



## **India-EU FTA: Building New Synergies**

*Dr. Dinoj Kumar Upadhyay\**

India and the European Union (EU) are negotiating a Free Trade Agreement (FTA) to expand their trade and economic relations. Both sides are keen to conclude the 'Broad-based Trade and Investment Agreement' by the next India-EU summit tentatively scheduled in Spring 2013. Prime Minister Manmohan Singh has called for an early conclusion of negotiations on liberalizing trade with the EU. In this regard, German Minister of Economic and Technology Phillip Roesler and Indian Commerce and Industry Minister Anand Sharma had earlier reviewed the ongoing process of negotiations on FTA. The India-EU FTA negotiations have been quite prolonged, several contentious issues still remain to be resolved. Nevertheless, both have adopted an incremental approach and indicated to sign a partial free trade agreement rather than a full-fledged FTA.

Trade constitutes to be the 'core' of India's partnership with the EU. The FTA negotiations were launched in 2007 intending to further increase trade in both goods and services and boost investments. The last five years of negotiations on the FTA has not yielded desired results. The eurozone is facing a persistent economic crisis and economic growth has slowed down in India as well. The IMF has forecasted a GDP growth rate of 4.9 per cent for India in 2012. The situation has prompted both the parties to expedite the negotiations process and resolve the remaining hurdles to conclude an FTA.

India-EU trade relations have been constantly growing over the years. According to the European Commission, EU is India's largest trading partner accounting for €100 billion trade in goods and services in 2011. The bilateral trade with the EU accounts for 2.6 per cent of EU's total exports and 2.3 per cent of the EU's total imports. However, compared to China, India's trade with the EU is modest. China-EU bilateral trade in goods reached €428.3 billion in 2011 and trade in services was €42.6 billion in 2011. Considering the immense potential of both economies of India and the EU, there is an abundant scope for improvement in bilateral economic relations.

An analysis of the trade structure shows that the EU is expected to make gains in the goods sector. The EU is experiencing higher levels of unemployment, and the "eurozone area seasonally-adjusted unemployment rate" was 11.1 per cent in May 2012, which is the highest annual recorded since 2000; the FTA can help create additional employment opportunities in the EU region. Considering the comparative advantages, benefits for India depend on the inclusion of relevant sectors in the FTA. Services sector witnessed remarkable growth in India and its share in India's GDP at factor cost (at current prices) was 55.1 per cent in 2010-11 that increased to 56.3 per cent in 2011-12. Thus, the services sector will be important for India to reap the full benefits of an FTA with the EU.

According to the National Association of Software and Services Companies (NASSCOM), the aggregate revenue of Indian IT-BPO industry is expected to cross \$ 100 billion mark in 2012. The industry is a net employment generator. Thus, it provides direct employment to about 2.8 million and indirect employment to 8.9 million people. The IT-BPO industry can benefit from an India-EU FTA. India has approached the EU to recognize it with 'data-secure status' to get BPO business from the EU. In this context, the Indian Commerce Secretary has noted: "this is the only way the bilateral agreement will be balanced between the two." The Data Security Council of India estimates that outsourcing business can further grow by \$50 billion per annum once India is recognized as a "data secure" destination. India is still not considered a "data secure" country as per EU law. This increases operating costs for India companies, affects competitiveness and decreases confidence of European firms in doing business in India. India has already amended the Information Technology Act in 2006 to 'give a

fillip to the growth of electronic based transactions, to provide legal recognition for e-commerce and e-transactions, to facilitate e-governance, to prevent computer based crimes and ensure security practices and procedures in the context of widest possible use of information technology worldwide', thus, New Delhi argues that the existing laws meet the required EU standards and is compliant with the European law on data protection.

Apart from increasing volume of trade between India and the EU, the FTA would have several additional advantages such as technology and knowledge transfer, infrastructure development, improvement in supply chains, more job opportunities, increased competitiveness, skill development, etc which will ultimately widen and deepen the relationships. But a number of issues ranging from labour standards, intellectual property rights, sanitary and phytosanitary standards, access to agricultural goods and animal origin, technical barriers, use of anti-dumping/anti-subsidy measures against Indian products, complex system of quota/tariff, a single visa for Indian professionals on short-term contractual visits and environmental issues are still hurdles in expanding trade with the EU and in the path of the FTA. Recent trends reflect that EU is inclined towards more protectionist measures in its trade policy. There is also a concern that FTA may affect the livelihoods of farmers and workers in India. As 'data-secure' status is one of the primary demands made by India in its negotiations for an FTA with the EU, Indian Commerce and Industry Minister Anand Sharma expressed concerns over the EU's reluctance on declaring India a 'data-secure' country.

To sum up, an integrated trade relationship is crucial for promoting economic growth between India and the EU. India has initiated 'big-ticket' reforms such as allowing foreign direct investments in retail and civil aviation sectors. Investment cap in insurance sector has also been raised. The Government of India has indicated to take more measures for improving investment environment, fiscal consolidation and new projects in finance, infrastructure and energy sectors. The potential India-EU market would be huge, consisting of around 1.7 billion people. Both India and the EU constitute 'strategically important markets' for each other. The FTA has potential to boost to the trade relations but it should be made balanced and mutually beneficial. India's concerns should be adequately addressed and the FTA must not further increase the imbalance in India-EU trade relations.

*\*Dr. Dinoj Kumar Upadhyay, Research Fellow at Indian Council of World Affairs, New Delhi.*