



## EU-India FTA Negotiations Are More Than Just About Trade

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Negotiations of a free trade and investment protection agreement between the European Union and India are unlikely to be finalised by the end of this year as hoped for. The challenge in completing them is the different economic goals, as well as the upcoming elections in the EU and India. A deal between the world's third- and fifth-largest economies, respectively, would bring substantial benefits to both parties, not only economic but also strategic ones. Companies from the EU, including Poland, should not wait for the agreement to be approved and should try to step up their presence on the Indian market by taking advantage of reforms already introduced by the Indian government.

**Progress of Negotiations.** A free trade area comprising the EU and India would be one of the largest of its kind in the world, connecting participating countries with a combined GDP of around \$20 trillion and around 1.9 billion inhabitants. Negotiations for a comprehensive trade agreement (FTA), including investment protection, started in 2007 but were suspended in mid-2013 after 13 rounds of talks. The reason cited was “differences in the level of ambition”, as well as disputes that included access to the Indian market for alcohol and cars from EU countries and the opening of the EU to skilled Indian workers. [After years of attempts](#), on 17 June 2022, the negotiations resumed, separated into three different tracks—one on the free trade part, the second on investment protection, and the third concerning geographical indications—with a stated aim of concluding the deal by the end of 2023.

Since last year, four rounds of negotiations have taken place. While the first two in July and October 2022 focused on the presentation of proposals of the text of the agreement, practical talks started during the third round in December last year. At the most recent meeting in March, some progress was made, especially on customs and trade facilitation, public procurement, and small and medium-size enterprises (SMEs). However, the talks are still considered to be at an early stage and none of the 24 chapters have been closed, with the most difficult topics, including market access, still to be addressed

from the fifth round, which will start on 17 June in Delhi. There also has been limited progress in the parallel talks on the investment agreement and geographical indications.

The trade negotiations are complemented by the discussion within the EU-India High-Level Dialogue on Trade and Investment, which covers all economic issues, and the launch of the Trade and Technology Council (TTC) at the ministerial level, the first meeting of which was held in Brussels on 16 May. The TTC consults on matters not covered by the FTA, seeking closer cooperation in three areas—strategic technologies, digital governance and digital connectivity; resilient supply chains; and green and clean-energy technologies.

**The Importance of the FTA.** In 2021, bilateral EU-India trade in goods amounted to €88 billion, and in services, €30.4 billion. This made the EU the third-largest trading partner of India, with 10.8% of its trade in goods (behind the U.S. at 11.6% and China at 11.4%). India, in turn, is the 10<sup>th</sup>-largest partner for the EU, accounting for 2.1% of its trade in goods. However, India is today the fifth-largest and the fastest-growing major economy in the world, but its trade with the EU is many times smaller than the EU-China exchange (€580 billion in 2021), indicating large untapped potential for cooperation.

Analyses of the potential impact of the FTA on EU-India cooperation show that the agreement would bring mutual benefits to both sides, especially for India and the largest

economies in the EU. A 2020 analysis prepared for the European Parliament (EP) indicated that an agreement involving the elimination of 90% of tariffs would increase the value of EU exports to India by 52-56%, and imports by 33-35%.

Although the economic benefits of concluding the agreement cannot be overstated, its political and strategic dimension is increasingly valuable for both parties. For the EU, India is an attractive partner for de-risking and reducing dependence on China and diversifying supply chains. India shares democratic values and is dynamically modernising its economy. It also offers a huge and increasingly absorptive market. For the Union, it is also important that India be more closely associated with democratic states, especially in the context of the [close India-Russia relations](#). Moreover, concluding an ambitious agreement would support multilateralism and free trade at a time when, for example, the [U.S. is increasingly leaning towards protectionism](#). For India, the conclusion of the FTA would be an opportunity for increased access to one of the world's richest markets and an improvement in its own position in supply chains. It is also important for it in light of the growing [Indo-Chinese rivalry](#) so it can reduce dependence on China and develop its own manufacturing and industrial base, which can be helped by attracting capital and technology from the EU.

**Challenges.** Yet, the most difficult talks on the FTA will start only in June, which leaves little time for reaching compromise this year, even if the negotiators increase the frequency of the talks. Parliamentary elections are to be held in India in spring 2024, which means that the campaign that is starting will dominate the attention of politicians and reduce their willingness to accept unpopular concessions to the EU. Elections to the European Parliament are scheduled for June 2024 and the process of forming the new EU authorities will prolong the negotiations.

The economic policy of Narendra Modi's government, expressed in flagship programmes like "Make in India" or "Self-Reliant India", also complicates the chances for reaching an ambitious agreement quickly. These programmes aim to increase India's share of the manufacturing sector as measured in GDP to 25% from the current 16% and for it to become the new "factory of the world". In the face of protectionist tendencies, it seems unlikely that Prime Minister Modi will agree to concessions in access to his country's market in sectors that he and his supporters want to protect and strengthen. Also, India's new trade policy for 2023-2027, announced in March, shows that it wants to attract foreign investment, not just buy ready-made goods. The goal is to double exports to \$2 trillion by 2030. At the same time, India hopes that the ongoing economic reforms (opening more sectors to foreign investment, digitalisation, reducing bureaucracy), improving the infrastructure and government incentives for investment will encourage EU companies to move their production there.

Therefore, India is interested in a rather unambitious agreement, similar to those signed in 2022 with Australia and

the UAE, and which it is negotiating with the United Kingdom or Canada. However, the European Commission excludes such an option at the moment. Moreover, India may be reluctant to accept legal obligations regarding, among others, labour standards, sustainable development, and climate policy, as it traditionally rejects the regulation of issues unrelated to trade in agreements. New disputes around digital data protection, the provision of services, or the EU Carbon Border Adjustment Mechanism (CBAM) will pose additional challenges. India hopes, in the end, that the attractiveness of its market, its geopolitical importance, and [tensions between the EU and China](#) will persuade the former to accept the agreement on its terms. Although some EU leaders, including German Chancellor Olaf Scholz, promised to support the swift adoption of the FTA, concessions by some EU Member States may be less likely now because of an [undermining of trust in India](#) as a result of its [ambiguous stance on the Russian aggression against Ukraine](#), which is favourable to Russia.

**Conclusions and Perspectives.** Negotiations on the FTA are expected to intensify in the coming months, but it is unlikely that a comprehensive agreement will be signed by the end of this year or even by early 2024. However, political pressure from both sides to present progress on the talks at the next EU-India Summit, planned for Delhi in late 2023, could still lead to an announcement of an agreement on an early-harvest trade deal or on investment protection, or geographical indications. The FTA negotiations may gain momentum after the formulation of new authorities in India and the EU in 2024. However, even then it is difficult to imagine the agreement being adopted without major concessions on the EU side. Only a possible economic slowdown in India or a weakening of its growth prospects by protectionism in the longer term may encourage the authorities to open the market more widely.

In the event of an impasse in the FTA talks, the most pressing economic issues will be discussed in the TTC and the High-Level Dialogue on Trade and Investment, as well as in the WTO. The lack of a deal should not discourage EU companies from increasing their involvement in the Indian market based on WTO rules and taking advantage of the reforms and investment incentives introduced in recent years by the Indian authorities. It is worth remembering that the EU's trade and investment cooperation with China and the U.S. developed dynamically even without free trade agreements. Importantly, the data for 2022 show a sharp increase (by over 30%) in EU trade with India.

Poland, while supporting the FTA negotiations, should also review the instruments supporting Polish companies on the Indian market and launch additional initiatives, e.g., under the "Go India" programme, to facilitate entering this market. Intensifying the political dialogue and proposing a sectoral strategic partnership will also create favourable conditions for the strengthening of economic cooperation with India.