

A fillip to Indo-Europe trade

INDIA'S RECENTLY CONCLUDED trade agreement with the European Free Trade Association (EFTA) has brought back to focus another milestone — an India-European

Union (EU) FTA. The FTA with four nations (Iceland, Liechtenstein, Norway, and Switzerland) took almost 16 years of negotiations to materialise. It strongly signals India's intent to persevere in dialogues and willingness to compete in global markets. While this newly signed agreement is largely focussed on goods trade and investments, India stands to gain substantially by negotiating a comprehensive agreement on goods, services, and investment with the EU. However, differences over tariff barriers on automobiles, alcoholic beverages, dairy products, mobile phones, shoes, and clothing, to name a few, derailed the initial trade talks that were launched in 2013.

India's services trade with the EU has increased rapidly over the last decade, from \$28.76 billion in 2010 to \$32.89 billion in 2020, touching an all-time high of \$48.45 billion in 2019 but lagging behind goods trade, which stood at \$95.2 billion in 2021. There has been a steady increase in services trade between India and the EU over the past decade and exports have outweighed imports in more recent years (see graphic). Thus, India-EU FTA in services presents a win-win opportunity for both partners as services hold a major share in their respective GDPs and each stand to gain from greater market access, knowledge exchange, and investment flows.

Post-Brexit in 2020, both sides agreed to revisit discussions for a "balanced, ambitious, comprehensive and mutually beneficial" trade agreement. To this end, separate negotiations on an investment protection agreement and an agreement on geographical indications were also launched. Progress in this regard has been slow owing to lack of consensus on issues like data privacy and security legislation, rules on intellectual property and competition, Carbon Border Adjustment Mechanism, framework for investment, and

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labour mobility.

Navigating a services treaty with the EU may prove challenging for India. Analysis of the trade data from the last two decades shows that the highest shares in overall services exports from India were recorded by technical, trade-related and other business services (22%), computer and information services (19%), and transport services (14%). India has comparative advantage at the bilateral level, with 20 EU countries for technical, trade-related and other business services; with 15 EU countries for R&D and with 14 EU countries for transport. Data shows that India has maintained an absolute comparative advantage over nations like Italy, Poland, Austria, Bulgaria, France, Hungary, and Sweden across a range of services. These nations could be India's potential partners in achieving breakthroughs in these negotiations.

India's top imports from the EU includes some of these same services: transport (38%), technical and trade-related services (16%), computer and

information services (12%), and travel (12%). Computer and information services in particular faces stiff competition from other EU members like Ireland. Concerns of the EU relating to data storage and flows, security, privacy, mobility, standards etc., which are pertinent to all these sectors, can prove to be major hurdles. India has already started regulatory reforms to address the EU's data concerns. The recently passed new data privacy and protection legislations could prove to be vital step in encouraging the EU to relax restrictions and enable greater access to sectors like computer and IT, professional and management services, and financial services.

India's prowess in adapting to disruptive technological innovations, excelling in transformative digital ecosystems, and developing advanced applications of artificial intelligence, machine learning, blockchain, data analytics, and cybersecurity are distinctive. India's trained IT labour force could

prove valuable in the services negotiations. The EU, however, has restrictions on the liberalisation of several sectors under the General Agreement on Trade in Services (especially Modes 3 and 4) involving free labour movement. Enhanced digital trade could be a potential solution. The EU wishes further liberalisation of the Indian market for EU exports, especially in accountancy and legal services. Another key sector of interest for both the parties is professional and management services. Our analysis shows that India has comparative disadvantage in these services with 25 EU countries. For travel and financial services, India has a comparative advantage over only a handful of EU countries.

Notwithstanding the challenges, our analysis shows that this trade agreement can significantly increase India's services exports to the EU with differential effects across sub-sectors. Precisely, using OECD's product market regulation indicator as a proxy for services trade restrictiveness, we find that 1% reduction in trade restrictiveness between the partner countries can increase India's services exports by nearly \$6.5 billion by 2025. Successful negotiations on services trade in the India-EU FTA perhaps begs a standalone approach, separate from the goods negotiations. India's strategy in negotiating a services agreement with the EU needs a gradatim approach. Though the partners might disagree on certain matters of services trade, there is plenty of common ground that India could use to good advantage. While India has exhibited its resolve to engage the EU as a strong trading partner, the EU has to be cognizant of the fact that India can customise these changes keeping different opportunities and linkages in mind.

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SERVICES TRADE FLOWS BETWEEN INDIA AND THE EU

