

RECALIBRATING RELATIONS WITH EU

Relevant for: International Relations | Topic: Europe, European Union (EU) and India

The Atmanirbhar Bharat programme and the Budget 2021-22 have set the tone and tenor to bolster supply chains and achieve self-reliance. A self-reliant India, however, cannot be economically insular. Realising the vision of a self-reliant India would entail localising an increasing share of value added along supply chains through investments and phase-wise reduction of import tariffs with strategic partners such as the European Union (EU).

India has an untapped export potential of \$39.9 billion in the EU and Western Europe. The top products with export potential include apparel, gems and jewellery, chemicals, machinery, automobile, pharmaceuticals and plastic. India benefits from tariff preferences under the EU's Generalized System of Preferences (GSP) for several of these products. In fact, India is among the major beneficiaries of the EU's GSP, with exports under the GSP valued at nearly \$19.4 billion in 2019, accounting for nearly 37% of India's merchandise exports to the EU.

However, there are several products where India has export potential in the EU, but these have "graduated" or are at the brink of "graduation" under EU GSP. Product graduation applies when average imports of a product from a beneficiary country exceed 17.5% of EU-GSP imports of the same product from all beneficiary countries over three years. India's exports of products such as textiles, inorganic and organic chemicals, gems and jewellery, iron, steel and their articles, base metals and automotives are already out of the ambit of EU-GSP benefits.

There is also a likelihood of losing EU-GSP benefits in other categories such as apparel, rubber, electronic items, sports goods and toys due to product graduation. In apparel, India's exports to the EU were valued at \$7 billion in 2019, of which nearly 94% was under EU-GSP, indicative of the impact that the graduation may have on apparel exports. Meanwhile, India's competitors in apparel exports such as Bangladesh would continue to receive tariff benefits in the EU under Everything but Arms Initiative. Another competitor, Vietnam, concluded a free trade agreement (FTA) with the EU in 2019. In light of the declining preferential access and the plausible erosion of competitiveness in the EU market, there is clearly a need to deepen trade and investment ties with the region.

India's negotiation for a Broad-based Trade and Investment Agreement, which commenced in 2007, is yet to materialise due to lack of concurrence in areas like automotives and dairy and marine products. India's cautious approach to FTAs derives from its past experience of an unequal exchange of benefits in several FTAs signed by the country. Therefore, a thorough assessment of the benefits from FTA for domestic producers is warranted, with due consideration to the impact on sensitive sectors, and possibility of inclusion of safeguards such as sunset clause on concessions for some items.

Further, there should also be provisions for aspects such as investment and non-tariff measures (NTMs). China has already negotiated a comprehensive agreement on investment. India also needs to negotiate on investment-related aspects with the EU to enhance bilateral investments and foster stronger value chains, especially in technology-intensive sectors in which the EU has a comparative advantage. As far as NTMs are concerned, India faces as many as 414 NTMs in the EU, in a wide array of sectors. FTAs have some institutional arrangements for NTMs. India should critically review the availability of such arrangements in its negotiations, as also their operationalisation and effectiveness.

Post-Brexit EU finds itself in the midst of a growing need for recalibrating ties with its partner

countries. Forging stronger ties with the region through a mutually beneficial agreement could help strengthen Indian manufacturing and revitalise the flailing exports.

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