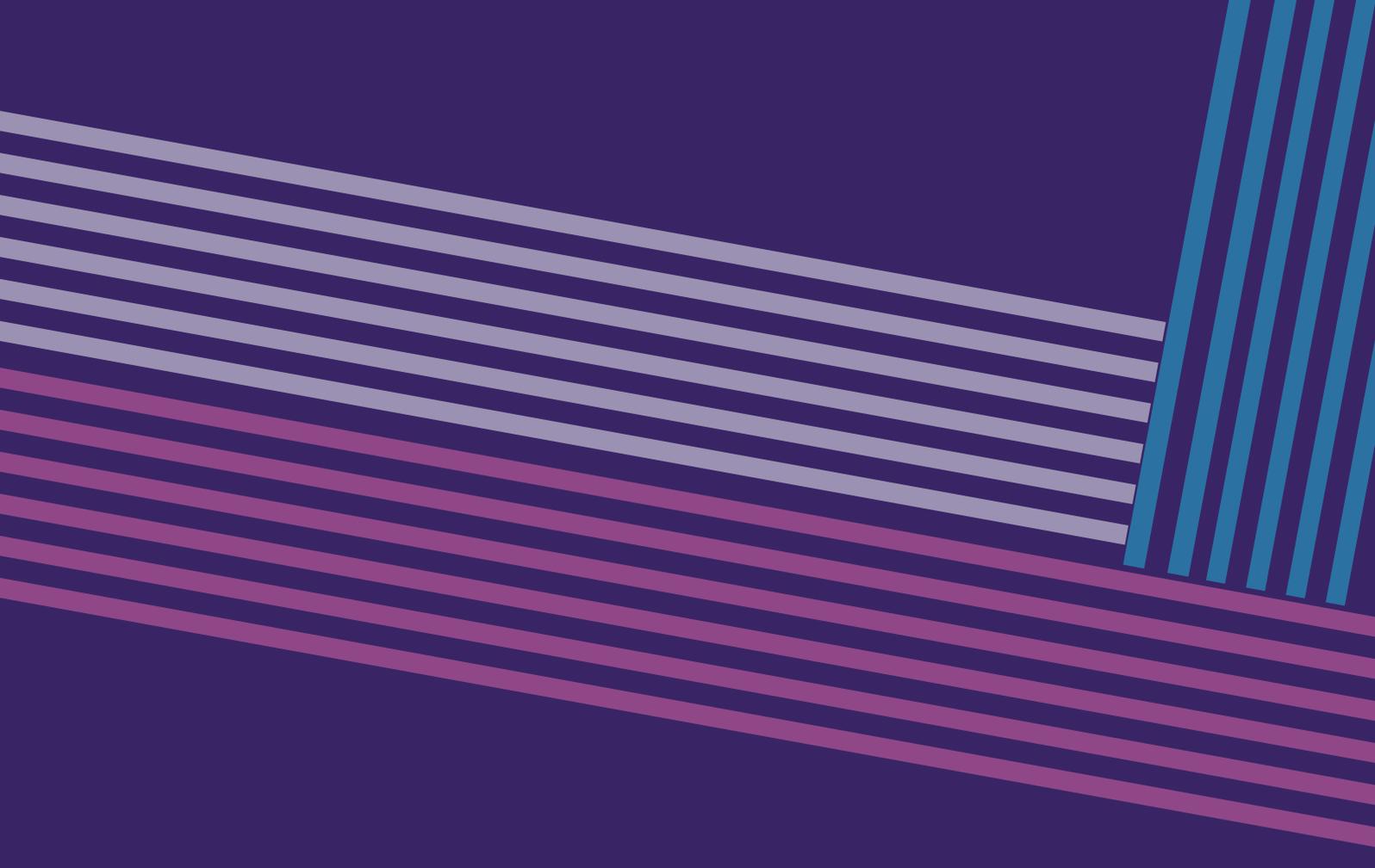


INDIA AND THE EUROPEAN UNION IN 2030

BUILDING A CLOSER ECONOMIC RELATIONSHIP



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Executive Summary

This report consists of two parts. The first, 'Bridging Horizons', focuses on the European view of the relationship, while the second, 'Strategic Integration', discusses the Indian view.

Bridging Horizons: EU-India Economic Relations in 2030

A European perspective

India and the EU today

- India and the European Union face multiple shared crises, from the pandemic to climate change and the global transition towards a multipolar order. They also share concerns about the weaponisation of economic interdependence and have taken separate but similar steps towards increasing their economic security.
- While some in the EU see India as a partner to preserve democratic principles in global affairs, there is lack of understanding of India's post-colonial identity, which shapes its response to events such as Russia's war on Ukraine.
- Even so, given their common concerns, the EU and India have a unique opportunity in the 2020s to deepen their partnership and shape the global agenda on trade, digitalisation, climate change, and security.
- Improving economic ties will be key to realising the true potential of the strategic partnership between the EU and India. However, previous negotiations on a free trade agreement failed in 2013 due to divergent preferences.
- The EU-India relationship could be a major contributor to the European Commission's desire to "de-risk" the EU's trade and investment relationships. India can provide the EU with a valuable trade partner and access to a large and growing market, while the EU has the potential to provide India with the investment, technology, and market access it needs to grow its economy.

What can the EU offer India?

- While merchandise exports from the EU have increased from US\$12.6 billion in 2000 to US\$46.3 billion in 2021, their rate of growth is not fast enough to significantly diversify the EU's economic relations.
- Twenty product categories make up 90 percent of total EU goods exports to India, with industrial machinery, stones and metals, aerospace and electrical machinery accounting for half of EU exports.
- The share of EU exports to China (10 percent) correspond to approximately half China's weight in the global economy (19 percent), but EU exports to India (2 percent) are only a quarter of India's weight (7 percent).
- The removal of market access barriers would open this additional opportunity for EU exports and help diversify merchandise exports away from China.
- All but one of the top 20 EU exports to India have seen a reduction in their share of Indian imports over the past decade, particularly following India's signing of FTAs with Japan, Korea and ASEAN.
- Most EU services exports to India have been growing in absolute and relative terms.

What can India offer the EU?

- EU imports from India more than tripled in the 2000s – but increased at a slower rate, from US\$44 billion to US\$54 billion, between 2010 and 2019. Since 2010, India's share in the EU's import basket has stagnated, compared to the growing share of EU imports that come from China.
- The fastest growing sectors for imports include aluminium, iron, steel, rubber, and furniture. Some of these sectors may be impacted in the coming years by the introduction of a carbon border adjustment.
- In more than a third of EU import sectors, the share of imports from China makes up a quarter of the total. India offers opportunities for the diversification of imports in sectors such as men's clothing, organic chemicals, and motorcycles. But it is unlikely to replace China as a major source of imports by 2030.

- Imports of telecommunications and IT services from India already surpass those from China. However, other services imports from India are below the share they had a decade ago or are insignificant.

The investment relationship

- India's current foreign direct investment (FDI) intensity ratio is 1.9 percent of GDP, higher than China's or the OECD average. Communication, computer services, and retail have seen the highest FDI growth.
- However, the policy context for FDI in India is challenging, partly because India unilaterally terminated bilateral investment treaties. The share of European affiliate enterprises in India, and its share of employment in these enterprises, has been growing, while China's shares have been decreasing – indicating India's increasing importance to European business.
- EU manufacturing investment in India has primarily sought to serve the domestic Indian market, and so India has not been able to replace China in global value chains. This has partly been due to an unstable tariff environment.
- Predictable tariffs and harmonised rules would further increase business confidence and investment.

Challenges to deepening co-operation

- There is a tight timeframe to conclude negotiations on an India-EU FTA before India's general election in 2024.
- India will expect some agreement on visa quotas, to enhance its services exports, but this remains the competence of EU member states.
- India's new bilateral investment treaties are relatively shallow, and aligning India-EU approaches on investor protection will be complex.
- India's industrial policy has a strong focus on domestic car production and it may have difficulty lowering tariffs on EU car imports.
- Market access for alcohol will be difficult as, unlike other markets, it remains the domain of 28 different states with different duties and licensing laws.

- India's procurement market discriminates against foreign suppliers. It is also shared between India's federal and state levels, adding to complexity.
- The EU and India have significantly different approaches to digital regulation since India's emerging regulatory framework may lack the EU's comprehensive protections for personal data. Effective lobbying by US firms might sway it further away from European standards.
- While India has promised to address such issues, FTA negotiations have only progressed slowly. India is interested in concluding an "early harvest" agreement, as it has with Australia. But the EU sees this as in conflict with its WTO obligations.
- Demands from European civil society to account for sustainable development clash with India's emphasis on sovereignty and suspicion of hidden protectionism. India is particularly sensitive to developed-country efforts to impose their will on developing countries through trade policy.
- The EU must also work harder to convince Indian opinion that its emphasis on sustainable development is not driven by protectionist instincts. While India must realise that there is a pro-sustainability consensus in the EU, collaboration to increase rather than decrease trade in the sectors affected by mechanisms like CBAM is essential.

Strategic Integration: EU-India Cooperation in 2030

A view from India

Context: India-EU Relations in Strategic Perspective

- The EU-India partnership has gained momentum through increased political and economic outreach. Factors driving this shift include India's economic growth, the EU's need for diversification, shared goals in renewable energy and climate change, and strategic convergence on India's role in the Indo-Pacific.
- The EU is India's third-largest trading partner, accounting for about 11% of India's merchandise trade. However, India's exports to the EU are currently limited by the absence of duty-free access, resulting in underperformance compared to competitors.

- India's economic priorities, including increasing economic security, integrating into global value chains (GVCs), enhancing the digital transformation, transitioning to a green economy, and attracting private sector investment, are pointing to the need for the EU-India trade relationship to intensify to meet India's developmental needs.

The Investment Relationship

- India's private sector investment has declined as a percentage of GDP since 2012. Geographical diversification and capacity utilisation constraints limit private investment, making FDI crucial for corporate investment.
- FDI in India has historically been lower compared to China, with marginal growth in its share of gross capital formation. European investment, known for its quality and transparency, has surpassed investments from the US and Japan.
- The need to increase FDI flows into India is a key reason for the Indian government's push for greater economic integration. The Indian government's 'Make in India' initiative aimed to attract foreign direct investment (FDI) for job-creating mass manufacturing and integration into global value chains (GVCs). However, the emphasis on investment promotion sometimes overshadowed the importance of GVC integration, resulting in limited success in attracting manufacturing FDI.
- The revocation of bilateral investment treaties and reduced investor protections have impacted FDI flows and raised concerns among foreign investors, including the EU. Resolving differences in mindset and dispute settlement approaches is crucial for expanding EU investments in India.

Sectors and Challenges for Exports

- India's merchandise exports to the EU have grown, but the EU's share in India's total goods exports has declined due to higher tariffs, differing standards, and non-tariff barriers.
- Indian agricultural exports face challenges in complying with European standards and tariff barriers, while efforts to increase exports focus on digital interventions, food safety regulations, and organic agriculture.

- Opportunities exist for increased demand for Indian steel in the EU due to the war in Ukraine, but high tariffs and the EU's Carbon Border Adjustment Mechanism pose challenges.
- Textiles and apparel are under-performing sectors for India's exports, but an FTA with the EU could enhance competitiveness with lower tariffs and domestic reforms.
- Despite India's competitive manufacturing costs, trade between India and the EU in the pharmaceutical sector is limited by complex regulations and data integrity concerns.
- Collaboration in the automotive industry should prioritise lower-emissions technology and EVs, with a focus on regulatory frameworks, innovation, and infrastructure development.
- Enhancing bilateral economic relations in the chemicals sector requires regulatory coherence, simplification of licensing procedures, and stronger intellectual property protections.
- Barriers exist in India's services sector, particularly for foreign service providers, but opportunities lie in healthcare, digital services, and professional services through agreements with individual EU member states and Mode 4 trade.

The Case for Imports

- India's past trade policy has limited its growth in manufacturing exports and integration into global value chains. Dual objectives of protecting industry and participating in GVCs have led to inefficiencies.
- Import substitution has not been effective in India due to the size of its domestic market, hindering its ability to compete globally. India's participation in GVCs is below its contribution to world trade, highlighting the need for greater openness to imports and participation in value chains.
- The European Union plays a crucial role in providing intermediate goods and technology for Indian production and moving up the value chain. India's eroding gains from trade liberalization and renewed interest in FTAs, particularly with the EU, reflect the need for greater openness and integration into global trading networks.

Two Challenges to Integration

- India has been hesitant to open its public procurement market to foreign businesses. The EU is interested in accessing India's lucrative public procurement market through an FTA. India's recent FTA with the UAE includes a chapter on government procurement, signalling a potential shift in India's attitude.
- Liberalisation of public procurement in India would create opportunities for European firms and address India's infrastructure deficit. A transparent procurement system could attract foreign investors and increase local competition in India. Indian firms could benefit from accessing the European public procurement market, especially in services and IT. Closer engagement with stakeholders in India would help create support for positive change and integration in the public procurement sector.
- India is concerned about the EU's inflexible stance on labour, human rights, and environmental standards. Differences in environmental standards and the EU's imposition of extra-territorial corporate due diligence create challenges in finding common ground. The Indian government voices concerns that excessive civil society involvement in trade raises issues of democratic accountability.
- Bilateral trade deals with agreed glide paths and emphasis on promoting sustainable development could address doubts regarding climate change and non-tariff barriers. Mechanisms for regulatory harmonisation and cooperation should be prioritised. Focus on incentives with common but differentiated responsibilities, and transparent interaction could facilitate progress on labor and environmental standards.
- Both the EU and India prioritise sustainability, particularly in reducing greenhouse gas emissions and promoting resource efficiency. Closer integration between the EU and India can benefit trade, innovation, and cost competition for green

transition goods. India needs a clear transition plan to carbon neutrality, and sector-specific sub-plans can help determine the net-zero compliance of tradable commodities.

- India is reforming its labour codes and aims to align them with international conventions. Occupational safety requirements can be addressed, but there are challenges regarding labour rights for government employees. Understanding Indian constraints and finding legal solutions can prevent labour sustainability standards from becoming a hurdle in the FTA negotiations.

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Preface

Even though EU-India relations have always held importance, there is currently a significantly increasing interest in the potential for the relationship between the two global giants. There is a growing recognition that Europe and India would both harvest considerable economic and geopolitical benefits through developing closer relations.

It was only relatively recently - in June 2022 – that the European Union and India relaunched negotiations for a Free Trade Agreement (FTA). This time around - some ten years after the previous negotiations were halted - the context is very different. There are increasing numbers of challenges to the global trading system on many fronts, and prospects do not look great for those firms seeking to expand their international activities. However, EU-India trade relations could be a bright spot.

The EU-India relationship is one that offers enormous untapped potential. At this moment, we trade and invest much less than we could. As of 2023, the size of the EU economy - with less than a third of the population - is more than four times that of India's. The European market is affluent and complex, and is one which Indian businesses need connect to more to advance to the technology frontier. At the same time, the growth prospects for India are many times higher than the lacklustre prospects for the EU; this in turn creates a need for EU firms to connect more to the Indian market.

Given this growing interest in trade between the countries, the ongoing FTA negotiations and the immense opportunities of the EU-India relationship, the main business organisation in Sweden, the Confederation of Swedish Enterprise, has commissioned this report. Our members - and the entire Swedish economy - is fundamentally dependent on foreign trade and our interest in expanded trade with India is natural.

We have asked the authors to analyze the potential of, and obstacles to, much closer EU-India economic relations in 2030 by focusing on several policy areas: primarily trade and investment policy but also their linkages with sustainability, security and technology.

The report looks at these issues from both the European and the Indian perspectives. The European part is written by Nicolas Köhler-Suzuki, Associate Researcher at the Jacques Delors Institute in Paris. The Indian part is written by a team of researchers at the Observer Research Foundation (ORF), in New Delhi, under the supervision of Mihir Sharma. Each author is responsible for their individual contributions, while the executive summary was a joint effort. We are very grateful for their exceptional knowledge of the matter and their, in our view, highly valuable contributions.

Henrik Isakson, Director for trade policy at the Confederation of Swedish Enterprise, initiated this collaborative effort and has served as its coordinator during the work process. The Confederation of Swedish Enterprise has provided support and funding to this report, but has not exerted any editorial influence over the content, findings, or conclusions presented within.

Anna Stellingner
Deputy Director General, Head of International and EU Affairs
Confederation of Swedish Enterprise
Stockholm, June 2023

Foreword

The significance of the relationship between India and the European Union lies not merely in the numbers that this report lays out, but in its potential to define the world's geo-economic future. The EU is already a dominant power when it comes to trade and regulation; the 'Brussels Effect' is a reality. And although the data might declare that India is a developing country, it is a crucial contributor to multilateral systems from the G20 to the International Solar Alliance — and, for the foreseeable future, a beacon of economic growth in a world struggling to recover from pandemic and war.

The rules that India and EU set for their economic and strategic relationship in the coming years will inevitably shape economic reality for billions in both Europe and the Indo-Pacific. It is vital that these rules are fair, inclusive, and oriented towards development. The years in which developing countries would passively accept decisions made elsewhere have passed. An active European Union that shares our concerns about greater fairness to globalisation will be a partner the Global South would be glad to work with.

This joint publication from ORF and the Jacques Delors Institute examines the strategic reasons for greater economic integration between India and the EU. Importantly, it also seeks to identify mechanisms that will build trust between both jurisdictions — for trust is the foundation for sustainable supply chains and mutual economic security.

The perspectives embedded in this report reflect the varying views of its authors but are guided by a common desire to ensure the Indo-EU relationship lives up to its potential and reshapes the global geo-economic order. I hope that both decision-makers and those invested in the health of this vital relationship will feel that the ideas and concepts in it will be of use.

Samir Saran
President, Observer Research Foundation
New Delhi, June 2023

Foreword

The growing uncertainties of our time demand a deep and insightful examination of the relationship between the European Union (EU) and India. We are both committed to a world where diplomacy and dialogue, not force and intimidation, are the tools for resolving disputes. We can be key players in a new rules-based multilateral order.

Against the backdrop of a power struggle between the US and China, the climate emergency, global pandemics, the risk of digital fragmentation, and Russia's war on Ukraine, the importance of multilateralism cannot be overstated. It brings a new urgency to review and redefine the EU-India relationship and overcome the historical obstacles that have prevented closer ties.

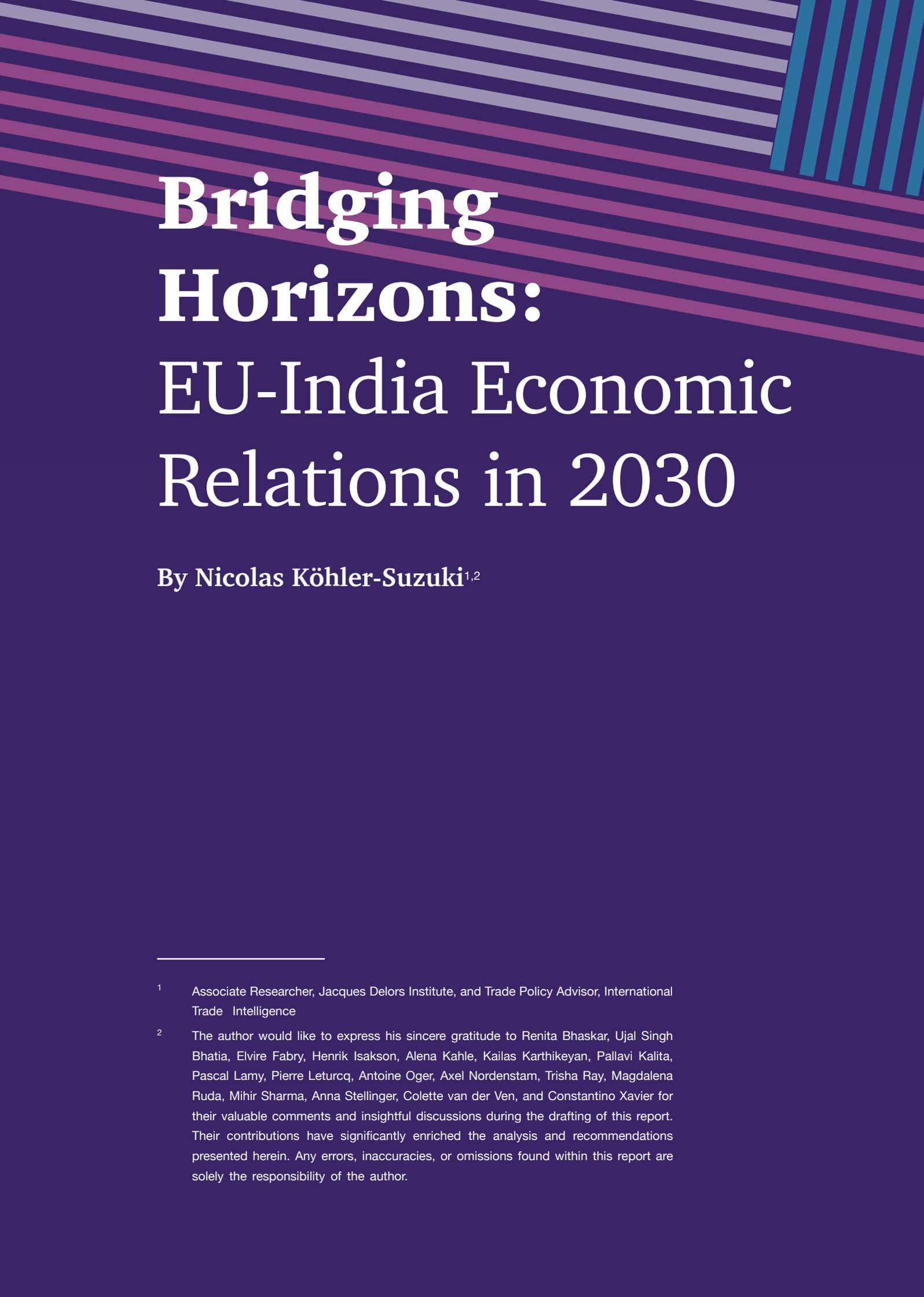
This excellent joint publication by the Jacques Delors Institute and the Observer Research Foundation provides a comprehensive analysis of the challenges and opportunities for EU-India economic relations. This axis can serve as an important force for a more sustainable reglobalisation—a reconfiguration of global value chains that enhances the resilience of the global trading system. The decarbonisation and digitalisation agendas, which are critical for both the EU and India, offer unique opportunities for cooperation. They have the potential to transform past conflicts into springboards for a more stable and equitable global economy.

However, these prospects often require clarification of misunderstandings and divergent perspectives. This report addresses this critical gap by integrating distinct viewpoints from the EU and India. I hope that its insights will inspire a deeper understanding of the EU-India economic relationship and encourage constructive solutions to realize its full potential in the years ahead.

Pascal Lamy

Coordinator of the Jacques Delors Institutes (Paris, Berlin, Brussels)

Paris, June 2023



Bridging Horizons: EU-India Economic Relations in 2030

By Nicolas Köhler-Suzuki^{1,2}

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India and the EU today

For more than 60 years, the relationship between the European Union (EU) and India has continued to evolve and expand. However, in the 2020s, the EU and India may be facing their greatest external challenge yet. Still, amid every crisis lies great opportunity, so the potential for deeper cooperation between the EU and India as the cornerstone of a new global order is immense.

The world in the 2020s is facing a polycrisis caused by climate change, technological transformation, pandemics, revisionist war, and a fraught transition of the international system from a unipolar to a multipolar order. These structural trends have had several overlapping negative effects, including supply and demand shocks, food insecurity, energy crises, price inflation, job losses, and inequality. Moreover, the disruption of social media threatens established political orders, and the erosion of hegemonic stability is setting China and the United States (US) on a collision course.

But the world in the 2020s is a paradox of fragility and prosperity. On the one hand, these threats have the potential to destabilise societies and undermine the progress humanity has made in recent decades. On the other hand, it is also true that the world is more prosperous than ever before. Advances in technology, trade, and governance have lifted millions out of poverty and improved living standards for people across the globe. There have been incredible advancements in healthcare, communication, and transportation that have made lives easier and more connected than ever. Technological innovations have also allowed the world economy to integrate ever more deeply in recent decades, rapidly accelerating cross-border flows of capital, goods, services, ideas, and people. While globalisation has still not peaked—despite its challenges—it is evolving and becoming more digital.³

³ Richard Baldwin, 2022, [The Peak Globalisation Myth](#)

However, it is also becoming clear that there are negative externalities from interdependence.⁴ Governments have begun to weaponise the interdependent global economy to protect their populations against the negative effects of integration that have not been sufficiently governed at the global level. This has more recently led to an erosion of the multilateral trading system, where we may be witnessing the shift away from an efficiency paradigm to an emphasis on resilience and sustainability. There is an opportunity for the EU and India to align on these values and support a more sustainable reglobalisation.⁵

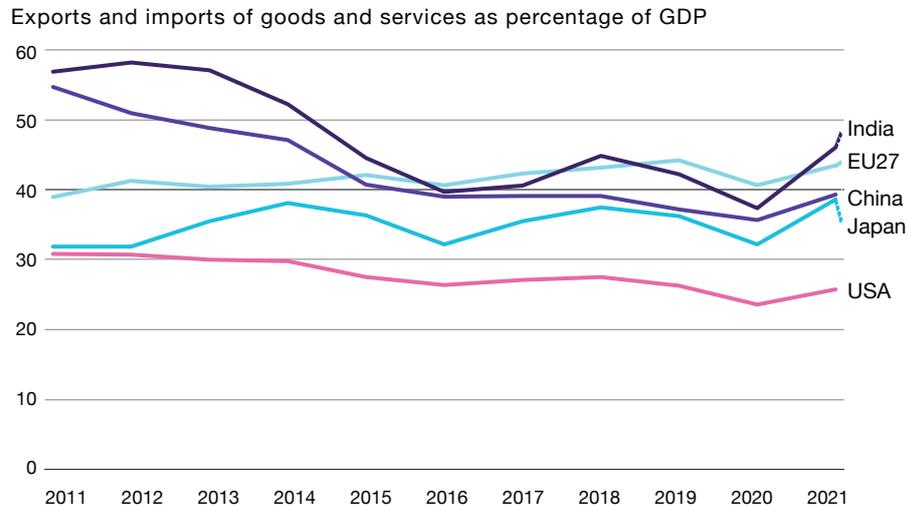
The benefits of globalisation and the international division of labour for economic growth and prosperity are well-established. However, the negative consequences of dismantling the current order are not well enough understood. According to recent research by the IMF, economic fragmentation could lead to GDP losses of 7 percent to 12 percent, and would hit the poorest and most connected economies the most.⁶

As two of the world's largest and most influential political and economic actors, the EU and India have a unique opportunity in the 2020s to counter these negative developments by deepening their partnership and shaping the global agenda on issues such as trade, digitalisation, climate change, and security. Both Europe and India have much to lose, as they are dependent on trade and investment for their prosperity and economic development. As Figure 1 illustrates, the EU's trade-to-GDP-ratio in 2021 is 43 percent, compared to 46 percent for India. This means that they are both more trade dependent than China (with a 39 percent trade-to-GDP-ratio that has been falling in recent years). Moreover, the US's 26 percent trade-to-GDP-ratio is notably lower than that of its large G20 peers. This can in part explain why the US has been willing to disentangle itself from economic dependencies and why it can hold the multilateral trading system hostage in doing so, while the EU and India prefer to de-risk their supply chains and export markets through diversification.

⁴ Pascal Lamy and Nicolas Köhler-Suzuki, 2022, [Deglobalization Is Not Inevitable](#)

⁵ Ngozi Okonjo-Iweala, 2022, [We need multilateral cooperation and solidarity more than ever](#)

⁶ International Monetary Fund, 2023, [Geo-Economic Fragmentation and the Future of Multilateralism](#)

Figure 1: India and the EU depend on open trade

Note: EU27 data exclude intra-EU trade
Source: European Commission

In the face of a rapidly changing global economy, the EU and India must find new solutions to grow and develop. While the movement of people and services has continued to accelerate,⁷ capital flows and merchandise trade have largely stagnated since the 2008 financial crisis.⁸ Trade in value added, for example, is no longer increasing, in part because global value chains (GVCs) are already highly integrated and there is marginal utility to reap additional benefits from centralised production clusters and lower labour costs.⁹ At the same time, because of bottom-up demand from consumers and firms to respond to global risks, both the EU and India are trying to achieve 'strategic autonomy' through a diversification of imports and exports, industrial policy, and economic statecraft.

⁷ International Organization for Migration, 2022, [World Migration Report 2022](#);

Richard Baldwin, 2022, [Services trade did not peak](#)

⁸ McKinsey, 2022, [Global flows: The ties that bind in an interconnected world](#)

⁹ OECD, 2023, [Trade in Value Added](#)

The EU has embarked on an ‘open, sustainable and assertive trade policy’.¹⁰ It recently introduced a number of new instruments, such as the foreign investment screening mechanism (October 2020), the anti-coercion instrument (December 2021), the updated industrial strategy focusing on climate neutrality and digital transformation (May 2021), the Chips Act (February 2022), the draft law for sustainable supply chains (February 2022), and the Green Deal Industrial Plan (January 2023), and will soon put in place a carbon border adjustment mechanism (CBAM).

India has similarly implemented new policies to promote self-reliance and reduce dependence on imports, such as ‘Make in India’ (September 2014) and ‘Atmanirbhar Bharat’ (Self-reliant India, May 2020). India has also been investing in modernising its military capabilities, developing indigenous weapons systems, and advancing its nuclear and space technology. India is also working to reduce its dependence on oil imports by diversifying its energy sources and increasing the use of renewable energy.

As the world economy evolves, the EU and India must take bold action to address global challenges while embracing opportunities for growth and progress. At the same time, the EU and India have a large stake in maintaining an open economic order and should work together to ensure that they continue to be great beneficiaries of it.

European perceptions of India

As the world’s most populous country and a crucial geopolitical actor, India’s role on the global stage is garnering increasing attention in European capitals. The EU sees India as an important partner in tackling the challenges of the 21st century and in making the European economy more resilient against them. Most importantly, India presents an opportunity for European companies to access new supplier networks and sales markets in the Indo-Pacific region beyond China.

¹⁰ European Commission, 2021, EU Trade Policy Review: An Open, Sustainable and Assertive Trade Policy.

This perception is driven in part by India's demographic profile—it has become the world's most populous country in 2023, while China's population has begun to shrink for the first time in history.¹¹ India's population is projected to enjoy a demographic dividend, with 40 percent of its population projected to be under 25 years by 2030.¹² India is forecasted to become the fourth largest economy in the world by the end of the decade, and is currently the second-fastest growing economy in the G20.¹³ Moreover, India's per capita GDP of US\$2,300 is still significantly below the average of all middle-income countries (US\$6,100) and upper-middle income countries (\$10,800).¹⁴ Indian consumption therefore has significant room for growth, with 140 million additional households expected to join the Indian middle class by 2030.¹⁵

The EU also sees India as a valuable partner in the fight to uphold democratic values, as both countries share a commitment to democracy, especially in contrast to the rise of authoritarian states (like China) that the EU sees as 'systemic rivals' who threaten liberal democracy. However, the EU's perception of India is not without criticism. European civil society in particular has been critical of India's illiberal nationalist tendencies, human rights violations, and restrictions on press freedom.¹⁶

Additionally, there is a lack of understanding on the EU's part of India's post-colonial identity, which has deeply embedded ideas of non-alignment in Indian strategic thinking in the decades following its independence, and its self-conception as a leader of the developing world.¹⁷ This makes it difficult for many Europeans to understand India's continued strong ties with Russia for energy and defence equipment, even as Russia's breach of Ukrainian sovereignty violates basic principles of the international order that

¹¹ United Nations, 2022, [World Population Prospects 2022](#)

¹² European Council, 2021, [EU-India Connectivity Partnership](#)

¹³ Goldman Sachs, 2022, [The Path to 2075](#); OECD, 2022, [Economic Outlook India](#)

¹⁴ World Bank, 2023, [GDP per capita \(current US\\$\)](#)

¹⁵ World Economic Forum, 2019, [How India will consume in 2030](#)

¹⁶ The Hindu, 2022, [India's press freedom ranking slips to 150, its lowest ever](#)

¹⁷ p.77

India claims to cherish. Similarly, Europeans are often puzzled by India's close cooperation with China in the BRICS grouping to develop alternative models of global economic governance, while at the same time being actively engaged in border hostilities in the Himalayas.

Lastly, Europe has benefited greatly from the expansion of its production networks to China and the Chinese consumption of European goods and services. However, as the EU looks to diversify its trade partners, India has emerged as a potential alternative. Despite India's vast market potential, there are several factors that have yet to be fully addressed. The lack of adequate infrastructure and ports, the limited availability of skilled labour, and the uncertain political and business environment often raise concerns among European firms, as the cost of doing business in India remains relatively high compared to other parts of Asia. While interest in the Indian market continues to grow, significant obstacles must be overcome before India can become a major trade and investment partner for European companies by 2030.

The EU-India trade relationship in context

The EU is currently India's third largest trading partner, with €88 billion (US\$94 billion) worth of trade in goods in 2021, representing 11 percent of total Indian trade.¹⁸ Conversely, India is the EU's tenth largest trading partner, accounting for 2 percent of the EU's total trade in goods. The trade relationship encompasses a wide array of goods. The EU sends India a mix of machinery, transport equipment, chemicals, and manufactured goods, while India ships textiles, clothing, precious stones, metals, and chemical products to the EU. There is also a not insignificant bilateral trade in services, including tourism, business services, and intellectual property rights.

In terms of foreign investment, the EU's share in India's stock reached €87 billion (US\$ billion 93) in 2020, up from €64 billion (US\$68 billion) in 2017, making the EU a leading foreign investor in India. However, this represents only one percent of the EU's

¹⁸ European Commission, 2023, [EU trade relations with India](#)

outward foreign direct investment (FDI) stocks and is significantly below EU foreign investment stocks in China (€201 billion, or US\$214 billion) or Brazil (€263 billion, or US\$280 billion).¹⁹ India's FDI in the EU is also relatively small, at only 0.1 percent of EU FDI stocks. Despite the relatively low level of investment, there is significant potential for growth in the EU-India trade relationship. India's National Infrastructure Pipeline, for example, has scheduled investments of €1.6 trillion (US\$1.7 trillion) between 2020 and 2025.²⁰

The two sides have been 'strategic partners' since 2004, through the EU-India Strategic Partnership. This partnership is proclaimed to be based on shared values and common interests, and covers a wide range of areas, including political and security issues, trade and investment, development cooperation, energy, climate change, and people-to-people exchanges. The partnership was most recently updated in July 2020 at the 15th EU-India Summit with the 'Strategic Roadmap to 2025', which calls for increased cooperation in foreign policy, security, trade and investment, climate-friendly solutions, digital technologies, and connectivity.²¹

In May 2021, the EU and India also established the EU-India Connectivity Partnership to implement some goals of the strategic partnership in the areas of transportation, digital connectivity, and sustainable energy. This partnership should be seen in the context of the EU's April 2021 Indo-Pacific Strategy²² and the EU's Global Gateway initiative²³ that has allocated €300 billion for infrastructure projects in the 2021-2027 period. The objectives of the EU-India Connectivity Partnership include strengthening and expanding the existing network of economic, social, and political connections, with some financing from public EU and Indian institutions, but an emphasis on leveraging private sector capital.

¹⁹ Eurostat, 2022, [Foreign Direct Investment Stocks](#); European Commission, 2023, [EU trade relations with India](#)

²⁰ European Council, 2021, [EU-India Connectivity Partnership](#)

²¹ European External Action Service, 2020, [EU-India Strategic Partnership: A Roadmap to 2025](#)

²² European Union, 2021, [EU Strategy for Cooperation in the Indo-Pacific](#)

²³ European Union, [Global Gateway](#)

In April 2022, the European Commission President Ursula von der Leyen and Indian Prime Minister Narendra Modi announced an EU-India Trade and Technology Council that was formally launched in February 2023 with three working groups. This builds on an existing model involving the US and EU, and the agenda includes topics such as strategic technologies (digital connectivity, artificial intelligence, 5G/6G, high performance and quantum computing, semiconductors, cloud systems, cybersecurity, digital skills, and digital platforms); green technologies (clean energy, circular economy, waste management, and plastic and litter in the ocean); and resilient value chains (access to critical components, energy, and raw materials, and cooperation in multilateral fora).²⁴

In June 2022, the EU and India initiated tripartite negotiations aimed at reaching a trade agreement, an investment protection agreement, and an agreement on geographical indications. This followed India's decision to withdraw from the Regional Comprehensive Economic Partnership in late 2019, which has provided new impetus for the restart of these talks. Previous negotiations for this agreement had taken place between 2006 and 2013, but ultimately failed due to divergent preferences that were deemed irreconcilable at the time. It remains to be determined whether the positive momentum in EU-India relations will be sufficient to overcome the obstacles encountered in previous rounds of negotiations.²⁵

The strategic partnership between the EU and India has the potential to be a major economic and political force in the coming years. However, improving economic ties between the two sides will be key to realising the partnership's full potential by 2030. Recent institutional reforms in Europe could help to achieve this goal. Notably, the 2009 Lisbon Treaty, for the first time, submitted the EU's Common Commercial Policy, including EU trade and direct investment

²⁴ European Commission, 2023, [New Trade and Technology Council to lead on digital transformation, green technologies and trade](#)

²⁵ Nicolas Köhler-Suzuki, 2021, [Determinants and Impediments of the EU-India Bilateral Trade and Investment Agreement](#)

policies, to the overall policy objectives of the Union. It also granted greater powers to the European level to use economic instruments for political objectives and at the same time increased the oversight role of the European parliament, bringing into greater relief societal demands to address the negative externalities of globalisation. In this context, the von der Leyen-led Commission has also become more explicit than its predecessors in defining and exercising its new powers. At the beginning of its tenure in 2019, it announced ambitious political guidelines to make the EU a more geostrategic actor in the 2020s, not least to manage the global challenges outlined above.²⁶ Most recently, the Commission is redefining its mandate through the prism of the European economy becoming more resilient by 'de-risking' the EU's trade and investment relations.²⁷ The EU-India relationship will play a significant role in operationalising such goals. India can provide the EU with a valuable trade partner and access to a large and growing market, while the EU has the potential to provide India with the investment, technology, and market access it needs to grow its economy.

²⁶ European Commission, 2019, [Political Guidelines for the next European Commission 2019-2025](#)

²⁷ European Commission, 2023, [Special Address by President von der Leyen at the World Economic Forum](#)

What can the EU offer India in 2030?

India holds the promise of becoming one of the EU's most important economic partners by 2030 and fulfilling the strategic goal of diversifying its global economic footprint. Indeed, merchandise exports from the EU to India have been steadily increasing over the last two decades. However, at current rates, merchandise exports to India are not increasing fast enough to significantly improve the EU's economic resilience.

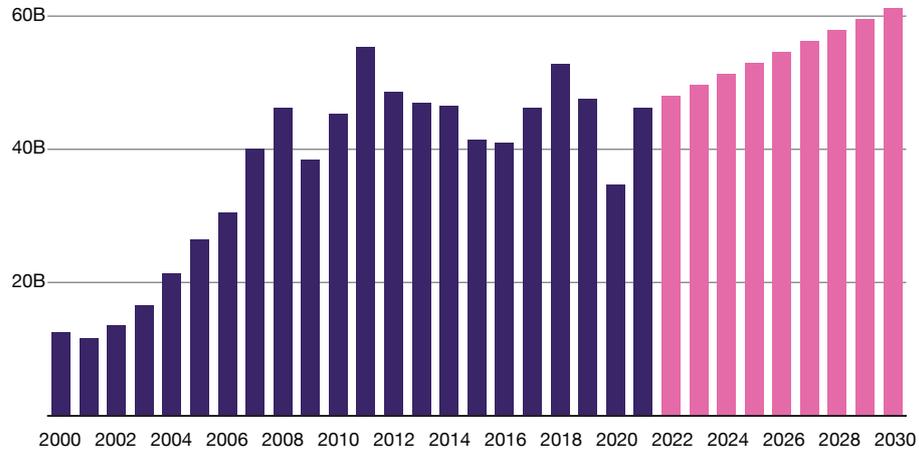
As Figure 2 illustrates, merchandise exports from the EU27 have experienced robust growth over the past two decades, with exports increasing from US\$12.6 billion in 2000 to US\$45.3 billion in 2010.²⁸ This period of export growth coincided with a period of economic reforms and market liberalisation in India, which led to several changes in the country's economy, including the reduction of trade barriers, such as tariffs and quotas, the opening up of new sectors to foreign investment, and the creation of a more business-friendly environment. However, in the aftermath of the 2008-2010 financial crisis, there was a slowdown in growth rates and subsequent stagnation of exports. While EU exports to India picked up pace again in 2017, they were hit hard during the pandemic in 2020, in line with global developments. Despite these challenges, exports quickly recovered to pre-pandemic levels in 2021, reaching US\$46.3 billion. Forecasts based on historical trends suggest a gradual increase in exports over the coming decade, reaching US\$52.9 billion by 2025 and US\$61.2 billion by 2030. This presents significant growth opportunities for European businesses in the Indian market, despite persistent market access difficulties, particularly in the absence of bilateral trade and investment agreements that could address long-standing concerns.²⁹

²⁸ Note that all US\$ amounts in this report are in current US\$, unless otherwise stated.

²⁹ European Commissions, 2023, [Trade Barriers in India](#)

Figure 2: EU merchandise exports to India

Historical values (2000-2021) and forecast (2022-2030) in billion USD

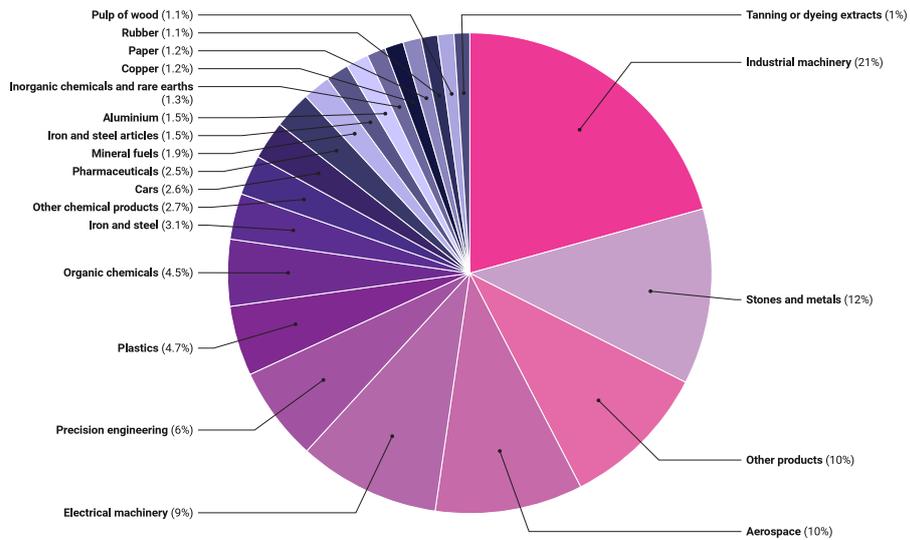


Note: EU27 data exclude intra-EU trade. ETS forecast model based on UN COMTRADE data
Source: UN COMTRADE

As shown in Figure 3, European merchandise exports to India are currently concentrated in 20 product categories that make up 90 percent of total merchandise exports, with four key sectors—industrial machinery, stones and metals, aerospace, and electrical machinery—accounting for half of all EU merchandise exports to India. Following historical trends, exports in these sectors are expected to continue with robust growth throughout the 2020s.³⁰

Figure 3: Composition of EU Merchandise Exports to India

Latest available data (2021)



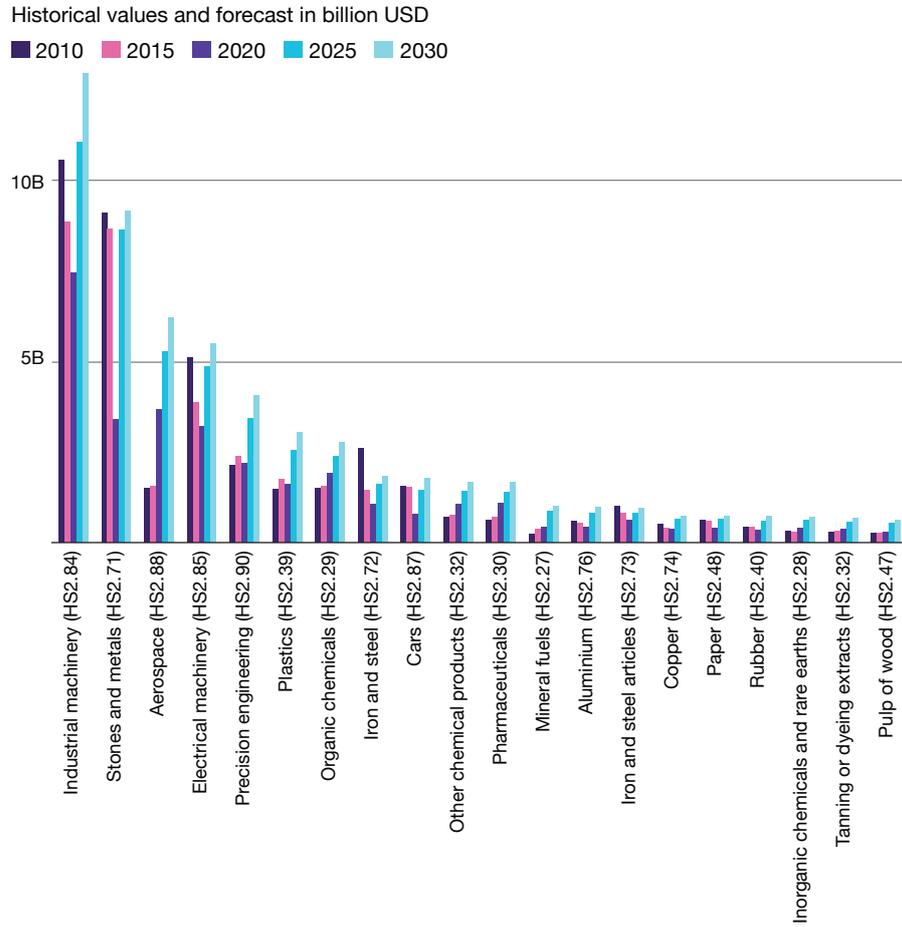
Source: UN COMTRADE

³⁰ ETS forecast model based on UN COMTRADE data.

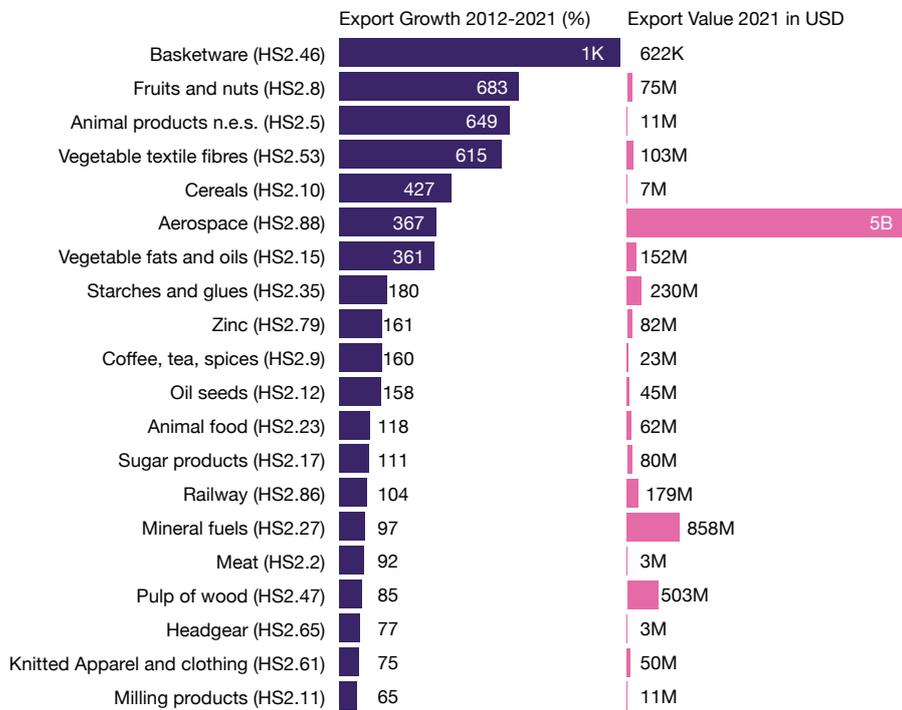
As illustrated in Figure 4, the potential for growth in EU exports to India varies among the 20 leading export sectors, with industrial machinery having the greatest prospects. Based on historical trends, EU exports in this sector could grow from US\$7.4 billion in 2020 to US\$11 billion in 2025 and US\$13 billion in 2030, in line with a dramatic increase in Indian imports of industrial machinery, which could reach a value US\$75 billion by 2030. Exports of stones and metals can also be expected to increase from US\$3.4 billion in 2020 to US\$8.6 billion in 2025 and US\$9.2 billion in 2030.

The aerospace sector presents another substantial growth opportunity for the EU, driven by the strong and increasing demand for both civilian and military aircraft in India. Exports from the EU in this sector have already doubled from 2010 to 2020, reaching a value of US\$3.7 billion in 2020, and are projected to reach US\$5.3 billion in 2025 and US\$6.2 billion in 2030 if current trends persist. In fact, with growth by a factor of 3.6 between 2012 to 2021, the aerospace sector is the sixth fastest growing sector in EU exports to India (at the HS-chapter level) and is also the highest-value sector among fast-growing exports. As indicated in Figure 5, the Indian export market also presents significant growth opportunities in sectors valued below US\$200 million, which have been the fastest growing exports from the EU in recent years and can expect robust growth in the 2020s.

Figure 4: EU Top 20 exports to India



Note: ETS forecast model based on UN COMTRADE data
 Source: UN COMTRADE

Figure 5: Fastest-growing EU exports to India

Source: UN COMTRADE

Relative decline of merchandise exports to India

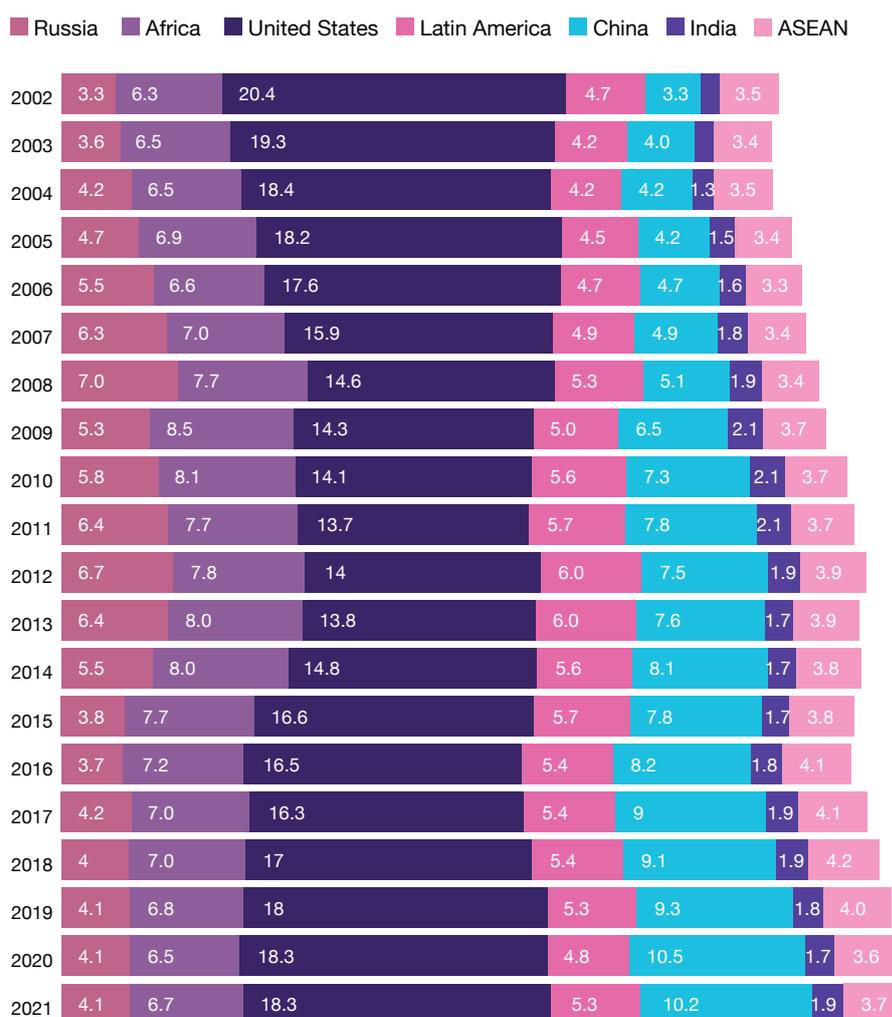
While these growing exports present many opportunities for European businesses, the proportion of EU merchandise exports destined for India has remained stagnant or even declined at both the macro and sectoral level. If unaddressed and current trends continue, this could run counter to the expectation that India's growth can help the EU diversify its economic relations over the coming decade.

The European Commission's stated goal to de-risk the EU's economic relations is particularly concerned with growing dependence on the Chinese market. Economic size and distance are both key factors in determining international trade.³¹ Currently, EU exports to China correspond to approximately half of China's weight in the global economy, while EU exports to India make up only about one quarter of India's

³¹ Thomas Chaney, 2013, [The Gravity Equation in International Trade: An Explanation](#)

weight in the global economy, which indicate that the Indian market still remains underdeveloped for European exports. This is illustrated in Figure 6, which shows that the share of EU exports to China has steadily increased, reaching 10.2 percent in 2021, up from 3.3 percent in 2002 and 7.5 percent in 2012. These numbers remain below China's share of global GDP, which stood at 19 percent in 2021. In contrast, merchandise exports to India accounted for only 1.9 percent of total EU exports in 2021, with little change observed over the past decade. Despite the increase from 1.1 percent in 2002 to 2.1 percent in 2012, this figure has since declined and currently stands even slightly below the level recorded a decade ago. It remains well below India's share of global GDP, which was approximately 7 percent in 2021.

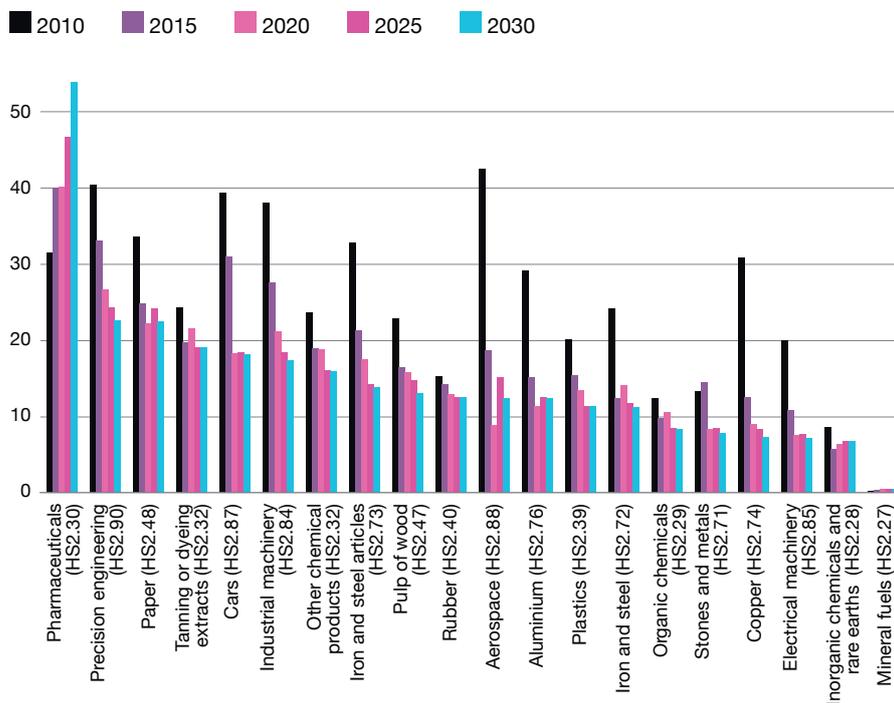
Figure 6: Share of EU merchandise exports by partner (%)



Note: EU27 data excluding intra-EU trade. Data for China excludes Hong Kong
Source: Eurostat

Moreover, the share of EU exports in India's imports has seen a decline. Over the past decade, all but one of the top 20 EU exports to India have seen a reduction in their share of Indian imports, as shown in Figure 7. This shift has been particularly pronounced in some sectors during the early 2010s, as India increasingly sourced imports from Asian economies, such as South Korea, Japan, and those in the Association of Southeast Asian Nations (ASEAN), with whom India has concluded trade agreements in the 2000s. However, in recent years, the share of EU exports in Indian imports has stabilised to some extent. Forecasts based on historical trends suggest a slight decrease in the share of EU exports in Indian imports until 2030, but at a relatively stable rate. This raises concerns about the competitive advantages that other Indian trade partners may possess, including closer proximity to the Indian market and reduced market access barriers through trade agreements.

Figure 7: EU share of Indian Imports (in %)



Note: ETS forecast model based on EU COMTRADE data
Source: UN COMTRADE

Can India help with the diversification of EU merchandise exports?

There are big question marks around whether the Indian market can be an alternative for EU exports to China, even amid a volatile geopolitical landscape and heightened China-EU tensions that could increase in the decade ahead. Despite significant reliance on the Chinese market by several EU corporations, such as Infineon (with 38 percent of its global sales in China), Volkswagen (37 percent), and Daimler and BMW (both 32 percent), the interconnected nature of GVCs has so far limited the direct dependence of EU exports on China.³² For, example, in 2021, only four EU merchandise export sectors, measured at the HS-chapter level, were more than 25 percent reliant on exports to China—vegetable textile fibers (46 percent of EU exports to China), pulp of wood (38 percent), meat (30 percent), and ores, slag and ash (30 percent). Of these sectors, vegetable textile fibers, pulp of wood, and meat are, indeed, among the fastest-growing EU merchandise exports to India.³³ Yet their combined export value of US\$11.5 billion to China (compared to roughly US\$600 million of EU exports of these sectors to India) is only a small fraction (~0.5 percent) of overall EU merchandise exports and they could therefore not significantly contribute to diversifying the EU's exports basket.³⁴

The EU's export dependence on China has, nevertheless, rapidly increased in some economic sectors.³⁵ Of particular note are European electrical machinery exports to China, with a value of US\$39 billion in 2021, where the EU's export share to China has increased from 10 percent in 2012 to 17 percent in 2021. The Indian market presents a significant opportunity for alternative export growth in this sector, with policies aimed at attracting FDI in manufacturing, leading to increased imports of machinery. The EU's exports of machinery to India are currently the fourth largest sector of EU merchandise exports to India, and forecasts suggest continued growth in the 2020s. It is possible that there is even more potential to increase European exports of machinery to the Indian market in the coming years, as the declining shares of European exports in Indian imports suggests room for growth. Electrical machinery could therefore be a key sector for the diversification of European merchandise exports.

³² Cf. Annex: [EU27 firm dependence on China](#).

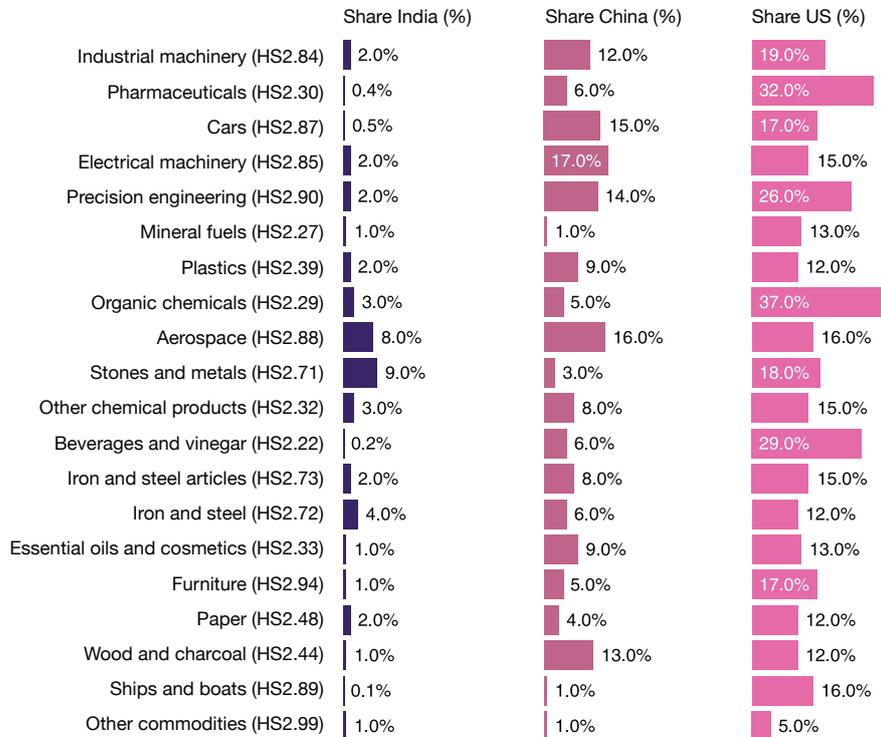
³³ Cf. Annex: [EU27 dependence on exports to China](#).

³⁴ As of 2021, the export value of EU exports to China was around US\$260 billion.

³⁵ Cf. Annex: [EU exports to China with growing dependence](#).

Figure 8: Destination of EU merchandise goods

Export shares for the destinations of the EU27s top 20 merchandise exports in descending order (2021)



Note: EU27 data excluding intra-EU trade
Source: UN COMTRADE

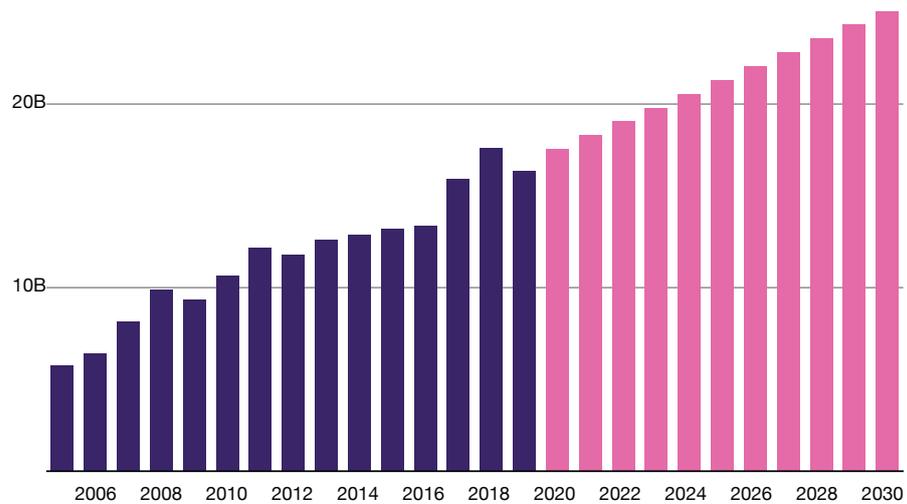
An analysis of the top 20 merchandise exports from the EU to India highlights significant untapped potential across various key sectors of the EU's export basket. As depicted in Figure 8, a noticeable discrepancy exists between India's weight in the global economy, approximately 7 percent in 2021, and the corresponding share of key EU exports directed towards India. This observation holds true across the majority of the top 20 export sectors, with notably low shares observed in the pharmaceutical (0.4 percent), automotive (0.5 percent), beverage (0.2 percent), and shipbuilding (0.1 percent) industries. For the pharmaceutical sector, the EU's exports to India are limited, while a significant portion of India's pharmaceutical imports originate from the EU. This suggests that India maintains a high degree of self-reliance, which could potentially be indicative of protectionist tendencies. These findings indicate a substantial possibility of enhancing key European exports to India if market access barriers are removed.

Services exports: Business opportunities and potential for diversification

The EU has experienced a substantial increase in services exports to India over the past two decades. As shown in Figure 9, the trend has been consistent over time, rising from US\$5 billion in 2005 to US\$11 billion in 2010, with further growth observed to US\$13 billion in 2015 and US\$18 billion in 2020. Based on these trends, EU services exports to India are projected to reach US\$21 billion by 2025 and US\$25 billion by 2030. As shown in Figure 10, the EU's services exports to India are primarily concentrated in four sectors: telecommunications, computer, and information services (which account for 34 percent of all EU services exports to India); transport services (accounting for 28 percent); other business services (accounting for 14 percent); and travel (accounting for 10 percent).

Figure 9: EU services exports to India

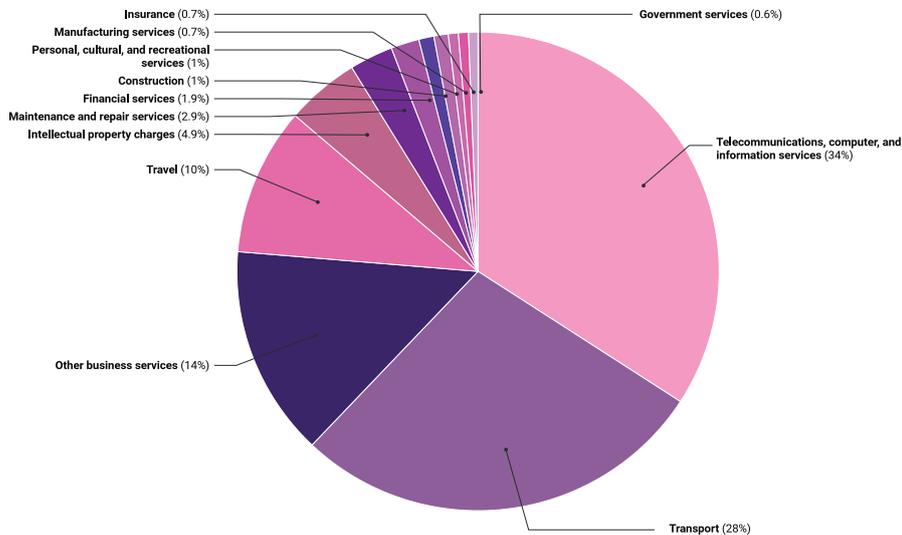
Historical values (2000-2019) and forecast (2020-2030) in billion USD



Note: ETS forecast model based on WTO data
Source: WTO

Figure 10: Composition of EU Services Exports to India

Latest available data (2019)



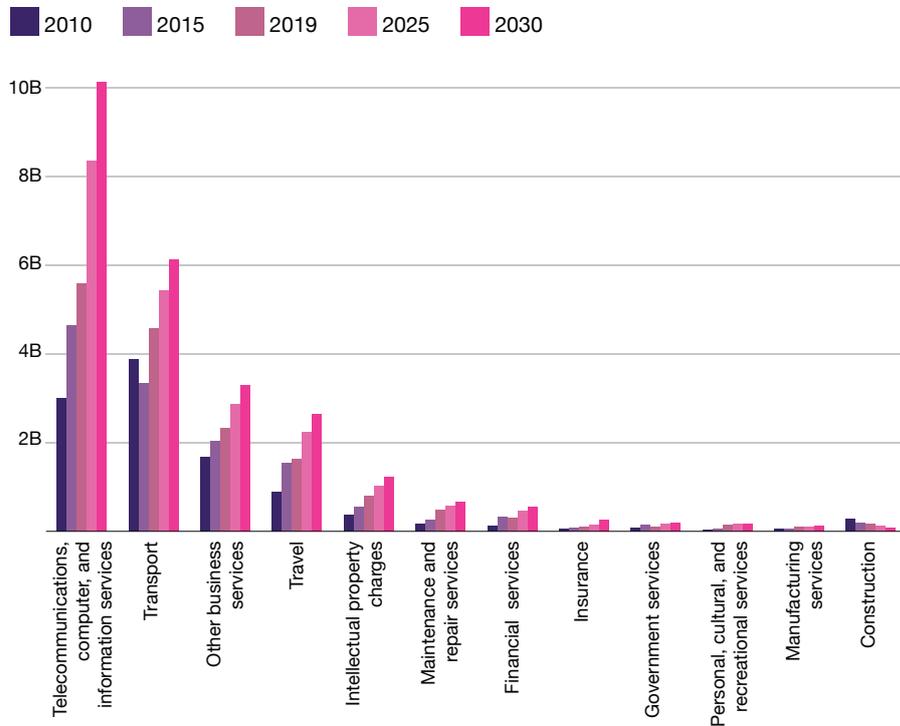
Source: WTO

Figure 11 highlights the substantial growth that the telecommunication, computer, and information services; transport; other business services; and travel sectors have experienced between 2010 and 2020. Specifically, the telecommunication, computer, and information services sector expanded from US\$3 billion in 2010 to US\$5.6 billion in 2020, and is projected to reach US\$8.3 billion in 2025 and US\$10.1 billion in 2030. Meanwhile, the transport, other business services, and travel sectors have also witnessed substantial growth and are poised to constitute a significant portion of the EU's services exports to India by the end of the decade.

At the same time, despite significant reforms of the Indian financial and insurance sectors in recent years, European services exports in these sectors remain relatively low so far, with EU exports amounting to only US\$311 million and US\$110 million, respectively. At current growth rates, EU exports in financial and insurance services are forecast to increase to only US\$550 million and US\$262 million, respectively, by the end of the decade—a small fraction of EU services exports in these sectors to the rest of the world. Additionally, other services exports, such as construction, have even seen a decline in absolute terms.

Figure 11: EU services exports to India: Growth sectors

Historical values (2010-2019) and forecast (2025 and 2030) in billion USD



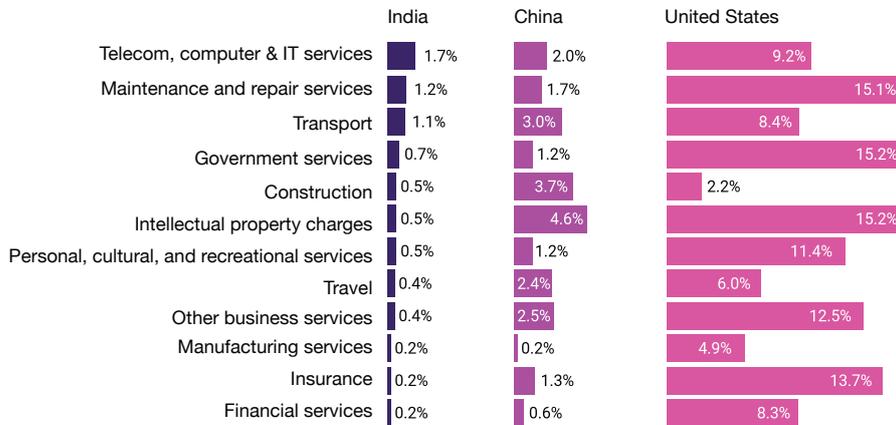
Note: ETS forecast model based on WTO data
Source: WTO

As depicted in Figure 12, the relative importance of India as a destination for EU exports of telecommunication, computer, and information services is noteworthy, with a share of 1.7 percent in 2019, which is close to that of China, a much larger economy. Further cooperation on the regulation of cross-border data flows and other digital trade issues could strengthen this trend. At the same time, the low share of EU insurance and financial services exports to India underscores the persistence of significant market access barriers that will limit export growth in the coming decade, unless they are addressed. In travel services, India accounts for only 0.4 percent of EU exports, compared to 2.4 percent for China and 6 percent for the US. This suggests significant potential for expansion in the next decade, given the rapidly growing Indian middle class and its increasing demand for international travel.³⁶

³⁶ World Bank: [International tourism, number of departures](#)

Figure 12: Share of EU services exports by partner

Data for 2019 (%)



Source: WTO

There is also an increase in the relative share of EU services exports to India at the sectoral level. In contrast to EU merchandise exports to India, most EU services have experienced a growing share of exports destined for India, and this trend is expected to persist through the 2020s. This could result in a modest diversification of all EU services exports by the end of the decade, particularly in telecommunications, computer and information services, transport, travel, and insurance. While these projections are based on historical trends, further regulatory reforms or binding international agreements could lead to an even faster increase in the share of European services exports destined for the Indian market.³⁷

As this section has shown, there is significant growth potential for EU exports to India in the coming decade, particularly in the machinery, aerospace, and information and communication technologies (ICT) services sectors. However, the decreasing share of EU merchandise exports in India's imports raises concerns about the competitiveness of European businesses in the Indian market and to what extent India can help the EU diversify its exports markets. Moreover, some of the EU's most important export sectors, such as pharmaceuticals, cars, and beverages,

³⁷ Annex: [EU services exports to India as a share of EU services exports](#)

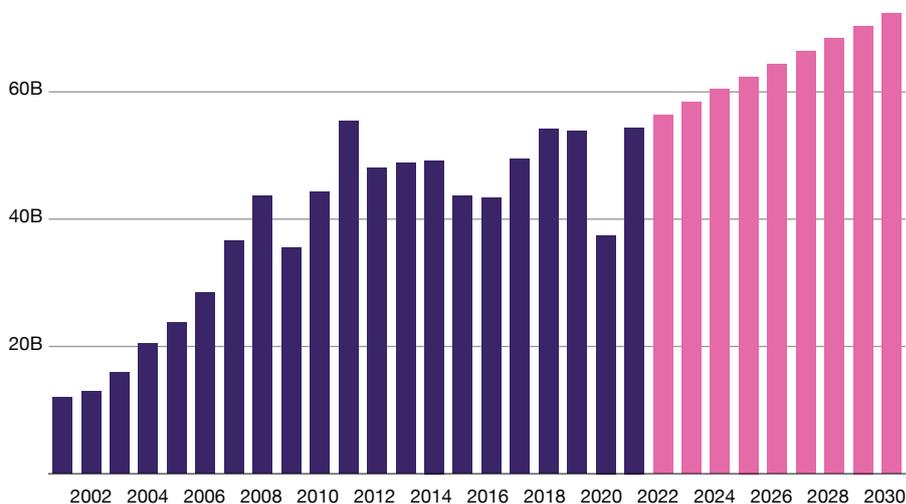
have so far found it difficult to gain a meaningful foothold in the Indian market. Most EU services exports to India, on the other hand, have been growing in both absolute and relative terms, and therefore are on a more promising trajectory to increase the EU's economic resilience. However, for both goods and services, addressing the persistent market access difficulties will be crucial in maximising growth opportunities and ensuring that India can become one of the EU's most important economic partners by 2030. This highlights the need for continued monitoring of the EU's exports to India and the implementation of measures to maintain competitiveness and improve market access for European businesses.

What can the EU buy from India in 2030?

The EU significantly increased merchandise imports from India in the 2000s, reflecting India's domestic economic liberalisation during this period. From 2001 to 2010, imports more than tripled, from US\$12 billion to US\$44 billion, as depicted in Figure 13. However, in the decade prior to the COVID-19 pandemic, imports grew at a slower pace, reaching US\$54 billion in 2019. During the pandemic, imports declined in line with global imports, but quickly regained their previous level in 2021. Based on historical trends, EU imports from India are projected to reach US\$62 billion by 2025 and US\$72 billion by 2030 in the absence of a trade agreement.

Figure 13: EU merchandise imports from India

Historical values (2000-2021) and forecast (2022-2030) in billion USD

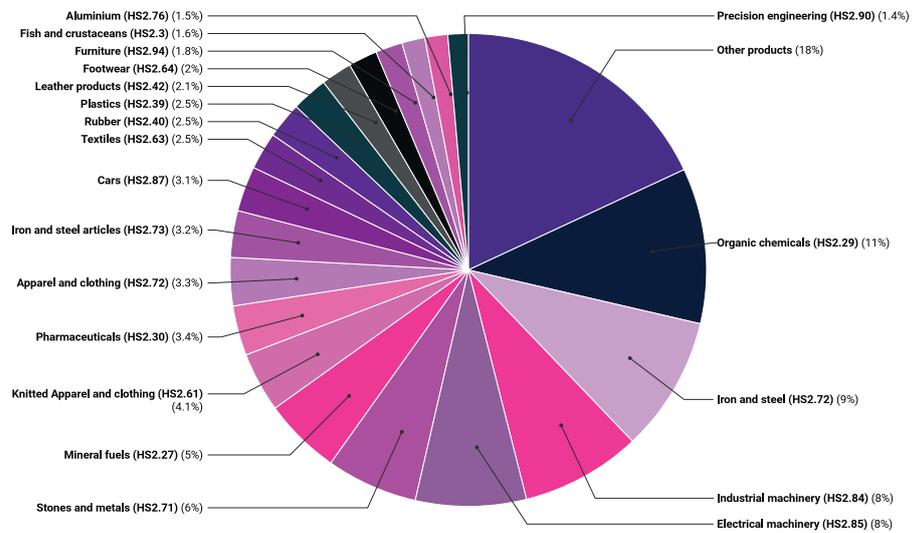


Note: ETS forecast model based on UN COMTRADE data
Source: UN COMTRADE

About 82 percent of EU merchandise imports from India belong to 20 product categories, with the most important being organic chemicals (11 percent), textiles and clothing (10 percent), iron and steel (9 percent), industrial and electrical machinery (both 8 percent), stones and metals (6 percent), mineral fuels (5 percent), and pharmaceuticals and cars (both 3 percent). As shown in Figure 15, most EU imports from India have experienced robust growth at the sectoral level. For instance, imports of organic chemicals increased from US\$2.5 billion in 2010 to US\$5 billion today and are projected to reach US\$7.6 billion by 2030. The import of industrial machinery rose from US\$2.3 billion in 2010 to US\$3.1 billion in 2020 and is forecasted to grow to US\$6.4 billion by 2030. Similar growth trends can be observed in most other leading import sectors, apart from mineral fuels, apparel, and footwear, which saw absolute decreases over the last decade.

Figure 14: Composition of EU Merchandise Imports from India

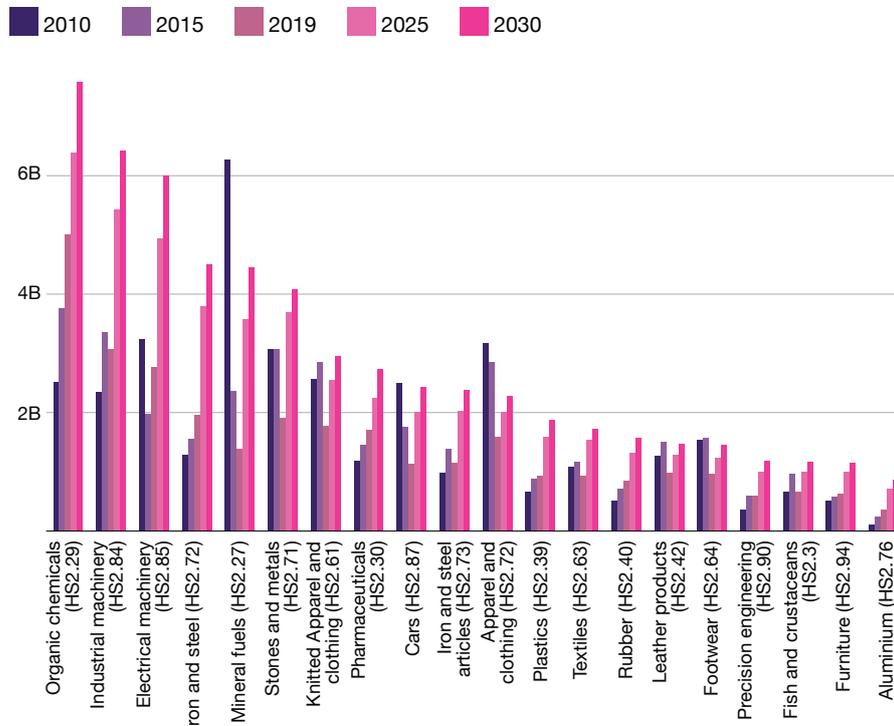
Latest available data (2021)



Source: UN COMTRADE

Figure 15: Top 20 EU imports from India

Historical values (2010-2020) and forecast (2025-2030) in billion USD by industry



Note: ETS forecast model based on UN COMTRADE data
Source: UN COMTRADE

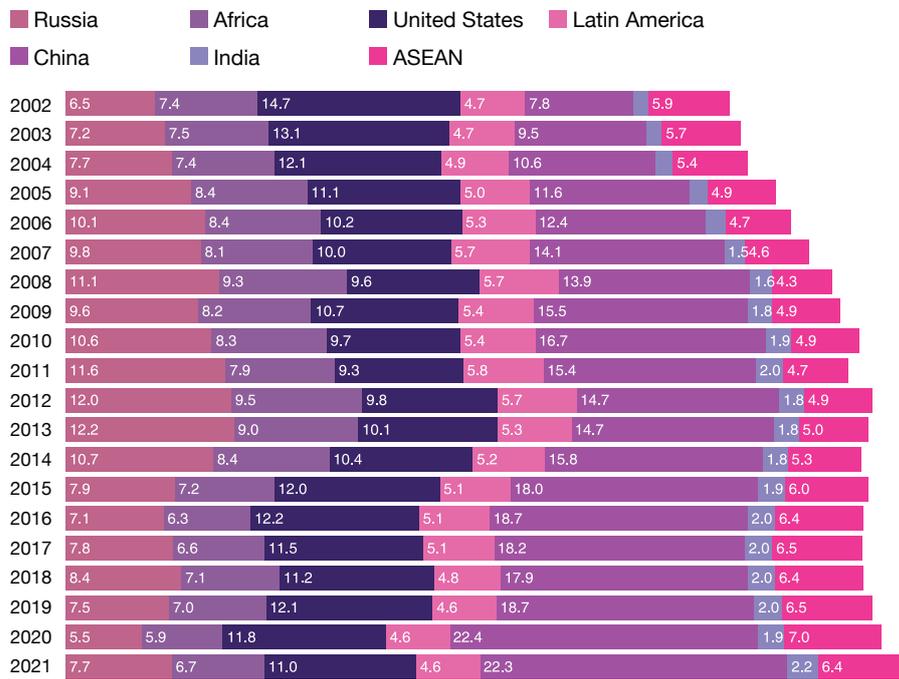
EU imports from India that have been growing most rapidly include aluminium, which nearly tripled between 2012 and 2020 to reach US\$843 million; iron and steel, which grew by 130 percent to reach US\$5 billion in 2020; rubber, which grew by 90 percent to reach US\$1 billion; furniture, which grew by 86 percent to reach US\$996 million; and precision engineered goods, which grew by 71 percent to reach US\$751 million.³⁸

The introduction of the European CBAM in the coming years may impact the fastest growing sectors of EU imports from India, particularly aluminum, iron, and steel, as the carbon intensity of Indian steel plants is 30 percent to 55 percent higher than the global average.³⁹ This raises questions about the continuation of current import growth trends in these sectors through the 2020s.

³⁸ Annex: [Fastest growing EU27 Merchandise Imports from India](#)

³⁹ The Hindu Business Line, 2023, [India to raise at WTO EU's plan to levy carbon tax on imports](#)

Figure 16: Share of EU merchandise imports by partner



Note: Data for China excludes Hong Kong
Source: Eurostat

Share of imports from India remains stagnant

The continued growth of imports from India suggests many promising business opportunities for firms importing from India in the 2020s. However, despite some hopes that India would also diversify the EU's import basket, they have yet to materialise. If current trends continue, significant changes are unlikely by 2030.

As depicted in Figure 16, the share of EU merchandise imports from India grew significantly in the early 2000s, rising from 1.1 percent in 2002 to 1.9 percent in 2010. However, since then, India's share in the EU's import basket has remained largely unchanged, reaching 2.2 percent in 2021. This stands in stark contrast to the increase in the share of EU imports from China, which grew from 7.8 percent in 2002 to 16.7 percent in 2010 and then 22.3 percent in 2021.

A similar pattern holds at the sectoral level for the EU's 20 highest-value imports from India.⁴⁰ For example, from 2010 to 2020, the share of EU imports of leather products from India decreased from 11 percent to 9.6 percent, while the share of textile imports declined from 11.3 percent to 2.8 percent. The share of footwear imports also decreased from 7.8 percent to 4.7 percent, and the share of car imports dropped from 3.9 percent to 1.1 percent. However, there was a noticeable increase in the share of some import sectors such as iron and steel, organic chemicals, rubber, and aluminum. The share of iron and steel imports from India rose from 3.9 percent to 6.9 percent, while the share of organic chemicals increased from 4.8 percent to 7.3 percent, and the share of rubber and aluminum increased from 2.7 percent to 4.3 percent and from 0.6 percent to 1.6 percent, respectively. Nevertheless, the share of most leading EU imports from India in 2030 will remain below or equal to their 2010 levels if current trends continue.⁴¹

Can India replace the EU's goods imports from China?

The close economic relationship between the EU and China has led to a surge in European merchandise imports from China in recent years. In more than one third of all economic sectors, imports from China now make up more than 25 percent of all imports of that sector.⁴² In particular, European imports of textiles and clothing, iron and steel articles, footwear, industrial machinery, electrical machinery, furniture, and toys and games are highly dependent on China.⁴³ Other sectors, such as cars, textiles, and chemicals, show a marked increase in such dependence over the past decade.⁴⁴

⁴⁰ Annex: [EU imports from India as a share of all EU imports](#)

⁴¹ Annex: [EU imports from India as a share of all EU imports](#)

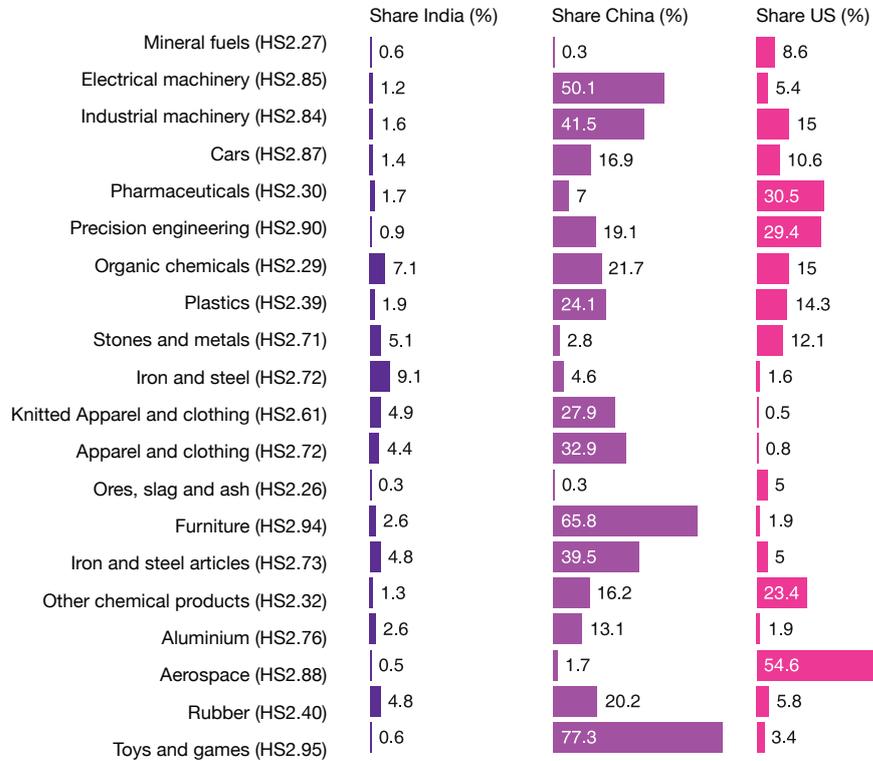
⁴² Annex: [EU dependence on Chinese imports](#)

⁴³ Annex: [EU dependence on Chinese imports](#)

⁴⁴ Annex: [EU imports from China with growing dependence](#)

Figure 17: Origin of EU's Top 20 merchandise imports

Shares for the origins of the EU27s top-20 merchandise imports in descending order (2021)



Note: EU27 data excluding intra-EU trade
Source: UN COMTRADE

In view of the challenging geopolitical circumstances, there is growing unease in Europe regarding the reliance on Chinese imports. To mitigate risk, there are plans to diversify import sources. As Figure 17 shows, India's share in the EU's top-20 imports remains low compared to the import shares in those sectors from China and the US. However, certain sectors, such as furniture, iron and steel articles, and aluminum, display not only a high dependency on imports from China, but also a significant growth in European imports from India.⁴⁵ These sectors could potentially offer an opportunity to diversify the EU's import basket by the end of the decade.

⁴⁵ Annex: [Fastest growing EU27 Merchandise Imports from India](#)

Figure 18: India has a low comparative advantage for the European Union's leading imports from China

Revealed comparative advantage (RCA) for China and India for the EU's top-10 imports from China in 2021

	Import Value in USD	Product (SITC 3)	China RCA	India RCA
1	69.6B	Telecommunication equipment (764)	2.63	0.59
2	53.1B	Automatic data processing machines (752)	2.90	0.03
3	23.5B	Electrical machinery (778)	2.10	0.34
4	20.5B	Baby carriages, toys, games & sporting goods (894)	3.89	0.17
5	18.8B	Cathode valves & tubes (776)	1.17	0.04
6	17.2B	Household type equipment, electrical or not (775)	2.81	0.13
7	16B	Furniture & parts (821)	2.47	0.60
8	12.7B	Apparatus for electrical circuits; board, panels (772)	1.32	0.47
9	10.9B	Articles of plastics (893)	2.12	0.57
10	10.5B	Manufactures of base metal (699)	1.63	1.24

Source: UNCTAD

An analysis of China's and India's revealed comparative advantage (RCA) in Europe's main imports from China offers further insights into the potential to substitute European imports from China with merchandise from India.⁴⁶ An RCA score above one means that the country is exporting a higher share of that good than the world average, indicating that it has an absolute advantage in producing that good. As shown in Figure 19, in the top 10 EU imports from China—together valued at over US\$250 billion in 2021—India only has a comparative advantage in the manufacture of base metals, valued around US\$10.5 billion. Even in this sector, however, India's RCA score is lower than that of China. In comparison, Figure 19 depicts the top 10 EU imports from

⁴⁶ Revealed comparative advantage is an economic concept that shows the relative strength of a country in producing certain goods compared to other countries, based on their comparative efficiency. This helps identify which goods a country should specialize in producing and exporting, as it has a lower opportunity cost and can sell them at a lower price than other countries. A value above one in a revealed comparative advantage (RCA) calculation indicates that a country has an absolute advantage in producing a certain good compared to other countries. In RCA analysis, the value of RCA is calculated as the ratio of the country's exports of a certain good to its total exports, divided by the corresponding ratio for the rest of the world. A value above one means that the country is exporting a higher share of that good than the world average, indicating that it has an absolute advantage in producing that good. This implies that the country has a competitive advantage and should specialize in producing and exporting that good.

China in which India currently has a revealed comparative advantage. It shows that India has a higher RCA score than China in made-up articles of textile materials, organic chemicals, motorcycles and bicycles, and men's clothing, which cumulatively accounted for US\$23 billion of European imports from China in 2021. Lower market access barriers in these sectors for European merchandise imports from India could therefore be a feasible option to de-risk European supply. However, these sectors currently represent a value of less than 10 percent of total European imports from China. While India can help the EU diversify its import basket by 2030, including in sectors where the Union is currently highly dependent on China, it is unlikely to replace China as a major source of imports by the end of the decade.

Figure 19: India's comparative advantage for EU imports from China

Revealed comparative advantage (RCA) for China and India for EU27 imports from China in 2021, top-10 highest-value EU27 imports from China in which India has RCA>1

	Import value in billion USD	Product (SITC 3)	China RCA	India RCA
1	10.5B	Manufactures of base metal (699)	1.63	1.24
2	9.8B	Articles of apparel, of textile fabrics (845)	1.89	1.70
3	8.1B	Made-up articles, of textile materials (658)	3.19	4.40
4	8.1B	Organo-inorganic, heterocycl. compounds, nucl. Acids (515)	1.25	2.05
5	6.5B	Rotating electric plant & parts thereof (716)	1.72	1.03
6	5.3B	Motorcycles & cycles (785)	2.30	2.67
7	5.2B	Travel goods, handbags & similar containers (831)	2.45	1.02
8	5B	Office machines (751)	2.04	1.20
9	3.2B	Women's clothing, of textile, knitted or crocheted (844)	2.69	1.20
10	3.1B	Men's clothing of textile fabrics, not knitted (841)	1.42	1.49

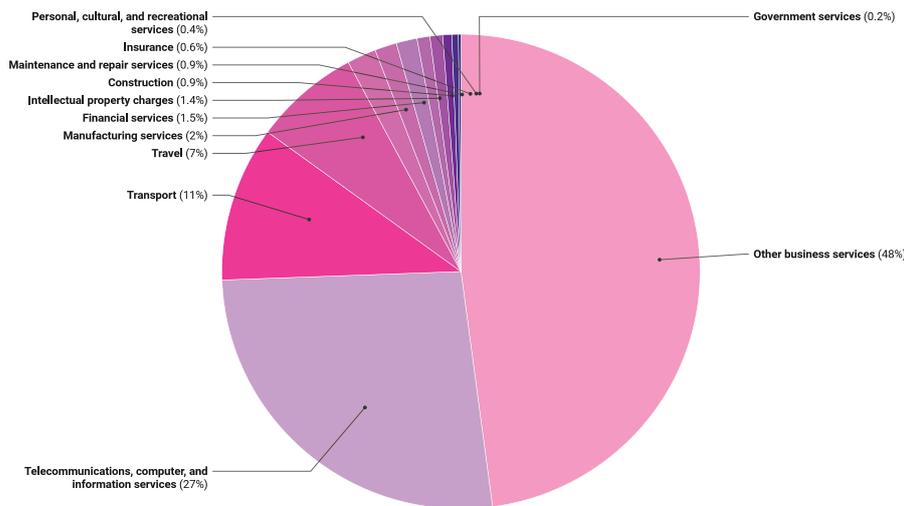
Source: UNCTAD and UN COMTRADE

EU services imports from India

The imports of services by the EU from India have seen a steady increase, growing from US\$6.5 billion in 2005 to US\$10.3 billion in 2010 and US\$19.6 billion in 2019, as shown in Figure 21. Based on the observed growth trend, services imports could reach US\$23.4 billion by 2025 and US\$28 billion by 2030.⁴⁷

An analysis of the EU services imports, as shown in Figure 20, indicates that almost half (48 percent) of the total imports from India are in the category of 'other business services',⁴⁸ with another quarter (27 percent) being telecommunications, computer, and information services. Other significant services import categories are transport services (11 percent) and travel services (7 percent).⁴⁹

Figure 20: Composition of EU Services Imports from India



Note: Latest available data (2019)
Source: WTO

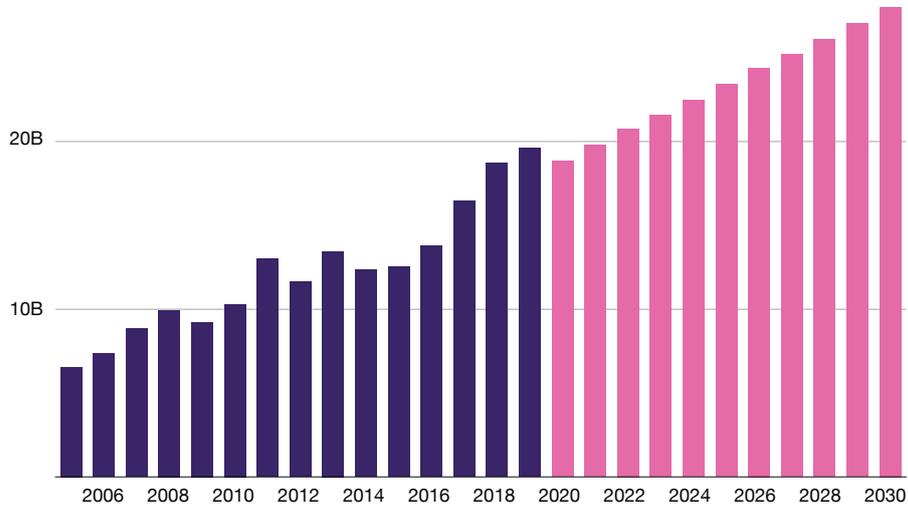
⁴⁷ This projection does not take into account the likely impact of the COVID-19 pandemic, for which bilateral services trade data is not yet available.

⁴⁸ The EBOPS classification of 'other business services' includes research and development services; professional and management consulting services; and technical, trade-related, and other business services.

⁴⁹ Annex: [Composition of EU Services Imports from India](#)

Figure 21: EU Services Imports from India

Historical values (2005-2019) and forecast (2020-2030) in billion USD

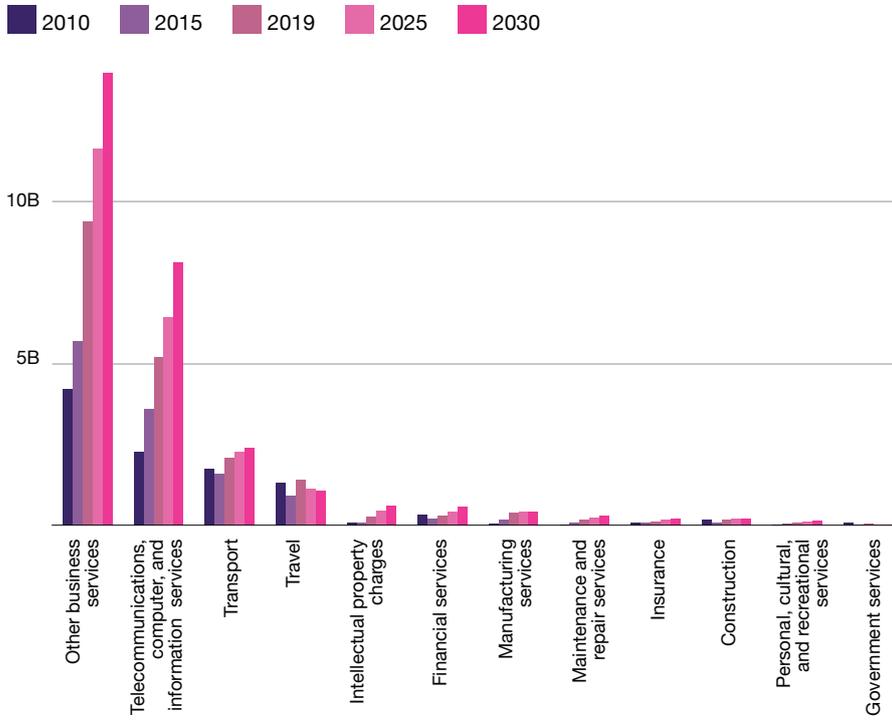


Note: ETS forecast model based on WTO data
 Source: WTO

Apart from financial services and government services, which have witnessed a decline, all other service imports have shown significant growth at the sectoral level between 2010 and 2019. The sectors of other business services, and telecommunication, computer, and information services have recorded the most substantial growth over the last decade. European imports of other business services from India more than doubled during this period, from US\$4.2 billion in 2010 to US\$9.4 billion in 2019. This trend could result in imports reaching US\$14 billion by the end of the decade. Telecommunication, computer, and information services imports have also more than doubled from US\$2.3 billion in 2010 to US\$5.2 billion in 2019, with the potential to reach US\$8.1 billion by the end of the decade. By contrast, transport services have grown at a slower pace, from US\$1.8 billion in 2010 to US\$2.1 billion in 2019, and are expected to increase only modestly to US\$2.4 billion by the end of the decade. Imports of travel services have experienced a contraction, declining from US\$1.3 billion in 2010 to US\$0.9 billion in 2015, although they have slightly recovered to US\$1.4 billion in 2019.

Figure 22: EU services imports from India by industry

Historical values (2010-2019) and forecast (2025 and 2030) in billion USD



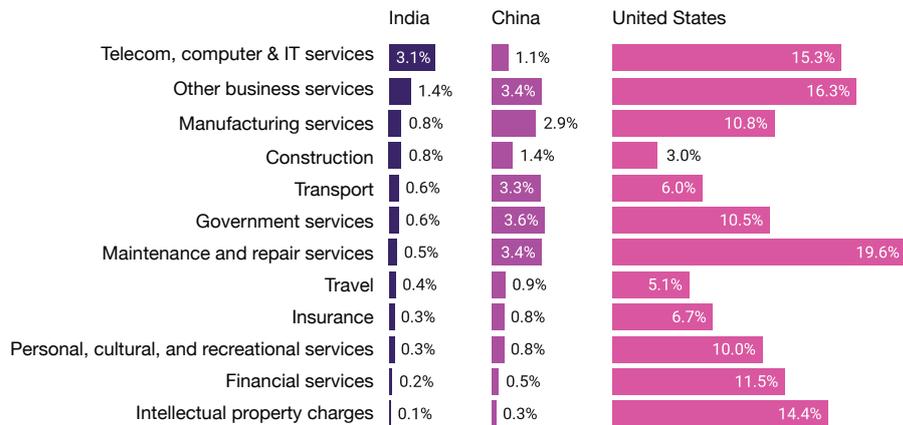
Note: ETS forecast model based on WTO data
Source: WTO

At the same time, most categories of services imports from India have remained either below the share they had in European imports a decade ago or only make up a very low share of overall services imports in those industries.⁵⁰ A notable exception are the two highest-value categories of services imports. Telecommunications, computer, and information services increased its share in EU imports from 2.3 percent in 2010 to 3.1 percent in 2019, and at the current trajectory, it could increase its share even further by 2030, to 3.4 percent of all European imports of that industry. Other business services imports from India, which constituted 1.2 percent of all European imports of that industry in 2010 increased their share to 1.4 percent in 2019, and at the current trajectory will have a share of 1.6 percent by the end of the decade.

⁵⁰ Annex: EU services imports from India as a share of services imports from the world (%)

It is noteworthy that imports of telecommunications, computer, and information services from India surpass those from China, as shown by Figure 23, which makes the sector a standout category among EU services imports. Enhancing digital trade collaboration between the EU and India has the potential to further solidify India's significance as a partner for Europe in the rapidly-expanding digital economy by the end of the decade.

Figure 23: Share of EU services imports by partner



Note: Latest available data (2019)
Source: WTO

As this section has shown, the EU's imports from India—comprising organic chemicals, textiles and clothing, iron and steel, industrial and electrical machinery, stones and metals, mineral fuels, pharmaceuticals, and vehicles—exhibit significant potential for individual business opportunities in the 2020s. Yet, the extent to which this import trade will aid the EU in reducing its dependence on China by 2030 remains uncertain. Despite a promising growth trajectory, the proportion of imports from India within the EU's import basket remains relatively unchanged and lags far behind that of China. Although the quickly growing imports of furniture, iron and steel articles, and aluminum from India could offer some relief from dependence on Chinese imports, the implementation of upcoming European carbon border adjustment regulations may pose challenges for future import growth from India.

At the same time, India holds a higher revealed comparative advantage than China in made-up articles of textile materials, organic chemicals, motorcycles and bicycles, and men's clothing—a combined 10 percent of the EU's current merchandise imports from China. With favourable incentives, such as reduced European tariffs, India has the potential to diversify the EU's import of these goods by the decade's end. The EU's imports of services from India— dominated by other business services and telecommunication, computer, and information services—also exhibit a strong growth trajectory in both absolute value and proportion of EU imports. To deepen economic ties in these sectors of growing importance for both economies, the EU and India should closely collaborate in establishing common rules that facilitate cross-border digital trade.

The investment relationship

India's growth trajectory, coupled with the country's drive to establish itself as a hub for domestic and international manufacturing, presents a compelling opportunity for the EU to diversify and de-risk its foreign investments in a difficult global context. Recent industrial policies demonstrate the Indian government's commitment to improve the investment climate and boost manufacturing capabilities. Moreover, few (if any) other economies have the scale to house multiple large industries and emulate China in becoming a global hub for manufacturing.

India's pursuit of direct investment

Since the mid-2000s, the Indian government has launched several flagship initiatives to attract FDI. India's Automotive Mission Plans (2006 and 2016)^{51,52} aim to establish the country as a globally competitive player in the automotive industry and seek to transform India into a hub for the design and manufacture of automobiles and motor vehicle components. The 'Make in India' campaign, launched in 2014, wants to make the country a favorable destination for both domestic and international businesses, by creating a conducive investment climate and enhancing the country's manufacturing infrastructure. It provides a range of incentives and support systems for investors, including streamlined procedures for setting up a business and tax benefits. Most recently, the Indian government started the Production-Linked Incentives scheme to encourage domestic and foreign manufacturing firms to invest in India's production capacity. The initiative provides substantial subsidies to manufacturers operating in key sectors, including telecommunications, electronics, and medical devices.

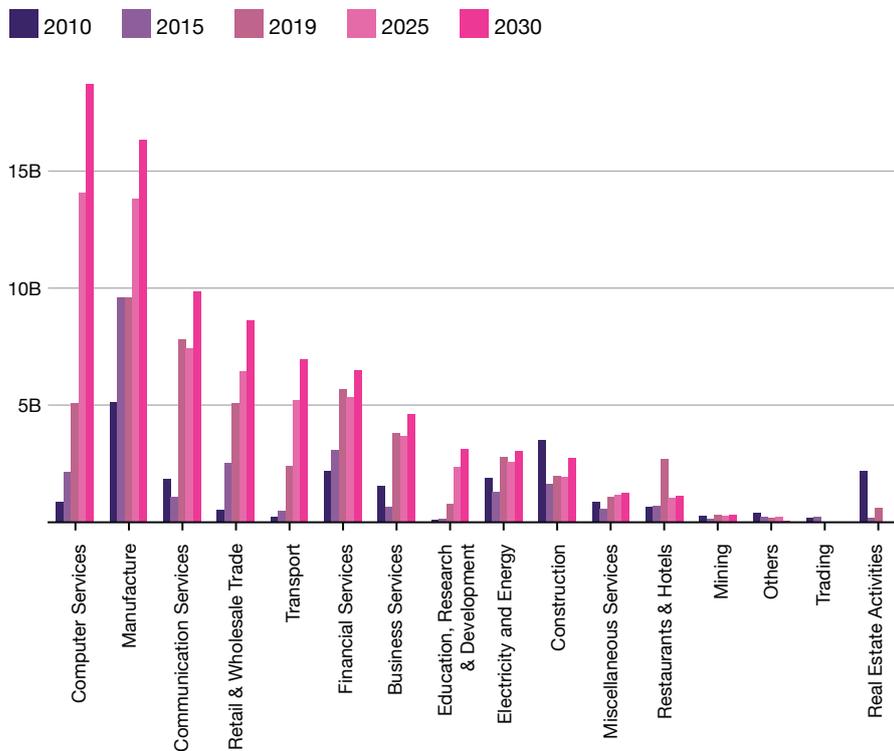
⁵¹ Department of Heavy Industry, Government of India, 2006, "[Automotive Mission Plan \(2006-2016\)](#)"

⁵² Department of Heavy Industry, Government of India, 2006, "[Automotive Mission Plan \(2016-2026\)](#)"

India's efforts to attract FDI have shown positive results in recent years. As a percentage of GDP, India's inward FDI reached 1.9 percent in 2016—surpassing the investment intensity ratio for inward FDI flows of China and the average of OECD member states—and peaked at 2.4 percent right before the onset of the pandemic.⁵³ This highlights the growing significance of FDI in India's economy.

Figure 24: FDI inflows India by sector, 2010-2030

Foreign Direct Investment inflows to India in billion USD, historical values (2010-2020) and forecast (2025-2030)



Note: ETS forecast model based on RBI data
Source: Reserve Bank of India

⁵³ World Bank, 2023, Foreign direct investment, net inflows (% of GDP)

In recent years, several economic sectors in India in particular have attracted an increasing amount of India's inward foreign direct investment. As illustrated in Figure 24, FDI inflows to the computer services, communication services, and retail sectors have experienced the most substantial absolute and relative growth over the past decade. FDI in the Indian manufacturing sector have also increased, albeit at a comparatively slower pace. At the current rate of growth, computer services could emerge as the leading recipient of FDI among all economic sectors, with an estimated US\$19 billion of inflows by the end of the decade. This trend could even result in FDI for computer services surpassing foreign investments in manufacturing, which is expected to receive an average of US\$16 billion of FDI inflows per annum by 2030.

European investments in India

While India has been successful in attracting FDI from the EU, the bilateral investment relationship still has significant room for improvement, as it is currently capturing only 1 percent of total EU outward FDI stocks. Despite the growing financial strength of India's corporate sector, India represents a mere 0.1 percent of all inward FDI stocks in Europe. In view of the persistent low level of Indian investment in Europe, the focus in this section will be on the much greater prospect of increasing European investments in India.⁵⁴

Recent European investments in India have taken place against the background of a challenging policy context. In 2016, the Indian government announced its decision to unilaterally terminate all its bilateral investment treaties (BITs) with other countries. This move, aimed at re-establishing sovereignty and asserting control over investment disputes, was met with criticism from the international business community, which saw it as a risk to the stability and predictability of the investment climate in India. In light of India's decision, a new investment protection agreement between the European Union and India has therefore become imperative.⁵⁵ These

⁵⁴ Eurostat, 2023, [Foreign Direct Investment Stocks](#)

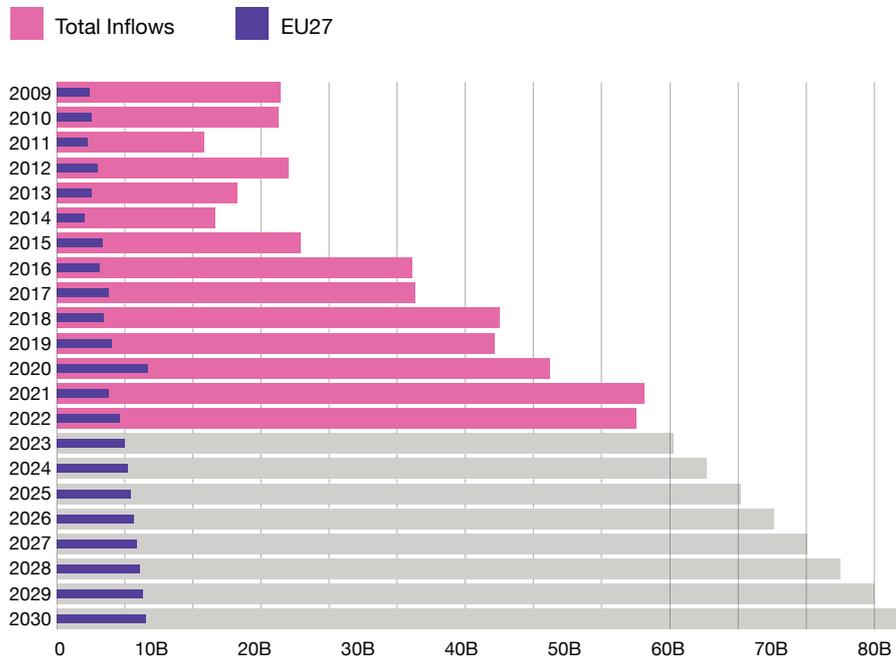
⁵⁵ In 2009, the Lisbon Treaty came into effect, granting the EU exclusive competence for FDI as part of its common commercial policy. Nevertheless, shared competence with member states still exists for portfolio investments and investor-state dispute settlement, which the EU negotiates as part of its international investment agreements.

negotiations, along with restarted discussions for agreements on trade and geographical indications package, have, however, not yet concluded and created an uncertain investment climate.

In this environment, despite the robust growth of the Indian economy and efforts by the Indian government to attract investment, EU investments in India have fallen short of their potential.

Figure 25: India's FDI inflows

Foreign Direct Investment inflows in billion USD, historical values (2009-2022) and forecast (2023-2030)



Note: RBI data may exclude inflows from some EU member states. ETS forecast model.
Source: Reserve Bank of India

On the one hand, the EU remains a major contributor to India's FDI, with a cumulative inflow of US\$98.5 billion from April 2000 to June 2022.⁵⁶ During this period, India became an increasingly attractive investment destination. As shown in Figure 25, India's annual inflows of FDI increased from US\$23 billion in 2009 to US\$63 billion in 2023. Annual inflows are projected to reach US\$86 billion per annum by 2030. However, the same Figure shows that direct investment from the EU in India has not kept pace with this growth, only rising from US\$3 billion in 2009 to US\$6 billion in 2022. Based on their trajectory, annual EU investments in India may only grow slowly through the 2020s, reaching around US\$9 billion by 2030. As a result, the share of EU investments in India's FDI inflows, which decreased from 15 percent in 2009 to 11 percent in 2022, could further decline to 10 percent by the end of the decade.

At the same time, European investment inflows into India may be underrepresented in official figures due to the routing of foreign investments through low-tax jurisdictions. A significant proportion of India's FDI inflows, ranging between 46 percent to 65 percent in recent years, originate from Mauritius and Singapore.⁵⁷ Currently no official statistics for the ultimate investing economy exist for bilateral investments between the EU and India, so the substantial amounts of FDI from non-EU low-tax jurisdiction could mask the true scale of European investment in India. However, a significant proportion of FDI from the EU to India also originates from Cyprus and the Netherlands, both of which boast a favourable taxation environment for international investors, and could also represent phantom investment flows that originated outside the EU.⁵⁸ Still, the notion that official FDI figures underestimate actual EU investment in India is also bolstered by the absence of the significant investments by European automakers in the list of largest European investments at the firm level released by the Indian government.⁵⁹

⁵⁶ Indian Ministry of Commerce, 2023, [Foreign Trade \(Europe\)](#)

⁵⁷ Annex: [India FDI inflows by partner](#)

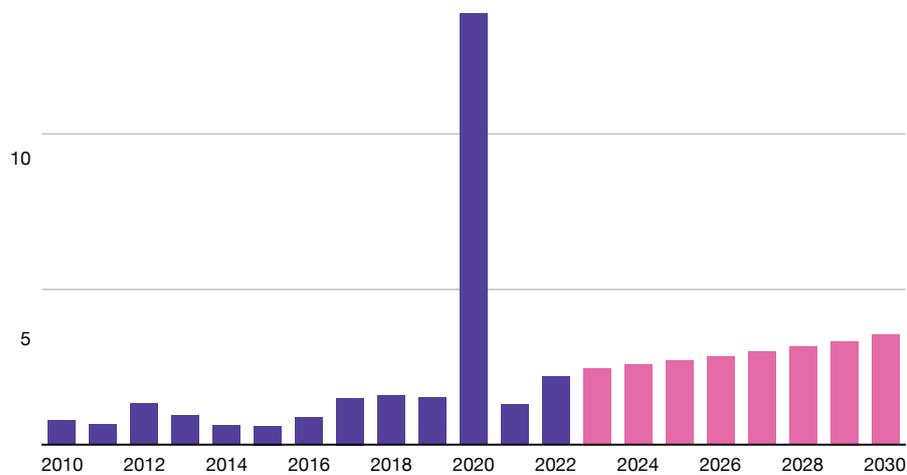
⁵⁸ Annex: [Share of FDI flows to India by EU member state](#)

⁵⁹ Annex: [Largest investors from the European Union in India by firm, 2000-2020](#)

Even excluding hidden European FDI flows to India via intermediate countries, the share of EU outward FDI destined for India has seen an upward trajectory over the past decade, as depicted in Figure 26. This trend highlights India's growing appeal as an investment destination for European firms, which, if current trends persist, could reach 3.6 percent of the EU's total outward FDI by the end of the decade.

Figure 26: The share of EU outward FDI to India is gradually increasing

EU27 FDI inflows to India as a share of total EU27 FDI outflows, historical data (2010-2022), and forecast (2023-2030) (%)



Note: ETS forecast model based on RBI and UNCTAD data. Significant above-trend flows into India from France and the Netherlands in 2020.

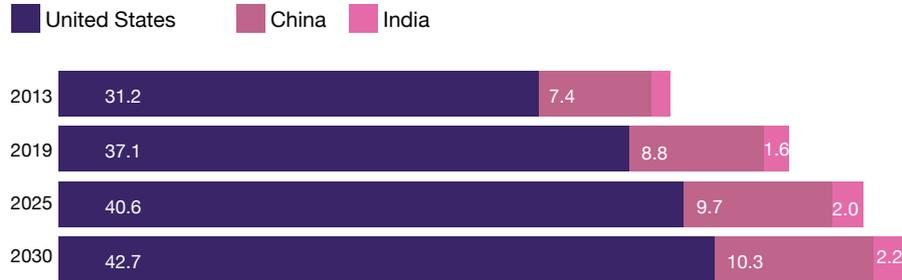
Source: Reserve Bank of India, UNCTAD World Investment Report 2022

The Eurostat Outward Foreign Affiliates Statistics provide further insights into the composition of European direct investments in India through efforts to determine ultimate ownership in the activities of European firms operating abroad.⁶⁰ The data reveals a growth in the extra-EU turnover of European companies and their affiliates in India and their share, increasing from 1.2 percent in 2013 (€40 billion) to 1.6 percent in 2019 (€70 billion). As shown in Figure 27, projections indicate that India's share of all extra-EU turnover of European companies is likely to continue this upward trend, reaching 2.2 percent by the close of the decade (€126 billion).

⁶⁰ Eurostat, 2012, Foreign Affiliates Statistics (FATS) Recommendations Manual

Figure 27: Turnover of European Union Foreign Affiliates by partner country (%)

Share of extra-EU27 turnover. Historical values (2013 and 2019) and forecast (2025 and 2030)



Data for China excludes Hong Kong. ETS forecast model.
Source: Eurostat

Moreover, according to Eurostat, there are over 2,420 European foreign affiliate enterprises operating in India, accounting for a stable 3 percent share of all European foreign affiliates enterprises (outside of the EU), whereas the share of European affiliate enterprises in China has declined over the last decade, from 9 percent to 8 percent.⁶¹ The trend of India's growing share in the total employment of foreign affiliate enterprises is also noteworthy, increasing from 7 percent in 2013 to 9 percent in 2019, while China's share slightly decreased from 12 percent to 11 percent during this period.⁶² This illustrates how in all dimensions, India is gradually becoming more important for the foreign operations of European business by the end of the decade.

⁶¹ Eurostat, 2022, [Outward foreign affiliates statistics](#)

⁶² Annex: [Employment in European Union affiliates enterprises by partner country](#)

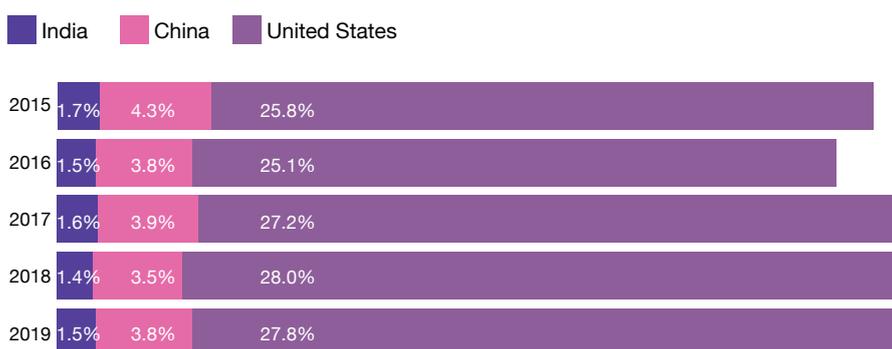
Can European FDI in India help to de-risk manufacturing value chains by 2030?

During the pandemic, supply chain disruptions highlighted the vulnerabilities of European manufacturing value chains. Moreover, while China has established itself as the most important global center of manufacturing, European companies continue to have concerns about intellectual property theft and China's weaponisation of interdependent economic relations. Manufacturing FDI in India could, therefore, particularly help European companies to diversify their value chains and allow the EU to mitigate the risks associated with economic downturns or geopolitical tensions in a particular region.

The stocks of European FDI in the Indian manufacturing sector have indeed increased in recent years, growing from US\$38 billion in 2015 to US\$47 billion in 2019.⁶³ However, at the same time, India's share in the EU's outward direct investments stocks for manufacturing decreased in recent years, falling from 1.7 percent in 2015 to 1.5 percent in 2019, as shown in Figure 28. Moreover, the share of people employed in the manufacturing activities of Europe's foreign affiliates has fallen, from 40 percent in 2013 to 28 percent in 2019 (while it has remained around 62 percent to 65 percent in China during this period).

Figure 28: India's share of European Union investments in manufacturing

Share of EU27 Manufacturing Outward FDI



Note: Data for China excludes Hong Kong
Source: Eurostat

⁶³ Annex: [Increasing manufacturing investments from EU27 in India](#)

In light of the numerous Indian policies aimed at attracting manufacturing investment and the country's burgeoning consumer market, the trend of limited European foreign investment in the sector may be difficult to comprehend. One potential reason is the previously-discussed statistical challenges faced by measuring international investment.

However, it should also be noted that the European manufacturing investment attracted by India to date has primarily been geared towards serving the domestic Indian market. While the Indian market is expanding, it lacks the scale of global markets. India has made significant adjustments to its tariff structure since the 1990s, but the average applied tariffs for manufactured goods remain higher than in East Asian countries, making it challenging for European companies to import components for manufacturing and then sell internationally at a competitive price after adding value in India.⁶⁴ Moreover, the Indian government has repeatedly raised tariffs in union budgets to incentivise domestic manufacturing and to combat the rising trade deficit with China.⁶⁵

As a result, India has yet to fully capitalise on the growing interest to replace some of the production previously undertaken in China. For instance, the foreign value-added share in the automobile equipment sector has declined in India between 2008 and 2018, while remaining stagnant in other key sectors of GVCs (such as machinery, electrical goods, and electronics) during this period.⁶⁶

This prevents India from fully realising its potential to assume the role of the 'factory of the world' that China may soon lose due to geopolitical and labour cost factors. There is a risk that European businesses may look to other regions, such as ASEAN or an increasingly integrated African continent, instead.

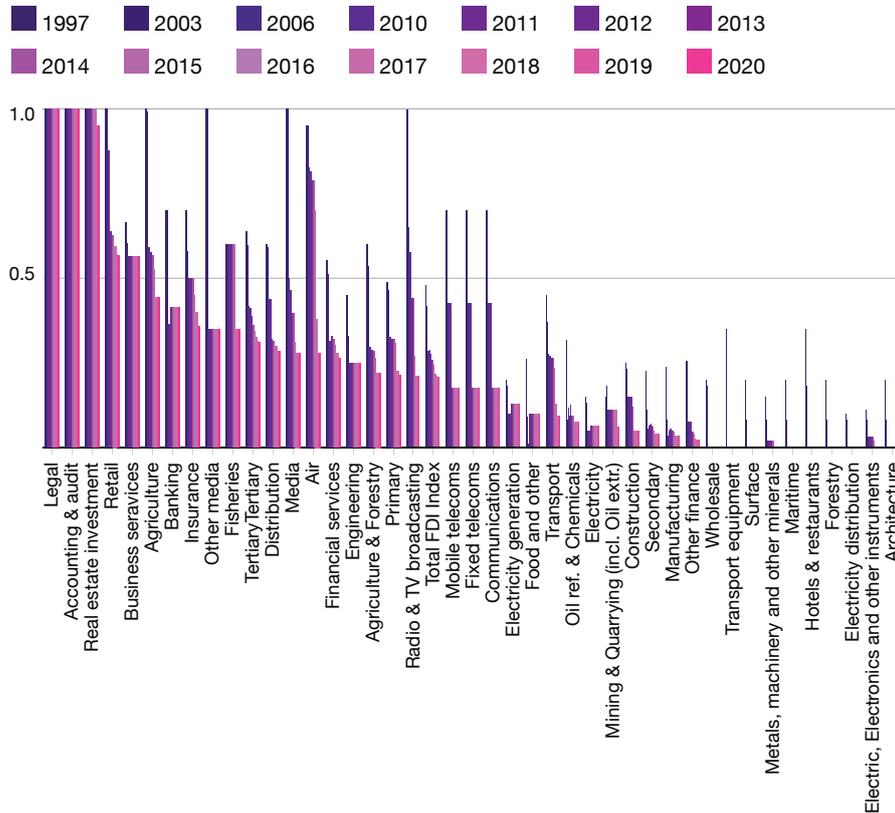
⁶⁴ World Trade Organization, 2022, [World Tariff Profiles](#)

⁶⁵ See also pp.72-73 below

⁶⁶ OECD, 2022, [Trade in Value Added Country Note India](#)

Figure 29: OECD FDI Regulatory Restrictiveness Index for India (1997-2020)

Statutory restrictions on foreign direct investment: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel and 4) Other operational restrictions. Restrictions are evaluated on a 0 (open) to 1 (closed) scale. The overall restrictiveness index is the average of sectoral scores.



Source: OECD

Nevertheless, the transition towards a more open investment environment in India is progressing, as evidenced by the decline in regulatory restrictions for FDI in most economic sectors, as depicted in Figure 29. While industries such as legal services, accounting, and real estate remain largely closed, other sectors such as retail, business services, agriculture, banking, and insurance have seen restrictions lifted or relaxed. For manufacturing, this is also the case, although the restrictions were much less stringent even in the late 1990s, it is now one of the sectors in India most open to investment.

The progressive lifting of restrictions for enabling services in India is creating a more favorable ecosystem for European companies operating in the country and could also have medium-term effects for manufacturing investments. However, the implementation of consistent and predictable

policies and tariffs, as well as a harmonised set of rules across states and territories, is crucial to further increase business confidence. The conclusion of a bilateral investment agreement with the EU could serve as an important signal in this regard.

Moreover, non-regulatory barriers, such as logistics facilities, reliable transportation systems, energy, and water sources, continue to impede India's progress towards becoming a manufacturing hub. For now, India still lags significantly behind China and many Southeast Asian countries in these areas. Still, India has made significant investments in infrastructure, which could start to yield results by the end of the decade, as also indicated by a notable increase in capital expenditures in the latest budget.

India's efforts to attract FDI have yielded positive results in recent years, with inward FDI as a percentage of GDP surpassing that of China and the average of OECD member states. Although India's inward FDI has grown significantly in sectors like computer services, communication services, and retail, the EU's bilateral investment relationship with India has significant room for improvement. European investments in India have fallen short of their potential due to the challenging policy context and uncertainty surrounding the negotiations of a new investment agreement. While the EU is a major contributor to India's FDI inflows, its investment inflows have not kept pace with the growth of India's economy. However, India's growth trajectory and its drive to establish itself as a hub for manufacturing present a compelling opportunity for the EU to diversify and de-risk its foreign investments in a more difficult global context.

Challenges to deepening economic cooperation

The EU and India are on a path of gradually deepening their trade and investment relationship in the coming years. But against a challenging domestic and international background, the EU and India both face a pressing need to de-risk their global footprints and elevate their bilateral cooperation to a new level. Several challenges remain in realising this goal, including market access difficulties for both sides, differing perspectives regarding the data economy, and the EU's sustainable development agenda.

Removing market access barriers

The EU and India's negotiations for a trade agreement face persistent challenges, despite the resumption of talks in 2022 after a decade-long hiatus.⁶⁷ While the new talks have the mandate to arrive at an ambitious and comprehensive agreement that liberalises a significant amount of bilateral trade, granting market access for important European and Indian industries remains a difficult task. It recalls the arduous negotiations that the EU and India had between 2007 and 2013, where the EU demanded that 98 percent of tariff lines be freed, but India had asked for asymmetric commitments.⁶⁸ Most important for India, its textile and apparel exports to the EU are subject to duties that render them less competitive. Moreover, India will like to negotiate quotas for temporary visas for its skilled professionals. Conversely, high Indian tariffs on cars and alcoholic beverages and access to Indian procurement markets are the most important hurdles for European firms that the EU would like to remove.

⁶⁷ Nicolas Köhler-Suzuki, 2021, [Determinants and Impediments of the EU-India Bilateral Trade and Investment Agreement](#)

⁶⁸ Ibid.

While India has implemented various domestic reforms that make the Indian market more attractive for foreign capital, India's termination of BITs with EU member states also created an uncertain investment environment, particularly in comparison to other Asian emerging markets that have retained greater predictability for EU investors. Moreover, following the overhaul of its BIT model, the agreements that India has entered into with countries such as Brazil, Taiwan, Belarus, and the Kyrgyz Republic are relatively shallow, excluding areas like taxation and introducing the exhaustion of local remedies as the first step for dispute settlement. A new bilateral investment protection agreement aims to address this uncertainty to boost investor confidence, but it remains to be seen to what extent EU-India approaches can align.

The tight timeframe to conclude the parallel negotiations for agreements on trade, investment, and geographical indications ahead of India's 2024 elections, and the resistance from some Indian ministries add further complexity to the negotiations and resolving long-standing market access issues ahead of the next election.

India's textile and apparel exports are a vital source of both revenue and employment. The EU, as one of the largest textile and apparel markets in the world, is therefore a crucial trading partner for India. However, Indian exports in this sector currently face a 12-percent duty in the EU, while its competitors in the region, such as Vietnam and Bangladesh, enjoy duty-free status. Moreover, about one-third of the EU's textile and apparel imports are currently from China, which raises concerns in Brussels about dependencies. India has a high revealed comparative advantage in the textile and apparel sector, which therefore makes it an attractive trading partner for European importers and investors looking to diversify. However, the most significant challenge for lower tariffs remains the fact that for the EU granting market access to India is a bargaining chip in its market access negotiations for its own exports in other sectors. Thus, the EU is unlikely to concede to India's request without making significant progress in these areas.

The EU and India also have had difficulties coming to an agreement on visa quotas, which India sees as an important comparative advantage of its services exports.⁶⁹ While India wants to secure more opportunities for its skilled workers to work in the EU, some EU members are concerned about their domestic labour markets. Unlike trade and direct investment, which are an exclusive competence of the EU, immigration policy is a competence of each member state and migration is frequently a contentious political issue. The domestic politics of EU member states therefore have played a role in the negotiations, with some being more open to skilled immigration and others more closed. While the EU introduced the so-called Blue Card system in 2011 to simplify immigration procedures for employees above a certain income threshold, the uptake of Blue Cards varies greatly between different member states and is comparatively low, perhaps not least because the income thresholds may remain too high for some categories of temporary Indian professionals.⁷⁰ However, recent developments to attract skilled labour, such as proposals in Germany (Europe's largest labour market) to make English a second official language, could indicate that there is a greater margin in Europe than in the past to transition towards a regime that accommodates short-term migration from India.⁷¹ Moreover, several EU member states have signed bilateral mobility agreements with India, signaling greater openness than during the earlier stages of negotiations.

The Indian car market has witnessed robust growth over the past few decades, but entry is beset with significant barriers that make it arduous for European car exports to compete. High tariffs levied by India on completely built units—60 percent for cars valued below US\$40,000, and 100 percent for cars above that price point—augment the cost

⁶⁹ Mode 4 of services trade under the General Agreement on Trade in Services refers to the temporary movement of natural persons from one country to another to supply a service, such as a skilled worker, independent professional or business executive. This mode of trade is subject to specific conditions and limitations and aims to facilitate the international provision of services while protecting the rights of workers and the interests of domestic labor markets.

⁷⁰ European Commission, 2023, [Blue card](#)

⁷¹ The Guardian, 2023, [German call for English to be second official language amid labour shortage](#)

of importing vehicles into India, thereby putting European exports at a distinct disadvantage over domestically produced vehicles. Currently, the EU's car exports to India amount to a mere 0.5 percent of all EU car exports, while China (15 percent) and the US (17 percent) serve as the most important destinations, which highlights the market restrictions that European automakers face in India.⁷² Moreover, while MFN tariffs on auto parts in India have plummeted significantly, from 60 percent in the 1990s to an average of 12.5 percent, even European companies with production facilities in India are currently disadvantaged vis-à-vis foreign competitors. While car parts from the ASEAN region, South Korean, and Japan enter India at a preferential rate under the respective trade agreements India has concluded, European producers without access to production networks in the region that import car components from Europe find themselves less competitive. Given that the automobile industry is one of Europe's most important economic sectors that contributes for 7 percent of total employment, the EU has drawn a red line in earlier negotiations, and any trade agreement will necessitate significant Indian concessions in these areas.⁷³ The EU previously rejected Indian offers to phase down tariffs to 20 percent for luxury cars and 40 percent for smaller cars, as additional taxes could have still made European cars almost twice as expensive as in comparable markets.⁷⁴ Notably, India's current industrial policies, especially its Automotive Mission Plans, aim for domestic car production, and are presently in direct conflict with full liberalisation. Liberalising car imports from Europe will therefore represent a major shift in India's industrial policy and require substantial political will from the Indian leadership.

India's burgeoning alcohol market also presents huge opportunities for Europe, as the number of Indian alcohol consumers has more than doubled from 129 million in 2005 to 293 million in 2018, and is projected to increase to 386 million by 2030.⁷⁵ Wines and spirits are a leading export sector for the EU, generating significant economic benefits

⁷² Cf. Figure 8 on p.37

⁷³ European Automobile Manufacturers' Association, 2022, [Employment trends in the EU automotive sector](#)

⁷⁴ Financial Times, 2012, [Europe's carmakers hit out at India trade deal](#)

⁷⁵ ICRIER, 2021, [Developing Principles for Regulation of Alcoholic Beverages Sector in India](#)

and employment, including in small- and medium-sized enterprises across the Union. However, EU exports only account for 1 percent of the Indian alcoholic beverage market, which remains largely controlled by domestic producers. Moreover, only 0.2 percent of the EU's exports in this sector go to India, compared to 6 percent to China and 29 percent to the US.⁷⁶ The primary obstacles hindering European producers' market access is a 150 percent tariff imposed on their products in India. The country's taxation, technical regulations, and customs valuation practices also present restrictive barriers.⁷⁷ While India's goods and services tax (GST), implemented in 2017, has greatly simplified India's tax structure and reduced the burden of multiple taxes for businesses operating across various states, the exclusion of alcoholic beverages from the GST means that the Indian alcohol market still operates as 28 separate markets, rather than a unified national market, which can enable discriminatory practices that disadvantage foreign producers. The Indian government, therefore, faces significant challenges in addressing market access concerns for the European wines and spirits sectors, as it must navigate a difficult domestic political economy.

India's procurement market, estimated to be approximately 30 percent of its GDP, remains another key area of concern for the EU in its trade negotiations with India.⁷⁸ The EU has consistently pushed for provisions on government procurement, particularly for key sectors such as telecommunications, railways, energy, roads, industry, and health, since the negotiations began in 2007. Although India introduced a Public Procurement Bill in 2012, it was never enacted. Currently, India's procurement is governed by the Ministry of Finance's General Financial Rules, 2017 (GFR 2017).⁷⁹ However, an overarching government procurement policy is currently lacking. The power to legislate on this matter is distributed between both the federal level and state governments. Each Indian state has its own policies that generally align with the principles of the GFR, but the procurement practices and procedures vary by jurisdiction, further complicating access to the Indian procurement market. India is also not part of the plurilateral Agreement on Government Procurement and has recently reaffirmed its

⁷⁶ Cf. Figure 8 on p.37

⁷⁷ spiritsEurope, 2015, [Issue Briefing](#).

⁷⁸ International Trade Administration, 2022, [India Country Guide](#)

⁷⁹ Ministry of Finance, 2017, [Procurement in India – Recent Developments](#)

position not to join.⁸⁰ Despite this, the Indian government is developing an integrated procurement system to consolidate all government procurement into a single platform, which could lead to economies of scale, better price discovery, and sharing of best practices. This could also facilitate access for firms from the EU.⁸¹

In 2017, the Indian government adopted a policy that gives preference to locally produced goods and services in public procurement to promote its flagship 'Make in India' programme.⁸² Over the years, more stringent measures have been introduced. The current GFR guidelines discriminate against foreign bidders for projects valued under US\$24 million, unless the product or service is not available in India.⁸³ Additionally, there is a preference for companies that use at least 50 percent local content, with a minimum requirement of 20 percent local content. The policy also requires all central ministries, departments, and public sector units to buy 25 percent of their total annual purchases value from micro, small, and medium enterprises, prioritising domestic firms.⁸⁴

Despite the inclusion of public procurement provisions in a recent trade agreement with the United Arab Emirates, it is limited to a few central ministries and excludes key sectors, such as construction, infrastructure projects, and healthcare. Furthermore, it does not include state and local procurement, which make up a significant share of the Indian procurement market. Lastly, the chapter stipulates that both countries can continue to implement various schemes and policies, such as the 'Make in India' order. As a result, the chapter appears to be more symbolic in nature than a substantive commitment on procurement. This approach leaves a large gap between India and the EU's positions, with the EU aiming for full non-discrimination between domestic and international suppliers in India's procurement practices. In contrast, the Indian government has even been increasing minimum amounts for foreign tenders as part of its Atmanirbhar Bharat campaign.⁸⁵

⁸⁰ Mint, 2022, [India has no plans to join the WTO govt procurement agreement](#)

⁸¹ India's public works projects are frequently funded through loans from multilateral development banks. In instances where foreign financing is involved, key government procurement agencies have tended to adhere to the procurement requirements stipulated by multilateral development banks for international tenders.

⁸² Public Procurement: [Preference to Make in India Order, 2017](#)

⁸³ International Trade Administration, 2022, [India Country Guide](#)

⁸⁴ Mint, 2022, [UK, EU seek access to India's public procurement market](#)

⁸⁵ Business Standard, [2020 Fiscal stimulus 2.0: No global firms in govt tenders below Rs 200 crore](#)

India's practices could therefore lead to access restrictions to the European procurement market if there is no reciprocity from India. To avoid such negative outcomes, India must work towards a non-discriminatory public procurement framework. Indian firms currently have access to EU public procurement, which is particularly important for India's IT services sector. However, the EU's new International Procurement Instrument (IPI), which came into force in 2022, aims to level the playing field for contracts of at least €15 million (US\$16 million) for works and concessions, and €5 million (US\$5.3 million) for goods and services. Under the IPI, the European Commission will launch investigations and consultations if a third country adopts or maintains any measure, procedure, or practice that undermines EU goods, services, and companies' access to the third country's procurement market.⁸⁶

The EU's market access issues for cars, alcoholic beverages and public procurement are long-standing. However, the EU only restarted formal trade negotiations in 2022 after it received credible signals from the Indian side that its most important market access concerns will be addressed. While the leadership of the Indian commerce ministry suggests that outstanding issues can be resolved, there has not been significant progress in the first five rounds of negotiations, which leaves the prospect of concessions in the near future uncertain. This means there will be a tight timeframe ahead of India's 2024 elections, which could echo the developments in 2013-2014 that saw negotiations grind to a standstill.⁸⁷ To accelerate the negotiations and underline political commitment, India has proposed an early harvest scheme, similar to an agreement it recently implemented with Australia. However, the EU rejects this proposal, as it could potentially undermine the negotiations for a full-fledged free trade agreement. As a major beneficiary of the rules-based multilateral trading system, the EU wants to prioritise World Trade Organization (WTO) compatibility of its trade agreements, as there are serious questions around the legality of deals that do not free substantially all trade.

⁸⁶ European Commission, 2019, [International Procurement Instrument](#)

⁸⁷ Nicolas Köhler-Suzuki, 2021, [Determinants and Impediments of the EU-India Bilateral Trade and Investment Agreement](#)

Overcoming emerging regulatory divergence for the data economy

The EU and India are two of the most significant players in the global data economy. Their shared goal to maximise the benefits of the data economy is complicated by emerging differences in their regulatory approaches. A key challenge is finding ways to harmonise these differences to enable opportunities that are beneficial for both parties.

The future of international trade will increasingly be shaped by cross-border services, especially intermediate digital services, which are used as inputs in the production of other goods or services. This category includes various professions from bookkeepers, software engineers, and IT consultants to financial analysts, administrative assistants, and more. The continued advancement of digital technology is revolutionising the delivery of these services, breaking down technological barriers and creating new opportunities for trade.⁸⁸ This trend is expected to continue for the foreseeable future. The rapid technological evolution underscores the critical role of data in driving economic growth. As such, the emerging frameworks for data governance by the EU and India carry significant weight.

The EU's demographic shifts underline the strategic necessity of crafting a mutual data framework with India. An aging population and dwindling birth rates in the EU exert mounting strain on its market for skilled labor and social welfare systems, fueling the demand for new avenues of economic growth and efficiency. Collaborating on a shared data framework with India, which has a young population and thriving technology sector, could yield substantial benefits. Notably, the EU is already the world's leading importer of digitally-delivered services, while India's IT sector is as a primary growth catalyst for its economy.⁸⁹

In light of these factors, the discrepancy in regulatory approaches between the EU and India could potentially surface as a key point of discord.

⁸⁸ Richard Baldwin, 2022, [The peak globalisation myth: Part 4 – Services trade did not peak](#)

⁸⁹ Nicolas Köhler-Suzuki, 2023, [Mapping the European Union's digital trade: A global leader hidden in plain sight](#)

The EU and India are natural allies in establishing policies for open cross-border data flows with trust, which could serve as a foundation for rules-based, multilateral solutions. Firstly, both the EU and India are looking for a data governance model that incorporates regulatory protections. Secondly, their status as liberal democracies inherently inclines them towards the free flow of information. But current developments significantly threaten this potential.

The EU has consistently led efforts to regulate the digital economy. Its landmark 2016 General Data Protection Regulation (GDPR), prioritising individual privacy rights, has influenced privacy legislation concerning personal data around the world. ‘Adequacy’ decisions, permitting the transfer and processing of personal data, are awarded solely to countries compliant with the EU’s privacy standards, which has incentivised an alignment with the EU model. Currently, the EU is also in the process of deliberating and implementing the world’s most comprehensive legislative package to regulate the digital economy.⁹⁰ It encompasses rights and obligations for large platforms (Digital Services Act), fair competition (Digital Markets Act), innovative storage and processing of data for new tech applications (Data Governance Act and Data Act), and artificial intelligence (Artificial Intelligence Act).

India is also crafting a data governance framework that aims to strike a balance between privacy, economic growth, and national security. The country is grappling with its desire for autonomy on the one hand, and the strategic benefits of partnerships with the EU and the US on the other. India has made a name for itself with pioneering digital infrastructures such as the India Stack, a set of APIs that empowers governments, businesses, startups, and developers to leverage a unique digital infrastructure to tackle India’s pressing development problems in a manner that is presence-less, paperless, and cashless. The India Stack lays the foundational infrastructure—including digital ID, authentication, and a unified payments interface—upon which other governmental bodies and industries can build specific applications. Moreover, India has been developing legislation designed to safeguard the privacy of personal data for its 740 million internet users. This effort stems from a

⁹⁰ European Commission (2023), [Shaping Europe’s digital future](#)

pivotal 2017 decision by the Indian Supreme Court that elevated privacy to the status of a fundamental right under the Indian constitution.⁹¹ However, a comprehensive draft legislation, the Personal Data Protection Bill, was pulled back in August 2022, ostensibly due to the volume of changes suggested by a joint parliamentary committee.⁹² It is likely that strong opposition from American tech companies operating in India, coupled with the US government's leverage of the US H1B visa scheme, also factored into this decision.⁹³

In its stead, the Indian government has announced plans to introduce a new 'Digital India Act'. However, the new bill may be lacking the comprehensive protections for personal data embodied in the GDPR and put an EU adequacy decision at risk. Specific concerns have been raised about the bill's vague definition of personal data and the elimination of categories of sensitive personal data.⁹⁴

These issues underscore the critical need for the legislation to clearly define trusted geographies for data transfer and specify the constitution and operations of the proposed Data Protection Board. The current absence of clear guidelines for the government's evaluation of trusted geographies leaves a considerable void in the legislation. As it stands, the current draft bill is unlikely to satisfy the core prerequisites of the European Court of Justice's 'Schrems II' ruling, such as the establishment of an independent data protection authority and the imposition of restrictions on government access to data (the draft bill allows for broad exemptions for state and government authorities without establishing clear procedures).⁹⁵

⁹¹ Puttuswamy v India (2017)

⁹² Malavika Raghavan, 2022, [The demise of India's draft data protection bill](#)

⁹³ Reuters, 2019, [U.S. tells India it is mulling caps on H-1B visas to deter data rules](#)

⁹⁴ Observer Research Foundation, 2022, [The Draft Digital Personal Data Protection Bill 2022: Recommendations to the Ministry of Electronics and Information Technology](#)

⁹⁵ European Parliament, 2020, [The CJEU judgment in the Schrems II case](#)

The potential divergence in data governance could create significant complications for EU-India relations. Indian business process outsourcing firms have been keen on accessing the European market, a demand that has featured prominently in trade negotiations since the early 2010s. However, the decision to grant data adequacy does not fall under the purview of the Directorate-General for Trade, which is in charge of trade negotiations, but rather lies with another Commission service, Directorate-General for Justice. The latter makes its adequacy decision based on compliance with European regulations.

At the moment, there is a tangible risk that India's emerging new data governance framework could be swayed, particularly due to heavy lobbying by US technology firms, in a direction that does not align with European standards. This will not only pose a considerable hurdle to complete negotiation of a bilateral trade agreement between the EU and India, but could also steer the Indian data governance framework down a path that complicates the exchange of personal data between the EU and India. This could stifle a significant growth area in the bilateral economic relationship, regardless of the outcomes of the trade agreement negotiations.

Both European and Indian negotiators need to be acutely aware of this potential scenario and proactively address this possibility in the legislative discussions concerning the Digital India Act to forestall adverse impacts on the bilateral relationship. Additionally, the EU should allocate considerably more resources for timely engagement with India on this crucial subject.

Finding common ground on sustainable development standards

While market access may be the most pressing issue in the ongoing negotiations between the EU and India, they are not the only obstacle. Another key challenge lies in reconciling the EU's emphasis on its sustainable development agenda (in particular, labour rights and environmental standards) with its trade policy. This linkage has been a fundamental aspect of EU trade policy since the institutional reforms of the 2009 Lisbon Treaty, under which the EU's common commercial policy must align with the Union's wider external policy objectives (Art. 21 TEU) and the European parliament obtained the power to co-decide (i.e., veto)

on the EU's trade and investment agreements. The 2021 European Trade Policy Review reiterates this commitment, stating that trade policy must enable the EU to “increase its capacity to pursue its interests and enforce its rights, including autonomously where needed.”⁹⁶

This shows that Brussels sees trade agreements as a key tool in projecting Europe's regulatory power beyond its borders by encouraging other countries to adopt European values. At the same time, the EU has typically made such agreements in recent years with smaller partner countries, such as South Korea or Vietnam, in which it was in a significantly stronger bargaining position. When negotiating with larger economies, such as the US in the failed discussions for a Transatlantic Trade and Investment Partnership, divergent regulatory preferences have also proven to be a major hurdle.

Trade negotiations between the EU and India have also encountered significant obstacles, as demands from European civil society to account for sustainable development and the European parliament's veto power clash with India's post-colonial identity and suspicions of hidden protectionism. While negotiations began prior to the Lisbon Treaty, which came into effect in 2009, these issues have made it more difficult to conclude negotiations.⁹⁷

India's post-colonial identity was shaped by its struggle for independence from British rule, which involved the mobilisation of a wide range of social and political forces and left a deep imprint on India's national consciousness. India's post-colonial political culture is thus defined in part by a sense of pride in its hard-won independence and its commitment to self-determination. As a consequence, India has long been a champion of the principle of national sovereignty, which asserts that each nation has the right to govern itself without interference from other nations. This also means that India is very sensitive to any perceived attempts by developed countries to impose their will or dominance over the developing world through trade policy, which

⁹⁶ European Commission, 2021, [Trade Policy Review – An Open, Sustainable, and Assertive Trade Policy](#)

⁹⁷ Nicolas Köhler-Suzuki, 2021, [Determinants and Impediments of the EU-India Bilateral Trade and Investment Agreement](#)

Indian politicians dismiss as a form of neocolonialism. This narrative resonates with Indian voters and makes public discussions of linking a trade agreement with the EU's conditionality around sustainable development objectives particularly challenging around national elections, such as the upcoming 2024 vote.

Moreover, there is a strong suspicion in India that sustainable development standards are a form of hidden protectionism. This dates back to the so-called 'social-clause' debate of the 1990s, which was notably shaped by the prominent trade economist Jagdish Bhagwati, who argued that agreeing to such standards will be harmful to the Indian economy by making Indian exports less competitive in global markets.⁹⁸ Bhagwati and other critics have argued that social clauses are used as a pretext for protectionism by developed countries seeking to restrict imports from developing countries like India. In addition, they argue that social clauses are unnecessary, as many of the standards they seek to promote are already protected under Indian law. While the underlying logic of this argument from the 1990s remains sound, in the 30 years since there has been little empirical evidence that developed countries employ sustainable development objectives as a form of hidden protectionism. At the same time, there is also little evidence to suggest that trade agreement provisions concerning labour or civil rights have had an impact on outcomes and there are only inconclusive findings on the success of linkages between trade agreements and environmental standards.⁹⁹ This implies that the EU must do a much better job at convincing the Indian debate that its sustainable development agenda is, in fact, not driven by protectionist intentions. At the same time, the European parliament, a key veto-player for ratifying a potential trade agreement, should re-evaluate to what extent labour and environmental clauses in EU trade agreements are the right tool to achieve sustainable development objectives.

In addition to pursuing bilateral trade agreements, the EU is also deploying an array of unilateral measures aimed at protecting itself against potential disruptions in the global trading order and advancing its sustainable development goals vis-à-vis its trading partners. This

⁹⁸ Jagdish Bhagwati, 1994, [Free Trade: Old and New Challenges](#)

⁹⁹ Francois et al., 2022, [Pursuing environmental and social objectives through trade agreements](#)

includes the IPI, the Anti-Coercion Instrument, the Foreign Subsidies Regulation, the CBAM, the Deforestation Regulation, and the Regulation on Corporate Sustainability Due Diligence.

The EU-India economic relationship is set to be shaped by several of these measures, with the IPI being the most significant (due to reasons outlined above). Similarly, the CBAM and the Regulation on Corporate Sustainability Due Diligence could lead to an increase in bilateral tensions, as they will be applied to EU imports from India even in the absence of a bilateral trade agreement.

The CBAM's underlying aim is to achieve climate neutrality by 2050, amid concerns that aggressive climate policies could result in the relocation of carbon-intensive production to countries outside the EU, because of so-called 'carbon leakage'. The mechanism is designed to apply a carbon price equivalent to that imposed on European producers that participate in the Emissions Trading System. CBAM will be gradually phased in from 2026 and become fully operational by 2034. The scope of the CBAM will apply particularly to iron and steel, cement, fertilizers, aluminum, electricity, hydrogen, and certain precursors and downstream products (such as screws and bolts made of iron or steel).

The EU's growing imports of iron, steel, and aluminum from India may be particularly affected by the CBAM, as was highlighted in Figure 15 above. This could make it difficult for the EU to replace its dependence on China for imports in these sectors with imports from India. India's carbon intensity in these sectors is 30 percent to 55 percent higher than the global average and may not be able to match China's aggressive moves towards more environmentally-friendly production processes.

India has already challenged CBAM at the WTO, arguing that carbon border adjustments unfairly target 'trade-exposed industries' such as steel, aluminum, chemicals, plastics, and polymers.¹⁰⁰ While WTO jurisprudence is still lacking in this area, the EU has emphasised the compatibility of its measures with multilateral obligations, and CBAM was developed to be compatible with the General Exceptions (Article XX) of the General Agreement on Tariffs and Trade.

¹⁰⁰ World Trade Organization, 2023, [Concerns on emerging trend of using environmental measures as protectionist non-tariff measures](#)

India's exports to the EU are poised to be impacted by the 'Brussels Effect' of the Union's sustainable development agenda, even in the absence of bilateral trade agreements.¹⁰¹ This development raises questions regarding the significance of environmental clauses in a potential trade agreement, and whether the two 'strategic partners' can proactively address these fast-approaching changes before they become a major irritant in the bilateral relationship. Delhi must recognise the strong consensus among EU member states and across European society in support of this instrument, which is here to stay. At the same time, to de-risk their trade networks, the EU and India must swiftly collaborate to enable increased—rather than reduced—trade in the sectors that will be most affected by the CBAM. Possible solutions could include technology transfers for less carbon-intensive production processes and additional climate financing, properly dispersed.

¹⁰¹ Anu Bradford, 2020, [The Brussels Effect: How the European Union Rules the World](#)

Conclusion

The EU-India strategic partnership holds great potential for the coming years. However, strengthening economic ties between the partners is crucial to realise its full potential by 2030. India can become an important partner for Europe to achieve its goal of becoming a more resilient economy. The EU can provide India with investment, technology, and market access for economic growth.

The potential for the EU's exports to India, especially in machinery, aerospace, and ICT services, is significant over the next decade. However, a declining share of EU goods in India's imports and difficulties experienced by sectors like pharmaceuticals, cars, and beverages raise questions about the EU's competitiveness in India. EU services exports to India are growing, promising greater economic resilience. However, addressing market access difficulties is key to maximising growth and positioning India as a crucial EU economic partner by 2030. This necessitates continued monitoring of the EU's exports to India and measures to enhance competitiveness and market access.

There is also immense potential for growth in the EU's imports from India. Sectors such as organic chemicals, textiles, clothing, iron, steel, industrial and electrical machinery, stones, metals, mineral fuels, pharmaceuticals, and vehicles exhibit promising prospects for individual business opportunities in the 2020s. Rapidly increasing imports of furniture, iron and steel articles, and aluminum from India could provide the EU with some relief from its dependence on Chinese imports. Moreover, India holds a higher revealed comparative advantage than China in certain sectors, such as textile materials, organic chemicals, motorcycles, bicycles, and men's clothing. This represents a significant opportunity for diversifying the EU's import portfolio.

Despite some regulatory hurdles and a challenging business environment, the EU's investments in India have also been steadily increasing. India's success in attracting FDI has surpassed China and the OECD average, showing growth in sectors like computer and communication services, and retail. However, the EU's investment in India has not matched this potential due to policy challenges and uncertainties over a new investment agreement. Despite being a significant FDI contributor, EU investments have not kept pace with India's economic growth. Nevertheless, India's growth and aspirations as a manufacturing hub offer the EU an opportunity to diversify and de-risk foreign investments amid global challenges.

However, numerous challenges lie ahead that could impede the growth of the economic relationship. The absence of a comprehensive bilateral trade agreement and an investment protection agreement have been longstanding issues, limiting the potential for growth in trade and investment. Market access restrictions in India, particularly those pertaining to the alcoholic beverages, pharmaceutical, and the automobile sectors, have also been a source of contention. India's termination of BITs and complex and discriminatory procurement policies hinder progress.

The divergent approaches to data governance between the EU and India present another substantial challenge. The emerging misalignment in these frameworks could complicate the negotiation of a bilateral trade agreement and the exchange of data, which is essential for businesses operating in both regions.

Reconciling the EU's sustainable development agenda with trade policy is another major challenge. The EU seeks to project its regulatory power through trade agreements, while India's post-colonial identity makes it sensitive to any perceived imposition. India's suspicion of sustainable development standards as hidden protectionism

further complicates negotiations. In addition, the EU's unilateral measures, such as the IPI and the CBAM, could impact the EU-India economic relationship. Both sides need to address these challenges, with the EU convincing India of its non-protectionist intentions and India recognising the EU's commitment to sustainable development.

The EU-India relationship, while marked by growth and mutual benefit, faces significant challenges that need to be addressed for the partnership to reach its full potential. Their resolution requires both parties to engage in open dialogue, respect mutual interests, and commit to a shared future.



Strategic Integration: EU-India Cooperation in 2030

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India-EU Relations: A Strategic Perspective

By 2030, India will have had formal diplomatic relations with Europe for almost seven decades, since it was among the first countries to establish these with the European Economic Community in 1962. Following the creation of the European Union (EU) in 1993, India signed a Cooperation Agreement in 1994 which opened the door for larger political interactions. The next stage of the relationship came with the signing of the EU-India Strategic Partnership in 2004. At the 2005 Summit, the EU-India Joint Action Plan was adopted. This defined common objectives and proposed a wide range of supporting activities in the areas of political, economic, and development cooperation.

The Joint Action Plan was reviewed at the 2008 Summit which has since focused on promoting four priorities:

- peace and comprehensive security,
- sustainable development,
- research and technology, and
- people-to-people and cultural exchanges.

While broad-based, the partnership between the EU and India has been, since the beginning, slow-moving and fragmented. On the other hand, individual EU member states have adopted pragmatic and forward-looking engagements with India.

As a result, the India-EU partnership has been limited and largely remained confined to bilateral trade. Even as the EU emerged as India's largest trading partner and most sustained foreign investor, the overall relationship remained devoid of any strategic content. Security, defence, and other strategic issues were dealt with at the bilateral level with large EU member states.

It may therefore be important to understand New Delhi's viewpoint as to why far greater energy now attaches to talks at the European level than earlier. From India's viewpoint, the EU's attitude and relevance have changed for several reasons.

First, India is already the fifth-largest economy in the world and is poised to overtake Germany and Japan by 2030 to become the third largest, behind the US and China.

Second, European strategic priorities are now frequently set at an EU-wide level, and India is a crucial partner for many of these priorities. Economic security; for example, India expects it will emerge as a future alternative supplier of manufacturing goods, which could help reduce Europe's reliance on China.

Third, as a developing nation, India has rising energy needs and is also working towards increasing the percentage of renewable energy in its energy matrix. Moreover, its goals and ambitions to become a carbon-neutral nation resonate in the EU's policy frameworks. Given the weight India carries in the multilateral climate negotiations, it has to be part of any realistic solution to the global climate challenge.

Fourth, India, the world's most populous democracy at the centre of the volatile Indo-Pacific region, can emerge as a critical stabilising actor in an increasingly fractious geopolitical system.

For its part, India has been steadily increasing its outreach to the continent at bilateral, sub-regional and EU levels. However, if one looks closely, India still tends to approach Europe through bilateral relationships with each member state, rather than treating it as a whole. The EU is seen in India primarily as a regional economic organisation and major trade partner.

Given the complexity of the EU's structure and division of competencies among its institutions and member states, its political, strategic and security dimensions often lack clarity for its Indian observers. It is also seen mainly as a 'soft' power, and not generally considered to be in the same category as other major powers such as the US or the Russian Federation. While its global role is appreciated, it is usually underestimated.

Moreover, many Indian policymakers consider that European attention was focused solely on China for a long time, limiting the potential of the EU's relationship with other Asian countries.

From 2016 onwards, however, there has been a shift in the atmosphere, rhetoric, and action. On the one hand, India has increased its political and economic outreach to Europe; on the other, the EU has redefined its strategic outlook towards the Indo-Pacific as it re-examined its relationship with the People's Republic of China. Senior political visits to Europe from India have increased substantially, with various annual summit-level meetings such as with the Nordic countries.

Importantly, strategic convergence at the highest level has meant that the scope of the partnership has increased. In the past two years, India and the EU launched defence consultations, a maritime security dialogue, a working group on 5G telecom technology, and an artificial intelligence task force; revived a human rights dialogue; and expanded the scope of maritime co-operation.

This strategic closeness comes at a time when the domestic economic approaches of both India and the EU have undergone major changes. Many of these changes are intended to address issues both jurisdictions have in common—such as sustainable modernisation, technological shifts, digitalisation, climate change and security challenges.

India followed through on the 2014 launch of the 'Make in India' initiative, meant to promote domestic manufacturing, with the 2020 announcement of '*Atmanirbhar Bharat*' (self-reliant India). Depending on how they are seen, they both aim to reduce India's dependence on imports by promoting manufacturing in India, or to promote diversification of supply chains in the region. For its part, the EU has undergone a major shift in its internal and external economic strategy alongside the European Green Deal. A new investment screening mechanism has been implemented, an industrial strategy updated, and so on. All these domestic developments are reflected in external trade policy and, thus, in trade negotiations between India and the EU.

The two policies adopted by the EU in 2018—EU's strategy on India and Enhanced EU Security Cooperation in and with Asia—offer a course-correction for the Union. While the EU's strategy on India reflects that the EU no longer views India from a 'trade lens' only and recognises that India plays 'an important geopolitical role' in Asia as well as globally,³ the Enhanced Security Cooperation in and with Asia emphasises that the EU 'recognises the increasing importance of Asian security for European interests'.⁴ These strategies represent a response to broader geopolitical developments and underline the recognition of challenges emerging from China, not just for Europe but also for the balance of power in Asia. These strategies are aimed at diversifying the EU's partnerships in the region and represent the fundamental shift in the EU's outlook towards Asia to look beyond China.

These strategies have been welcomed in India. Crucially, from the point of view of the economic relationship in 2030, they are read as both sides re-examining the role they can play in each others' growth stories.

In July 2020, at the 15th EU-India Summit, a "Roadmap to 2025" was released that raised the profile of collaboration on security, digitalisation, and connectivity in particular.⁵

In the context of various competing global infrastructure schemes, the EU and India in 2021 established the EU-India Connectivity Partnership, that it intended would finance both digital and physical connectivity. From the Indian point of view, the EU and Japan are essential partners on both kinds of infrastructure. The political effect and local sustainability of EU and Japanese infrastructure investment is predictable and generally positive; the eventual product is of a certain minimum quality and meets sustainability standards; and there is at least some public money available in those jurisdictions that can help crowd in private capital.

³ European Commission, 2018, [Elements for an EU strategy on India](#)

⁴ European Council, 2018, [Enhanced EU Security Cooperation in and with Asia – Council conclusions](#)

⁵ European Council, 2020, [EU-India Strategic Partnership: A Roadmap to 2025](#)

In April 2022, the EU and India launched a Trade and Technology Council (TTC), which is designed to be a more forward-looking—albeit limited—alternative to broader trade talks. It is focused on sectors that are expected to be important for future growth and economic security, including cutting-edge telecom and green supply chains. As with the EU-US TTC launched earlier, the hope is presumably that this identification of areas of common interest will both energise and detoxify the broader trade relationship.⁶

In June 2022, negotiations for a comprehensive Bilateral Trade and Investment Agreement (a free trade agreement, or FTA) between the EU and India were resumed. Much optimism had surrounded previous efforts to achieve a free trade agreement from 2006 to 2013. However, the differences between the two sides proved intractable. India and the EU have also simultaneously launched negotiations for an Investment Protection Agreement and a Geographical Indicators (GI) Agreement.

It remains to be seen whether the positive momentum and the political will in India-EU relations will be sufficient to overcome the obstacles encountered in previous rounds of negotiations. Given the upward trajectory in relations, the strategic partnership between the EU and India can potentially be a major economic force over the next decade.

Looking beyond trade has led to a fresh look at trade. This fresh strategic energy is the context in which new trade endeavours have also begun and old ones re-opened. FTA negotiations had essentially been declared dead in 2013. They have now been revived, following the earlier revival of an investment dialogue.

Within New Delhi and European capitals, there is a certain degree of mutual strategic comfort despite differing approaches to global challenges such as the illegal Russian invasion of Ukraine, climate change, and food insecurity. Policymakers have assumed that India and the EU have similar values-based approaches to great power rivalries, unilateral actions challenging the multilateral order, and inclusive supply chains.

⁶ European Commission, 2023, [New Trade and Technology Council to lead on digital transformation, green technologies and trade](#)

With an enhanced focus on their strategic relations and engagement with other like-minded regional players, India and the EU can play a significant role in preserving an open, free, inclusive, and rules-based order. To reach this strategic goal, however, closer economic integration between the two jurisdictions is seen as a priority.

An underperforming trade relationship

Another reason for a fresh look at trade is the understanding that the EU-India trade relationship is in need of deepening and widening. This is particularly true of trade in goods. The Union is India's third largest trading partner, with US\$116 worth of trade in goods in 2021-22, representing 10.8 percent of total Indian merchandise trade.⁷ India is, however, the EU's 10th largest trading partner, accounting for two percent of the EU's total trade in goods. This trade between the two partners has witnessed an increase of about 30 percent in the last decade.

Figure 1: India's trade with the EU (US\$ Billion)



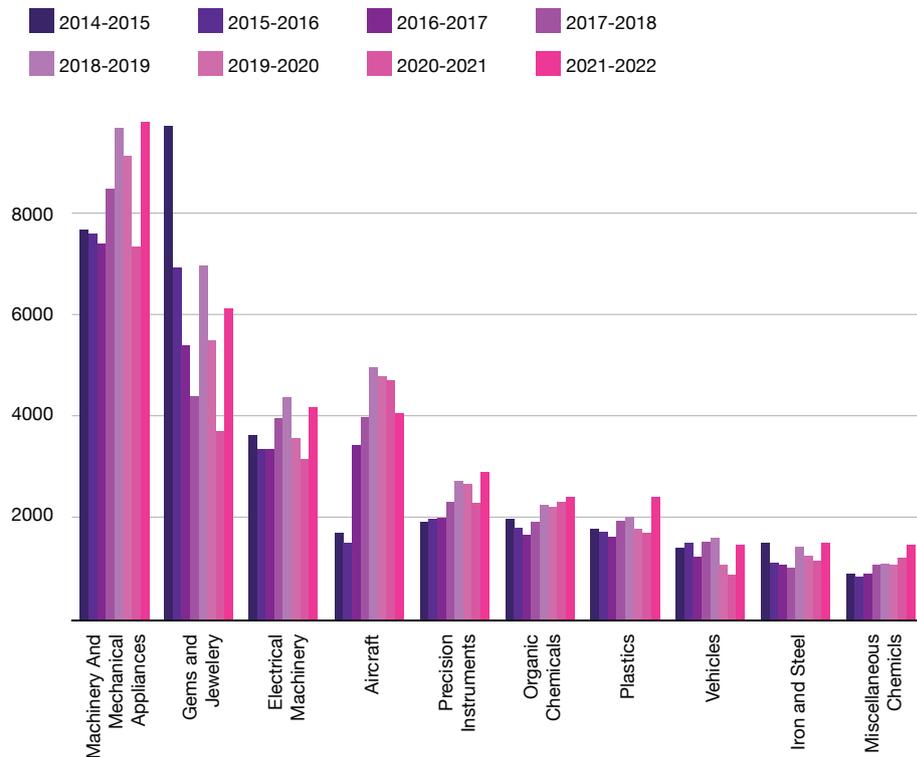
Data Source: Ministry of Commerce and Industry

⁷ European Commission, 2023, [EU trade relations with India](#)

Imports into India from the EU experienced some growth over the past two decades, increasing from US\$12.6 billion in 2000 to US\$46 billion in 2021. The EU's exports to India peaked, however, in 2011, and since then have only once crossed US\$50 billion in a year. India's exports to the EU have seen a similar range-bound trend. Apart from the pandemic year of 2020 and the post-crisis year of 2009, exports have remained between US\$40 billion and US\$55 billion since 2007. In comparison, between 2011 and 2021, China's exports to India increased from US\$50.5 billion to US\$97.5 billion.⁸ The level of underperformance can easily be gauged from this comparison.

India's import basket from the EU has a large component of precious stones, representative of India's position as a major centre for jewellery production and polishing. Other than that, however, imports are heavily biased towards high value-added manufacturing and precision goods.⁹

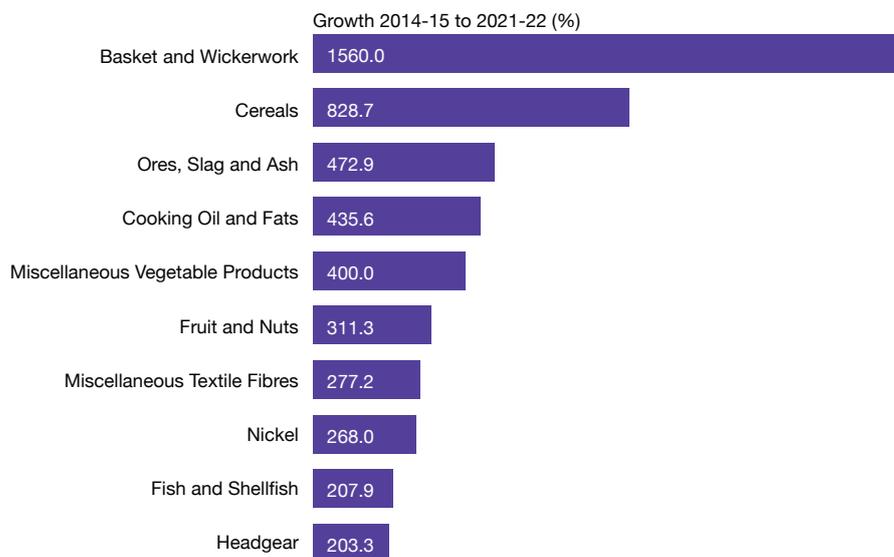
Figure 2: Imports from EU to India (US\$ Million): Top 10 commodities



Data Source: Ministry of Commerce and Industry

⁸ This trade data is from UN COMTRADE, and thus are nominal figures that are not adjusted for inflation.

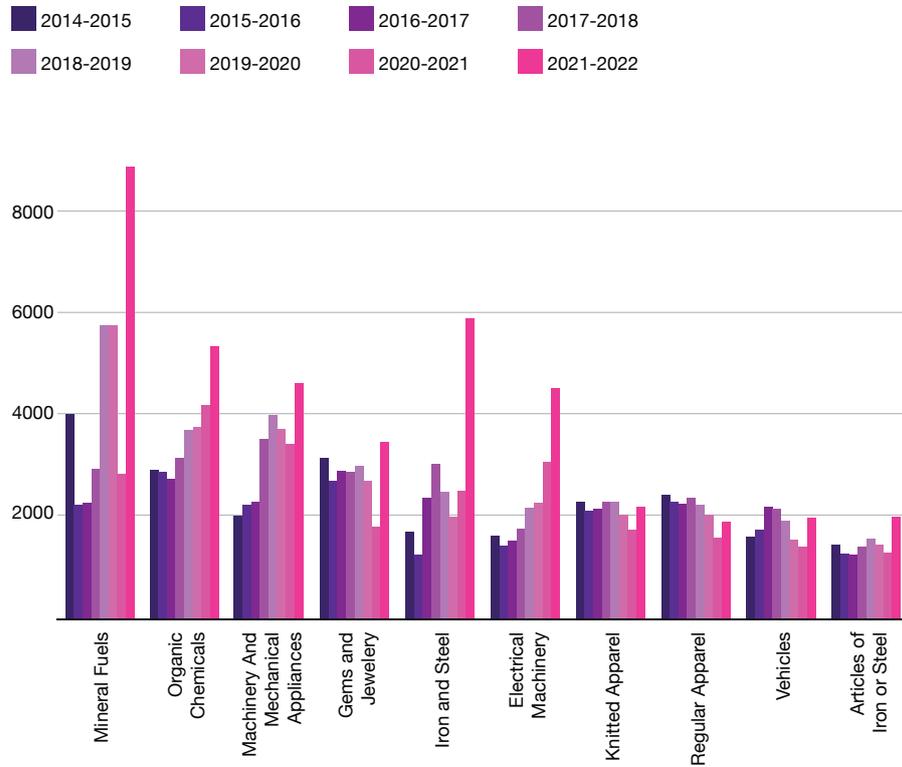
⁹ Eurostat, 2022, [India-EU – International trade in goods statistics](#)

Figure 3: Fastest Growing Imports from the EU from 2014-15 to 2021-22

Data Source: Ministry of Commerce and Industry

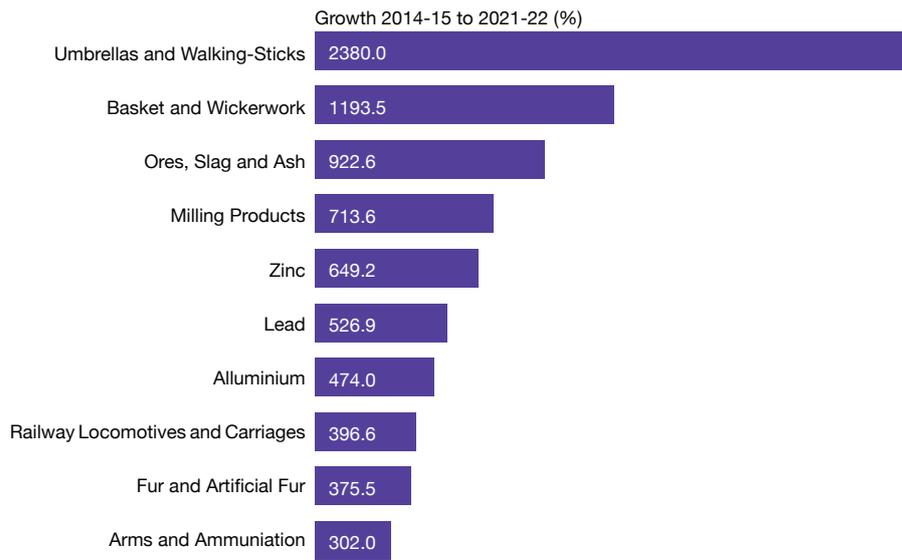
Indian exports to the EU, by comparison, include a large component of organic chemicals and mineral fuels, alongside basic products such as iron and steel. Notably, items such as garments—often a dominant component of imports into the EU from countries at India’s stage of development—are relatively small. Partly this is because India no longer has duty-free access to the European market, as against competitors such as Bangladesh.

Figure 4: Exports from India to the EU (US\$ Million): Top 10 commodities



Data Source: Ministry of Commerce and Industry

Figure 5: Fastest Growing Exports to the EU from 2014-15 to 2021-22



Data Source: Ministry of Commerce and Industry

India's economic priorities and trade

Deepened trade and investment linkages, especially with the EU, need to be analysed and evaluated in terms of the Indian government's expectations and requirements for economic growth and sustainable development over the next decade. These priorities may also illuminate India's decision to opt out of the China-centric Regional Comprehensive Economic Partnership and the trade pillar of the US-led Indo-Pacific Economic Framework, and its renewed focus on bilateral trade agreements.

In this section, we will briefly examine five economic priorities of the Government of India and locate the role of trade and investment partnerships within those priorities. In the rest of the chapter, we will aim to provide the political economy context for a more detailed and sectoral discussion. We will also pinpoint some major legal and regulatory changes or reforms that are beyond the scope of trade negotiations per se but are necessary or useful preconditions for agreement on new trade linkages between India and the EU.

The five economic priorities we have identified are:

1. Increasing economic security and resilience
2. Embedding India in global value chains (GVCs), especially in manufacturing;
3. Enhancing productivity and welfare through the digital transformation;
4. Creating a new growth engine through investing in the green transition;
5. Restoring private sector and particularly corporate investment to its pre-global financial crisis levels.

Trade and investment policy has a major role to play in each of these five priorities.

1. Increasing economic security and resilience

The first and second priorities, economic security and GVCs, are interlinked. In both, the role of trade policy is obvious to observers. Yet these two objectives for government policy can lead to decision-making that is somewhat contradictory and, in many cases, counterproductive.

The two jurisdictions have both developed approaches to economic security in recent years. In the EU, trade policy has been defined as aiming for 'open strategic autonomy'. The EU's strategy for the Indo-Pacific has highlighted that its engagement in the region "should contribute to

strengthening Europe's strategic reach and security and to securing the resilience of its supply chains".¹⁰ Trade policy is described as "open, sustainable and assertive".¹¹ The illegal invasion of Ukraine by the armies of the Russian Federation in 2022 has meant that economic security and resilient supply chains are now a matter of political consensus within the EU.

For India, however, the defining moment in its recent shift towards economic security and resilience was the pandemic outbreak in 2020. Prime Minister Narendra Modi's first major policy speech after the pandemic hit introduced the concept of an 'Atmanirbhar Bharat'. This rapidly became the mantra underlying policy shifts in multiple sectors, although the interpretations of the phrase were confusingly diverse. No concrete meaning has come to be attached to 'self-reliance' in India. In practice, any policy shifts—from production and research subsidies to new trade agreements—have been designed to increase self-reliance. No specific policy document or white paper lays out what 'self-reliance' means in India; thus, each ministry or bureaucrat feels free to define it in their preferred manner.

The term 'self-reliance' does have specific historical echoes that should be noted, and are not always clear to outsiders. India has a long and emotion-laden attachment to the notion of '*swadeshi*,' or 'self-sufficiency'. The idea initially evolved in the pre-independence era and was, as designed by Mahatma Gandhi, a method of breaking the ties of economic dependence that linked India to its colonisers in Great Britain. Indians were encouraged to reduce their consumption of British imports, particularly machine-made textiles; the iconic image of Gandhi with a spinning wheel on which he was hand-spinning fabric for his clothes was meant to popularise the concept. India's first prime minister, Jawaharlal Nehru, was less attached to *swadeshi*—but the concept was taken up and taken forward by the Rashtriya Swayamsevak Sangh (RSS), the right-wing organisation that is the ideological core of India's ruling Bharatiya Janata Party. The RSS's affiliated economics cell calls itself the 'Swadeshi Jagran Manch,'¹² (Self-sufficiency Awakening Movement).

¹⁰ European Commission, 2021, [The EU strategy for cooperation in the Indo-Pacific](#)

¹¹ European Commission, 2021, ["Trade Policy: Q&A on EU Trade Strategy"](#)

¹² The Quint, 2019, [What is the RSS' Swadeshi Jagran Manch & How Influential Is It?](#)

The difference between the two definitions of economic security—'self-reliant India' and 'open strategic autonomy' for Europe—is worthy of analysis. India has grown increasingly disillusioned by what it sees as a declining multilateral order that sets the rules for international trade, among others. This has caused it to return to its historical preference of creating room to manoeuvre between competing global blocs.¹³ The crucial tool that India has used to achieve this end and to preserve its ability to meet growth and development targets is the size of its domestic market. The sheer size and dynamism will, policymakers hope, insulate Indian consumers and producers in the age of polycrisis. (This has interesting parallels to the EU's planned use of unilateral and extra-territorial policies, such as the draft law on supply chain transparency and the Carbon Border Adjustment Mechanism. To an extent, it also reflects current thinking in the United States.)

The additional complication, however, is that since open clashes on the disputed border with the People's Republic of China in 2020, in which Indian soldiers were killed, policymakers in New Delhi have been increasingly open about the need to define economic security through partnerships that can help diversify away from China. This has been the strategic impetus behind the shift in India's overall approach to trade negotiations visible in recent years.

This shift reflects underlying questions about how Indian policymakers define economic security in an interconnected trading world.

A country achieves economic security in its broadest and most sustainable sense when it is part of resilient supply chains and has an economic base that produces tradable goods and services at a competitive price and quality level. However, a narrower sense of economic security can sometimes prevail in which the target of policy can be import substitution or reduction. Arguably, it is the latter that has prevailed in practice in India in recent years. Since 2015, the share of India's tariff lines that are above 15 percent has increased. Meanwhile, the number of duty-free tariff lines in 2021 is lower than it was in 2010.¹⁴

¹³ Sharma, Mihir, et al., 2022, [Building EU-India Synergy: Allying Sustainable Modernisation and Strategic Autonomy](#)

¹⁴ East Asia Forum, 2023, [Global value chains, the missing link in India's trade strategy](#)

2. Embedding India in GVCs, especially in manufacturing

However, an economic-security strategy prioritising import substitution does not sit well with the second objective of integrating further into global value chains (GVCs). This balance will be examined further in the section below on Indian imports from the EU and the role they could play in modernising India's economy, rebalancing India's trade, and enhancing integration into global production and trading processes.

It should be understood, however, that the Indian government's somewhat doubtful approach to GVCs as they currently exist is paradoxically a crucial driver for new FTA discussions in New Delhi. Indian policymakers view current GVCs as excessively dependent on China, and new FTAs are seen as a component of rebalancing from this dependence.

It is also the case, however, that India's existing FTAs—in particular with Southeast Asian countries—are seen as having disadvantaged India's producers.¹⁵ It is hoped that signing new FTAs with 'complementary' economies in the developed world rather than 'competitor' economies in Southeast Asia and elsewhere would counteract the problems with existing FTAs. But it is necessary, if entering into GVCs, to remain open to the possibility of imports from other developing economies that are also part of the GVC. This is not very well appreciated in New Delhi at the moment.

3. Enhancing productivity and welfare through the digital transformation

The third priority, the role of the digital transformation in Indian growth and modernisation, is of special importance to India's policymakers and is one of the strategic underpinnings of the India-EU partnership in particular. This will be discussed below when it comes to the role of digital trade and harmonised regulations in a possible trade agreement between India and the EU. The strategic convergence between India and the EU is quite strong in this sector and should be a major driver for closer economic integration.

¹⁵ The Hindu, 2021, [Goyal pushes for a reset of India-ASEAN FTA](#)

In general, the Indian government's approach to the digital transformation and its links with trade has prioritised the indigenisation of revenue streams and profit-making, as well as local control of data. This contrasts with the approach in many developed markets. However, the basic motives for such actions—the desire to ensure that future profits from the sector do not flow exclusively to North American tech giants—is not very different from what motivates several European policymakers.

India also believes it has a unique policy proposition for a digitalising world: digital public infrastructure.¹⁶ Its approach to payments systems, which melds public provision of a platform with ample space for entrepreneurship and private sector profit-making on that platform, has been generalised to other sectors, from health to financial services. Indian policymakers will hope that this model is promoted further in any future trading arrangements the country enters into.

4. Creating a new growth engine through investing in the green transition

The integration of trade policy with the green transition is an even more complex endeavour. The green transition within India—as in many other places—is seen by policymakers as a source of economic dynamism, job creation, and investment-friendly reform.

Many aspects of government action in India, from industrial to fiscal policy, have been retooled to centre climate change-related priorities. 'National missions' that focus administrative and political energy have been launched in India across multiple green domains: renewable energy, including hydrogen, reliable drinking water, and on the circular economy. Each mission has been designed to attract investment, deal with a specific environmental concern, and improve quality of life.

Green priorities also intersect interestingly with Aatmanirbhar Bharat and economic security (the first priority) in a manner that reinforces government commitment to the transition.

For example, reducing India's reliance on fuel, food, and fertiliser imports is a major objective.¹⁷ This is partly because managing the prices of these essentials is politically important.

¹⁶ Observer Research Foundation, 2023, [Digital Public Infrastructure – lessons from India](#)

¹⁷ News on Air, 2022, [“G20 discusses Food, Fuel and Fertilizer Security; What are India's Key Policies to address these concerns?”](#)

But it is also because small shifts in cost to the Indian basket of fossil fuel imports, for example, can cause major currency fluctuations and substantially weaken India's external account. S&P Analytics has estimated that a 10 percent increase in the global crude price increases wholesale inflation by a percentage point and consumer inflation by about half that; it also raises India's current account deficit by 0.4 percent of GDP.¹⁸

Thus, green priorities from the energy to the mobility transition have been embedded across various policy-making domains. Trade policy is a notable exception, partly for historical reasons.

Like many developing countries, India has traditionally viewed environmental issues as being separate from trade issues and further argued that any integration of the two would amount to protectionism against the global south. There are thus legitimate questions about how to manage the contrast between the EU's emphasis on sustainable development in its recent trade agreements with India's traditional stance. These issues are further explored in the section on challenges created by trade and sustainable development (TSD) chapters in recent EU agreements.

Yet there are specific sectors in which the challenges of the green transition create an impetus for greater trade integration. These include the hard-to-abate sectors with complex, carbon-intensive supply chains, such as steel and cement.

For some Indian policymakers, trade negotiations are also a way to minimise the cost to hard-to-abate sectors in India that would be imposed by carbon tariffs under programmes such as the Carbon Border Adjustment Mechanism (CBAM). European views on whether this is a fit subject for trade negotiations might differ sharply.

For corporations, however, navigating a post-CBAM world will be made easier by closer integration of these sectors across India and the EU, so that technology and authorisations can flow easily across borders.

¹⁸ S&P Global, 2022, "[Oil's rally towards \\$100/b may diversify India's crude buying further, says FIPI chief](#)"

5. Restoring private sector and particularly corporate investment to its pre-global financial crisis levels

The final major economic priority for Indian policymakers is increasing the scale of investment in the economy, particularly private-sector and corporate investment.

The EU continues to be one of India's largest sources of foreign direct investment (FDI), with FDI inflows from the EU to India valued at US\$98.5 billion from April 2000 to June 2022.¹⁹ However, this aggregated over time only to 1 percent of foreign investment holdings of EU-based investors. India's share is thus well below EU foreign investment stocks in China (€201 billion, or about US\$221 billion or 2.5 percent) or even Brazil (€263 billion, or about US\$287 billion or 2.8 percent).^{20,21} India's FDI in the EU is also relatively small, with total outflows being US\$37.2 billion from April 2000-September 2022.²²

Given the EU's relatively low investment stock in India, there is significant potential for growth. It could be argued that some proportion of European FDI into India is routed through tax havens, which, as discussed in the section below, are responsible for a large part of net inward FDI for India. Yet, while it is true that absolute levels might underestimate the amount of European-origin investment stock in India, it is not clear why the proportion routed through tax havens into India would be larger than for other destinations such as Brazil. The point about comparative underperformance, therefore, continues to hold good.

Given that reversing this will be a major determinant and component of any closer integration between India and the EU, it is the subject of the next section.

¹⁹ Ministry of Commerce and Industry, 2023, [Foreign Trade \(Europe\)](#)

²⁰ European Commission, 2023, [EU trade relations with India](#)

²¹ Eurostat, 2023, [EU's net investment position up 21% in 2021](#)

²² Indian Ministry of Commerce and Industry, 2023, [Foreign Trade \(Europe\)](#)

In the Driver's Seat: The India-EU Investment Relationship

India's investment crisis

India is suffering through a crisis of investment, particularly private sector investment. The last spell of sustained high growth in the economy ended in 2012. That was also the last year in which, according to World Bank national accounts data, private investment was higher than 30 percent of India's gross domestic product. Since then, there has been a sustained decline in the share of private-sector investment.

Increasing corporate investment has been a major priority for the Indian government. It has reformed taxes and focused a lot of its energy on cleaning up balance sheets, including in the banking sector. Corporate tax rates were lowered from 30 percent to 22 percent and taxes for greenfield manufacturing plants were reduced from 25 percent to 15 percent.^{23,24} The Reserve Bank of India (RBI) claimed that the private sector saw 'healthy growth' in its revenue and profits in the last financial year. Yet none of these efforts have succeeded in sustainably increasing private sector investment. Indeed, the share of capital expenditure made by corporations in India's GDP has not even recovered to its pre-pandemic level.²⁵

²³ Reuters, 2019, [India cuts corporate tax to boost investment](#)

²⁴ Fortune India, 2022, [Lower tax rate for new manufacturing units to have sunset clause: Tarun Bajaj](#)

²⁵ Deccan Herald, 2023, [Why are corporates not putting their money where their mouth is?](#)

There could be many reasons for this relative unwillingness to invest. Two limiting constraints on private investment that are particularly relevant are geographical diversification and capacity utilisation. Both indicate that a solution to the private investment problem in India could most effectively come from greater economic integration and a large-scale increase in its attractiveness to foreign direct investment or FDI. A conversation about investment agreements and protections with the EU must be framed at least partly to address these problems.

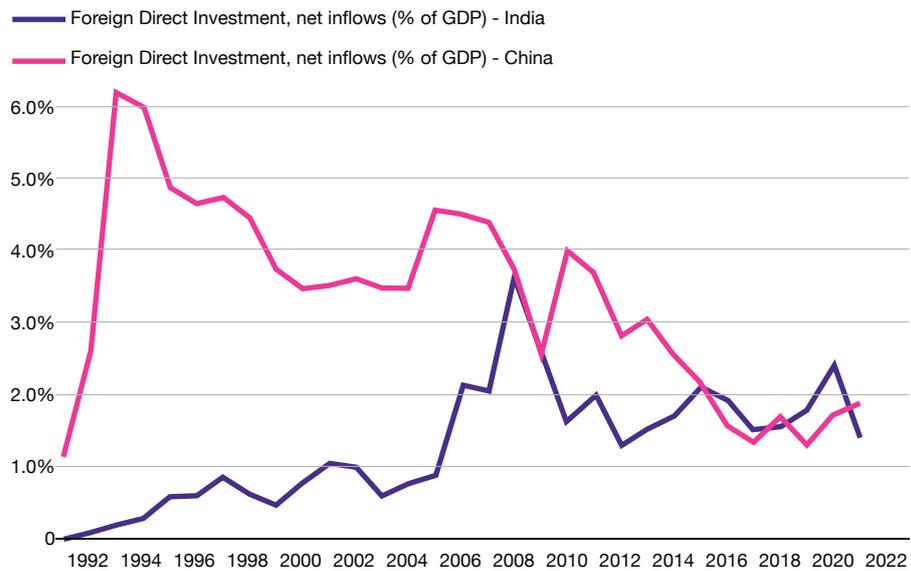
The first constraint—capacity utilisation—has been long understood. The RBI presents data on idle and utilised productive capacity in the economy; the latest figure, for the third quarter of calendar year 2022, says that 26 percent of installed productive capacity in the economy stood idle.²⁶ The general rule of thumb in India has been that corporations begin to invest when idle productive capacity dips below 20 percent. This has, however, not happened for at least a decade. One reasonable conclusion from this data is that India's current productive capacity and investment rate seems more than enough to keep up with the domestic demand it is meant to serve. There is thus no major domestic incentive for increased corporate investment. Such an incentive could only be provided by the opening up of new markets and opportunities.

The second constraint, geographical diversification, is not easily visible in the data except in terms of a sustained increase in capital outflows from India. It is, however, visible in investment announcements and corporate statements. Essentially, the presence of political risk in India and the relative ease of outward investment means that corporate entities in India are incentivised to diversify their operations geographically and thereby balance their political risk. The strength of this incentive explains why mechanisms such as increasing the flow of bank credit to corporations has not led to a sustained increase in their investments within India. In the presence of local risk, additional investible capital with the Indian private sector may now simply flow to productive uses abroad rather than within the country. An increase in corporate investment thus may only come from foreign sources, which are not subject to this incentive to hedge away political risk.

²⁶ Ibid.

While India's leaders have highlighted their success in luring more foreign direct investment to the country, this must be placed in context. India has always depended less on FDI than the People's Republic of China has. As seen in Figure 6, during China's high-growth period, FDI into the country was consistently a larger proportion of gross investment in that economy than it has ever been in India.

Figure 6: India and China, comparative FDI percentage, since 1991



Data Source: World Bank

This investment penetrated far deeper into the Chinese economy than in India; official data from Beijing is that enterprises dependent upon foreign investment conducted more than 50 percent of China's trade in 2010, produced almost one-third of its manufacturing, and over 20 percent of the sector's profits.²⁷ In India, by comparison, the share of FDI in 2018 as a percentage of gross capital formation in the economy was only 5.1 percent, an increase of a mere two percentage points in two decades.²⁸

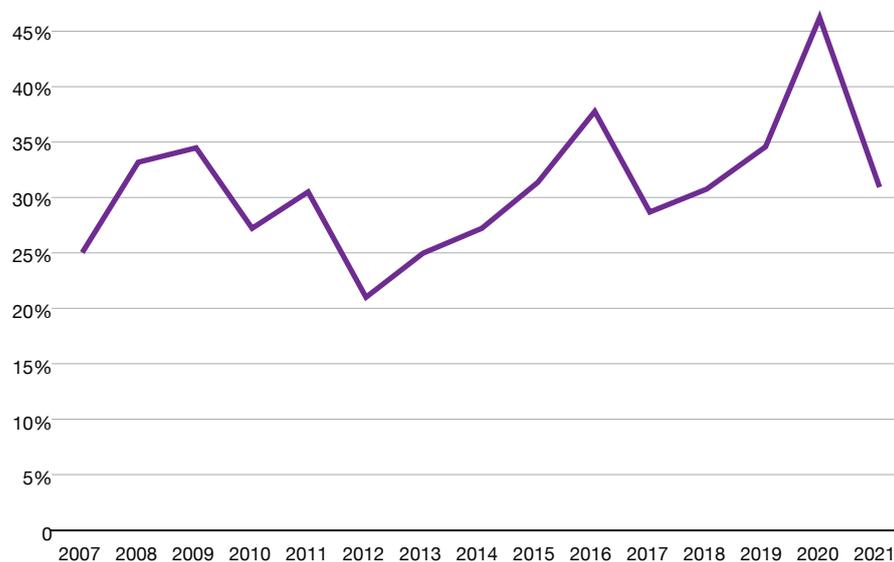
²⁷ World Bank, 2010, [Foreign Direct Investment – the China story](#)

²⁸ Keshab Bhattarai and Vipin Negi, 2020, [FDI and Economic Performance of Firms in India](#)

Certainly, India has become more open to FDI since 2014. Actions that were earlier seen as politically controversial have been taken with little or no pushback. Sourcing norms for foreign-owned single-brand retail were relaxed in late 2019. There was a flurry of additional efforts after the pandemic, including raising the cap on FDI in defence production over 50 percent. Foreign investment into the pensions and insurance sector was earlier seen as dangerous enough for governing coalitions in New Delhi to be threatened.²⁹ Yet, by 2021, the Union Cabinet could liberalise FDI in insurance without any political pushback.³⁰

Initial investor enthusiasm has, however, fizzled out somewhat according to the data. When considered as a percentage of GDP, FDI seems to have broadly stagnated between 1.3 and 2 percent for a decade or so. This is not a product of a broader unwillingness to invest in middle-income countries. Even as a proportion of the total FDI into middle income countries, India still had not matched, by 2019, the share it had in 2008.

Figure 7: FDI to India as a percentage of FDI to all countries at its income level



Data Source: World Bank

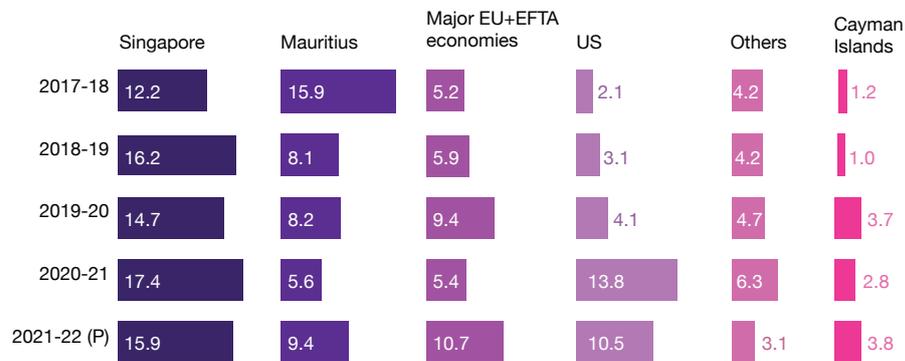
²⁹ The New Indian Express, 2012, FDI in pension: [Mamata asks UPA partners to quit Manmohan government](#)

³⁰ The Indian Express, 2021, Cabinet paves way for raising FDI limit in insurance sector to 74%

European investment, however, occupies a special place of importance for India because it is high, sustainable, and transparent. Till recently, foreign investment into India was often dominated by flows through low-tax jurisdictions such as Mauritius or the Cayman Islands. Some of these may have been, and might continue to be, routes for European funding.

However, even when these groups are excluded for clarity, it is clear that the remaining flows from the EU and the European Free Trade Area together were of particularly high quality and magnitude. In some recent years, European investment has been higher than investment from the US and Japan put together.

Figure 8: Six largest sources of Indian FDI since 2017 (US\$ Billion)



Note: (P) indicates provisional data
Data Source: RBI

It should be noted that FDI inflows into India are not just determined by Union government trade and investment policies, but by state-level openness. Recent econometric research into the distribution of FDI between Indian states by Bhowmick and Saha (2020) has revealed that three economic belts have dominated inward FDI: Delhi in the north, Maharashtra and Gujarat in the west, and Tamil Nadu/ Andhra Pradesh/ Telangana in the south.³¹ Over 90 percent of FDI flows into just seven states and union territories.

³¹ Observer Research Foundation, 2020, [Foreign Direct Investments in Indian States: The SDG Cornerstones](#)

Overall, the expectations of a decade ago were that accelerated economic reform under Modi would cause India to be a major attractant for FDI, at the level of China during its high-growth period. That these hopes have not been fulfilled is crucial to understand the motive force behind greater economic integration for the Indian government.

Investment, integration, GVCs, and ‘Make in India’

Possible investment benefits from greater economic integration with the EU should be understood in terms of the Indian government’s own expectations and hopes. In particular, the ‘Make in India’ rhetoric from early in Modi’s first term sought to induce FDI into job-creating mass manufacturing. In his first Independence Day speech in August 2014, he introduced the concept clearly and based it on economic openness: “Now India can not decide its future by remaining isolated and sitting alone in a corner... if we have to provide more and more employment to the youth, we will have to promote the manufacturing sector... and for this, we invite the world’s economies. Therefore I want to appeal to all the people world over: ‘Come, make in India’, ‘Come, manufacture in India’. Sell in any country of the world but manufacture here.”

The notion that FDI would turn India into a hub of GVCs is at the heart of Modi’s original plan for India’s economic development and integration. Foreign investment, manufacturing growth, and economic integration were clearly interlinked in the government’s policy imagination at that point in time.

However, ‘Make in India’ in practice emphasised the investment aspect and de-emphasised integration. While several major attempts at deregulation, including of labour law, were pushed forward in the initial ‘Make in India’ phase between 2014 and 2019, the broader business environment did not change sufficiently. This paradoxically made it easier for the government to shift towards greater protectionism and higher tariffs in the name of manufacturing growth; ‘Make in India’ as a slogan defeated ‘Make in India’ as reality on the ground.

Given its emphasis on investment promotion, it is not surprising that FDI in the years immediately after Modi’s announcement of the ‘Make in India’ programme was almost evenly balanced between services and industry.

But in subsequent years, and particularly since 2019, services have outscored industry two to one. It is possible that manufacturing FDI might even have fallen.

This is despite the original hope that FDI would flow into manufacturing and scale sufficiently to provide a significant additional source of capital for Indian growth, the way it had for China in its high growth period. In other words, FDI into India should scale from 1.5 percent to 2 percent of GDP to the 4 percent to 6 percent of GDP level that served as an impetus for China's growth.

A sectoral examination of recent reform might reveal the government's specific expectations from FDI. Relaxations of FDI restrictions have been announced for the defence sector, pharmaceuticals, insurance, coal mining, construction, aviation, and even railway infrastructure.³² Policy changes, it appears, may be driven by specific funding requirements in specific sectors, and not by broad ideological shifts. The degree to which these sectors are ones in which European investment could transform technology and capacity is worth noting.

Is greater integration objectively necessary, given FDI reforms? Yes, since, if benchmarked against global standards, India is still relatively restrictive of foreign investment and ownership. The Organisation for Economic Cooperation and Development (OECD) produces an FDI Index that compares the various legal and regulatory restrictions placed on foreign investment in OECD members to those in several major emerging economies. In its 2021 ranking, India was close to the bottom of the list.³³

Institutional protection for foreign investment into India has also suffered in recent years. Shortly after Modi's government took office in 2014, it unilaterally ended participation in many of India's bilateral investment treaties (BITs); 74 of these, out of 87, had been revoked by December 2020.³⁴ This was seen as a major negative signal by major foreign investors, including EU firms. Indian negotiators and policymakers were warned of the negative effects of the BIT on foreign investment flows into India but went ahead anyway.³⁵

³² Department for Promotion of Industry and Internal Trade, 2021, [Foreign Direct Investment Reforms in India](#)

³³ OECD, 2021, [FDI Restrictiveness Index](#).

³⁴ The Diplomat, 2020, [India's Flawed Approach to Bilateral Investment Treaties](#)

³⁵ Reuters, 2018, [India's proposed investment treaty terms leave foreign partners cold](#)

Research has suggested that this action has had a substantial effect on FDI and caused a relative reduction of between 14 and 28 percent in investment flows.³⁶ The new ‘model’ bilateral investment treaty India proposed as an alternative was clearly a rollback in protections for foreign investors and observers described it as “tilting the scales in favour of the host state”.³⁷

Investors were concerned by several protectionist elements in the new model BIT. Instead of protecting investors’ assets, for example, the new BIT shifted to an ‘enterprise’-based methodology. Various legally indeterminate criteria were included to identify the enterprises that needed protection and how much, for example, they needed to satisfy an unspecified ‘duration of existence’ requirement. Further, legally unimplementable assurances replaced what had been, in the older BITs, the enforceable requirement for fair and equitable treatment for foreign investors.³⁸

The government has also soured on offshore arbitration. It has repeatedly fought—and usually lost—major arbitration cases filed by foreign investors. When it loses, it can sometimes refuse to implement the arbitration rulings, saying it will settle issues bilaterally and on its own terms.

In December 2020, for example, it was ordered to pay US\$1.2 billion in a tax dispute with Scotland-based Cairn Energy; the government had contended that the company had failed to pay capital gains tax at the time it reorganised its India businesses in 2007, and confiscated its shares.³⁹ In September 2020, an arbitration court at The Hague had ordered the Indian government to pay US\$5.5 billion to Vodafone plc, which it ruled had been given ‘fair and unequal treatment’ in contravention of the India-Netherlands BIT.⁴⁰ Earlier, arbitrations under the India-Germany and India-Mauritius BITs had ordered a state-controlled company to compensate Devas Multimedia, which was owned by Mauritian investors and Deutsche Telekom, for breaking a contract; this was set aside by the Supreme

³⁶ Simon Hartmann and Rok Spruk, 2020, [The Impact of Unilateral Bilateral Investment Treaties Terminations on FDI: Evidence from a Natural Experiment](#)

³⁷ Prabhash Ranjan and Pushkar Anand, 2017, [The 2016 Model Indian Bilateral Investment Treaty: A Critical Deconstruction](#)

³⁸ The Hindu Business Line, 2020, [What ails India’s Model BIT?](#)

³⁹ Business Standard, 2020, [India loses Cairn case in arbitration; asked to pay Rs 8,842 cr in damages](#)

⁴⁰ Reuters, 2020, [Vodafone wins international arbitration against India in \\$2 billion tax case](#)

Court.⁴¹ Devas' investors moved to attach Indian assets, including aeroplanes owned by the public sector airline, in Canada and France. The Indian government, which had initially refused to honour the arbitration award, eventually passed legislation to settle this and other awards, but on its own terms.⁴²

India's repeated inability to win arbitration cases under existing BITs is the context in which its revocation of existing treaties and production of a new model BIT should be understood. It can be interpreted as an attempt to ensure that investor protection disputes are settled only by Indian courts and by following Indian rules.

This, however, militates against the basic purpose of investor protection agreements, which is to insulate investors from the vagaries and delays associated with a generally unreformed and overstretched Indian legal system. India's new model BIT, which requires the exhaustion of all legal options in India before arbitration can be accessed, is thus seen as too restrictive in the EU.⁴³

Mechanisms for investor-state dispute settlement are being questioned worldwide, but India's solution is more restrictive than most. Elements within the EU have sought to reform its use of ISDS, with the European Economic and Social Committee recently calling for "an approach that is consistent with sustainable development and social justice goals".⁴⁴ The consequence has been the introduction of an investor-state court system, or ICS, that European policymakers have promised will be "fair, efficient and transparent".⁴⁵

The differences thus between India's domestic court-focused approach to dispute settlement and the European use of new legal mechanisms will need to be addressed. More importantly, reversing a mindset of distrust of external dispute settlements among policymakers will be a crucial task if India-EU investment integration is to expand.

⁴¹ Business Standard, 2022, [Antrix-Devas arbitration: A timeline of the 11-year-long legal battle](#)

⁴² Financial Times, 2021, [India offers Cairn Energy \\$1bn refund after scrapping tax law](#)

⁴³ Business Standard, 2017, [India-EU ties stumble over keeping tax out of bilateral investment treaty](#)

⁴⁴ European Economic and Social Committee, 2022, [Opinion of the European Economic and Social Committee on Multilateral Investor-State Arbitration Court](#)

⁴⁵ European Commission, 2019, ["European Commission proposes to exempt small firms from certain audit obligations"](#)

Moving Beyond Underperformance: Sectors and Challenges for Exports

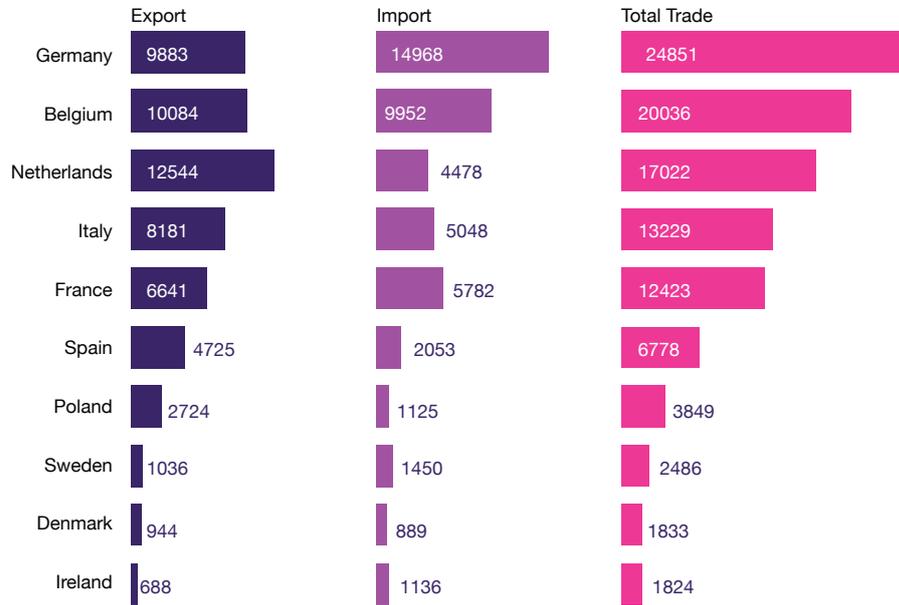
Indian policymakers are aware of the relative under-performance of India-EU trade. While services trade needs greater regulatory coherence to take off further, as argued above it is merchandise trade that is of particular concern to New Delhi.

India's merchandise exports have grown overall over the past decades, even staying strong during the pandemic. However, the share of the EU in India's total goods exports declined from 18 percent in 2001 to 14 percent in 2020, with a value of US\$48.1 billion the same year.⁴⁶ India accounted for merely 1.9 percent of the EU's total imports in the same year. In the 2020-2021 two-year period, EU goods imports from India increased by 19.7 percent but from other non-EU countries increased by 25.7 percent. By contrast, over the same period, goods exported from the EU to India increased by 20.4 percent, while to other non-EU countries the increase was only 4.7 percent.⁴⁷

⁴⁶ The Economic Times, 2021, [India's exports to EU declined in the last 20 years, accounts for mere 0.9% of the total imports of EU](#)

⁴⁷ Eurostat, 2022, [India-EU – International trade in goods statistics](#)

Figure 9: India's trade with EU member states: Top 10 countries (in million USD)



Data Source: Ministry of Commerce and Industry

The EU has a 28 percent share in global imports, making it one of the world's largest importers. The Indian government recognises therefore that there is significant scope to expand the footprint of Indian products in the EU market. India's Ministry of Commerce & Industry aims to increase Indian exports to US\$1 trillion by 2027-28, and an expansion of exports to the EU is a central component of this vision.⁴⁸

Several factors are responsible for India's lack of penetration into the EU market, even given its competitive position. These include higher tariffs for Indian products as compared to some competitors and peers and differing standards from the EU's, which lead to non-tariff barriers such as sanitary and phytosanitary measures (SPS).

⁴⁸ The Economic Times, 2021, India's exports to EU declined in the last 20 years, accounts for mere 0.9% of the total imports of the EU

For India, competition from intra-EU trade has also stiffened along with an increase in production from countries like Romania and Slovakia. Vietnam's recently concluded FTA with the EU has also had an adverse effect on Indian exports, which have lost some of the EU's market to Vietnam. In addition, since 1 January 2023, exports from India are also ineligible for benefits under the EU's Generalised Scheme of Preferences that eliminates duties on products from lower-income developing countries. The EU's withdrawal of these tariff advantages, based on India's increased competitiveness and income levels, will impact an estimated US\$7.8 worth of exports losing their cover of zero duties.⁴⁹ Labour-intensive and export-focused sectors, such as textiles and apparel, now face high tariffs compared to zero duties on products arriving from countries like Cambodia and Bangladesh.

Yet there are substantial sector-wise opportunities to expand India's exports to the EU. As the chart above indicates, China and Russia historically accounted for a large chunk of the EU's imports. But the EU's relationship with both of these countries is currently severely stressed, and Russia in particular, thanks to post-invasion measures, will account for much less going forward.

While the geopolitical pressures to diversify trade dependence and supply chains away from China may open up opportunities for Indian exporters to advance EU-India trade, there are specific changes in the Indian manufacturing base that will be required if this diversification is to take hold. Multiple different regulatory levels might be needed: Goods for the EU market must comply with European standards and could have a higher production cost and thus price point than those that are produced by the same Indian companies for domestic, African, or Asian markets.

We look at some key sectors of Indian goods exports into the EU—agriculture, iron and steel, pharmaceuticals, textiles and apparel, engineering goods/machinery/electronic goods—and examine issues related to trade in services.

⁴⁹ Eurostat, 2022, [India-EU – International trade in goods statistics](#)

Solving problems in the sectors that matter

- **Agriculture**

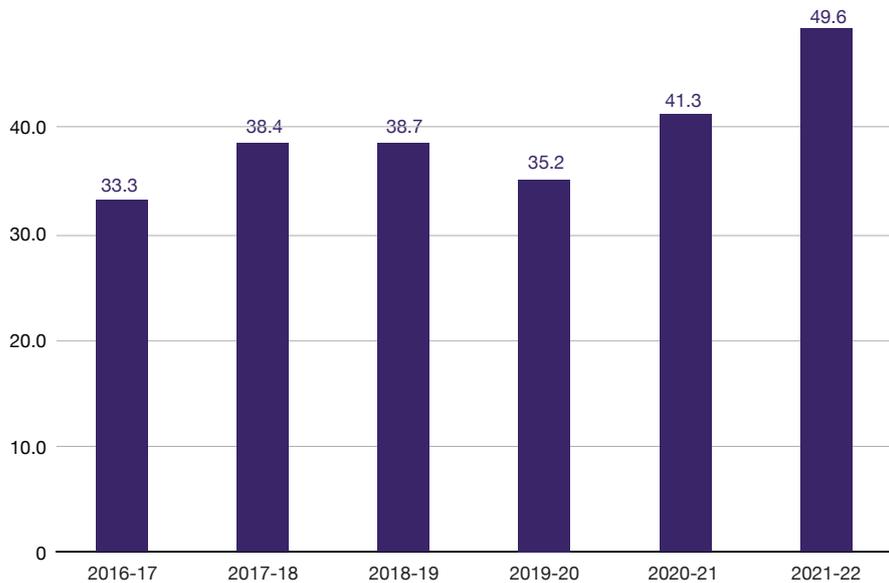
Since India introduced a Comprehensive Agriculture Export Policy in 2018, India's agricultural exports have grown. In 2019, the World Trade Organization (WTO) included India in its top 10 list of agricultural exporters with these exports valued at US\$37 billion for that year.⁵⁰

India's agricultural sector is, however, relatively insulated, unreformed, and unproductive. It still provides direct and indirect employment to more than half of India's population (over 600 million people), out of which many are subsistence farmers. Thus, policymakers dealing with agricultural trade policy, and facing the need to balance basic subsistence needs and the possibility of greater revenue and investment, tend to favour the first over the second.

Agriculture is also a key sector in EU-India trade and amongst the most contentious in past FTA negotiations. The value of India's agricultural exports to the EU in 2021-22 was US\$4.7 billion; agricultural imports from the EU stood at US\$1.3 billion in the same period.⁵¹ If the balance of agricultural trade is reversed following a trade agreement, it would cause severe political difficulties for the Indian leadership.

⁵⁰ IBEF, 2023, [Agriculture in India](#)

⁵¹ Ibid.

Figure 10: India's Agriculture Exports (US\$ Billion)

Data Source: Ministry of Commerce and Industry

The agriculture sector is also an area where the EU still applies substantial tariffs—13.2 percent, according to the WTO—on Indian products.⁵² While India would want these reduced through an FTA, any agreement would also compel India to eliminate the tariffs it applies to EU agriculture goods.

In such negotiations, India traditionally fears agricultural products from new trading partners ‘flooding’ the Indian market. Indian policymakers are aware that they cannot hope to match the per unit subsidies available to agriculture in developed economies, including the EU.

Research by the National Bank for Agriculture and Rural Development has warned that, following tariff reductions, some agricultural goods would face sharp surges in imports: imports of beer might go up from 20 percent (with a 5 percent tariff reduction) to 400 percent (under tariff elimination). Goods such as honey, wine, pork, and olives would face similar surges.⁵³

⁵² Indian Ministry of Agriculture, 2014, [Brief on India's agricultural trade with European Union](#)

⁵³ NABARD, 2022, [India's Agriculture and Food Exports: Opportunities and Challenges](#)

Nor do policymakers take kindly to the idea that market integration will open up opportunities for Indian farmers and agri-processors. The costs and requirements for compliance with European health, quality and safety standards are generally unaffordable for the relatively unorganised and low-margin Indian agricultural sector.

Existing SPS on India's agricultural exports tend to be viewed by Indian authorities as non-tariff barriers (NTBs) after failures to comply with these resulted in rejections and export bans on many Indian agricultural products to Europe. Just between January 2020 and June 2021, 115 shipments of food and food contact material from India were rejected at the EU border. A total of 600 shipments were the subject of notifications at the border in that period. Many of these were due to the specific mix of pesticides that are common in post-Green Revolution Indian agriculture.

But the Indian government is also aware that its promise to double farmers' income cannot be met entirely through domestic demand. It has thus looked once again at export connections for the agricultural sector and introduced some proactive policy initiatives. These include global B2B exhibitions, increased investment in agri-infrastructure, digital interventions, and enhancing the participation of state governments. This includes investing in institutional capacity and infrastructure at the state level in India, for example, through creating export-focused institutional mechanisms in states and improving their agri-export infrastructure. The government claims that these efforts led to India's agriculture exports reaching their highest-ever mark of US\$50 billion in the 2021-22 period despite pandemic-related challenges, an almost 20 percent increase over previous years; the further aim is to reach the milestone of US\$100 billion in exports by 2026-27.⁵⁴ India is aware that this cannot come without further penetration of developed-world markets.

⁵⁴ Ministry of Commerce and Industry, 2022, [India's Agriculture Exports touch a historic high of USD 50 billion](#)

There are specific ways, therefore, in which the agricultural sector could be said to benefit, or at least not be harmed, by closer integration with the EU. Many of these were not available during previous rounds of trade negotiations.

Digital interventions: The Indian government has decided to focus on technological upgrading of the agricultural supply chain. In particular, it believes that export-oriented tech interventions could enhance Indian producers' ability to deal with non-tariff barriers to their agricultural exports. India's Agricultural and Processed Food Products Export Development Authority or APEDA has worked on setting up mobile-based traceability platforms for grapes shipments, which it hopes to generalise to other high-value agricultural exports.

New domestic food safety regulations: There is considerable domestic pressure for modern food safety standards, particularly for goods such as dairy where there is a great variation in the nature of domestic processing infrastructure. Harmonising the activity of the Food Standards and Safety Authority of India (FSSAI) with global norms might reduce some of the tension associated with NTBs.

Focus on organic agriculture: India's agricultural exports mostly comprise low-value and semi-processed items that are lacking in demand globally. Thus, to diversify its export basket, India also aims to encourage high-value-added agricultural exports focusing on processed foods, organic foods, and perishables, and has introduced schemes like Kisan SAMPADA in this context. With its larger organic agricultural land, India had a comparative advantage over other Asian countries in 2019 in the area of organic farming, and in 2020-21, India's organic exports rose by 51 percent.⁵⁵ Yet the Indian organic sector comprises less than 1 percent of the world's organic food segment which is expected to be valued between US\$230-280 billion by 2025, demonstrating considerable potential for growth.⁵⁶

⁵⁵ IBEF, 2022, [Export Potential of Organic and Horticulture Produce](#)

⁵⁶ Yes Bank and Ingenus Strategy and Creative Research, 2016, Indian Organic Sector: Vision 2025

Together Europe and North America comprise 90 percent of the world's organic food sales with the EU being the second largest market for organic products including dairy, cereals, fruits, vegetables, soybeans, rice, and others. With strong consumer emphasis on overall wellness, environmental impact, and food sourcing; organic food as a mass product in Europe presents a huge opportunity for India's growing organic sector, which is mainly driven by exports to developed nations, to further tap into.

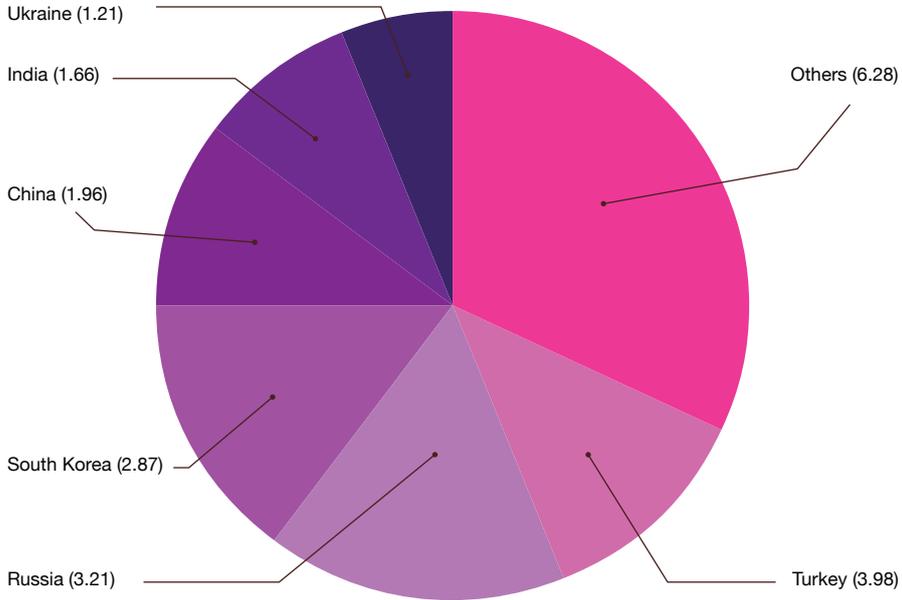
A broader question that deserves greater academic research is the extent to which Indian fears of 'flooding' of its internal market by high-subsidy European agricultural exports are justified. Agricultural goods produced in the two jurisdictions occupy different levels in the value chain, and in many cases are not very easily substitutable. Many existing EU food exports are highly processed and high value-added foodstuffs that do not directly compete with much Indian produce. The Indian dairy industry, for example, might discover that while domestic butter would face greater European competition, other products—such as cheese and cottage cheese—would be largely indifferent to the reduction of tariffs on European goods. A combination of market research and scenario modelling might lead to a more rational discussion about the effect on producers in both agricultural markets of greater integration.

- **Steel**

Russia's invasion of Ukraine has severely impacted the EU's steel imports given that the two countries accounted for over 20 percent of European steel imports before the war. The sanctions on Russian steel and the damage incurred by Ukrainian steel plants have compelled Europe to turn to other destinations for its steel needs. Indian steel producers believe this increased demand for their production will continue at least into the medium term, but its long-term sustainability will determine on the terms of trade with the EU.

Figure 11: Steel imports to Europe hit by Ukraine conflict

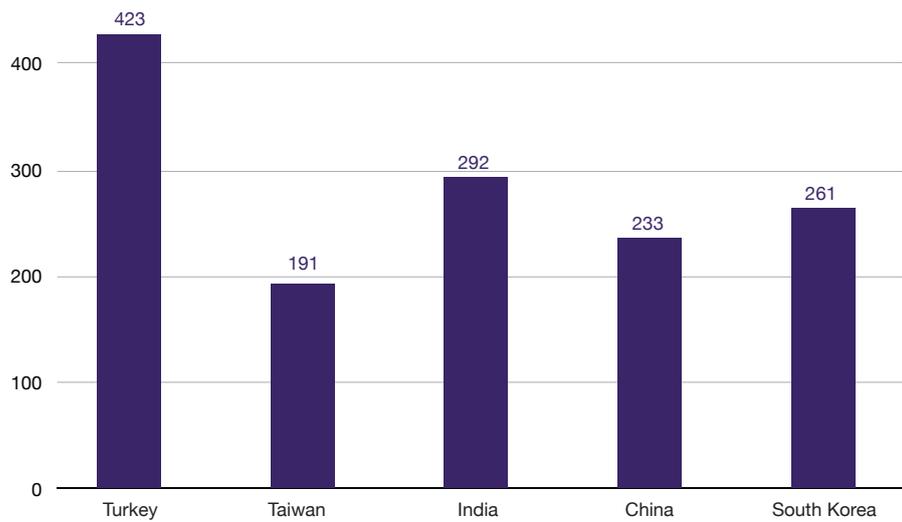
Russia and Ukraine are major sources of steel shipments to the European Union, accounting for a fifth of the total



Note: Import of finished steel products for 2020 in million tonnes
Data Source: European Steel Association (Eurofer)

Figure 12: EU finished steel imports, selected major partners

India has increased its exports of finished steel in 2022



8M-2022, monthly '000 metric tonnes
Source: OECD

Even before the war, the EU had increased its iron and steel imports from India, importing US\$5 billion worth of related products in 2021. Besides Russia, Ukraine and India, Europe also imports steel from China, Turkey, and South Korea. But Europe's steel imports from China have also decreased since the latter's abolition of export discounts from mid-2021 for 13 percent VAT on many types of steel products.⁵⁷ During the first eight months of 2022, Turkey (15.4 percent) and India (10.6 percent) were the largest exporters of finished steel to the EU.⁵⁸

Even though steel is the backbone of the European economy and an important raw material for Europe's machinery, construction, and automotive industries, the industry's competitiveness has been adversely impacted due to high energy costs and disruptions following the war, even resulting in closures of many European steel mills. This has further boosted the attractiveness of Indian steel over European steel based on its cheaper price.

India's steel industry contributes to over 2 percent of India's GDP, with high local demand for steel coupled with exports. India has launched several initiatives to strengthen its steel industry including through its Make in India programme. Steel production has increased by 78 percent since 2018; by 2030, the Indian government aims for a steel production target of 300 million tonnes.⁵⁹

Despite this optimistic scenario for India, there are several factors that also limit India's steel exports to the EU. To safeguard its domestic steel industry, the EU uses protectionist measures such as high tariffs and import quotas, such as the safeguard measures adopted in 2018 following the heavy tariffs on steel imports introduced by the Trump administration.

Another issue for India is the EU's CBAM, which aims to levy tariffs on certain imports into the EU based on their emissions. For India, this is a significant trade barrier particularly since India's steel industry depends

⁵⁷ SteelMint, 2023, "[China, EU boost India's steel exports to record high in FY22](#)".

⁵⁸ EUROFER, 2022, "[Economic and Steel Market Outlook 2022-2023 \(Fourth Quarter\)](#)".

⁵⁹ Economic Times, 2022, "[India to become world's number one producer of steel: Jyotiraditya Scindia](#)".

heavily on coal, resulting in higher carbon emissions—around 2.5 tons of carbon for every ton of steel produced, which is higher than the global average of 1.8.⁶⁰ The EU is also reallocating steel import quotas that were intended for Russia and Ukraine towards countries like Serbia, which could also lower Europe's requirement for Indian steel in the future.⁶¹

The steel sector, however, is also one of the locations where the modernisation and green transition imperatives for the Indian economy could serve as a powerful motive force for easier trade and integration with the European economy. As both India and the EU move towards industrial decarbonisation to meet their climate targets, hard-to-abate sectors like steel become crucial.

In India, the steel sector is responsible for about seven percent of its greenhouse gas emissions. Steel production currently accounts for around 242 Mt of carbon dioxide emissions annually and this is expected to double by 2030 (and triple by 2050) due to increased production for meeting domestic and global demands. To decarbonise this sector, the primary emphasis is on technological innovation for substituting the production processes with clean alternatives.⁶² This provides opportunities to India and the EU to work towards creating a regulatory framework on green steel production.

This combination of factors has led heavy industry in India to become more conscious of its production processes and to look for greener alternatives. Moreover, the government of India has launched a 'Green Steel Mission' to articulate a range of policy initiatives for decarbonising the sector. The government's stated ambition to generate 50 percent of its energy from renewable resources by 2030 should also reduce the carbon content of the steel supply chain substantially. India has also joined initiatives like the Industrial Deep Decarbonisation Initiative under the Clean Energy Ministerial.

The EU has been a crucial component of India's industrial decarbonisation strategy, including in iron and steel. The EU member state governments and companies have initiated and partnered with various projects in India, ranging from R&D to creation of clean steel facilities.

⁶⁰ Bloomberg, 2022, "[JSW Steel warns Europe carbon tariff will hurt Asia firms](#)"

⁶¹ Euractiv, 2022, "[Brussels raises quotas for Serbia's steel exports into the EU](#)"

⁶² Economic Times, 2022, "[How India can decarbonise the steel industry](#)"

Ownership patterns in the sector also allow for close India-EU collaboration and easier transfer of technology. Some landmark green steel projects by Indian-owned ArcelorMittal (Germany, France, and Spain) and Tata Steel (Netherlands) are located in European countries committed to climate neutrality by 2050. India and the EU can build on the efforts to set green procurement standards and work together to develop a coordinated taxonomy for green steel.

Major disparities in finance, technology, skills, and policy commitments exist between emerging and developed economies—disparities that hold back a shared pathway to industrial decarbonisation. The role that India hopes to play will be helpful in addressing these disparities. Policymakers believe there is substantial potential for green innovations from EU industries such as steel to be scaled up and commercialised in India. The EU has substantial financial support for innovation in green technologies; innovations piloted in the EU could potentially be scaled up in India given the massive size of the Indian market.

Thus, there are hopes that a consortium approach between the EU and Indian industries could evolve, together with strong protection for intellectual property rights, and with support from governments in both regions.⁶³ Economic integration that prioritises this co-operation, and which can deliver a credible impact of such co-operation on the total carbon emissions of the sector in both jurisdictions, will also help any agreement meet sustainability requirements that are outlined in a later section.

- **Textiles and Apparel**

Textiles and apparel lead the list of India's under-performing export sectors. India holds a mere four percent share of global trade in these sectors; they contribute 12 percent of India's revenue from exports. In 2022, India's exports in this sector crossed US\$44 billion for the first time, which India aims to increase up to US\$100 billion in five years.

⁶³ Observer Research Foundation, October 2022, "[EU India-cooperation on the Industrial Transition](#)"

The EU is a key export destination for this sector, accounting for 18 percent of India's total textiles and apparel exports, second only to exports to the United States. Yet due to stiff competition from countries such as Bangladesh and Vietnam that benefit from preferential EU tariffs, Indian textile and apparel exports have been declining. Bangladesh gets duty-free access to the EU market under the Everything but Arms scheme, and Vietnam concluded an FTA with the EU in 2020.

In 2020, India's textile exports were valued at US\$29.61 billion while Bangladesh and Vietnam's textile shipments were valued at US\$37.5 billion and US\$37.10 billion respectively.⁶⁴ The EU levies an approximate 12 percent tariff for textile and apparel products from India, making India's exports less competitive.⁶⁵ Thus, there is significant scope for India to expand its textile and apparel exports to the EU through the FTA, which would lower tariffs on these products and make them more competitive. Given the EU's focus on environmental compliance, India's exports could outperform some of its peers, given India's edge in this area. This edge emerges from greater state capacity and digital penetration in India than in competitors like Bangladesh, and the ability thus to put into place sector-wide monitoring and verification mechanisms that are open, transparent and lower-cost.

However, tariffs are clearly only one part of the story. After all, the largest exporter of apparel to the EU was China, which accounted for 30 percent of the EU's apparel imports in 2021 despite not benefiting from preferential tariffs.⁶⁶ Textiles and apparel are not considered a 'critical' sector, and therefore there is less strategic pressure to diversify away from China. That said, EU companies in the sector are aware that the political and regulatory risks to dependence on China have increased; the pandemic's effect on supply chains underlined the need for resilience and diversification. According to a report by the Confederation of Indian Industry and Kearney, India's

⁶⁴ Livemint, 2021, "[High tariffs faced by Indian exporters in EU, UK affecting exports performance: Govt.](#)"

⁶⁵ European Commission - Single Market Economy, Retrieved 2023, "[Textiles and Clothing Industries: Euro-Mediterranean Dialogue](#)"

⁶⁶ Eurostat, 2021, "[Eurostat News Release: International Trade in Textiles and Clothing - 2021 Edition](#)"

textile exports are expected to grow by 81 percent by 2026, from US\$36 in 2019 to US\$65 billion, based on purchasers attempting to diversify their supply chains away from China.⁶⁷

To boost the global competitiveness of its textile sector, India has rolled out several performance linked incentive programmes that focus on the sector. It also has high hopes of seven mega-integrated textile parks across the country that are meant to reduce manufacturing and logistics costs. India's increasing digitalisation and use of technology could further connect Indian artisans and designers to the global marketplace through e-commerce platforms and enable the expansion of these exports into the EU.

Yet, the fact is that India requires further domestic reform and investment if this sector is to rise to its potential by 2030. The country has so far been unable to translate the competitive edge that cheap labour and a growing population should provide labour-oriented sectors like apparel into sustained export growth. Internal reforms to make employment contracts more flexible, to improve the quality and reliability of infrastructure, and to expand access to finance might reverse that trend in coming years.

There are certainly other sources of competitive advantage. For example, Indian policymakers could be convinced that transparency in supply chains, as insisted on by the EU, will give them a relative edge over other possible suppliers to the European market. Support for data- and Internet of Things-driven solutions to enable supply chain visibility and transparency could ensure that this sector becomes a driver of integration and not a barrier.

- **Pharmaceuticals**

India is one of the world's primary suppliers of generic drugs, and pharmaceuticals are thus a vital export sector. India's share of the global market for pharmaceuticals is, however, estimated to only be about six percent.

⁶⁷ Kearney, 2022, "[Creating a Competitive Advantage for India in the Global Textile and Apparel Industry](#)"

Nevertheless, India's pharmaceutical exports have an overall value of about US\$25 billion.⁶⁸ Between 75 percent and 80 percent of these, most years, are of final formulations as opposed to active pharmaceutical ingredients or APIs. The largest share of these are exported to the US, which has a 40 percent or so share in India's exports.

Currently, the EU is a much smaller market for Indian pharmaceutical formulations in particular; the largest EU export market is Germany, which receives only 1.6 percent of India's formulations exports. The UK imports twice as much from India.⁶⁹ The complexity of the regulatory process in Europe, which includes both EU-level and national-level certificatory bodies,⁷⁰ may be part of the reason. Concerns about data integrity in India-based bioequivalence certifications have also played a part in restricting the level of trade, with the European Medicines Agency occasionally suspending authorisation for a hundred or so Indian-made drugs at a time.⁷¹

This under-performance is despite Indian pharmaceutical companies actively seeking out European 'good manufacturing practice' certificates, of which over 1,100 have been handed out in India. The government estimated in 2019 that there are 263 pharma plants in India that have received approvals from the US' Food and Drugs Administration; 253 had received similar certifications from the European Directorate of Quality of Medicines (EDQM).⁷²

⁶⁷ Economic Times, 2022, "[Indian pharma exports rise by 4.22% to \\$14.57 billion during April-Oct in current fiscal](#)"

⁶⁹ Institute for Studies in Industrial Development (ISID), 2022, "[WP248: India's Pharmaceutical Sector and Global Production Networks](#)"

⁷⁰ European Directorate for the Quality of Medicines & HealthCare (EDQM), "[FAQ - Certification of Suitability \(CEP\)](#)"

⁷¹ European Medicines Agency (EMA), "[Synchron Research: Service suspension of medicines over flawed studies](#)"

⁷² Press Information Bureau, Government of India, 2023, "[India is the only country where all stages of vaccine development are taking place with state-of-the-art Technology](#)".

That said, it is frequently hard for producers in India to respond swiftly to contracts from the EU, as the ‘cost of variation’ for EDQM inspections can be quite high. In many years, the EDQM inspects more Indian facilities than those in the European Economic Area; in 2019, 19 plants were inspected in India as opposed to 14 in the EEA.⁷³ Unlike the EDQM, the US Food and Drug Administration has an India-based team.⁷⁴

The benefits of closer integration were also evident during the pandemic in that resilient supply chains for APIs in particular became crucial. Here India’s position is less secure. While India’s share of the formulations export market pre-pandemic was four times China’s, the latter now accounts for almost one-fifth of global API exports, while India’s are still only 4 percent of the worldwide total. The RBI has argued that “the focus on finished formulations in the last two decades resulted in negligence of in-house manufacture of APIs. This led to an increased reliance on China in particular.”⁷⁵ Three-fourths of key starting materials for drugs in India, according to the Confederation of Indian Industry, are now imported from China.⁷⁶ The European Commission, meanwhile, estimated in 2020 that “the EU is 85-90% dependent on the Chinese market for all [pharmaceutical] ingredients and 33% dependent on it for active ingredients.”⁷⁷

Post-pandemic, therefore, both India and the EU share concerns about the stability of supply chains and their dependence on China for APIs. This is clearly a possible source of sectoral collaboration, and one that could be re-engaged by an India-EU FTA. However, once again, there will need to be buy-in from elements of the Commission external to DG Trade if true integration is to be achieved.

⁷³ European Directorate for the Quality of Medicines & HealthCare (EDQM), 2023, “[Module 8: Introduction to the EDQM Inspection Programme by Christina Baccarelli](#)”

⁷⁴ U.S. Food and Drug Administration (FDA), 2023, “[India Office](#)”

⁷⁵ Dutta, Shibbanjan and Gajbhiye, Dharendra, 2021, ‘Drivers of Indian Pharmaceutical Exports’, RBI Bulletin, July, pp.49-57

⁷⁶ Joshi, S, 2018, ‘[Self-sufficiency in manufacture of APIs and Intermediates](#)’.

⁷⁷ European Parliament, 2020, “[Request for written answer E-004734/2020: Ban on EU exports of generic medicines to India](#)”

The crucial question will be if a mutual recognition agreement (MRA) can become reality prior to 2030, ideally through a comprehensive trade deal. India is now open to MRA possibilities, and its comprehensive economic partnership with the United Arab Emirates specifically included MRAs. The India-Australia FTA stopped short of a full and comprehensive MRA, requiring merely that the two local regulators use each other's reports 'as appropriate'. However, it did specify that the two regulators should begin the process of certifying the other "as a comparable regulator in relation to the pre-market evaluation of products".⁷⁸

India's ban on certain drug exports during the pandemic led to fears in Europe over its dependence on key pharmaceutical imports. But despite aims to reduce this dependence by increasing production within Europe, the lower cost of manufacturing in India—30 percent to 35 percent lower than that in the West⁷⁹—will likely ensure continued competitiveness in Europe for this sector. The central risk here is of diverging quality standards over time, which can only be addressed by closer cooperation between regulatory authorities.

The health sector has been in particular focus in various post-pandemic interactions between Indian and European leaders and policymakers. Significant differences were visible in the two jurisdictions' approaches to the protection of intellectual property. But there were also convergences on how to bolster cooperation on global health, including preparedness for future health emergencies. Post-summit statements also specifically mention synergies in the production of therapeutics, of vaccines as well as in research and development.

- **Automobiles and auto components**

The automotive industry is a key area when it comes to trade. It is central to several European member state economies. It is also a major employer in the formal sector in India, and the auto components business has been one of the few Indian industries to have excelled in entering GVCs.

⁷⁸ Department of Foreign Affairs and Trade, Australia, "Annex 7A: Pharmaceuticals"

⁷⁹ Bain & Company, 2023, "The Trillion-Dollar Manufacturing Exports Opportunity for India"

Within the EU, the auto sector represents over six percent of total employment, directly and indirectly; those working directly in car manufacturing are 8.5 percent of EU employment in manufacturing.⁸⁰ The EU is among the world's biggest producers of motor vehicles and the sector represents the largest private investor in research and development (R&D). This sector is also one of the most contentious when it comes to discussions between India and the EU FTA. India imposes some of the highest taxes, ranging up to 125 percent, on the import of automobiles.⁸¹ Automobile tariffs are one of the major areas of contention between India and the EU. Within the FTA negotiations, the EU has called on India to lower its import duties on both cars as well as car parts, thereby giving greater access to its domestic market.

Yet, both jurisdictions are also going through a major mobility transformation that significantly alters the plans of the major players in the automotive sector. The EU has become a major contributor to the development of lower-emissions technology and deployment in the mobility sector. Over the 2016-2021 period, EV sales in Europe increased by a compound annual growth rate (CAGR) of 61 percent.⁸² The Indian EV ecosystem is currently in the initial stages of development but has been gaining traction. India's EV market is expected to expand at a CAGR of 49 percent between 2021-2030, with the segment's volumes set to cross annual sales of 17 million units by 2030. To further incentivise investment into the sector, the government has opened it up wholly to foreign investment. According to a study by CEEW-CEF, "the EV market in India will be a US\$206 billion opportunity by 2030 if India maintains steady progress to meet its ambitious 2030 target. This would require a cumulative investment of over US\$180 billion in vehicle production and charging infrastructure. In 2021, the Indian EV industry attracted US\$6 billion in investment and is becoming steadily more attractive to private equity/venture capital investors."⁸³

⁸⁰ European Commission, Retrieved 2023, "[Automotive Industry](#)"

⁸¹ Central Board of Indirect Taxes and Customs, India, 2022, "[Chapter 87: Vehicles other than Railway or Tramway Rolling-Stock, and Parts and Accessories thereof](#)"

⁸² International Energy Agency, 2021, "[Global EV Outlook 2021: Trends and Developments in Electric Vehicle Markets](#)"

⁸³ Council on Energy, Environment and Water, 2022, "[Financing India's Transition to Electric Vehicles](#)".

The EV adoption process in India will require the development of charging infrastructure, as well as greater innovation in areas such as grids, batteries, and charging that would make the technology more accessible and cheaper. For India to achieve its EV targets, it will be necessary to push for international collaboration, increase R&D and provide more subsidy schemes to the end users which would result in faster adoption of the technology for the economic and environmental benefits. Apart from this localising cell manufacturing for EV batteries is key to increasing local components in electric cars and will help the automaker develop a local chain too.

For policymakers in India, the future of the automotive sector in India is zero-emissions vehicles; they rely on the green transition to revive employment growth, private investment, and profit growth for the industry. Deeper economic integration between India and the EU should, therefore, prioritise co-operation on this sub-sector, especially as it will within a decade become the focus of most major companies' energy and R&D.

Indian participants in the sector can be won over by a regulatory framework for automotive component exports; a comprehensive roadmap for innovation and investment that an FTA would enable; the promotion of joint investments in charging infrastructure, and increased people-to-people contact with investors.

- **Chemicals**

India is the sixth-largest chemical-producing country in the world and the third-largest producer in Asia. It is also among the top three basic chemical-producing countries globally. The chemicals and petrochemicals market in the country is worth US\$178 billion and is expected to reach US\$300 billion by 2025.⁸⁴

The chemicals industry in India is highly diversified and is broadly classified into bulk chemicals, agrochemicals, speciality chemicals, polymers, petrochemicals, and fertilisers.⁸⁵ Chemicals also constitute an important component of India's trade basket with the EU. In 2021, India imported organic chemicals worth US\$2 billion.⁸⁶

⁸⁴ Invest India, 2021, "[Chemicals](#)"

⁸⁵ India Brand Equity Foundation (IBEF), Retrieved 2023, "[Chemical Industry in India](#)"

⁸⁶ Indian Chemical News, 2022, "[India Chem 2022: Stakeholders point out imbalances in chemicals trade with EU](#)"

As chemicals form an important component of the trade basket, it is necessary for both partners to overcome several constraints as they look towards enhancing bilateral economic relations. Regulatory coherence will be a major issue in particular.

Two key constraints come in the way of such coherence.⁸⁷ The EU is an early mover in modern regulation of the chemicals supply chain, especially through its implementation of REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) in 2007. India has hitherto used the BIS (Bureau of Industry and Security) system. Two different forms of certification have placed a severe burden on the chemicals trade between India and Europe by significantly raising costs.

India has, however, moved on the regulatory front in recent years. The India Chemicals (Management and Safety) Rules are due to come into force shortly; these are, like similar new regulations in several other jurisdictions, based more closely on the REACH format than their predecessor regulations.

The evolution of this trade to 2030 will depend crucially on the degree of regulatory harmony between EU-REACH and India-REACH, as well as whether the procedure to receive a BIS licence is simplified. Stronger protections for intellectual property in India in a post-FTA world will also be a major driver of higher-value trade and investment in this sector.

Moving beyond underperformance: Services sectors that matter

The services sector in India is the largest contributor to the country's economy. According to the Economic Survey of India 2021-22, the sector accounted for over 50 percent of India's GDP. Ernst & Young estimate that this sector's contribution to India's gross value added will increase from 55.3 percent in 2019-20 to 63.8 percent in 2030-31.

⁸⁷ Ibid.

The Economic Survey further stated that India had a dominant presence in global services exports; it remained among the top ten services exporter countries in the pandemic-affected year of 2020, with its share in world commercial services exports increasing to 4.1 percent from 3.4 percent in 2019. The total export of services from India in 2020-21 was US\$206 billion, which reached a target of US\$250 billion in 2021-22, and the Services Export Promotion Council expects it to reach US\$325 billion once post-pandemic conditions are achieved.^{88,89} Since 2005, services exports have grown about one-third faster than merchandise exports.⁹⁰ India is also among the top 10 importers of services, including digitally-delivered services, from the EU.⁹¹

India's services sector is also its highest recipient of foreign direct investment. During the first half of 2021-22, the sector's FDI inflows were US\$16.73 billion, over half of the country's total FDI inflows.⁹² In comparison, as an average over the past five years, FDI in manufacturing has only been around 20 percent of the total. Overall, the services sector is expected to grow at 9.1 percent in 2022-23, as against 8.4 percent in 2021-22.⁹³

The services sector comprises trade, tourism, aviation, telecom, shipping, ports, communication and storage, financing, insurance, transportation, real estate, business services, software services, IT-enabled business process services, and so on. Within this, the digital services industry accounts for about 9.3 percent of India's GDP and has a share of more than 56 percent of the global outsourcing market.⁹⁴

⁸⁸ Press Information Bureau, Government of India, 2022, "[Services contributed over 50% to GDP](#)"

⁸⁹ Business Today, 2023, "[Services exports may reach \\$325 billion in 2022-23: SEPC Chairman](#)"

⁹⁰ European Parliament, 2021, "[India: Trade in Services](#)"

⁹¹ European Parliament, 2020, "[India: Trade in Services](#)"

⁹² IBEF, Retrieved 2023, "[Services Industry in India](#)".

⁹³ Press Information Bureau, Government of India, Retrieved 2023, "[Foreign Direct Investment \(FDI\) inflows in Services Sector](#)".

⁹⁴ IBEF, Retrieved 2023, "[Information Technology Industry in India](#)"

While India's digital services providers are clearly globally competitive, there are other aspects of services trade, including digitally-delivered services trade, where India underperforms. One such disappointment is the share of embedded services in India's merchandise exports, which have been a major contributor to export performance in other economies. India's share of digitally-delivered embedded services in its manufactured exports, for example, was in 2015 less than half in India the EU28's figure.⁹⁵

For India and the EU, services have been one of the success stories for economic integration. Trade in services with the EU was US\$21 billion in 2010 and rose to US\$36 billion in 2021.

The EU's services exports to India are dominated by transport, telecom/IT, other business services and travel. Together, these sectors account for over 80 percent of the EU's services exports to India and more than 90 percent of the EU's services imports from India.

While there is immense potential in this sector, it also represents a key area of disagreement. Despite India having a strong services sector, its economy remains largely closed to foreign service providers. India is the fourth most-restrictive country in the OECD's services trade restrictiveness index, behind only Russia, Thailand, and Indonesia. Market access to certain key services sectors key strategic services sectors including rail freight transport, and professional sectors including accountancy and legal services remain closed. The former is a public sector monopoly, and the latter has strong domestic professional guilds. Several other profitable services sectors are more open, but have stringent conditions attached to investment.⁹⁶

The OECD does add that India has been progressively introducing reforms over the past years, contributing to a slight liberalisation of services trade in some sectors between 2018 and 2021, but implementing additional

⁹⁵ European Parliament, 2020, "[India: Trade in Services](#)".

⁹⁶ Organisation for Economic Co-operation and Development (OECD), 2022, "[India - OECD Services Trade Restrictiveness Index Country Note](#)".

restrictions since then. Key sectors such as insurance, accounting and architecture represent the areas where services trade barriers are at present very high.

During the earlier negotiations of the EU-India FTA, openness to services trade was a major point of contention. As mentioned earlier, given India's high barriers to trade in services, opening its markets to European service providers has been important for the EU.

Yet there are disagreements within Mode 1, 3 and 4 as defined under the General Agreement on Trade and Services. Mode 1 is cross-border trade, in which services are directly received by domestic consumers from abroad via telecommunications or postal links. Mode 2 is consumption abroad (for example, by tourists or students in foreign universities). Mode 3, commercial presence, is services provided by local affiliates or subsidiaries of a foreign company. Finally, Mode 4 involves the actual movement of people, and occurs when a citizen of one country provides services within the territory of another.

While the EU is generally considered much more open to services trade than India, several issues regarding the visa requirements for Indian business travellers have been an impediment to trade in Mode 4. Although it is an important barrier to Indian services exports, work permits, and visa rules remain a part of member states competencies and a difficult subject for EU trade negotiators. Moreover, voters' attitudes towards immigration, as well as increasing concerns over the potential erosion of labour standards in the EU if international workers were allowed more open access, have both contributed to political push-back against more liberal provisions.

There are in addition some disagreements in Mode 1 and 3, as defined under the General Agreement on Trade and Services. While India has demanded greater access to the European market under Mode 1

and 4, the EU has demanded increased access to the Indian economy under Mode 3, commercial presence. The EU is a major proponent of liberalising under Mode 3 in major markets like India and in sectors like banking, retail, and insurance. But India has opposed such access to its financial sector due to domestic opposition and the lack of political consensus.

The following sectors have immense potential for services trade in the years to 2030.

- **Healthcare services**

The Indian healthcare sector has grown at a cumulative annual growth rate of 22 percent between 2016–22 to reach US\$372 billion from US\$110 billion.⁹⁷ In the Economic Survey of 2022, India's public expenditure on healthcare stood at 2.1 percent of GDP in 2021-22 against 1.8 percent in 2020-21 and 1.3 percent in 2019-20.⁹⁸ This sector is growing at a brisk pace due to its strengthening coverage, services, and increasing expenditure by public as well private players.

As health services have become increasingly globalised, they are traded through all four services modes. India's performance as a provider of Mode 2 services in healthcare—in other words, medical tourism, where foreign patients come to get treatment in Indian hospitals—has shown steady growth in past years, other than in the years when pandemic-related travel restrictions were a constraint. Almost 700,000 visitors to India in the year prior to the pandemic came for medical tourism, which was 6.4 percent of the total number of arrivals that year.⁹⁹ The Indian medical tourism market was valued at US\$2.9 billion in 2020 and is expected to reach US\$13.4 billion by 2026.¹⁰⁰

⁹⁷ IBEF, Retrieved 2023, "[Healthcare Industry in India](#)"

⁹⁸ Livemint, 2023, "[Health expenditure at 2.1% of GDP in FY23: Economic Survey](#)"

⁹⁹ Economic Times, 2023, "[We are working on proposing a new system of incentive for health care services export: Maneck Davar, Chairman, SEPC](#)"

¹⁰⁰ Ministry of Tourism, Government of India, 2022, "[India Tourism Statistics 2022](#)"

The increased digitalisation of healthcare services in India opens up several opportunities for Mode 1 services trade. Healthcare providers in India are optimistic that Mode 2 (tourism) could be combined with Mode 1 (telemedicine) to provide greater value-added for global customers. Startups working in healthcare analytics, e-logistics and telemedicine have seen a surge of investment since 2020. The EU, however, is not yet a major priority for healthcare services providers; data analytics companies like Innovaccers focus instead on the US market, which has a lower compliance burden for medical data.¹⁰¹ Shared approaches to digital regulation between India and the EU will thus play a major role in increasing Mode 1 trade in this sector in the years to 2030.

Mutual recognition of qualifications will be another important step to ensuring that Mode 1 trade occurs. There were hopes that the India-Australia FTA would include an MRA for medical professionals, but eventually those were left to subsequent negotiations. There are already major national-level databases being set up by some European states for degree and professional equivalences, including to inform the Blue Card scheme. These could be usefully extended.

India also has an interest in Mode 4 or the movement of natural persons like doctors, nurses, and other health care professionals. The Ministry of Skill Development and Entrepreneurship (MSDE) announced in 2021 that it had identified 300,000 vacant positions in the health services of the US, the UK, Germany, Australia, Japan, Sweden, and Singapore.¹⁰² It hoped that it would find a similar number of temporary workers to fill post-pandemic gaps in those countries' healthcare provision. Given that there are about 130,000 doctors and nurses trained in India working in English-speaking countries alone, the government clearly plans a significant scale-up in Mode 4 trade.

¹⁰¹ Inc42, 2021, "[Can India's healthtech unicorn Innovaccer expand its data-driven solutions beyond the US?](#)"

¹⁰² Sunaina Kumar, 2021, "[Exporting Indian healthcare workers to the world](#)"

- **Digital services**

This is an age of tech brinkmanship. The US seeks to maintain its cutting-edge advantage on military artificial intelligence (AI) and other technologies, while denying some other nations access to key technologies; China is attempting to inject its particular brand of values into global cyberspace.

Alongside these large players, the EU and India are trying to shape global standards and governance of cyberspace based on their own values, particularly related to privacy and data protection. Both partners have initiated flagship programmes: the Digital Single Market strategy and Digital India, respectively. Their shared approaches are a key subject of discussion at the India-EU TTC. This represents a way forward through which both partners are planning to cooperate in the field of emerging technologies. One of the working groups of the TTC is to focus on cooperation in digital governance and connectivity.

The two sides have a common interest in fostering innovation while respecting individual freedoms; Indian observers describe this as an attempt to formulate a middle-path between a US system of *laissez faire* and Chinese model of absolute control. Yet, while India and the EU might be aligned on the principles and values that are required for this, they diverge on some key issues, including the role of national security considerations in privacy and the use of data localisation to capture a greater share of the gains from trade, among others.

What drives India and the EU together in this domain is a shared sense of purpose in discovering a market- and citizen-friendly approach to digital services that does not allow for excessive monopoly or state power, and does not threaten strategic autonomy. Given that the major centres of ownership and innovation in this sector are the US and China, India and the EU have a clear interest in setting rules of the digital road that allow them a share of future gains from the digital transformation.

Policymakers in India and the EU suffer from similar constraints in that the major concentrations of economic power in the digital world are beyond their direct regulatory control, and that their jurisdictions are at present essentially locations for data harvesting and markets for algorithms, rather than the hubs of innovation, data, processing, and rights ownership. Their domestic policies are thus similarly oriented: to capture some gains

from innovation and trade in the sector. This serves as the strategic foundation for closer integration of their digital services markets.

Yet some of the gains from a shared approach to digital services are beyond the scope of FTA as typically signed. This was a problem in the previous iteration of the EU-India FTA negotiations. The major concern for India then was its recognition as a data-secure country by EU member states. Without this, the flow of sensitive data could be hindered, increasing operating costs for Indian businesses in the EU. Now, however, the freer flow of data in and out of Europe requires the European Commission to formally accept that data protection requirements in other states are equivalent to EU protections under the General Data Protection Regulation. However, this decision can (and has been) reviewed in the past by the European Court of Justice. Nor is it the domain of DG Trade in the European Commission, responsible for trade negotiations, but of the Directorate General for Justice and Consumers. This is another sector where non-FTA negotiations can serve as a foundation and catalyst for economic integration prior to 2030.

For digital services to be an enabler of greater trade and not a stumbling block to trade negotiations, India's own privacy protection legislation—which is still being debated—must take into account the requirements of trade with the EU. Currently, there are differences in approach which are significant but not insurmountable. Some studies have pointed out that India's regulatory framework is already objectively closer to the EU's than the US'.¹⁰³

The TTC could facilitate more robust discussions on data-protection safeguards in India's data protection bill.¹⁰⁴ One suggestion is that “consideration should be given to strengthening the possibilities for judicial review of intelligence activities in this area. Legally and politically, this could form the basis for further discussions on data protection regulations, which, in turn, might eventually pave the way for an adequacy finding by the EU Commission.”¹⁰⁵

¹⁰³ European Parliament, 2020, “[India: Trade in Services](#)”

¹⁰⁴ Kim Arora, 2020, “[Privacy and data protection in India and Germany: A comparative analysis](#)”

¹⁰⁵ SWP Berlin, 2022, “[India as an ambivalent partner in global digital policy](#)”

The impact of integration in digital services trade would be to multiply the positive effects of integration elsewhere, especially in manufacturing GVCs. Greater convergence on digital services regulation would not only enhance trade in digital services, but also move manufacturing trade up the value chain as it would allow for higher levels of embedded services in merchandise exports by both countries. It has been shown that a higher use of imported services inputs increases the number of Indian exporters and the export intensity of production.¹⁰⁶

- **Professional services (Especially Mode 3)**

For both India and the EU, the area of professional services—which includes legal, accountancy, insurance, banking, and financial services—is significant in the FTA negotiations. For both, a key objective to achieve through the FTA is greater access for their respective firms and professionals in the other’s markets through Mode 3 and Mode 4.

India has a large and skilled workforce in these areas. For instance, India has the largest number of lawyers globally.¹⁰⁷ Yet the EU’s stringent requirements involving residency, capital and differential treatment meted out to foreign firms pose as barriers to entry. Most significant for Indian professionals are the barriers to entry through Mode 4, which is discussed below.

The EU’s concerns focus more on Mode 3, in which India has even higher barriers to entry for professional services and is far more restrictive than the EU. For years, India has feared the entry of foreign firms intensifying competition and impacting Indian professionals. Even by the standards of the BRICS grouping, which includes Brazil, Russia, India, China and South Africa, India is notably restrictive of the import of professional services.¹⁰⁸

Yet this appears to be gradually changing. The India-Australia FTA included the agreement to set up a working group on professional services meant to ease mutual recognition and licensing of professionals.¹⁰⁹

¹⁰⁶ Goldar, Bishwanath, et al., 2022, “[India’s Linkages into Global Value Chains: The Role of Imported Services](#)”

¹⁰⁷ Economic Times, 2012, “[Movement of professionals to help Europe in the long run: EU](#)”

¹⁰⁸ European Parliament, 2021, “[India: Trade in Services](#)”

¹⁰⁹ Department of Foreign Affairs and Trade, Australia, 2023, “[Annex 8C: Professional Services](#)”

Previously only Indian nationals could practise as lawyers in the country and become partners in firms. Encouragingly, in March 2023, the Bar Council of India, after restricting the entry of foreign lawyers and legal firms for decades, announced that foreign firms would be allowed to set up operations in India and foreign lawyers allowed to practise, based on reciprocal treatment in their home countries.¹¹⁰ Even so, controls on foreign lawyers such as property-linked cases remaining off-limits and mandatory registration renewals every five years mean that foreign firms still do not have a properly level playing field.

Yet for India, the move is a significant step forward and a promising one. It demonstrates that India's highly protectionist attitude towards trade in professional services may be starting to change. Part of the reason may be that the government has come to understand that entry into GVCs requires companies to access globally qualified lawyers, accountants, and other professionals.

- **Mode 4 services**

There are additional policy shifts beyond the domain of trade negotiation that would also ensure that participants in the services ecosystem, particularly of digital and IT-enabled services, become strong supporters of greater economic integration between India and the EU. In particular, India has consistently argued that easing Mode 4 services trade—services traded by individuals moving across national borders—is crucial for its IT-enabled services sector. Temporary work permits are, however, both politically sensitive and procedurally beyond the scope of traditional FTAs.

The Indian political leadership has developed a novel approach to this issue, which involves signing country-specific work permit deals that are not directly connected to a specific FTA, but are seen as making an overall FTA more feasible. The UK—which has a political climate that is notably harsh about migration—has nevertheless signed on to a 'UK-India Young Professionals scheme' that grants work visas to 3,000 recent graduates under the age of 30. Work visa policies for skilled labour are set by member states in the EU.

¹¹⁰ Singh, Harsha Vardhana, 2020, "India's Atmanirbhar Bharat vision requires open, not protectionist, policies"

That said, in October 2022 the EU adopted a ‘recast Blue Card Directive’ (BCD), enabling provisions for pan-EU work permits for skilled migrants. The BCD is a way in for the discussion of Mode 4 services trade at the EU level. It should be noted, however, that even the recast BCD specifically “does not restrict the prerogative of Member States... to determine volumes of admission of migrant workers arriving from third countries to their territory”.¹¹¹ In other words, Indian authorities may still consider that bilateral deals with member states are necessary prerequisites.

Thus, some formal structures to oversee temporary skilled mobility are being designed by India and EU member states. In December 2022, for example, Germany signed the German-Indian Migration and Mobility Agreement¹¹² designed to attract several thousand skilled workers in specific industries, as well as to aid the repatriation of illegal migrants. The Indian ministry of external affairs described this as part of its “overall efforts to create a network of agreements with prospective labour market destination countries”. Progress on the creation of these mobility deals would take much of the sting out of India’s concerns on Mode 4 services trade.

¹¹¹ De Lange, Tesseltje and Vankova, Zvezda, 2022, [“The Recast EU Blue Card Directive: Towards a Level Playing Field to Attract Highly Qualified Migrant Talent to Work in the EU?”](#)

¹¹² Federal Ministry of the Interior, Building, and Community, Germany, 2022, [“Migration Agreement”](#)

The Case for Imports: Integration and GVCs

India's prioritisation of economic security in recent years, and even the 'Make in India' programme, has taken on an increasingly protectionist turn. The WTO has estimated that India's simple average MFN applied tariff rate went up from 13.5 percent in 2015 to 17.6 percent in 2019.¹¹³ For Indian policymakers, the benefits of imports were not clearly understood.

India persisted in unilateral and arbitrary changes to tariffs, with the goal of import substitution, even at the risk of alienating key economic and geopolitical partners. The minutes of a meeting at the WTO in January 2021 to discuss India's seventh trade policy review are of particular interest in understanding global views of India's anti-imports policy. Concerns about Indian protectionism were widely shared, and many of the harshest critics were the representatives of countries that have close and even strategic partnerships.¹¹⁴

Agricultural imports were of course a major problem, raised by Brazil, Australia, and New Zealand: government intervention in the foodgrain and sugar market were singled out for criticism. But agriculture aside, supposedly integrated sectors were seen as exposed to import substitution or other import-targeting measures.

¹¹³ World Trade Organization, 2019, "[Tariff Profiles 2019](#)"

¹¹⁴ World Trade Organization, 2022, "[Trade Policy Review - Report by the Secretariat: India](#)"

The limits of the protection provided even by FTAs were highlighted by Korean delegates at the WTO; they noted that their goods, exported under the India-Korea FTA, were the second most likely to be targeted by safeguard and anti-dumping measures. Taiwan noted that tariff uncertainty had caused long-standing investment plans to fail, and Japan worried about the unfair application of steel subsidies. The EU summarised the global view of India's tariff policy thus: "We are concerned about the overall direction of India's trade and investment policies, notably regarding the extent of its trade openness and its willingness to integrate truly into GVCs... These developments are a source of concern and uncertainty for foreign economic operators and investors, [and] the sheer size of the Indian market might not be enough to balance it out."¹¹⁵

In fact, the size of the Indian market makes import substitution a less effective way to create competitive industrial sectors. Some protectionist policymakers in India have pointed to the success enjoyed by smaller countries, such as Korea, in erecting export-focused conglomerates behind tariff walls in the past. But that does not work in India, purely due to the magnetic effect of its sizeable domestic market. One former trade bureaucrat in India has explained the perverse effects of protectionism in India thus: "Within a large economy like India, the primary focus of producers operating under a protectionist regime is not on exports, but on the domestic market which is easier to access. Import protection results in a rise in costs, with cost-inefficient inputs being produced domestically, while those which cannot be domestically produced trigger higher tariff costs. [GVCs] and exports require cost-efficient products, and import protection works against that."¹¹⁶

Dual objectives—protection of industry and incorporation into GVCs—have led to confused and sometimes contradictory policies. In her 2021 speech outlining the Indian federal budget and tax policies, the Indian finance minister made this dual targeting explicit by saying that tariff policy "should have the twin objective of promoting domestic manufacturing and helping India get onto the global value chain".¹¹⁷

¹¹⁵ Ibid.

¹¹⁶ Singh, Harsha Vardhana, 2020, "[India's Atmanirbhar Bharat vision requires open, not protectionist, policies](#)"

¹¹⁷ Sitharaman, Nirmala, 2022, "[Union Budget Speech](#)"

But ‘promoting’ domestic manufacturing through tariff protection reduces flexibility and global access for Indian producers, and reduces the ability to enter into GVCs.

The 2020 budget speech, meanwhile, blamed ‘cheap and low-quality imports’ for a shortage of jobs in India, which was used as a justification for a review of all tariff exemptions. Significantly, this speech also included a dismissal of the benefits of FTAs, which noted that imports under FTA were rising and that this was because of “undue claims of benefits” that threatened domestic industry.¹¹⁸ This may have been a coded reference to supply chains that passed through FTA countries but embodied significant value added from China. The 2019 budget speech made the protectionist purpose of tariff policy even more explicit: “The objectives of securing our borders, achieving higher domestic value addition through Make in India, reducing import dependence, protection to [small and medium enterprises], promoting clean energy, curbing non-essential imports, and correcting inversions.”

Some sectors have been particularly confused by contradictory policies. In the 2021 budget, the finance minister reduced tariffs on imported steel because small and medium enterprises and other consumers of steel domestically lobbied for it. During the pandemic, however, tariffs on some steel products had in fact been raised, after iron and steel producers had asked for protection. Meanwhile, an export incentive scheme had been rolled out to incentivise steel exports; but, barely a few months after some Indian producers signed up, they were hit by an export tax that meant they might fail to meet mandated targets.^{119,120}

India’s relative protectionism has predictably meant that it has failed to either grow manufacturing exports as much as it would like or enter GVCs as much as many of its more open peers. In fact, it was even unable to benefit from favourable geo-economic circumstances such as the China-US trade tensions as much as other countries did.

¹¹⁸ Sitharaman, Nirmala, 2021, “[Union Budget Speech](#)”

¹¹⁹ NDTV, 2022, “[Export duty on iron ore hiked up to 50% to increase domestic availability](#)”

¹²⁰ Economic Times, 2022, “[Export duty hike on steel items to hit projects under PLI scheme: ISA](#)”

Estimates of Indian export increases as a consequence of the Trump-era US-China trade war were small (just over 1 percent) and not statistically significant;¹²¹ but the trade war increased Indonesia's exports to countries other than the US and China by over 10 percent, Mexico's by over 11 percent, Malaysia's and Thailand's by around 8 percent, and Turkey's and Vietnam's by 14 percent.¹²²

India's performance can be best contextualised and understood through a comparison with Southeast Asian economies that have prioritised openness as a strategy for trade facilitation. The economist Amita Batra has studied the India-Vietnam comparison in particular, using data on GVCs from the WTO; she has pointed out that between 2010 and 2018, Vietnam increased its duty-free tariff lines and reduced the proportion of tariff lines that were over 15 percent; and, at the same time, showed an increase of over 17 percent annually in the "foreign value-added" component of its gross exports.¹²³ This also ensured it increased its share of world trade from 0.5 percent in 2010 to 1.6 percent in 2020. India's share of global trade remained more or less the same over the decade.

Given that manufacturing GVCs are a particular priority, it is worth noting that this tariff liberalisation and increasing FVA component went alongside an increase in the share of manufacturing goods in merchandise exports for Vietnam. Batra points out that in 2010, both India and Vietnam had the same proportion of manufacturing in their goods exports (63 percent). With great effort, and after a decade of manufacturing-focused programmes, India raised that share to 71 percent by the end of the decade. Meanwhile Vietnam, through trade openness, increased it to 86 percent.

High import tariffs have a particularly noxious effect on otherwise globally integrated sectors such as electronics. One study has pointed out that increasing tariffs in these sectors was accompanied by a steadily declining ratio of value added to output.¹²⁴

¹²¹ Khandelwal, Amit, 2022, "[The US-China Trade War and India's Exports](#)"

¹²² Fajgelbaum, P. et al, 2021, "[The US-China Trade War and Global Reallocations](#)"

¹²³ Batra, Amita, 2023, "[India in the GVC Diversification Strategy: A Reality Check](#)"

¹²⁴ The National Council of Applied Economic Research and the Confederation of Indian Industry, 2022, "[Building India's Export Competitiveness in Electronics – 2025-26](#)"

More than half of aggregate worldwide exports today are part of GVCs. According to the Asian Development Bank, India's participation in GVCs is below its (already low) contribution to world trade: India is responsible for only 1.3 percent of the world's GVC exports.¹²⁵ The sectors driving this participation are much fewer than in those of its peer nations. They are also legacy rather than forward-looking sectors: fossil fuels contribute a large part, as do old-style information technology-enabled services companies that utilise wage and price arbitrage.

Integration into GVCs, over time, will reduce the fear of imports and underline their mutually beneficial nature. For example, the current fear in India that trade merely imports foreign value-added and has no effect on value creation domestically will erode once the mutually reinforcing effects on value addition of GVCs become apparent. This may be hard to see for a relatively un-integrated India at the moment. In spite of a FTA with ASEAN, the value of Vietnam's exports to India only include 1.4 percent of value-added in India (via Indian exports to Vietnam that serve as inputs into Vietnam's exports to India).¹²⁶ In comparison, Vietnam's exports to China embed 17.4 percent of Chinese value added, reflecting greater integration and mutual benefits.¹²⁷

Similar results for GVC integration have been observed from India's trade policy in recent years when the share of Indian value added in other countries' exports is examined. Calculations by Deeparghya Mukherjee using OECD data on trade in value added shows that "the foreign value added in [India's] exports has increased for almost all sectors significant for India in GVCs, but after 2014, for most sectors, India's value added exported from other countries seemed to increase till about 2017. Thereafter, we observe that Indian content in foreign exports has again decreased relative to foreign content in Indian exports... Any improvements which were being observed between 2014 and 2016 have been eroding."¹²⁸

¹²⁵ Sengupta, Abhijit, 2022, "How India can better integrate with global value chains"

¹²⁶ Organisation for Economic Co-operation and Development (OECD), 2021, "[India - OECD Services Trade Restrictiveness Index Country Note](#)"

¹²⁷ Organisation for Economic Co-operation and Development (OECD), 2021, "[China – Trade in Value Added Country Note](#)"

¹²⁸ Mukherjee, Deeparghya, 2022, "[India's Trade Policy and GVCs](#)".

This fact that the gains from trade liberalisation were ‘eroding’ thanks to increased protectionism may have played a role in New Delhi’s decision to reopen discussions on new FTAs. Yet the shift in India’s perception about trade is focused on economies like the EU rather than those in Southeast Asia. While India is enthusiastic about entering into GVCs, it sees its future in global trading networks as being linked to those that are EU-relevant. This fits in with the government’s broader efforts to move the Indian economy up the value chain and substitute for, rather than directly compete with, the tiger economies elsewhere in Asia.

The EU has a very specific role to play in this endeavour. European companies are important sources of the intermediate goods required for Indian production to move up the value chain and embed itself in new-age GVCs, especially for green products. It is to be hoped that Indian approaches to import openness are shifting. But even otherwise, the basic need to increase Indian exports, raise domestic value added, and improve Indian participation in GVCs requires greater openness to high-end producer goods—and the technology and services they embed—from the EU.

Two Challenges to Integration

Public procurement

The opening up of public procurement, which essentially requires foreign businesses to be traded on par with domestic ones, has been a key stumbling block in the EU-India trade negotiations in the past. India has been hesitant to discuss government procurement in its FTAs to protect domestic industries from foreign competition, while the EU is keen for access to India's lucrative US\$500 billion public procurement market, estimated to be worth 20 percent to 22 percent of Indian GDP, through the FTA.¹²⁹ India has not signed up to the WTO Government Procurement Agreement (GPA), even though it has been an observer since 2010.

However, in the first instance of its kind, India's recently concluded FTA with the United Arab Emirates includes a chapter on government procurement, signalling a dramatic change in Indian attitude in this context and potentially also setting up a template to open up this area in the EU-India FTA. In the India-UAE deal to safeguard domestic MSMEs, procurement is restricted to contracts valued over US\$25 million and to 34 central government ministries, excluding subordinate offices as well as state-level and local entities.¹³⁰ With a much larger trading partner like the EU, such limitations posed by India will likely cause issues, and the overall impact of the incorporation of public procurement in the EU-India FTA would be much bigger.

¹²⁹ Press Information Bureau, Government of India, "[FM Reviews Capital Expenditure & Payments of Maharatnas and Navratnas](#)"

¹³⁰ The Indian Express, "[India-UAE CEPA: Understanding the Government Procurement Chapter](#)"

Yet, undoubtedly for both European firms and local Indian governments, Indian liberalisation of public procurement through the FTA would be a huge opportunity due to India's vast infrastructure deficit. This would grant EU companies the right to bid for Indian government purchase contracts without special treatment meted out to local companies. For India, a more transparent system would attract foreign investors and also increase local competition in public procurement in India; while for Indian firms too, the European public procurement market would be lucrative, particularly in the services and IT sector. Given that much new infrastructure is paid for out of taxes, it is imperative in the public interest that lower-cost, high-quality options for infrastructure providers be found from transparent jurisdictions like the EU. Closer engagement with those stakeholders within India that would benefit from open procurement—including local and state governments—would help create a clear constituency for positive change and integration in this sector.

The TSD impasse

For Indian policymakers and negotiators, the most intimidating aspect of trade negotiations with the EU is an increasingly inflexible attitude in the EU when it comes to labour, human rights, and environmental standards.

The EU also sees its strategic focus on the Indo-Pacific as requiring it to focus on the sustainable development of the region, and in particular on the rule of law and human rights; in practice, this has given carte blanche to regulators and lawmakers in Brussels to impose the requirement of extra-territorial corporate due diligence on issues that fall under environmental and human rights domains.

Environmental standards in the EU are not just more stringent, but also wider in scope than in many other countries, including India. The EU's definition of sustainability and environment-related policy in particular is broader than the traditional international definition that is greatly preferred by policymakers in New Delhi.

For example, the EU considers that biodiversity protection is relevant to sustainability in trade: the Commission's formal strategy in 2020 insisted on the "full implementation and enforcement of the biodiversity provisions in all trade agreements, including through the EU Chief Trade

Enforcement Officer. The Commission will better assess the impact of trade agreements on biodiversity, with follow-up action to strengthen the biodiversity provisions of existing and new agreements, if relevant”.

There are also widening differences in the two jurisdictions’ approaches to labour standards. While India, as a liberal democracy with similar values to the EU, does not sanction forced labour and has remarkably stringent labour protection laws in place, it is also largely allergic politically to the phrase ‘human rights’ and would resist European attempts to link rights to trade.

In the EU, meanwhile, a major review of the links between trade and sustainable development was concluded last year, ending in “a new plan to enhance the contribution of EU trade agreements in protecting the climate, environment and labour rights worldwide”.¹³¹ This is a fundamental difference in approach that will have to be addressed directly if progress is to be made on economic integration.

Certain aspects of the new plan, as announced by the European Commission, do allow for agreements on sustainability and labour that are adapted to Indian conditions. The Commission has specifically left room open for ‘tailored objectives and time-bound roadmaps’ for environment and labour standards. The European Commission’s communication¹³² about the review highlights that “country-based implementation priorities require an early gap analysis and integrating a greater degree of granularity and specificity to the TSD dimension.” There is thus considerably more room to manoeuvre on this issue than Brussels’ negotiators have claimed.

However, the rest of the new plan is not so heartening. For one, the new approach expands the area of intervention available to civil society and ‘domestic advisory groups,’ which may include official trade unions but also other non-government organisations. India’s official attitudes to NGOs are well-known, but the central argument of Indian politicians is that they are generally unrepresentative and should not

¹³¹ European Commission, 2023, “[Commission unveils new approach to trade agreements to promote green and just growth](#)”

¹³² European Commission, 2022, “[Trade and Sustainable Development Review: Communication on the Review](#)”

replace decision-making by democratically accountable leaders. The possibility that NGOs would be able to lodge complaints against corporations is a strong negative for India, partly because of its own institutional history with such complaints. The Indian judicial system has faced multiple blockages—and contract enforcement and dispute settlement have slowed down—because NGOs, occasionally operating at the behest of corporate competitors, have used ‘public interest litigations’ against companies. The Indian Supreme Court has itself warned of NGOs serving as “proxy litigants” for corporate rivals.¹³³ It is hard to see how the EU’s greater space for DAGs and NGOs can be easily reconciled with India’s insistence on democratic accountability.

One way of viewing these concerns about TSD issues in New Delhi—and several other developing-country capitals—is that they can be disaggregated into two broad themes. There are concerns about ‘hidden protectionism,’ and there are concerns about ‘regulatory imperialism’ or ‘regulatory unilateralism’. Each of these raises different questions and thus has a different set of solutions.

TSD-as-protectionism was the default reaction of many Indian policymakers, and is driven partly by the history of trade negotiations in which lower-income countries have seen their greater flexibility on labour and environmental issues as key issues to defend in trading negotiations. Not only are these seen as multilateral issues, to be raised within frameworks such as the UNFCCC and the WTO, but negotiators from the commerce ministry may also judge that they are not legally competent to discuss them in bilateral trade talks. At the WTO, in particular, India has consistently held out against climate change, or the environment being included in trade-related discussions. Most recently, in March 2023, a paper was presented at a meeting of the WTO Committee on Trade and the Environment where India expressed ‘apprehensions’ about not just CBAM but also deforestation and biodiversity-related regulations. These were collectively referred to as non-tariff barriers by Indian officials.¹³⁴

¹³³ The Pioneer, 2016, “[Public Interest Litigations becoming a tool to settle corporate rivalry, cautions SC](#)”.

¹³⁴ The Hindu Business Line, 2023, “[India raises concern at WTO on environment measures acting as non-tariff barriers](#)”.

Such doubts can only be set at rest through bilateral trade deals that include an agreed and transparent glide path for countries such as India which have ‘common but differentiated responsibilities’ under global agreements on issues such as climate change. The consensus purpose of EU TSD chapters, which is not to enforce compliance through sanctions but to ‘promote’ the EU’s values on sustainable development, needs to be emphasised in this respect.¹³⁵ NTBs are, by definition, enforceable and not promotional in nature.

The question of TSD-as-imperialism is more politically fraught. From an Indian perspective, the imposition of foreign regulatory principles on Indian policymakers is an infringement of domestic sovereignty and internal democratic debate. It might become necessary, therefore, to better expose both sides to the specific debates around the issues that TSD chapters are supposed to address. There is little doubt that these chapters are closely linked to the priorities and activism of civil society within the EU, rather than to imperialist desires by the political elite. A better understanding of each side’s expectations for sustainable development through an open and transparent process of interaction at every level is one way to reduce the salience of these concerns. That said, the nature of this interaction is vitally important, and it must not be captured or become politically sensitive, as discussed above.

Above all, behind-the-border trade agreements cannot be expected to have regulatory implications that only go one way. Officials at the European Commission’s DG Trade will be reluctant to tie the hands of the Parliament or of their colleagues in other verticals; the same is true of negotiators at India’s commerce ministry. Mechanisms that induce regulatory harmonisation, cooperation or collaboration outside ‘pure’ trade negotiations must therefore be prioritised, including through regular meetings between non-trade officials on subjects that are relevant to economic integration.

¹³⁵ Non-paper of the European Commission Services, 2018, “[Feedback and way forward on improving the implementation and enforcement of Trade and Sustainable Development chapters in EU Free Trade Agreements](#)”

It is necessary, therefore, to at least identify the paths forward for some harmonisation between Indian and EU standards and norms on labour and the environment. Some basic principles, for which there are precedents in recent FTAs signed by the EU and the US, could include a focus on incentives rather than compliance, and space for common but differentiated responsibilities.¹³⁶

Environmental standards: The EU's TSD review identified, as a key aspect of sustainability in future trading agreements for the EU, the prioritisation of "those goods and services that contribute to reducing greenhouse gas emissions and promote resource efficiency and circularity... Trade agreements should ensure undistorted trade and investment in the raw materials and energy goods that are needed for the transition to climate-neutral, resource-efficient economies."¹³⁷ This is also a priority for the Indian government. To the extent that closer integration will be a net positive for trade, innovation, and cost competition on the goods essential for the green transition, the EU's new TSD principles can be seen as an advantage and not a disadvantage.

Some of the complex internal decision-making factors that will be at play in any shared approach to the green transition may be beyond the scope of trade negotiators as traditionally defined. Sectoral regulatory policies will have to be harmonised in these hard-to-abate sectors. At a higher level, India will have to evolve a clear transition plan to carbon neutrality, which Modi has set for 2070, depending on the availability of technology and finance.¹³⁸

A sub-plan for each sector will allow for a clearer understanding of the degree to which each tradable commodity the sector produces will be net-zero compliant from the point of view of India's own

¹³⁶ CUTS International, 2022, "[A New Negotiating Agenda: How India could address issues of sustainable development in trade negotiations](#)"

¹³⁷ European Commission, 2022, "[Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The power of trade partnerships](#)"

¹³⁸ Press Information Bureau, Government of India, 2022, "[India's Stand at COP26](#)"

chosen transition plan. Environmental concerns, particularly about embedded carbon in traded merchandise goods, are not going anywhere and are only likely to increase over time. If India's policymakers are unhappy about being rule-takers about climate-related factors in trade, then at the very least national net-zero compliant formulations for tradables will have to be evolved so as to provide a basis for discussion with partners like the EU.

Labour standards: Concerns about labour standards are more complex. India is in the process of reforming its labour codes, replacing a haphazard set of restrictive but outdated laws, some dating from the 19th century, with four modern codes. It is vital that these codes allow it to then sign up to the labour agreements considered foundational by the International Labour Organisation. It is currently a signatory to only six of the eight.¹³⁹ It has to sign up to international conventions in two broad fields: occupational safety and the right to organise. This is in spite of fairly stringent domestic regulations in both fields.

The first is not an insoluble problem: the new labour codes can be brought into line with global occupational safety requirements. Past changes to occupational safety and health regulations have been driven by the need to ratify ILO conventions in this area.¹⁴⁰ India's objections have typically revolved around the fear that ratification would lead to complaints about workplace safety in India's minimally regulated micro-sized informal enterprises.

The second is more problematic, as India has large-scale carve-outs from its general labour rights for government employees. In particular, the Indian federal Department of Personnel and Training argues: "DoPT's view is that ratification of these Conventions would involve granting of certain rights that are prohibited under the statutory

¹³⁹ Business Standard, "[India ratifies six of eight core ILO conventions](#)"

¹⁴⁰ Directorate General of Factory Advice Service and Labour Institutes (DGFASLI), 2023, "[National Occupational Safety and Health Profile: India \(Draft\)](#)"

rules for government employees, namely, to strike work, restrictions on maintaining any political funds, to openly criticise government policies, to freely accept financial contribution, to freely join foreign organisations etc.”¹⁴¹ On the other hand, the ILO has argued that government employees in India currently have some of these rights in practice; and, in other cases, there are specific exceptions made within the convention for those directly employed by the government.¹⁴²

This is a key area where greater understanding of Indian constraints will be necessary when drafting a trade and sustainable development chapter in any FTA. There is sufficient room available to the European Commission even given the TSD review, and there are enough legal steps that the Indian government can take, to ensure that labour sustainability standards do not become a stumbling block.

¹⁴¹ Ministry of Labour and Employment, Government of India, 2023, [“Gyanesh: Quarterly e-Newsletter of Ministry of Labour and Employment”](#)

¹⁴² International Labour Organization (ILO), 2009, [“Challenges, Prospects and Opportunities of Ratifying ILO Conventions 87 and 98 in India”](#)

Conclusion

This chapter does not intend to urge any particular framework for economic cooperation between India and the EU in the years to 2030. The most important outcome is to stress that a comprehensive trade and investment partnership will be enabled by multiple different forms of engagement between regulators and policymakers as well as corporations and thought leaders.

The fundamental dynamic pushing the Indian and European economies together is strategic. This strategic motive force has overcome an earlier inertia and created a new energy in the economic partnership. The economic relationship had stagnated, over time, particularly in terms of merchandise trade and investment stocks. But looking beyond trade has caused policymakers to look afresh at trade.

From an Indian perspective, the future of India, both as a leader of the liberal democratic world and as a modernising economy, requires active investment from and partnership with the EU. India's post-pandemic shift towards "self-reliance" may have taken on a protectionist edge—to the dismay of many of its strategic partners—but it has been tempered more recently by efforts to integrate with GVCs on its terms. Many of the GVCs India prioritises are those in which the EU plays a leading role as a consumer, producer, or investor.

India's domestic growth and sustainable development priorities include the digital and green transitions, the revival of investment, and increasing economic security. In each of these, trade, and investment, particularly from the EU, have a major role. Thus India-EU economic integration in the years to 2030 must be seen in the context of India's plans for its economic transformation.

On the digital side, Indian policymakers believe that India and the EU are both in a similar position in seeking to ensure that the drivers of the digital transformation are subject to local regulations and values, and that the benefits of the transformation are equitably shared across geographies. The green transition can be a source of tension—especially when it comes to “unilateral” actions by the EU and India’s historical sensitivities regarding its energy mix—but it is also seen as being a mechanism to enable corporate investment into hard-to-abate sectors such as steel and cement.

These sectors, alongside others such as automobiles, feature large Indian companies that hope a greater economic integration will give rise to closer relationships with their European counterparts, enabling them to expand operations and increase domestic value-added. The green transition allows the creation of coalitions for change in these and other sectors exposed to climate risk.

Other sectors are more problematic. Agriculture is politically sensitive in both jurisdictions. Here a greater understanding of the actual risks to integration faced by subsistence farmers is necessary. The transformation of Indian agriculture through the spread of digitalisation and organic-farming methods also has the potential to alleviate existing concerns about exposure to competition from abroad. Textiles and apparel will benefit from zero-tariff access to the European market, but domestic reforms in India will also be crucial enablers.

Some manufacturing sectors, such as pharmaceuticals, require closer cooperation between regulators in India and the EU. This is also true of many services sectors.

While services trade has grown much more than merchandise trade, many stumbling blocks remain. India and the EU are closed to certain aspects of the services trade in different ways. These can be overcome through regular trade negotiations and other mechanisms that harmonise behind-the-border regulations. Some progress has already been made on this, particularly in terms of Mode 4 Services, by individual Member States of the EU. Convergence between regulatory principles over the coming years becomes crucial on other issues, such as digital services.

India's understanding of GVCs has traditionally been limited but is expanding in keeping with the greater complexity of the Indian economy. The best cure for any remaining concerns is exposure to its benefits. As economic integration increases, its benefits will become apparent, and the pressure for greater integration will grow. The self-reinforcing nature of the trade and investment partnership must be given space to work.

The most difficult barriers to any comprehensive partnership or trade agreement remain the links that are drawn between trade and sustainable development in EU practice. Concerns about regulatory imperialism by the EU must be met by Indian attempts to conceptualise and harmonise our preferred alternative. This report suggests ways to overcome these barriers, but stresses that it will not be a one-way street. Understanding each side's political constraints alongside a good-faith attempt to put shared values into practice will help.

The remaining years of this decade will be crucial for India and the EU as they restructure their economies in keeping with a new strategic environment and their internal pressures. There is a strong case for a closer partnership that supports their endeavours. But this partnership cannot be left only to diplomats and trade negotiators. It will require political leadership, the energy of regulators and officials at every level, and ever-closer people-to-people contact.



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