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EU–India Free-Trade Agreement: prospects and consequences

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The Broad-based Trade and Investment Agreement between the EU and India would create one of the biggest free-trade areas in the world. After four years of negotiations and with talks entering a decisive phase, the slow progress on the agreement, especially on the opening of markets for auto and auto components, wines and spirits, intellectual property rights and services, poses a risk that this ambitious deal will falter. A deadlock in talks would constitute a severe blow to the EU–India strategic partnership, and so a new push for a satisfying compromise by the year's end is necessary.

Economic Relations. India is one of the EU's strategic partners, participating in bilateral summits since 2000. In spite of constant efforts to broaden the scope of relations, the core of the partnership is still hugely concentrated on economic cooperation. On one hand, the EU is India's largest trading partner (although its share of India's total trade decreased from 23.2% in 1999 to 15.6% in 2010), a major investor and its biggest source of development aid. On the other hand, India is the eighth-largest trade partner of the EU and one of a few emerging economies where the EU exports more than it imports. Bilateral trade in goods reached €67.9 billion in 2010 (2.4% of the total extra-EU-27 trade) whilst trade in commercial services was almost €18 billion, giving the EU an overall surplus in bilateral trade of €3.4 billion. Among India's biggest trade partners within the EU are Germany, Belgium, the United Kingdom, Italy and France (Poland ranks 13th in terms of the value of trade). With more than €3 billion in investments, the EU was responsible for 27% of all FDI in India in 2009. On balance, India has allocated nearly 40% of its external FDI since 1992 to Europe (mostly, the UK, France and Germany).

In a bid to further strengthen economic cooperation, the EU and India are negotiating the Broad-based Trade and Investment Agreement (BTIA), which would create one of the largest free-trade areas (FTA) in the world both in terms of volume (\$17.7 trillion in nominal GDP) and population (ca. 1.7 billion people). The EU already has in force more than 20 FTAs of various scopes, mostly in its neighbourhood as well as with Mexico (1997), South Africa (1999), Chile (since 2002) and South Korea (2010), and it is in ongoing negotiations with Ukraine, Singapore, Malaysia, Canada and Mercosur. India has signed FTAs with, among others, ASEAN (2003), SAARC (2004), Singapore (2005), Chile (2009), South Korea (2009), Japan (2011) and Malaysia (2011), and has recently started negotiations with New Zealand and Australia.

FTA Negotiations. The idea of an FTA between India and the EU first arose at a summit in 2005 when a High Level Trade Group was established to explore the potential of an agreement. Its positive recommendations were presented at a summit in 2006 and paved the way for the opening of negotiations. Studies of the economic impact of the FTA found that deep integration would be mutually beneficial for both India and the EU, and the negotiations took off in June 2007. Talks gained momentum in 2010, prompting leaders from the EU and India at the summit in Brussels in December 2010 to announce that an agreement should be reached by Spring 2011. Today, however, over the dozen rounds of negotiations between the two sides have reportedly resulted in agreement on only one third of the key areas of the BTIA.

The key issues where differences persist are the opening of markets to autos and auto components, wines and spirits, rules of origin and geographical indications and services. Some progress is being achieved on other delicate matters, such as intellectual property rights (IPR), public procurement

and sustainable development. The EU is still seeking better access to India's legal and financial services sectors (such as banking and insurance, accounting) and improvements in data protection, especially for pharmaceutical firms, but India is resisting taking on any new obligations beyond the WTO rules (TRIPS) and domestic laws. More Indian concessions can be expected in return for gaining extra room in the EU market for Indian agriculture and the opening of the market for the temporary movement of professionals.

Although the proposed FTA is less controversial than, for example, the EU–Mercosur deal, there is some opposition to it from parts of industry and society in both India (the automobile and retail sectors) and the EU (textile industry, agriculture and NGOs). Also the European Parliament, which will have to ratify the agreement before it could enter into force, has asked the Commission (through resolutions in 2009 and 2011) to include an ambitious sustainable-development chapter with binding clauses on human rights, labour rights and social and environmental standards to make it an essential part of the FTA, something India staunchly rejects. On one of the most sensitive issues, civil societies are afraid that the strict protection of IPR could hurt the sector for generic Indian drugs, hampering access to cheap medicines in India and across the developing world.

Perspectives. Despite strong political support on both sides, concluding the negotiations has proven to be more difficult than expected. The next few months could turn out to be decisive for the future of the deal not only because the initial momentum and good atmosphere for the talks are wearing thin but also because a change in the Indian negotiating team at the year's end could further slow the whole process. For now, both scenarios seem possible.

The FTA would expand opportunities for both Indian and EU businesses by slashing duties on more than 90% of trade (over seven years) and opening mutual markets for services and investment. According to European estimates, trade in goods could reach €160 billion by 2015 and bilateral FDI could increase by about 30%. More important, an FTA would bind India and the EU more closely and would boost their strategic partnership, opening the space for closer cooperation on key regional and global issues such as climate change, development cooperation and support for democracy.

In the second scenario, a failure to reach agreement on an FTA would broaden the deficit of trust between the EU and India and would push the latter closer to other emerging powers and the U.S. It could lower the credibility and visibility of the EU in India and may strengthen India's preference to deal instead with individual Member States rather than the EU as a whole. If the FTA fails, India may find it harder to further liberalize its economy or make significant progress on the eradication of poverty.

Conclusions. A broad and comprehensive free-trade agreement between two of the world's biggest democracies, which have extreme discrepancies in their levels of development, is an ambitious and challenging task. Both sides will have to go the extra mile and offer new concessions during the upcoming and decisive phase of negotiations and by the end of 2011 if they want to reach a deal at all. Besides mutual commercial gains, the agreement would give real substance to the India–EU strategic partnership.

The direct impact on Poland of an FTA with India would be limited due to the insignificant level of bilateral trade (0.4% of total Polish trade), but still one may expect that economic and political benefits would prevail over the potential risks. Poland has defensive interests in agriculture (especially with regard to sugar, tobacco and ethyl alcohol) and non-agriculture products (such as carpets, textiles and bicycles) and is insisting on greater liberalization of the Indian market for products such as wheat gluten, spirits, apple juice, potato starch and rapeseed oil. There are also some anxieties about the negative impact of liberalisation of the movement of professionals on the labour market in Poland. If some of these concerns are resolved, the FTA could help Polish businesses expand their presence in the vast Indian market and minimise a growing trade deficit (about \$640 million in 2010). Moreover, since Poland still has some advantages over other EU countries (such as a relatively cheaper and well-qualified workforce), it could attract more FDI from India. Nevertheless, a detailed impact analysis still will have to be prepared and new incentives for Polish companies need to be offered in order to realize the full potential of the FTA.

Even though the role of the Presidency in the EU Council is severely limited under the Lisbon Treaty, Poland could help with the swift finalization of talks by facilitating consensus among the Member States and prioritizing the FTA with India during debates within the EU. It is worth noting that signing the ambitious BTIA at the 12th EU–India Summit in New Delhi later this year also would be credited partly to the rotating Presidency and as such could help raise the profile of Poland within both the EU and India.