Recalibrating relations with the EU

What is the issue?

- India is increasingly emphasising on a self-reliant economy.
- In this context, forging stronger ties with the European Union (EU) region could help India strengthen manufacturing and revitalise exports.

What is the priority now?

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

How is India's export potential?

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

What are the emerging challenges?

- There are several products where India has export potential in the EU.
- But these have "graduated" or are at the brink of "graduation" under EU GSP.
    - Product graduation applies when average imports of a product from a beneficiary country exceed 17.5% of EU-GSP imports of the same product from all beneficiary countries over 3 years.
- Some of India's exports are already out of the ambit of EU-GSP benefits.
- These include products such as textiles, inorganic and organic chemicals,

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

What should the approach to FTAs be?

- India's negotiation for a Broad-based Trade and Investment Agreement commenced in 2007.
- But this is yet to materialise due to lack of concurrence in areas like automotives and dairy and marine products.
- India's cautious approach to FTAs derives from its past experience of an unequal exchange of benefits in several FTAs signed by the country.
- Therefore, a thorough assessment of the benefits from FTA for domestic producers is warranted.
- There should be due consideration to the impact on sensitive sectors.
- Possibility of inclusion of safeguards such as sunset clause on concessions for some items should also be considered.
- Further, there should also be provisions for aspects such as investment and non-tariff measures (NTMs).
- China has already negotiated a comprehensive agreement on investment.
- India also needs to negotiate on investment-related aspects with the EU to enhance bilateral investments.
- It should foster stronger value chains especially in technology-intensive sectors in which the EU has a comparative advantage.
- As far as NTMs are concerned, India faces as many as 414 NTMs in the EU, in a wide array of sectors.
- FTAs have some institutional arrangements for NTMs.
- India should critically review the availability of such arrangements in its

negotiations, as also their operationalisation and effectiveness.

What is the favourable way forward?

- Post-Brexit EU finds itself in the midst of a growing need for recalibrating ties with its partner countries.
- So, forging stronger ties with the region through a mutually beneficial agreement could help strengthen Indian manufacturing and revitalise the exports.

Source: The Hindu

