

## Talking trade with the EU

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This article is related to General Studies-  
Paper-III (Indian Economy)

The Hindu

27 Aug, 2019

### "Why it is important for India to hasten talks with the EU on a free trade agreement."

As the economy begins to suffer from the U.S.-China trade war, it is imperative for India to pursue a free trade agreement (FTA) with the European Union (EU). Last month, negotiators from both sides met in Brussels, for more talks about talks, but time is now running out for New Delhi.

Moving beyond the U.S. and China, this is the right time for India to engage the EU as an indispensable democratic partner to craft a favourable geo-economic order. A series of economic and geo-strategic factors make the need for an economic deal with the EU more urgent.

First, India risks being left behind amidst a collapsing global trade architecture, rising protectionism and a new emphasis on bilateral FTAs. India is the only major power lacking an FTA with any of its top trade partners, including the EU, the U.S., China and Gulf economies. This situation is not tenable as most trade is now driven either by FTAs or global value chains.

The EU's revived focus on FTAs could only exacerbate this risk for India. In June, Brussels concluded a trade deal with Vietnam and a historic FTA with the Mercosur countries in South America. India, in the meantime, is hanging on to its Most Favoured Nation (MFN) status. Its status under the EU's Generalised Scheme of Preferences (GSP) will face rising competition from Pakistan or Sri Lanka, who enjoy GSP+ benefits.

#### Stuck in a 'grey zone'

Stuck in a 'grey zone', without preferential FTA tariffs or GSP+ status, India will struggle to keep exports competitive for Europe, its largest trade partner where 20% of its exports land up.

The good news here is that India's talks with the EU have been advancing slowly but steadily. From agriculture to intellectual property, the EU and India have quietly been exchanging and aligning views. New areas like e-commerce have registered significant convergence because India's position on data privacy is not that different from the EU's. As with the EU-Japan deal, India may wish to proceed at two speeds: it could delay discussions about free flow of data for a few years and freeze differences on the tax moratorium issue or data localisation, even while committing to liberalise in other areas.

Second, beyond mere economic cost-benefit analysis, India must also approach an EU FTA from a geo-strategic perspective. With Mr. Trump's hostile spotlight focussing on India, and lingering concerns about the

Regional Comprehensive Economic Partnership, New Delhi must realise the long-term strategic benefits of a trade deal with Europe.

### Democratic regulations

EU negotiators are now more willing to make concessions on labour or environmental regulations, which used to be insurmountable obstacles. The collapse of the Transatlantic Trade and Investment Partnership and concerns about excessive economic reliance on China have propelled the EU to become a little more pragmatic, which New Delhi should leverage before it's too late.

The EU also offers India a unique regulatory model that balances growth, privacy and standards. India's governance framework shares the European norms of democratic transparency and multi-stakeholder participation on a variety of new technological domains, from regulating artificial intelligence to 5G networks. New Delhi must see this as a strategic premium that is not accounted for in a strict cost-benefit economic analysis.

When New Delhi speaks of Europe as a strategic partner to uphold a multipolar order, it must go beyond security and begin with the business of trade and technology.

## GS World Team...

### Free trade agreement- FTA

#### What is it?

- Under the Free Trade Agreement or FTA, import-export between two countries simplifies customs duties, regulatory laws, subsidies and quotas etc. on products. Free trade agreement is used to simplify trade.
- This gives the advantage that the cost of production of the two countries between which this agreement is done becomes cheaper than the rest of the countries.
- Seeing its benefits, many countries around the world are entering into free trade agreements among themselves.
- This helps to increase trade and speeds up the economy. It has also helped in increasing global trade. However, this free trade has also been opposed due to some reasons.
- Countries or groups of countries do not have to come under the WTO to make such agreements,

so if they are hindered by the WTO rules, they can move forward with the help of the FTA.

- Free trade eliminates tariffs and makes the corporation more competitive in foreign markets.
- FTAs typically cover trade in goods (eg agricultural or industrial products) or services (eg banking, manufacturing, trading, etc.).
- The FTA may also cover other areas such as intellectual property rights, investment, government procurement and competitive policy, etc.

#### Why the need?

- FTA partners have access to each other's markets with the elimination of tariffs and some non-tariff barriers.
- Exporters prefer FTAs for multilateral trade liberalization as they receive preferential access over competitors from non-FTA member countries. For example in the case of ASEAN, ASEAN has an FTA with India, but, not with Canada.
- Foreign investment outside the FTA is expected to

increase, while free trade agreements promote free trade and investment flows.

- FTAs encourage business productivity and innovation. This promotes regional integration.
- FTAs can help developing countries and this creates a dynamic business environment.

### **Regional Comprehensive Economic Partnership (RCEP)**

- It is a proposed free trade agreement between the ten member countries of the Association of Southeast Asian Nations (ASEAN) and six other countries (Australia, China, India, Japan, South Korea and New Zealand), with which ASEAN has a free trade agreement.
- The RCEP is vital for India as it accounts for 25

per cent of global GDP, 30 per cent of global trade, 26 per cent of FDI flows, and 45 per cent of the total population.

- It will also cover about 40 percent of world trade.
- For RECP the formal commencement of the talks began in 2012 at the 21st ASEAN Summit held in Cambodia.
- RCEP is seen as an alternative to the Trans Pacific Partnership (TPP).

### **Member Country**

- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
- Apart from these, Australia, China, India, Japan, South Korea and New Zealand are the participating countries.

### **Expected Questions (Prelims Exams)**

#### **1. Consider the following statements regarding Free Trade Agreement (FTA)-**

1. It was envisaged for the first time in 1776 in the book of Adam Smith " The wealth of Nation"
2. Here goods and services are traded.
3. Intellectual Property Rights, investment, government procurement and competitive policy sectors also comes under it.

Which of the above statements is/are correct?

- (a) Only 1                      (b) Only 2  
(c) 1 and 2                    (d) All of the above

### **Expected Questions (Mains Exams)**

**Q. India lacks Free Trade Agreement (FTA) with its top trade partners. Presently to what extent the Free Trade Agreement of India with European Union is important in the light of the falling global economy due to deepening trade war between America and China? Discuss.**

**(250Words)**

**Note:** Answer of Prelims Expected Question given on 26 Aug. is 1 (c)