER: ISSUES IN INDIA-EU BTIA AND WAY FORWARD

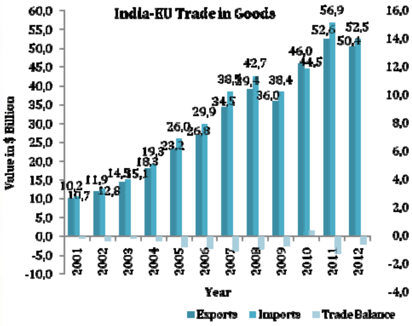
Presented by Arpita Mukherjee

Professor ICRIER

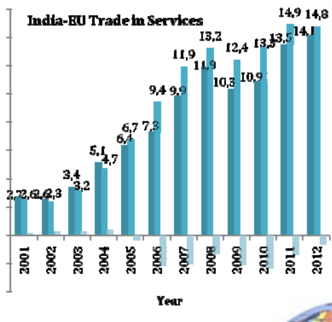
New Delhi : India

WORKSHOP
on
THE LONG ROAD TOWARDS AN EU-INDIA FREE TRADE AGREEMENT
How to boost EU-India economic relations?
at Brussels Belgium
Tuesday, 24 September 2013
Organised by
DIRECTORATE GENERAL FOR EXTERNAL POLICIES,
Policy Department and Committee on International Trade

An Overview of India-EU Bilateral Trade and Investment



Source: Export Import Data Bank, Ministry of Commerce and Industry, GOI



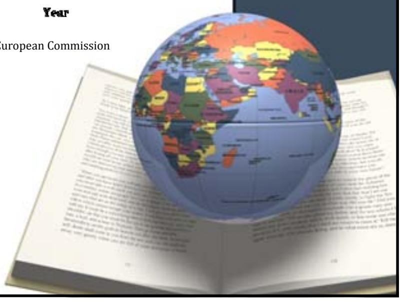
Source: Eurostat, European Commission

EU has a positive trade balance in both goods and services trade

India's share is around 2% of EU trade in goods and 1% in trade in services

EU accounts for around 13% share in India's merchandise trade

- Cumulative FDI inflows from EU to India between April 2000 - April 2013 was US$ 49 billion or 25 per cent of FDI inflows – largest source of FDI
- Indian investments in EU is increasing: Between July 2007 - June 2013 US$ 39.1 billion was invested,
- India received largest number of technical collaborations from EU



Barriers to Bilateral Trade in Goods: India

- **High Tariffs**: India's average tariffs (14.5 %) are higher than that of the EU (4.1%).
- **Sensitive sectors :** Sectors such as automobile and auto-component, dairy products on tariff reduction – Domestic lobbying (Industry : Amul, Maruti Suzuki India Limited , etc. Industry organization: SIAM ACMA)
- **Trade deficit is rising**: The 2012-13 Economic Survey indicates a trade deficit of $167 billion for 2012-13 (April-January).
- **Non –tariff barriers:** EU standards are higher and costly for Indian companies, especially micro and small and medium enterprises (MSMEs).
- **Anti-dumping measures initiated (1995-2012)-**India 34 against EU and EU 50 against India.
- **Anti-dumping measures taken (1995-2012)-** India 19 against EU and EU 38 against India.
- **Domestic concerns about export of agriculture product from EU** such as wheat. India imposes import restrictions on products such as sugar. India is a proponent of safeguards and special and differential treatment in the WTO. EU's agriculture import from India are over the five times the exports, despite high tariffs. If tariffs are lowered in India, this might reverse

Barriers to Bilateral Trade in Good: India's Concerns ...*cont.*

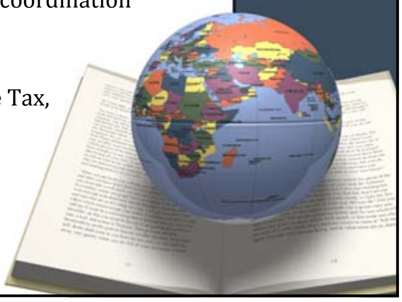
- **Subsidies given by EU to agriculture sector**: fishery subsidies, subsidies on dairy products
- **Local Content requirement**: India's lack of willingness to sign ITA II and new policy of domestic sourcing of electronic goods.
- **Sector Specific: Pharmaceutical sector**: India has competence in generic drugs. Novartis case – strong lobbying by public health activist, lawyers, generic pharmaceutical companies against TRIPS plus agreement and stringent enforcement of patent enforcement.
- **Data exclusivity versus data protection** (under Indian regulation)

Barriers to Trade in Services

- EU not a harmonized market for services
- FDI restrictions are more in India. Issues related to liberalisation: insurance (Parliament approval) , retail (political lobbying), postal (employment impact) , etc.
- Banking and financial services liberalisation
- Evolving service sector policy
- In existing trade agreements' India has not committed beyond the autonomous regime in services.
- India's interest is in Mode 4 (movement of people) but in the EU work permits, visas are under individual member states
  - Recent changes and more restrictive regime in countries such as the UK
- Residency and nationality, ENT, Non-recognition of foreign qualifications and other restrictions
- No social security agreement with countries such as the UK
- India is not considered data secure by the EU - Restrictions on cross-country flow of sensitive data – increases operating costs and affect competiveness

Investment Related Issues

- India does not give forward looking commitments in trade agreements for opening up FDI regime
- Investment Agreements are weak - does not cover pre and post establishment clauses
- BIPA act as horizontal commitment for investment chapter – India has 23 BIPA with individual EU Member States – which BIPA will be considered in the India-EU trade agreement – Netherlands BIPA?
- Investment chapter is negotiated by DIPP (Ministry of Commerce), while Bilateral Investment Protection Agreement by Ministry of Commerce, lack of coordination across ministries
- Tax issues:
  - New Direct Tax Bill, GAAR, Retrospective Tax,
  - Withdrawal of MAT exemptions

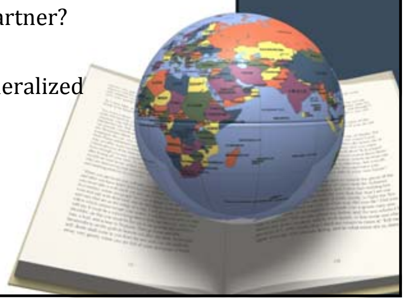


Government Procurement

- Unlike EU, India is currently not a member of the WTO Government Procurement Agreement (GPA) but has an observer status.
- EU wants transparent access to India's government procurement market for contracts above a certain cut-off value
- Government procurement is complex in India - Three layers: centre, state and local .
- Price preference for PSUs, reservations for small and medium enterprises, for some contracts such as Railways there are pre-selected vendors, monopoly power of railways, postal services, etc.
- Public procurement Bill 2012 is pending in the Parliament
- Studies in India shows that even if EU's markets were open to India under GPA or bilateral agreement , India's likely gain will be only around $ 10-12 million due to barriers such as higher standards, higher value projects, lack of ability of Indian companies to provide integrated services, etc.)

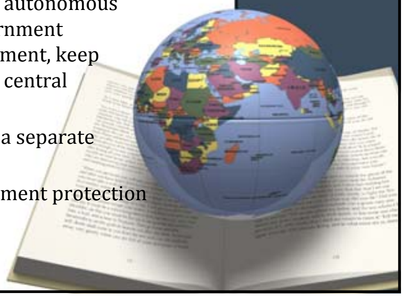
Other Barriers in India

- Lack of political support for trade agreements and majority of the ruling party in Parliament to push reforms
- Slow pace of reforms
- Lack of impact assessment of existing trade agreements
- India's election in 2014
- Limited efforts to bring stakeholders on board and reach a consensus within India and generate support for the India-EU BTIA.
- Shift in Focus to RCEP (Regional Comprehensive Economic Partnership) negotiations
- EU versus member states – Is EU a strategic partner?
- EU's withdrawal of aid from India
- If India-EU BTIA come into force, fear that Generalized System of preference (GSP) will discontinue

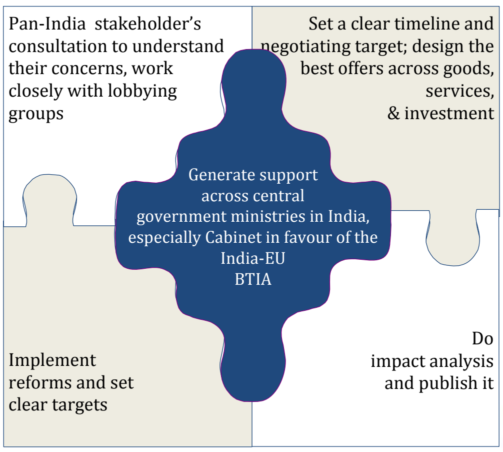


The Way Forward…

- India-EU BTIA will be the most comprehensive agreement of India, but likely to be less comprehensive than EU-Korea agreement
- Unless domestic manufacturing is competitive India's gains are limited
- If India initiates (a) domestic reforms (b) regulatory certainty and transparency - it will lead to inflow of FDI from EU into infrastructure services and manufacturing
- With the rise in labour cost in China, India can offer an alternative manufacturing base and be part of EU's production network
- Overall, gains are likely to be in EU's favour – distinct advantage *vis-a-vis* companies from other countries such as the US
- The EU
  - May push for lower tariffs, ask India to bind the autonomous regime in services and investment, have a government procurement chapter similar to the Japan agreement, keep options open for phased liberalisation, focus on central government procurement
  - Design a smart and lucrative Mode 4 offer have a separate chapter on Mode 4, Accept India's definition
  - Examine possibilities of signing India-EU investment protection agreement – to facilitate investment flow



Reaching Consensus in India



THANK YOU

For details contact:
Arpita Mukherjee,
Professor,
Indian Council for Research on International Economic Relations (ICRIER)
arpita@icrier.res.in

Workshop on EU India

EU-India trade relations - an assessment of trends, benefits and expectations

European Parliament
Paul Wymenga

Brussels, 24 September 2013

ECORYS

Overview

1. Trade and investment trends
2. Impacts of a trade and investment agreement
3. Benefits that the agreement could bring
4. Shortcomings that can be overcome by the FTA
5. Strategic impact assessment of the FTA
6. Views of interest groups in the EU
7. Conclusions

ECORYS

1. Trade and investment trends

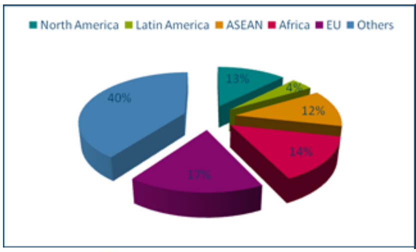
Main trading partners

In terms of total trade, the EU is more important to India, than India is to the EU:

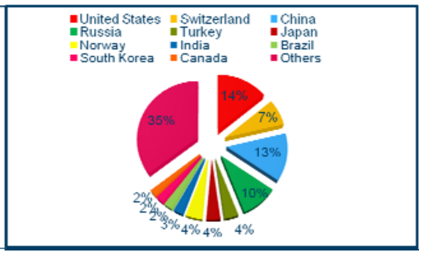
•17% of total Indian trade is with the EU

•Less than 3% of total EU trade is with India

India's main trading partners



EU's main trading partners



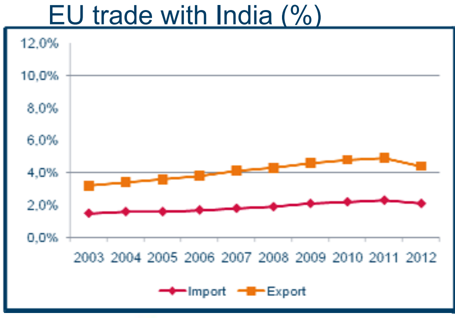
ECORYS

1. Trade and investment trends

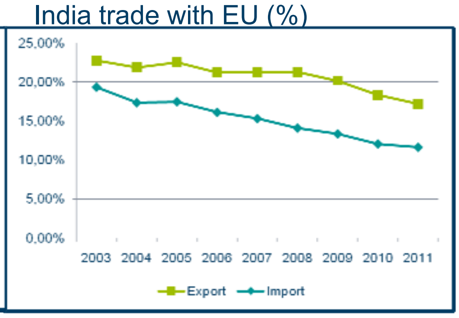
Worrying trade trends

• EU trade with India has remained low in the past decade
• Also, the EU has become less important to India
• Still, the EU trade balance with India is positive

EU trade with India (%)



India trade with EU (%)

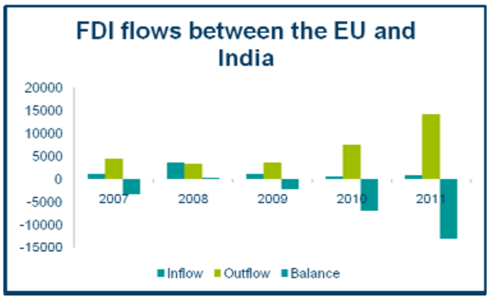


ECORYS

1. Trade and investment trends

Investment trends EU

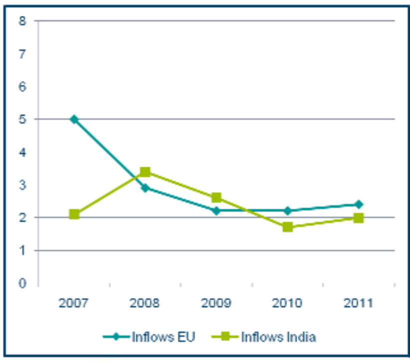
In terms of FDI, the EU plays a larger role than India:
•Since 2007 the FDI inflow from India into the EU is still very low.
•The FDI outflow from the EU to India is increasing, except for 2008 and 2009
•The EU has a negative investment balance with India

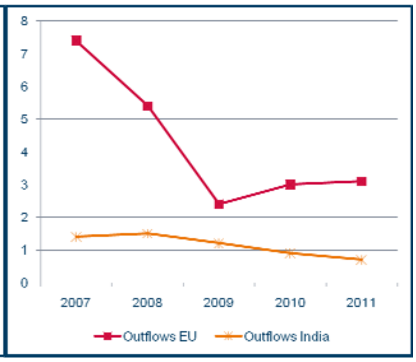


1. Trade and investment trends

Total FDI flows of both EU and India as percentage of GDP

- The % of FDI inflows over GDP in both countries are almost the same from 2008 onwards
- The EU FDI outflow is on a much higher level than of India





2. Impacts of a trade and investment agreement

Three dimensions

	EU	India
Economic impacts	Moderate	Substantial
Social impacts	Low	Moderate
Environmental impacts	Low	Moderate

ECORYS

2. Impacts of a trade and investment agreement

Main economic impacts

Most ambitious Free Trade Agreement, long run effects:
•EU will gain €1.6bn per annum
•India will gain €17.7bn per annum

As % of GDP, this implies:
•EU: Insignificant additional growth per annum (of <0.1%)
•India: Additional growth of 1.6% per annum

Export
• Average increase of 0.39% of total export value for the EU
• Average increase of 10.3% of total export value for India

Export increase will come from certain sectors:
•EU: other business services, machineries and transport equipment
•India: wearing apparel, leather and automotives

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2. Impacts of a trade and investment agreement

Main social impacts of the FTA on the EU

- Poverty
  -No impacts on poverty

- Health
  -No significant direct effects

- Education
  -Retraining needed for some sectors, e.g. Leather products, Wearing apparel, Electronic equipment, and Cereal grains

ECORYS

2. Impacts of a trade and investment agreement

Main social impacts of the FTA on India

- Poverty
  -Moderate pro-poor effects
  -Negligible effects on consumer prices
  -Income ↑, so Poverty ↓

- Health
  -Indirect, positive effect via declining poverty, increased employment, and increased real wages

- Education
  -Retraining needed for some sectors, e.g. Paper products, Transport equipment, Beverages and tobacco products, and Processed foods
  -Indirect, positive effect via declining poverty, increased employment, and increased real wages
  -Positive effect via an increase in demand for skilled workers

ECORYS

2. Impacts of a trade and investment agreement

Main environmental impacts

	EU	India
Atmosphere	Slightly negative (0/-)	Moderately negative (-)
Land	Negligible (0)	Negative effect via increased use of fertilisers (-)
Biodiversity	Negligible (0)	Negative effect via increased output wearing apparel and increased use of fertilisers (-)

ECORYS

3. Benefits that the agreement could bring

For the EU:

- Some economic growth
- Consumer benefits through more varieties
- Labour benefits in certain expanding sectors
- Reduction trade barriers and NTBs
- Access to the fast-growing Indian market
- Commercial presence in India for the services sector

For India:

- Substantial economic growth added to the already high GDP growth (8-10% per annum)
- Consumer benefits through higher purchasing power
- Labour benefits through better remuneration and more jobs
- Access to the European market
- Technological spin-offs from services, trade and investment

ECORYS

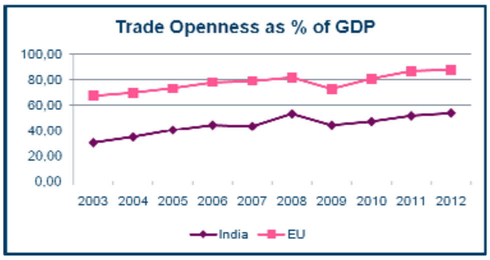
4. Shortcomings for the EU that can be overcome by the FTA

- Mode 3: Commercial presence abroad (e.g. Insurance, Banking and other business services)
- High barriers to FDI (e.g. Pharmaceuticals, Beverages and Tobacco)
- Intellectual Property Rights: counterfeiting and piracy exist (e.g. Pharmaceuticals)
- Security and certification requirements for Telecoms, Tyres and Steel products
- Unequal opportunities with regard to procurement procedures (e.g. Telecom equipment)
- Existing Sanitary and Phytosanitary measures in India (Agri-food sector)
- Restrictions on exports of raw materials hurts EU's import and manufacturing sectors
- Relaxation on movements of natural persons (mode 4) to overcome shortage of high knowledge experts in engineering, ICT, medicines, etc. in the EU

ECORYS

5. Strategic Impact Assessment of the FTA

- FTA fits in the EU Trade Policy strategy which envisions:
  - A global system for fair and open trade
  - Open markets with major trading partners
  - Every trading partner abides by the rules
  - Sustainable development of trade
- Probably no parliamentary majority for far reaching FTA in India
- The current openness of India in the world trading system can be further increased



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6. Views of interest groups in the EU

Consultations with society

Parties in favour:
•EFPIA (pharmaceuticals): there is already collaboration, but the FTA is a way to build further
•Foreign Trade Association: strongly favours concluding an FTA with India, because of the access to a huge growth market.
•ACEA (automotives): supports an EU FTA with India provided it meets various criteria, including no diversion from the 'zero-for-zero' tariff.

Parties against:
•TRAIDCRAFT: FTA can be problematic for the less developed partner – because they reduce the national policy space that can play an important role in the growth of domestic industries.

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7. Conclusions

Why is the EU trying to reach an FTA with India, given that the benefits are more for India than for the EU?*

- It will help to secure prosperity, solidarity and security in Europe and around the world
- It will boost competitiveness, jobs and growth
- It will help people to gain as much as possible from the globalisation opportunities
- It will ensure that businesses can trade fairly by eliminating trade barriers

*Drawn from the vision of the Directorate General for Trade

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