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Why India should set store by its FTA with EU

The gains accruing to India in business services and textiles outweigh possible losses in automotives and machinery sectors

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During the latest intergovernmental talks between India and Germany, the media was abuzz with talk of resuming negotiations on the EU-India Free Trade Agreement, dormant since 2013. Though the EU-India strategic partnership has been in existence since 2004, with a focus on security, trade and cultural exchange, it looks more promising on paper than it really is when compared to the breadth and depth of relationship shared with the US and the UK. There are some exceptions such as defence cooperation, where the Indo-French relationship is decades-old. In addition, Germany has grown to become India's most important trading partner in EU.

New equations

Recent developments such as Brexit and an isolationist Trump have prodded EU to diversify its economic relationships. The discourse on free trade in Europe, politically difficult a year ago with widespread street protests against the proposed Transatlantic Trade and Investment Partnership (TTIP), has taken an about-turn as seen in the success of Macron's election campaign based on more globalisation and openness. How this would translate into a push for an FTA with India remains to be seen.

India has been active in its free trade discussions, concluding deals with many South Asian countries. Regional Comprehensive Economic Partnership talks are gaining momentum. Indian exports, though, have not benefited immediately following its agreements with ASEAN as well as those with Malaysia or Thailand. Some sectors, such as plantation, have been affected.

Win-win situation

The Bertelsmann Stiftung, a German not-for-profit foundation, recently launched a study on potential effects of the EU-India FTA based on economic modelling by the IFO Institute for Economic Research in Munich. The results point to benefits for both partners with EU gaining by $ 22.5 billion (0.14 per cent increase) and India by $28.4 billion (1.3 per cent increase). Due to the difference in size of populations and economies, the per capita increase for India would be $22 as against $44 for the EU. Within the EU, Ireland and Belgium would gain the most in relative terms and Germany the most in absolute terms with its GDP gaining by almost $5 billion (not considering the UK).

As for sectors which would gain or lose from this FTA, India would gain the most in business services ($6.4 billion) and textiles/apparels ($6.6 billion). Automotive and mineral sectors would lose $1.6 billion and $1.1 billion respectively. Increased competition in the machinery and equipment sector would cause losses of almost $500 million. (*See table*)

How the sectors stack up ($ million)

India	Top gainers	EU	Top gainers
Textiles + Apparel	6,639	Public Admin/Defence/ Health/Education	4,151
Business Services	6,473	Machinery & equipment	4,082
Trade Services	3,413	Minerals	3,446
Public Admin/Defence/ Health/Education	2,557	Motor Vehicles & Parts	3,109
Construction	1,982	Metals	2,315
	Top losers		**Top losers**
Motor Vehicles & Parts	1,618	Wearing Apparel	2,580
Minerals	1,189	Textiles	2,540
Oil	954	Petroleum & coal products	1,888
Paper	583	Business Services	1,490
Machinery & Equipment	499	Oil	1,304

The automotive and textile sectors contribute significantly to GDP as well as export. The textile industry employs relatively low skills as compared to automotives. With increasing automation, and smart machines and low-cost competition from other South and South-East Asian countries, the textile industry can face strong headwinds.

A loss of $1.6 billion is not an existential threat to the $74-billion Indian automobile industry and the chances of being more tightly integrated with the global value chain would make up for the losses. However, a government aiming to strengthen local manufacturing should strengthen the automotive sector through skill development and innovation, especially in emerging electromobility to fully utilise the potential of such an FTA.

The benefits for India from a trade agreement with the EU cannot be measured just by the growth of one sector or another. Access to a large market would pay off in the future, especially when Indian firms improve their productivity, and can compete with European players. A step-by-step easing of tariff and non-tariff barrier would allow a gradual growth in productivity and the resilience to compete with global markets.

India should take a leap of faith with a region with which it shares economic and political values — more so in a world faced with a US administration in favour of protectionism and a China with hegemonic ambitions.

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