EU-India FTA:
Challenges before the South Asian Countries

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Context

- Proliferation of regional trading blocs.
- WTO and the scope of regionalism. Since 1995 the number of RTAs has increased from less than 150 to more than 250.
- Today, the quantum of global trade conducted through RTAs/PTAs is more than 50 percent of total trade flows.
- RTAs as ‘building blocks’ vs. ‘stumbling blocks’ to multilateralism.
- Current progress on multilateral trade negotiations and proliferation of RTAs.

Context..

- Rising bilateralism can actually weaken the interest of poor and vulnerable developing countries. Bilateral/regional deals are discriminatory.
- Discriminatory preferences may cause terms of trade shocks to suppliers from non-member countries, leading to adverse trade and welfare implications.
- Loss of preference for the traditionally preference dependent countries.

EU-India FTA: Background

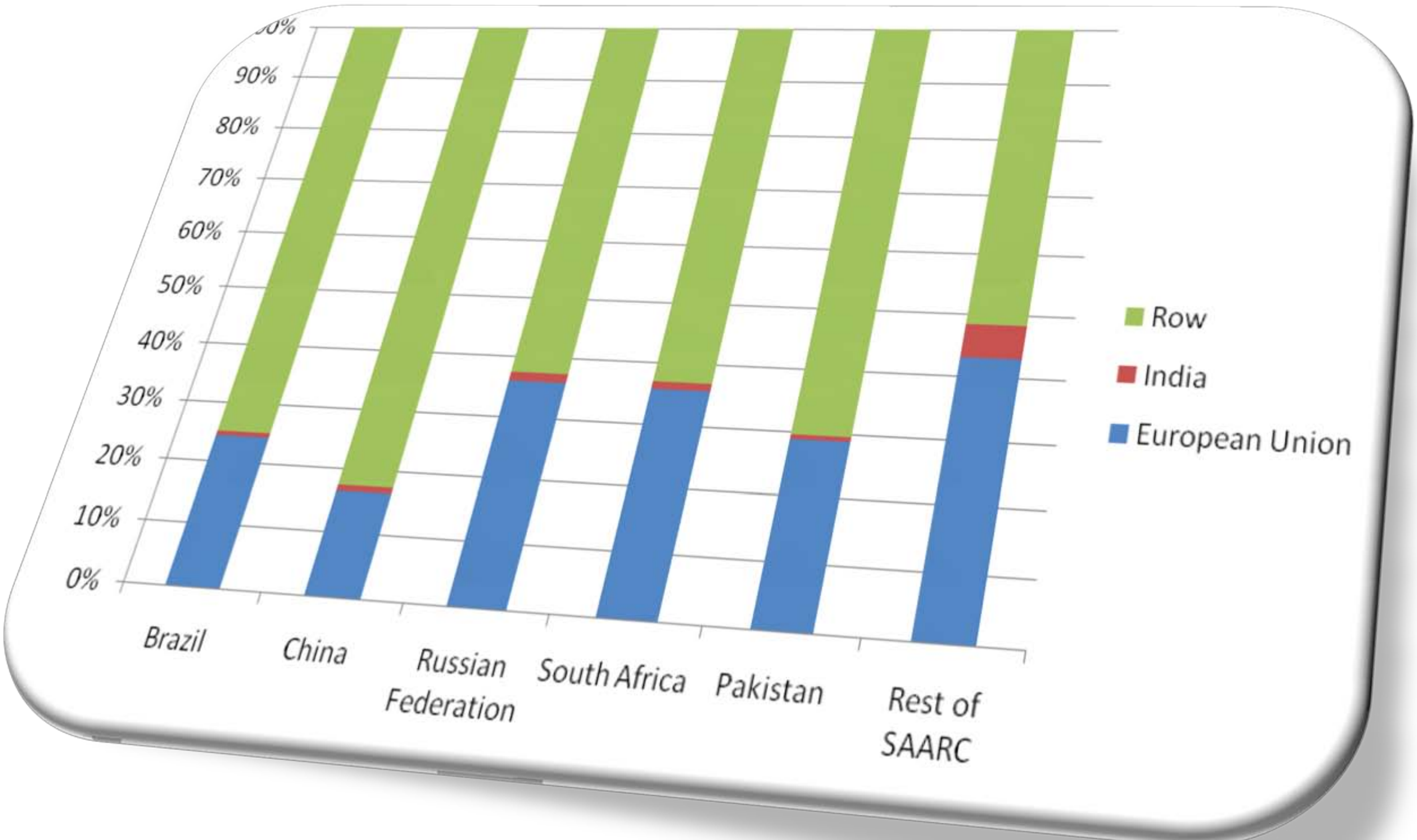
- **The EEC's (now the EU) approach to trade policy**
  - Non-reciprocal trade relationship with ACP (from Lomé to Cotonou to EPAs)
  - For LDCs – EU has non-reciprocal EBA preferences.
- **The EU's recent focus is on larger developing countries and emerging markets.**
- **EU emphasis on the so-called 'deep integration'**
  - regulatory harmonisations and liberalisations
  - services trade
- **Markets in India and EU are mutually attractive**

Potential Implications for Excluded Countries

The impacts on third countries depend on:

- Importance of EU and India markets for excluded countries
- Height of tariffs
- Similarity of composition in trading structures

Importance of EU and India markets for third parties



Height of India's Tariffs on Imports from the EU

HS code	Description	No. Of Categories	Avg. Tariffs in Category (%)	Peaks	Av. Tariff in Peaks (%)
87	Vehicles, pts & acc	58	34	13	100
55	Man-made staple fibres	82	17	3	75
17	Sugars and sugar products	14	46	2	100
16	Prep of meat, fish or crustaceans	12	41	2	100
39	Plastics and articles thereof	124	15	1	70
52	Cotton	82	15	1	30
38	Mis chemical products	62	17	1	50
33	Essential oils	35	23	1	100
8	Edible fruit and nuts	19	31	1	100
7	Edible vegetables and roots	18	35	1	100
21	Edible preparations	14	39	1	160

Height of Tariffs on Indian Exports to the EU

HS code	Description	No. Of Categories	Avg. Tariffs in Category (%)	Peaks	Av. Tariff in Peaks (%)
24	Tobacco & Manuf. Tobacco Substitutes	8	21.6	1	52.4
4	Dairy, Eggs, ed. Products	7	4.3	1	17.3
3	Fish & Fish products	37	6.7	2	14.3
19	Preps. of Cereals, Flour, Starch or Milk	14	2.4	1	14.1
7	Edible vegetables	36	5.7	1	14.0
8	Edible Fruits & Nuts, Pell of Citrus/Melons	26	3.5	6	10.2
53	Textile Fibres, Yarns & Woven	24	2.4	5	7.3
87	Vehicles o/t railw/tramw roll-stock	55	2.3	14	7.2
61 & 62	Clothing				12.5
27	Mineral Fuels, Oils, Waxes & Bituminous	13	0.02	1	0.2

Similarity of Composition in Trading Structures

	EU market: similarity with India			Indian market: similarity with the EU		
	(1)	(2)	(3)	(1)	(2)	(3)
Bangladesh	0.179	0.173	0.00	0.020	0.020	0.020
Maldives	0.016	0.013	0.00	0.014	0.014	0.014
Nepal	0.138	0.126	0.00	0.033	0.033	0.033
Pakistan	0.259	0.241	0.2	0.031	0.031	0.031
Sri Lanka	0.269	0.18	0.152	0.072	0.072	0.072

(1) Similarity across all products
(2) Similarity across products in which India (EU) has +ve tariffs
(3) Where exports present from both suppliers and both have +ve tariffs

Top 50 Export Items:
India vs. South Asian Countries in EU (HS 4 digit)

Bangladesh (16)	Nepal (15)	Pakistan (15)	Sri Lanka (18)
0306	4202	3907	0801
3004	5702	4202	4011
4202	6104	4203	6104
6104	6109	5205	6105
6105	6110	6104	6108
6108	6203	6105	6109
6109	6204	6108	6110
6110	6205	6109	6111
6203	6206	6110	6203
6204	6302	6203	6204
6205	6304	6204	6205
6206	6305	6302	6206
6302	7113	6304	6403
6305	8504	6403	7102
6403			8504
			8708

Four possible effects on other countries

- **No negative effects**
- **Trade reorientation**
  - For those benefiting from duty-free access in the EU and India. Substitution across suppliers
- **Trade diversion effects**
  - As more efficient excluded suppliers lose exports
- **Trade reorientation and diversion**
  - E.g. when both excluded and India have +ve tariffs in the EU with tariffs on India being higher

Impacts of EU preferences to India (% of exports to EU)

	No change	Trade re-orientation	Trade diversion	Trade re-orientation/ diversion	% of export to EU
Bangladesh	2.5	97.5	-	-	62.4
Maldives	8.3	91.7	-	-	20.9
Nepal	39.1	60.9	-	-	8.1
Pakistan	21.3	-	78.7	-	25.0
Sri Lanka	41.2	-	58.8	-	30.3

Impact of India's preferences to EU (% of exports to India)

	No change	Trade re-orientation	Trade diversion	Trade re-orientation/diversion	Share of export to India
Bangladesh	0.5	3.8	36.9	58.8	2.0
Bhutan	0.1	24.1	25.2	50.6	99.0
Maldives	0	0	99.3	0.7	1.8
Nepal	0.3	7.3	45.5	47	63.0
Pakistan	0	0	29.3	70.7	1.5
Sri Lanka	0.3	48.8	1.2	49.6	23.3

Terms of Trade Effects

Scope of terms of trade loss in the EU for certain countries is very high

	India's market share in the EU			
Tariff Diff[illegible] (India - [illegible]	0%	Less than 10%	10-25%	Greater than 25%
0%	[illegible]	10.65	0.77	0.15
Less tha[illegible]	[illegible]	7.21	0.01	0.24
5-10%	[illegible]	23.72	56.14	0.74
Greater t[illegible]	[illegible]	0.12	0.0	0.0

In 56% of Nepal's exports to the EU, India currently faces 5-10% higher tariffs. But these are also the items where India's market share of EU is 10-25%.

Terms of Trade Effects

Price effects in Indian market can also be very large

Scenario for Sri Lanka

	EU's market share in India			
Tariff Differentials (EU – Sri Lanka)	0%	Less than 10%	10-25%	Greater than 25%
0%	0.00	1.04	0.16	0.05
Less than 5%	0.00	0.00	0.00	0.01
5-10%	0.04	0.08	0.15	0.00
Greater than 10%	9.68	**54.20**	**23.69**	10.91

Bangladesh, Bhutan, and Nepal will also have similar effects.

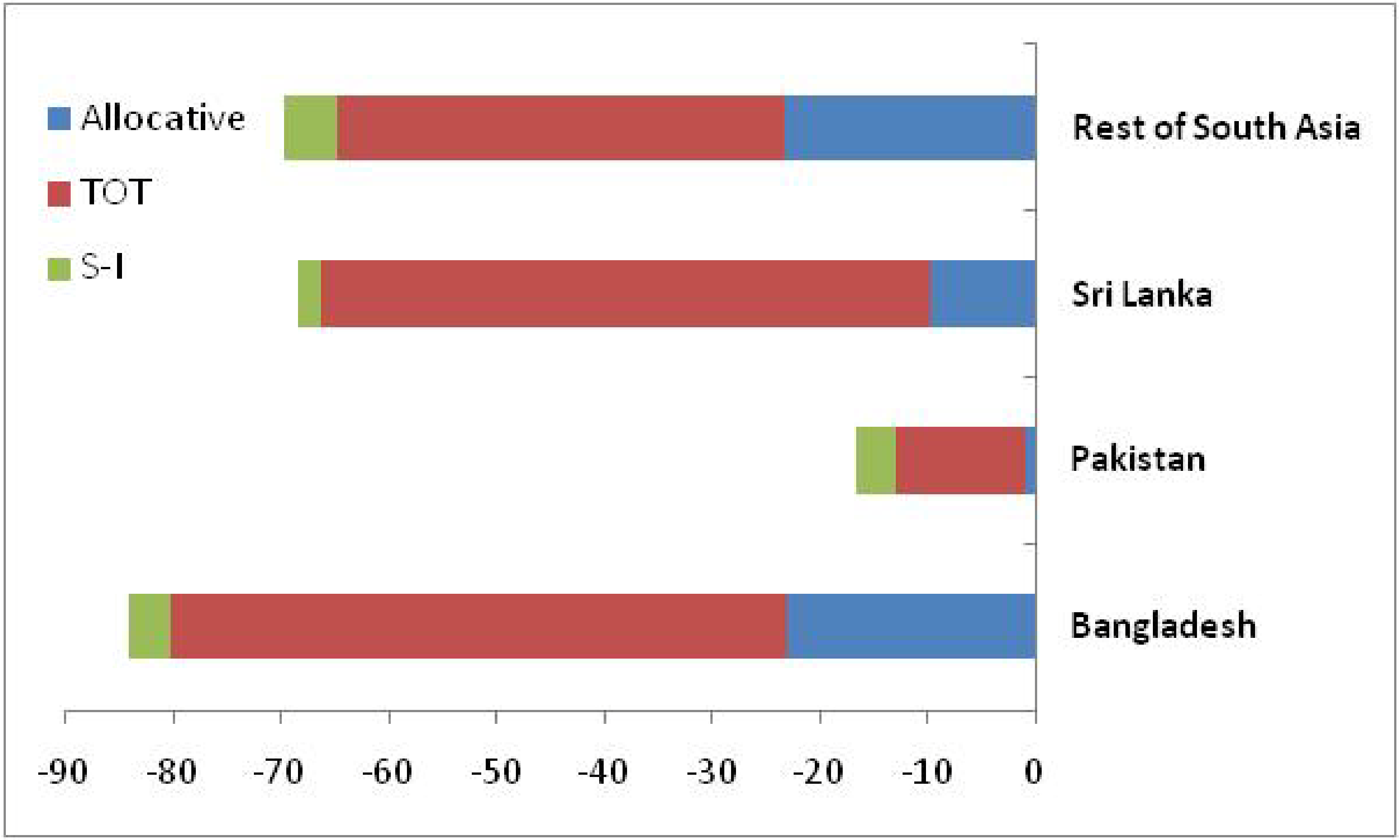
Welfare Analysis of the EU-India FTA

- Global general equilibrium modeling technique – the GTAP model
- The study uses the version 7 of the GTAP database.
- A scenario of a full FTA between EU and India is simulated using the GTAP model. Under this scenario all tariffs on the imports from EU to India are reduced to zero and all tariffs on the imports from India to EU are also reduced to zero.

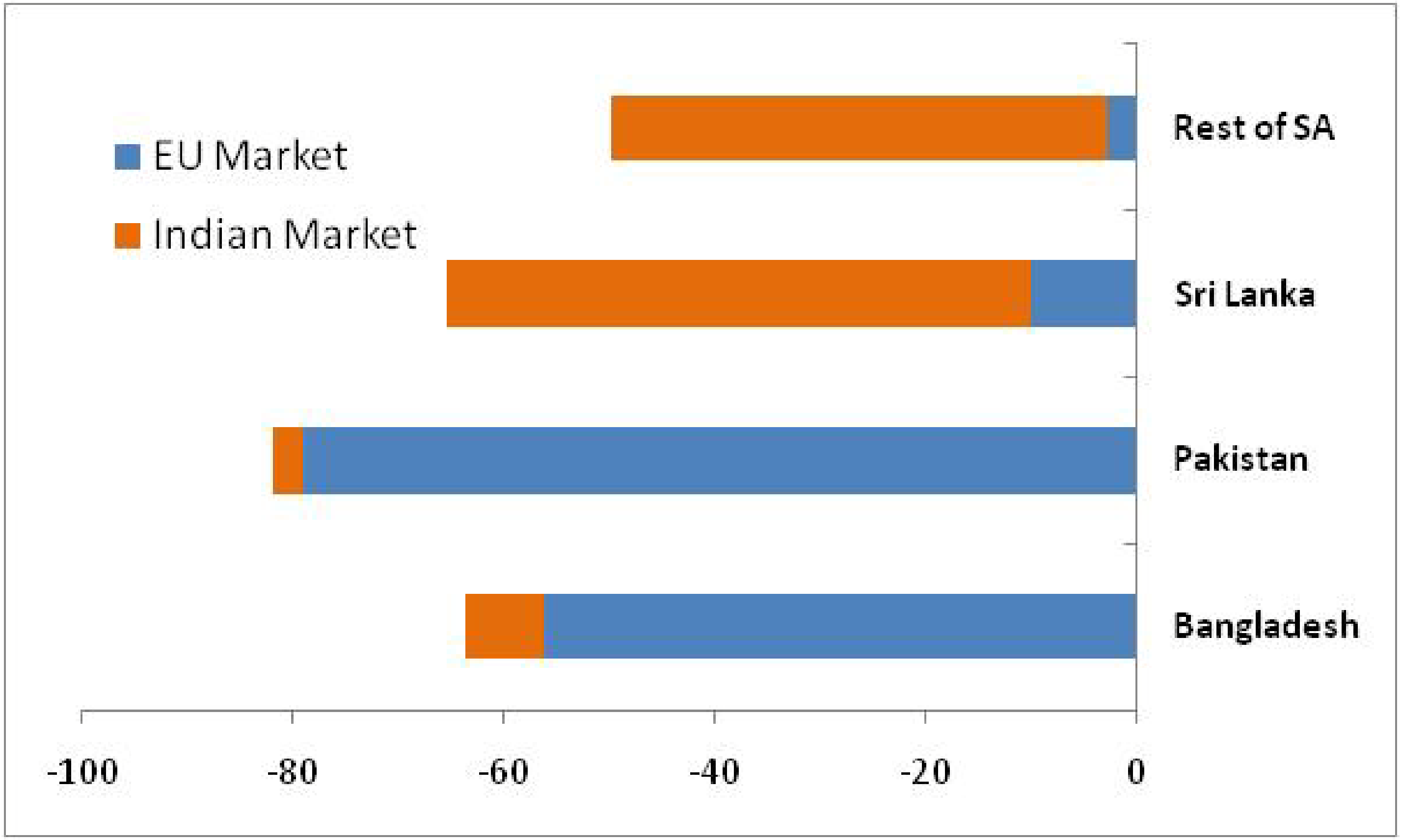
Welfare Impact (Million US$)

Countries/ Regions	Allocative efficiency effect	Terms of Trade Effects	Investment-Savings effect	Total Welfare
India	-941.4	5533.7	1070.4	5662.6
European Union 25	14082.8	-2782.2	-304.2	10996.4
Brazil	4.5	-201.3	27.7	-169.1
China	19.2	-76	-150.2	-206.9
USA	-78.3	-484.8	-389.5	-952.6
Rest of World	-219.4	-1907.3	-262.9	-2389.6

Welfare Impact (Million US$)



Loss in Exports (million US$)



Top 10 products: Export Loss in EU

Bangladesh	Pakistan	Sri Lanka	Nepal
610910	630221	610910	570110
611020	630391	620630	621420
610510	570110	610831	620630
620520	420310	620640	620442
030613	630260	610711	570190
620342	620342	620342	570310
620630	630231	610462	621410
620462	630222	611020	621490
610610	420329	620442	620452
630221	610910	610821	610910

Top 10 products: Export Loss In India

Bangladesh	Pakistan	Sri Lanka	Nepal
281410	080410	151620	040590
310210	080420	741300	151620
530310	291736	740319	330610
630510	080250	760511	220290
030267	290250	680221	550921
030268	080620	151790	300691
030269	520939	090411	392690
850710	520511	854419	853670
530710	520931	400121	380610
080260	520832	854411	721041

Trade in Services in EU-India FTA

- **Services are important for India and EU**
  - 70% of EU GDP and 66% of employment
  - Half of India's GDP, more than 33% of employment. India had the fastest growth in services trade recently
- EU-India bilateral trade in services – **limited data exists** – weak analysis
- Significant barriers in services trade
- Coverage of services trade not clear – other RTAs have not achieved significant coverage
- Preferences in services could be complicated

Potential implications for others in services trade

- **Services are more skill intensive** – competing with India in EU market may not be easy
  - some exception to unskilled labour (but its liberalisation is politically sensitive)
- In Indian market, EU will also operate at high skill level
- But, EU-India deal may result in huge FDI flows into India (others may face **investment diversion**)
  - theoretical possibility is high, but empirical evidence, until now, is limited.

Policy Responses: Individual countries

- Different countries will be affected differently – responses to differ
- Pressure on competitiveness - structural adjustments
- Galvanise public opinion towards more demanding but rewarding policy stances
- Improved business climate and policy environment
- Carefully designed support for industrial sector adjustments
- Delayed implementation of the FTA deal in certain sector

Multilateral Responses

- Adverse effects on poor countries can strengthen the case for multilateralism
- Competitiveness and supply-side capacity – reorient multilateral response in terms of aid and technical assistance
- Multilateral liberalisation and preference erosion – look for dynamic comparative advantage and diversification of export basket