

India-EU Broad-based Trade and Investment Agreement: A Comprehensive SWOT Analysis

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Abstract— Context of the paper- The proposed India-European Union Broad-based Trade and Investment Agreement. The emerging geopolitical scenarios have prompted India and the EU, two of the largest democracies in the world to align their values and goals even more. Their synergies are even more significant given the recent geopolitical trends and the COVID-19 pandemic. The central question this paper seeks to address: What are the strengths, weaknesses, opportunities and threats presented by the proposed India-EU BTIA? Previous research on this subject has demonstrated the stalled negotiations for many years and the need to harness the potential between the two democracies. Leveraging their potential for mutual benefit and for the goodwill of the world as a whole is beneficial for everyone. Little previous research has put the geopolitical and economic aspects of the India-EU BTIA together. This paper aims to ascertain the synergies between these fields and other important aspects of the proposed agreement. The methodology used includes research papers, journals, news articles and magazines for research purposes. The facts and figures are used from reliable sources for research purposes only. The major findings from this paper include the areas where India and the EU are yet to establish large synergies and how both of them can leverage each other's potential to the maximum. The findings imply that both democracies should be more aligned with each other's interests.

Index terms- Economy, Strategic Partnership, Supply Chains, Technology.



I. INTRODUCTION

This paper aims to ascertain the Strengths, Weaknesses, Opportunities and Threats of an India-EU Broad-based Trade and Investment Agreement(BTIA) taking into consideration the recent shifts in geopolitical landscapes, the potential of this agreement betwixt two of the largest democracies in the world and the challenges associated with signing this much-touted agreement.

India is touted to be the world's fastest-growing economy this fiscal, according to the International Monetary Fund's World Economic Outlook Report published on 25 January

2022. The report projects the Indian economy to rebound from the repercussions of the COVID-19 pandemic comprehensively, expecting it to grow by 9 percent this fiscal. ^[1]

On the other hand, the EU's economy is projected to grow at 3.9 percent this fiscal and 2.5 percent in the subsequent financial year. ^[2] The EU has a slew of opportunities to accelerate this growth by tapping into the potential India offers by signing the BTIA with the world's projected fastest-growing economy. We shall take into consideration several academic research papers, articles and academic books to present a comprehensive SWOT analysis of this agreement.

This is what a joint statement from the May 2021 Summit said “We agreed to resume negotiations for a balanced, ambitious, comprehensive and mutually beneficial trade agreement which would respond to the current challenges. We agreed that to create the required positive dynamic for negotiations, it is imperative to find solutions to long-standing market access issues. We also agreed to the launch of negotiations on a stand-alone investment protection agreement. We also agreed to start negotiations on a separate agreement on geographical indications which could be concluded separately or integrated into the trade agreement, depending on the pace of negotiations.” [3]

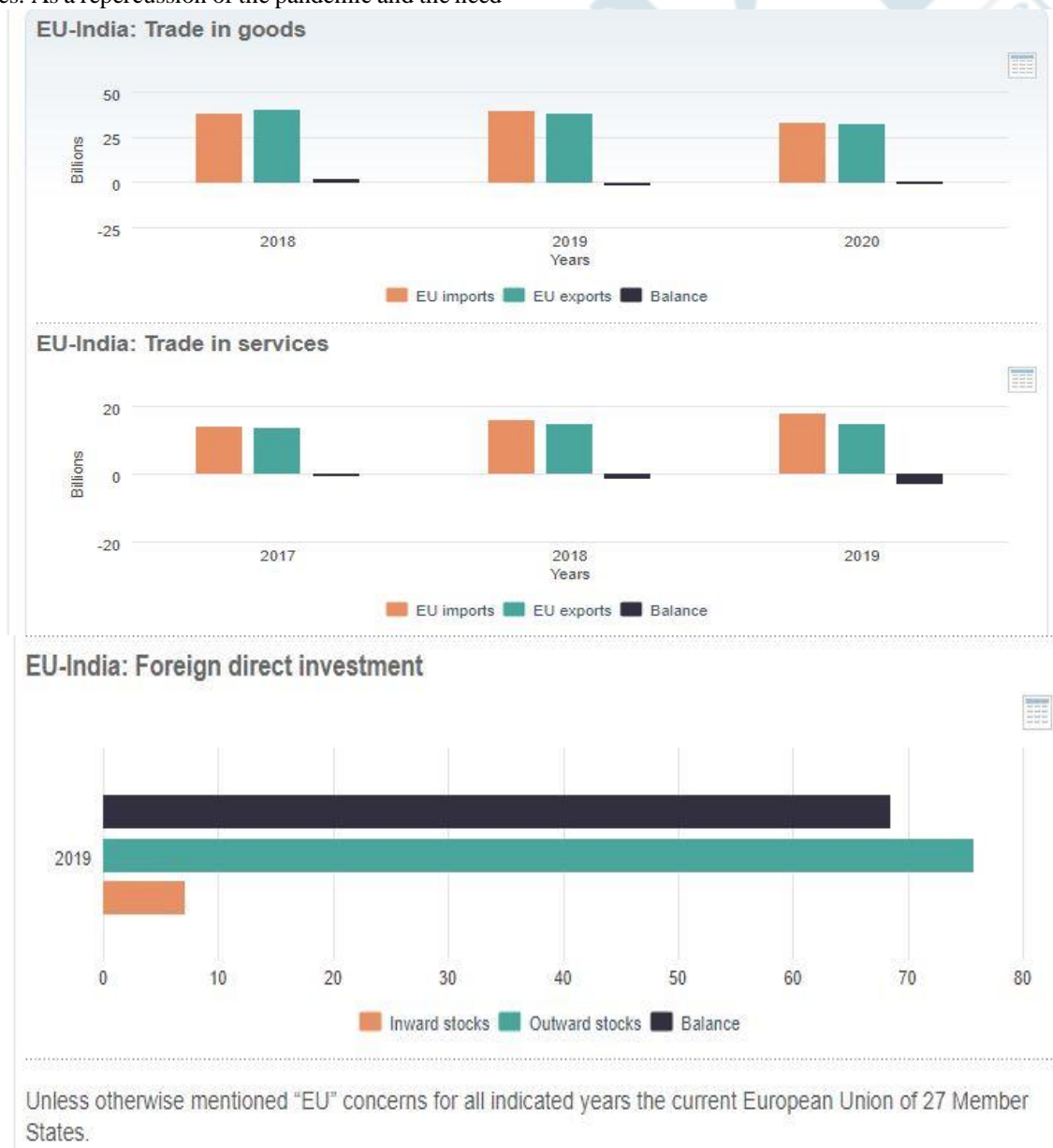
II. THE SWOT ANALYSIS

The May 2021 India-EU Summit in Porto, Portugal kickstarted the will to resume negotiations betwixt the two democracies. As a repercussion of the pandemic and the need

to build resilient supply chains, establish a rules-based world order and tap into the potential of trade, services and people-to-people ties, the two governments began ironing out the issues that have stalled the negotiations in the past. However, it may take a prolonged time to solve these issues.

III. STRENGTHS OF THE INDIA-EU BTIA

- Tapping the trade potential: India’s exports to the EU were valued at approximately USD 54 billion in the Financial Year 2019-20 while the imports were valued at approximately USD 52 billion. The EU is India’s third-largest trading partner and accounts for 1/9th or 11.1 percent of India’s total trade. [4] [5] More than 6,000 million Euros worth of chemicals, manufactured goods and transport equipment were imported by the EU in the year 2019-20 from India.



The total India-EU trade can more than double by the end of the decade if the BTIA is signed as soon as possible. Germany, France, Italy, Belgium and the Netherlands account for more than 50 percent of the trade with India. Other member states can leverage this BTIA to tap into the Indian market where the middle-class consumer growth is unprecedented and touted to be over 800 million by 2030. Also, their spending share is expected to grow from 70 percent currently to 80 percent by 2030. [6] As a repercussion of Brexit, the EU is looking at other untapped markets. While Vietnam and Bangladesh are pretty enchanting choices, their middle-class does not have an analogous spending capacity and the middle-class population is not as significant as that in India. By selling high-quality goods and services, the EU member states can not only become more prosperous but also foray into untapped markets where their presence is either limited or not expanded to its full potential. [Procurement Liberalization Diffusion in EU Agreements: Signalling Stewardship?] [EU-India Free Trade Agreement: A Quantitative Assessment]

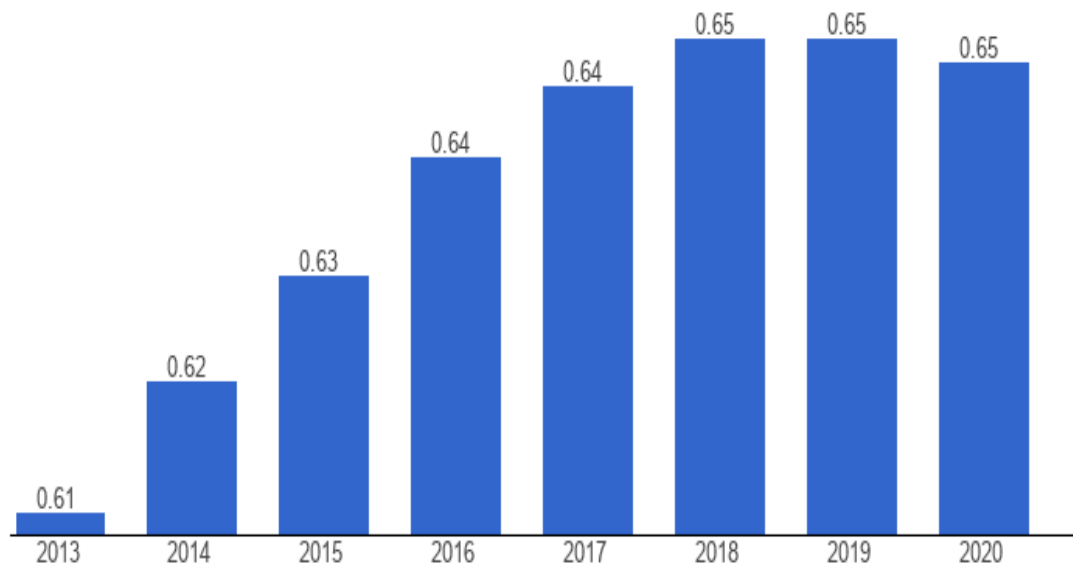
- **Transfer of Technology-** Several sectors such as semiconductors, agriculture, IT, construction, sustainability and transport can benefit from the transfer of technology in India. Being a newly industrialised country, India needs to keep up with the changes in the 21st Century fueled by the pandemic. The digitalisation of services has accelerated like never before. European companies, both public and private have better-quality tools, skills, labour, more capital and security to excel in these fields. Also, India needs to overhaul its food processing sector, something that a BTIA with the EU can catalyse.
- **Mitigating Climate Change and ensuring a greener transition-** India and Denmark signed the Green Strategic Partnership on 28 September 2020 that will ensure a smooth greener transition for both countries, partnering to adhere to and achieve the Paris Climate Agreement and Sustainable Development Goals, reducing CO2 emissions substantially and enabling Transfer of Technology in the fields of renewable and non-renewable energy sources. [9] [10] The BTIA can further consolidate this partnership by establishing an EU-India Green Comprehensive Strategic Partnership.
- **India-EU co-operation in the Indo-Pacific-** As evident by the EU's Indo-Pacific Strategy, the EU wants to play a bigger role in establishing a rules-based order in the Indo-Pacific, uplifting the Pacific islands, ensuring the security of trade routes and maintaining resilient supply chains. India is one of the most important Indo-Pacific partners for the EU. By establishing a BTIA with India, the EU can leverage India's potential and assist other smaller countries in achieving prosperity while ensuring a smoother, cleaner and greener transition. The EU's goals of Sustainable and inclusive prosperity, Green transition, Ocean Governance, Digital governance and partnerships,

Connectivity, Security and defence and Human security can be achieved by partnering with India on these fronts. [Geopolitics of the Indo-Pacific by Pradeep Kaushiva ISBN-13: 978-9383649099 and Europe in the Indo-Pacific: Moving from Periphery to the Centre? By the Institute of South Asian Studies, Singapore] [11]

- **Enhancing the EU-India Connectivity Partnership:** In 2021, India and the EU agreed to establish the India-EU Connectivity Partnership to promote sustainable connectivity in developing and under-developed countries with a rules-based order, ensuring a level-playing field, delivering comprehensive digital, transport, people-to-people and energy connectivity. [12] Several initiatives include EU and Indian Space Research Organisation, Smart City projects, improving the health sector, implementing sustainable construction projects, working together in the International Solar Alliance, building sustainable means of transport, a planned EU-India Aviation Summit, funding and expanding the EU Horizon Programme for research and a Global Initiative for Academic Network. [13]
- **Reinforcing the India-EU Trade and Technology Council goals and mission:** During the visit of the EU Commission president Ursula Von der Leyen to India in April, the two partners agreed to set up the India-EU Trade and Technology Council (TTC) which aims to bolster the cooperation in technology, data sharing, artificial intelligence, 5G telecommunications, trade, security, sustainability, climate change mitigation and building resilient supply chains. The TTC shall provide both partners with the political boost to cooperate further in these realms. Thorough implementation of policies and their follow-up is a boon for India and the EU. Only the United States has such a mechanism with the European Union to date, highlighting the geostrategic significance of these two global powers. To realise the potential of this mechanism, both sides must overcome the differences in geostrategic perceptions and work towards mutual development goals. It is imperative to keep building momentum in the growth of ties. This mechanism shall prove to be a catalyst for the India-EU BTIA whose first round of negotiations has recently been concluded. The second round is scheduled in September in Brussels.
- **Improving the Human Development Index in India-** EU Foreign Direct Investments made through the BTIA provisions can significantly improve India's HDI or Human Development Index in all facets. India has much work to do in the fields of health and nutrition, stable and transparent governance, life expectancy, quality of life, education, income per capita and GDP per capita. [India's Human Development: Gaps and Prospects] The EU can help India aggregate the disaggregated data in rural parts of the country. With high-quality technology and technical expertise, the EU can also help in re-orienting people and processes for development. The development

of systems for monitoring and evaluation of the development goals can be undertaken through joint partnerships. The BTIA will provide the EU with ample opportunities to invest in these projects and reap the economic rewards. Integrating the human development

paradigm in rural areas can be accelerated through the EU's help. The EU can also help improve the Gender Inequality Index. [14] By harnessing women's potential in rural areas and creating jobs, upskilling them, India can grow by leaps and bounds.



India's Human Development Index through the years

IV. WEAKNESSES OF THE INDIA-EU BTIA

- **MSMEs-** According to research, the Micro, Small and Medium-scale Enterprises (MSMEs) would lose sales and revenue if the BTIA is implemented, especially in the agriculture and foods sectors. Three independent studies in Mumbai showed that the sales of small shops within the 2 km radius of a shopping mall had declined by 70 percent and 55 percent of their regular customers now preferred shopping from the mall. [International Economics by Talentedge Education Ventures]. In a similar study in New Delhi, the small shopkeepers lost around 85 percent of their revenue when Reliance established a shopping mall in their vicinity. The actual figures may vary because of the unorganised accounting structures of these small shops. India is also looking at keeping dairy products such as milk, meat, milk powder and butter out of the FTA scope with Australia since it would affect the livelihood of millions of farmers who would face stiff competition from the cheaper and better quality Australian imports. [15] [16] For the same reasons, India would be apprehensive about importing dairy products from giant European conglomerates such as Arla Foods which would affect the farmers. They might allow the import of specialised dairy products that are either cheaper to import or are not readily available in India.
- **Sensitive sectors-** The Indian Government has reserved several sensitive sectors such as defence, railways, aviation, IT, Cyber Security, Artificial Intelligence,

Telecommunications, Vehicles and Textile Products for domestic companies. Many of these sectors have not witnessed large-scale privatisation even in the domestic arena. The government would not be willing to outsource these sectors to the EU companies, especially when it comes to IT, Cyber Security, defence, railways and aviation as these sectors are deemed critical for national security. While the government is gradually allowing private investments in sectors such as railways (For example the Mumbai Ahmedabad High-Speed Rail Project being financed by the Japan International Cooperation Agency), there is a slim chance that foreign firms would be allowed to take control of railway lines. The government instead insists on the transfer of technology, importing rolling stock and making it in India thereafter, enhancing technical skills and improving infrastructure through joint research and development programs. [17] ['Global Analysis Report for the EU-India Trade Sustainability Impact Assessment (TSIA)', draft TRADE07/C1/C01 (commissioned by the European Commission) and transcript of the conference on 'Exploring New Regionalism – the EU, India and Beyond, organised by Centad, New Delhi, 30 October-1 November 2007]

- **The trade disputes at WTO-** India and the EU have had their fair share of trade disputes at the World Trade Organisation since they both became members. The disputes have largely pertained to tariffs imposed on several sectors such as food and processing, agriculture,

information and communications technology, etc. [18] These disputes have been raised by both sides, and sometimes have been a retaliation for high tariffs imposed by one party on another. While the EU complains that India maintains very high tariff rates in some sectors, India has the same complaints in several sectors such as pharmaceuticals and agriculture. [19] These disputes prove to be a thorn in the bush for the 2 parties. Trade negotiations are bound to be tougher and prolonged because settling these disputes would be of paramount importance in the lead-up to the signing of the BTIA.

- The differences over labour and environmental standards- India alleges that the European Union makes it incredibly difficult to export some of the goods, citing the environmental and labour standards set by the latter. India alleges that the Sanitary and Phyto-sanitary Standards (SPS) have been overly stringent and used for protectionist measures rather than safeguarding health and safety standards. These issues have been hard to solve so far. Much work needs to be done if the BTIA has to be signed and implemented. An agreement betwixt the two must be undertaken after consultations on SPS and Geographical Indicator Tags (GI Tags). For instance, India has applied for the Basmati Rice GI Tag in the EU. If the 2 parties mutually agree to preserve GI tags in mutually beneficial and sensitive sectors, it would go a long way toward signing the agreement.
- The impact on Retail- The entry of foreign companies with a much larger capital base than domestic rivals has tended to fuel increased concentration in the retail sector, as they either merge with and then buy up domestic firms, or as domestic firms merge to compete with these foreign firms, according to the experience of numerous other countries. Consolidation in the retail industry also encourages the expansion of large retailers into new geographic areas. As a result, the entry of European retail behemoths is expected to accelerate the sector's consolidation tendency, amplifying the effects on smaller shops and farmers.
- The apprehension about poky gains in exports for India- Albeit India is likely to suffer significant losses from further restrictions on goods trade liberalisation, it also wants to see improvements in its access to the EU market as part of an FTA with the EU. Initial estimates, however, appear to imply that the net gains to India in the area of products will be minor. According to existing research, India will benefit from increasing exports to the EU in some areas. The expected improvements are primarily focused on the textiles and apparel industry, with leather and footwear, chemicals, metals, and plastic items faring less well. It's also concerning that the gains appear to be concentrated in such a small sector of the economy, with one research forecasting that "all of the agreement's output benefits will focus on the textile industry."

[From Government of India, Ministry of Textiles, 2007

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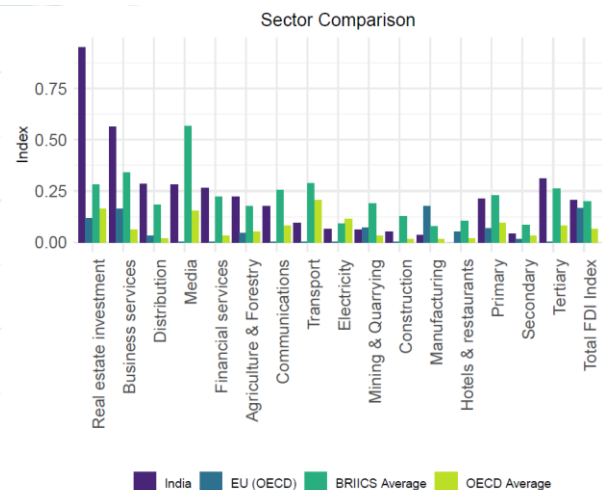
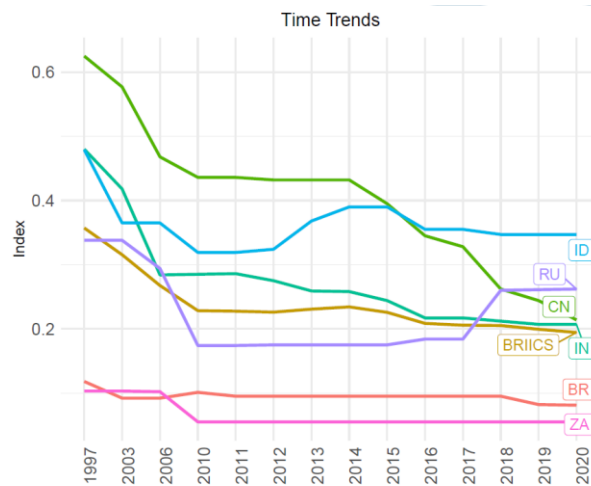
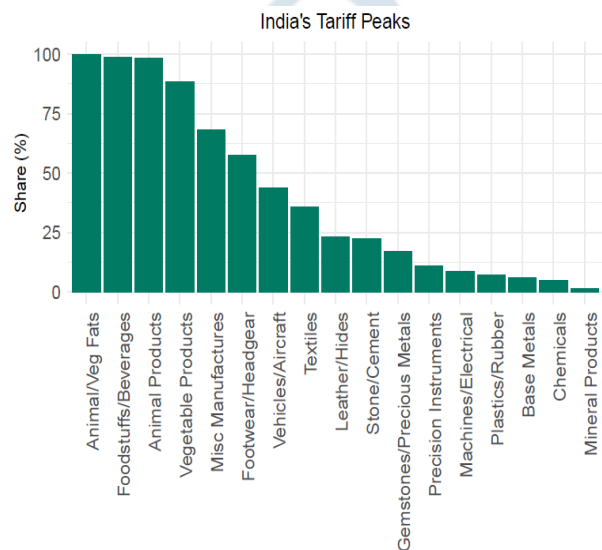
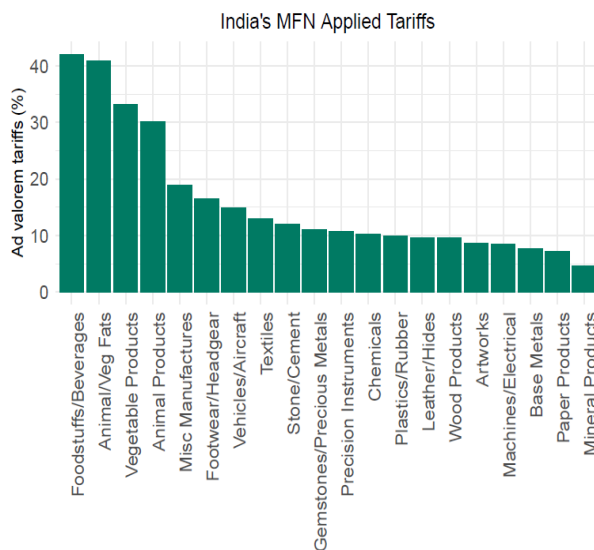
V. OPPORTUNITIES FOR EU-INDIA BTIA

- Kickstarting the negotiations- For the past 14 years, India and the EU have been trying to negotiate the BTIA without much success. There have been several barriers to the talks. The change in geopolitical landscapes, governments and priorities have been the chief reasons why the talks never really took off. However, on 8 May 2021 at the Porto Summit betwixt India and the EU in Portugal, the two parties agreed to kickstart negotiations for this comprehensive investment and trade agreement. Though the EU and India pledged to restart trade talks at their 15th Annual Summit last year, they did not provide a plan for how to break the eight-year stalemate in talks that have been halted since 2013, or if either party is willing to compromise to reach an agreement. In this regard, India's Commerce Minister has stated that the government is open to the notion of a Preferential Trade Agreement with the EU to achieve speedier results before hammering out a more ambitious Free Trade Agreement. Preparatory talks with the EU to resume bilateral free trade negotiations by December 2021 slowed due to controversial topics like labour, the environment, investments, and unresolved prior conflicts, according to sources familiar with the situation. Hence, the negotiations must begin without further delay. [20]
- Securing a free and open Indo-Pacific- A BTIA betwixt India and the EU would bring the two democracies closer and help secure a free and open Indo-Pacific region. By increasing trade and investment cooperation, the two parties can focus on building resilient supply chains, promoting sustainability, mitigating climate change, and fostering democracy and a rules-based order in the region. France is a residential power in the Indo-Pacific and is a comprehensive strategic partner of India. With the French holding the EU presidency, something special can be achieved in this regard. [21] [22]
- Promoting MSMEs and sensitive sectors in both countries- Keeping in mind the sensitivities of these sectors, both India and the EU can work together to promote research, development and transfer of technology and technical expertise in these realms. This would not only help iron out the differences but also promote multilateralism and foster the spirit of oneness amongst democracies in an increasingly isolated world and increasing Chinese hegemony as well as belligerence in the Indo-Pacific. Secure investments made through proper rules set on cyber security, IP rights and resilient supply chains would go a long way in preserving these sectors. For instance, European companies can leverage the humongous manpower and an increasing middle-class

consumer segment in India while Indian companies can partner with their European counterparts for high-end technology, research and development, upskilling labour, capital investments and education for the best results. By forming subsidiaries involving a partnership agreement, companies such as Arla Foods can leverage the huge consumer market in India with domestic companies such as Amul, the world's largest milk producer. Such mergers would blend quality with quantity.

- Opening up the markets in both India and the EU- India applies over 40% tariffs on MFN agricultural and food

products for EU exports. While a few of these items are sensitive, India can do better by opening up these sectors for Foreign Direct Investment that would enable the sharing of high-quality equipment, technology, transfer of technology and upskilling of labour. On the other hand, the EU applies 30 percent tariffs on vegetable products. Both should aim to reduce and/or eliminate tariffs on 90 percent of the traded goods. This would unlock many opportunities for both private and public sectors in the EU and India. [23]



The graphs above portray that India applies stringent restrictions on inward Foreign Direct Investment in agriculture, finance, real estate and transport. India should work with the EU to set up an investment mechanism facilitating easier European investments with guaranteed securities.

- Setting complementary trade rules and regulations- Both India and the EU must have regular Trade and Investment Dialogues that aim to iron out the differences in labour and environmental standards, IP rights, cyber security, AI, machine learning and digitalisation. It is not necessary

that India or the EU completely adopt each other's practices, but the policies must complement each other to integrate each other's economies on the global stage.

- Leveraging the repercussions of the pandemic- The COVID-19 pandemic has presented unprecedented challenges, but also several opportunities to leverage the economic, social and cultural potential of other countries. The EU and India's closer economic integration is imperative for a world that is increasingly becoming isolated where multilateralism is on a decline. Building resilient supply chains and maintaining a rules-based

world order are two of the most important goals for both India and the EU in the post-pandemic era.

- Establishing a comprehensive strategic partnership- India and the EU need to develop a comprehensive strategic partnership in lieu of the changing geopolitical landscapes. There is immense potential in the fields of defence, climate change mitigation, resilient supply chains, intellectual property rights, big data, artificial intelligence, robotics, maritime domain awareness, etc that needs to be harnessed. Also, stronger defence ties should incorporate joint production of various kinds of existing and future defence technologies, including unarmed drones, low-orbit satellites, maritime capacity building, anti-submarine missiles, and greater cooperation between India and the EU's militaries, air forces and navies by conducting joint, complex exercises.

VI. THREATS FOR THE BTIA

- Differing priorities- While the EU and India are keen to sign and conclude the BTIA, their immediate priorities are in lieu of the emerging geopolitical landscapes in their neighbourhoods. With an ever-increasing belligerent and hostile China and Pakistan in India's neighbourhood and the Ukraine-Russia War, India's and the EU's domestic politics are engaged in resolving these conflicts. The negotiations must be accomplished at a brisker pace. The aim for both sides is to complete the negotiations by December 2023. It is a challenging timeline but it can be accomplished through political will and negotiating for mutual benefits.
- Delay in negotiations- Albeit the first round of negotiations have been completed and the second is scheduled for September 2022 in Brussels, the delay in the negotiations would hinder the progress of the proposed BTIA. Ironing out key differences in sanitary, phytosanitary measures, intellectual property rights, labour standards, sustainability, cyber security, artificial intelligence, 5G, etc is imperative.
- Bureaucratic red tape- The prolonged bureaucratic processes that are needed to get the negotiations on track are hindering BTIA's progress. Both sides' leaders need to ensure that internal and external politics do not delay this agreement that is of paramount importance to them.
- Taking sensitive sectors into consideration and leveraging their benefits- Sensitive sectors are hampering the trade talks betwixt India and the EU. While India is hesitant to open sectors such as dairy, meat, wine, processed foods, railways and aviation to foreign entities, the EU is hesitant to allow the free flow of skilled Indian workforce, liberalising business visa regimes, pharmaceuticals, vegetables and fruits citing environmental and labour standards. Both sides should first aim to cover the sectors that are mutually agreeable for tariff reduction and/or removal and then proceed to the more difficult ones. An interim agreement analogous to that being planned

betwixt the UK and India as well as India and Australia would build confidence and momentum for the broader BTIA.

- Negotiating with the 27-member bloc- Negotiating with the EU is a tough ask and certainly not a cakewalk. While each member takes into consideration its domestic, as well as collective interests, even slightly shakier ties with any of these members, would hinder the cooperation in trade and investment. While India has significantly good ties with the EU member states individually and collectively, several issues need to be ironed out for enhanced cooperation in these realms.

VII. CONCLUSION

To sum up, the EU and India face an infinitude of challenges before they negotiate and conclude the Broad-based Trade and Investment Agreement. While there are a slew of challenges, there are an equal number of opportunities for two of the largest democracies in the world to leverage the untapped potential of economic, social, digital, cultural and security cooperation. It bodes well for both sides to conclude the BTIA at the earliest keeping in mind the plethora of challenges the pandemic and the new world order possess.

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