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Study on proposed

# India-EU FTA

Estimating India's export potential to the EU

2024



**Bharat Ratna Sir M. Visvesvaraya**  
(15 September, 1860 - 14 April, 1962)

# FIFTY YEARS AND COUNTING

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# India-EU FTA - Estimating India's export potential to the EU

By MVIRDC World Trade Center Mumbai

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## Preface

The ever-evolving landscape of international trade necessitates the continuous establishment and expansion of economic partnerships. Due to the protracted nature of multilateral discussions, more countries are turning to bilateral and regional Free Trade Agreements (FTAs). Consequently, the last two decades have witnessed a surge in FTAs worldwide. According to the WTO, there are currently 369 Regional Trade Agreements (RTAs) in force.

FTAs play a vital role in promoting economic growth and development by facilitating international trade and investment. These agreements provide exporters with increased market access for their goods and services by reducing or completely eliminating tariff and non-tariff measures, along with various other provisions.



India is no exception to this trend of increasing FTAs. FTAs have become a key feature of India's trade policy, with the recent Foreign Trade Policy (FTP) setting a target of USD 2 trillion in exports by 2030. India currently has 14 operational FTAs, including one with the four-member European Free Trade Association (EFTA). Since 2014, the country has signed four such agreements with Mauritius, the UAE, Australia, and EFTA.

Negotiations for an FTA with the EU began in 2007, but discussions halted in 2013. However, negotiations resumed in June 2022, aiming to strengthen the economic partnership between both entities. India, as one of the world's fastest-growing major economies, and the EU, a significant economic bloc with substantial global influence, stand to gain considerably from an FTA. The potential benefits extend beyond economic metrics, encompassing enhanced geopolitical ties, cultural exchange, and strategic cooperation in various domains. Nevertheless, aligning regulatory environments, addressing market access barriers, and ensuring equitable benefits across diverse sectors require meticulous scrutiny and strategic foresight.

I am pleased to inform you that MVIRDC WTC Mumbai has prepared this study on the India-EU FTA at such a crucial juncture in the negotiations. This study is based on an in-depth analysis of key trends in India's exports and the EU's imports and EU's tariff and non-tariff profile.

I extend my gratitude to all stakeholders from industry and research institutions for sharing their valuable insights for this report.

I hope this report will supplement the existing literature on the India-EU FTA and raise awareness about untapped export opportunities in the EU for aspiring and existing entrepreneurs across various industries.

**Dr. Vijay Kalantri**

Chairman  
MVIRDC WTC Mumbai

## Executive Summary

The last three years have been remarkable for India's foreign trade, with the country achieving record-breaking export figures for three consecutive financial years (FY). Although India's merchandise exports in FY24 declined by 3% year-on-year due to the global slowdown, the overall export figure still reached a record high of USD 779.2 billion, supported by robust service exports.

India in its recent Foreign Trade Policy has set an ambitious target to achieve USD 2 trillion in exports by 2030, with USD 1 trillion each from goods and services. To meet this target, India needs to scale up its exports by 157% over the next six years. While this goal may seem challenging, it is achievable with the right policy measures.



The government over the recent years has implemented various policy measures to promote domestic manufacturing in the country. In addition to supporting domestic industries, India should focus on signing more comprehensive Free Trade Agreements (FTAs) with major economies worldwide. Since 2014, India has signed four new FTAs including the latest one with the EFTA (European Free Trade Association) and is in talks with other nations for proposed FTAs.

The proposed FTA with the European Union (EU) could be a game-changer for India's foreign trade prospects. The EU, consisting of 27 countries, is the largest importing bloc globally, with total imports of USD 9.1 trillion in 2022. Although the EU is one of India's largest trading partners, India does not rank among the top five trading partners from the EU's perspective. This indicates a significant untapped potential for India to expand its footprint in the EU market.

Against this backdrop, MVIRDC WTC Mumbai has conducted this study, at a time when FTA negotiations between both the economies stand at a crucial juncture. The study, which includes a meticulous analysis of merchandise trade data, has identified an untapped export potential of USD 659.9 billion across 1,199 tariff lines.

The study has also analyzed the EU's tariff profile along with various non-tariff measures to identify sectors that could benefit the most from the FTA. Additionally, the gravity model was used to ascertain the impact of the FTA on the economies of India and the EU.

The study based on valuable insights received by the industry and research institutions, provides recommendations and policy suggestions for India to consider while negotiating the FTA with the EU.

I hope that this study will serve as a valuable roadmap, providing insights that can guide policymakers, industry players, stakeholders and researchers, in understanding India-EU trade dynamics and the potential of the proposed FTA.

### **Rupa Naik**

Executive Director  
MVIRDC WTC Mumbai

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We sincerely acknowledge the research and analytical work of Ms. Priya Harikumar, Senior Officer- Research and, Mr. Nileshe Dixit, Officer- Research, MVIRDC World Trade Center Mumbai in this study.

## Objectives of the study

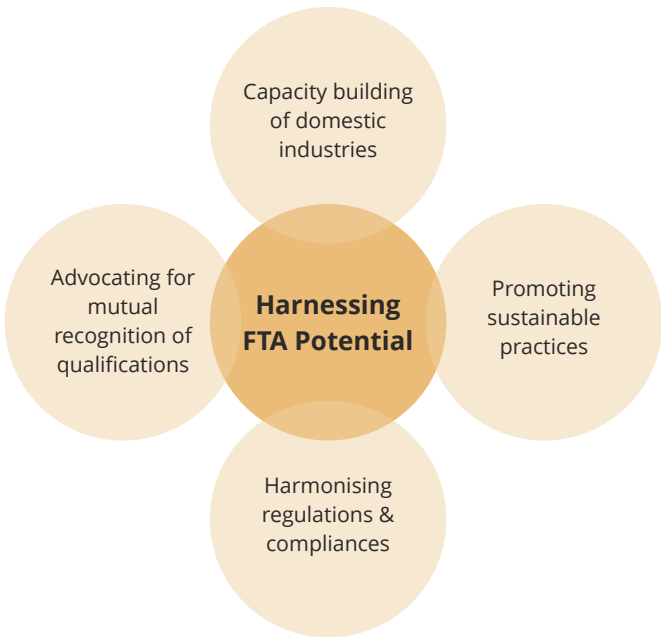
- To estimate India's untapped export potential to the EU using the RCA model and recent trends in India's exports.
- To examine tariff and non-tariff data to identify various barriers to India's exports to the EU.
- To evaluate the gains from trade using the Gravity Model.



## Key Highlights of the study

- The EU is India's largest trading partner, while India ranks 10th among the EU's major trading partners, contributing just 2% to the EU's total merchandise trade. India is the 10th largest import source for the EU, accounting for only 2.2% of the EU's total goods imports.
- The study using the Revealed Comparative Advantage (RCA) model identified 1,090 tariff lines at the six-digit HS code where India has an estimated potential of USD 403.5 billion in exports to the EU.
- The fuel and energy sector has the highest export potential of USD 96.8 billion followed by Textiles & apparel with USD 60.5 billion of which cotton-related textiles account for USD 36.5 billion. The chemical and allied sectors hold the third highest export potential at USD 53 billion, with nitrogen heterocyclic compounds (HS code 2933) leading at USD 20 billion.
- Labor-intensive sectors like textiles and apparel, agriculture and allied products, gems and jewellery, plastic and rubber products, wood products, and home decorations have a combined export potential of USD 105.8 billion.
- The study also identified 153 tariff lines where India currently lacks global competitiveness, but where exports have grown significantly over the past five years. Among emerging export commodities, electrical machinery and equipment have the highest untapped potential at USD 74.6 billion, including USD 44.7 billion for smartphones and USD 19.5 billion for static converters.
- EU import duty data from the WTO shows that while the average MFN rate for all products is 5%, it is 4.74% for the 1,090 identified tariff lines. However, among these 1,090 tariff lines, 248 are already subject to zero duty under the EU's GSP status for India. For the remaining 842 tariff lines, the average MFN rate is 4.5%. Including these 842 tariff lines in an FTA could boost India's exports to the EU by an estimated USD 335 billion.
- In terms of Non-Tariff Measures (NTMs), India has the second highest number of bilateral NTMs imposed by the EU.
- India's Agriculture & allied sector, Metals & Metal products and Textiles & apparel sector are the most affected by the bilateral NTMs imposed by the EU. From the identified 1090 tariff lines, bilateral NTMs imposed by EU in these three sectors represent USD 7.6 billion of India's untapped export potential to the EU.
- The study also notes that the EU's corporate regulations on sustainability, climate, and labor standards might benefit India's labor-intensive exports. India could better meet these standards compared to competitors like Bangladesh and Pakistan.
- Additionally, the study recommends enhancing domestic industry capacity and supporting small businesses and MSMEs in adopting sustainable practices.
- According to industry experts, to improve market access for India's service exports to the EU, India may advocate for clauses for facilitating temporary residency and employment opportunities for skilled professionals within the framework of the India-EU Free Trade Agreement. Recognition of Indian qualifications by the EU member state may also be pursued under the current negotiations.

Diagram 1: Harnessing FTA Potential





## Chapter 1: Introduction

### Formation of the EU

The European Union (EU) has its roots in the formation of the European Economic community (EEC) which was an organisation of six European countries viz. Belgium, Germany, France, Italy, Luxembourg and the Netherlands. The EEC was established in 1958, through the Treaty of Rome, with the objective of increasing economic cooperation among the six member countries. It also established a customs union among the members. Upon the establishment of the European Union (EU), this community was absorbed into the EU's framework.

The European Union formally came into force on 1st November 1993 post the signing of the Maastricht Treaty in the Netherlands. The European Communities, a common foreign and security policy and enhanced cooperation in justice and domestic affairs were the three main pillars of the European Union. This gave the EU a better control over the domestic policies of the member countries. There was also the idea of a common citizenship in the EU along with that of a common currency and monetary policy. The Euro was established as a common currency for the members of the European Union in 2002.

Over the years, there was a rise in the number of members in the EU. As of 2022, the EU is an economic, political and monetary union of 27 European countries. These include Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

### India-EU relations:

India was among the first nations to establish diplomatic relations with the then EEC. In 1994, India signed a cooperation agreement with the EU which laid the framework for EU-India relations and furthered the bilateral relations from just trade and economic cooperation. The regular annual summits hosted between the two parties also further aided the bilateral relations. This was later upgraded to a strategic partnership in 2004.

After analysing the Final Reports published by the Ministry of External Affairs from 2018-2022, this report finds that agreements and negotiations with the EU have accounted for 19% of India's total foreign policy activities.

In 2018, India-EU engagements included India's trade mission with Denmark, climate change policies, defence partnerships and agreements on space, energy and nuclear weapons. In 2019, they expanded existing agreements to science and technology and the development of smart cities. India got Rafale aircraft from France, EU FDI to India stood at 23% of total Indian FDI, an Administrative Agreement was signed on Railway Cooperation and conversations of migration and mobility along the EU-India Corridor were had. They also expanded discussions to market research 5G, AI and supercomputing. Furthermore, EU-India trade included a commitment to expand their strategic partnership to digital economies, climate change and cooperation at multilateral forums.



2020 was the first year of the COVID-19 pandemic which negatively impacted global trade. India-EU relations were slow but FDI's remained high. India signed a bilateral agreement on climate change with Denmark and began a new dialogue on trade and investment in maritime security with the 27 member states. In 2021, India

pursued a bilateral trade agenda with the EU by ratifying the Migration and Mobility Agreement with France, forming a Labour Mobility Agreement with Portugal, forming a strategic partnership on energy with Italy, forming a strategic partnership on water with the Netherlands and expanding the India-Sweden Joint Leadership Initiative. Other agreements with the EU included a connectivity partnership, post-pandemic recovery and vaccine efforts and renewed conversation on trade and investment agreements. In 2022, the 2nd India-Nordic summit and the G7 summit in Berlin occurred. India-EU relations saw an increase in the discussion of bilateral investments in trade and agreements, and the renewal of FTA (Free Trade Agreement) negotiations. In 2022, India and the EU also established the Trade and Technology Council for higher-level communication to tackle strategic challenges to trade, technology and security.



**Table 1: India-EU bilateral engagements (2018-22)**

Sr. no	Description	Main Sector
	<b>2022-23</b>	
1	Renewed momentum. 2nd India-Nordic summit.	Politics
2	G7 Summit in Germany	Politics
3	Renewal of negotiations and trade and investment agreements	Economics
4	Established India-EU trade and technology council	Economics and Technology
5	Bilateral investments in trade and agreements	Economics
	<b>2021-22</b>	
6	India-Sweden Joint Initiative Leadership Group expanded	Politics
7	Post-pandemic recovery and vaccination efforts	Medicine
8	Renewal of negotiations and trade and investment agreements	Economics
9	Strategic partnership on water with the Netherlands	Water
10	Strategic Partnership on Energy Transition with Italy	Energy
11	Connectivity partnership	Energy and Technology
12	Labour Mobility Agreement with Portugal	Migration
13	Ratified the Migration mobility partnerships with France	Migration
	<b>2020-21</b>	
14	Development of relationships including the new dialogue on bilateral trade and investment in maritime security	Economics and Defence
15	Trade and FDI remained high	Economics
16	Bilateral agreement on climate change with Denmark	Climate
	<b>2019-20</b>	
17	Commitment to expand strategic partnership to digital economy, climate change and cooperation at multilateral forums	Economics etc
18	Migration and mobility along the EU-India corridor	Migration

Sr. no	Description	Main Sector
	<b>2019-20</b>	
19	Expanded discussions to market issues, 5G, Research and innovation, AI and supercomputing	Technology and Development
20	Administrative Agreement on cooperation in the field of railways	
21	EU FDI to India stands at 23% of total FDI	Economics
22	Rafale Fighter aircraft from France	Defence
23	Expanded existing agreements to science and technology, nuclear cooperation and smart cities	Development etc
	<b>2018-19</b>	
24	Defence partnership, space, energy and nuclear weapons	Development etc
25	climate change	Climate
26	Trade mission with Denmark	Economics

**Source: Ministry of External Affairs Annual Report for 2018-2022, compiled by MVIRDC WTC Mumbai**

Negotiations for an FTA between India and EU began in 2007, going on until 2013 with 16 rounds of talks. However, discussions came to a standstill in 2013. Negotiations were resumed in June 2022, with an aim to strengthen economic partnership between the economies.

India, as the fifth largest economy with a nominal GDP of USD 3.2 trillion, provides the EU with a dynamic market and a vast array of investment opportunities.

### Trade and Economy

The EU has a surface area of 42.5 lakh sq.km and a population of 447 million. With a GDP of USD 16.75 trillion, the EU is the second largest economy in the world as of 2022, after the USA. It has an annual growth rate of 3.4% with GDP per capita of USD 37,432. Germany is the largest economy in the EU with a GDP of USD 4.08 trillion. Post the exit of the UK in 2020, France is the second largest economy in the group with a GDP of USD 2.77 trillion followed by Italy at USD 2.04 trillion.

India is the fastest growing major economy with annual

GDP growth of 7.24% and has the largest population in the world. It is the fifth largest economy with a GDP of USD 3.4 trillion and GDP per capita of USD 2410.8.

As of 2022, extra-EU merchandise exports stood at USD 2.75 trillion with USA, UK and China being the three major export destinations for exports from the EU. On the other hand, extra-EU merchandise imports stood at USD 3.5 trillion with major import sources being China, USA and Russia. India is the 12th largest export destination and 11th largest import source of the EU.

As of 2022, India's merchandise exports stood at USD 452 billion, accounting for 1.8% of the world's total exports. EU forms the second largest market for Indian merchandise exports. India's merchandise imports stood at USD 732 billion, constituting 2.9% of global imports. China, UAE, USA and EU are some of the major import sources for India.

The Lall's classification is used to identify the export composition of both the economies. This classification groups commodities based on the complexity of technology used to produce the commodity. The products are

classified into various technological categories and sub-categories. Lall's classification deals with six broad categories viz. "Primary Products", "Resource-based manufactures", "Low technology manufactures", "Medium Technology Manufactures", "High technology manufactures" and "Unclassified".

As of 2022, more than half of extra- EU exports were dominated by exports of medium and high technology

Chart 1: EU Exports (Lall classification)

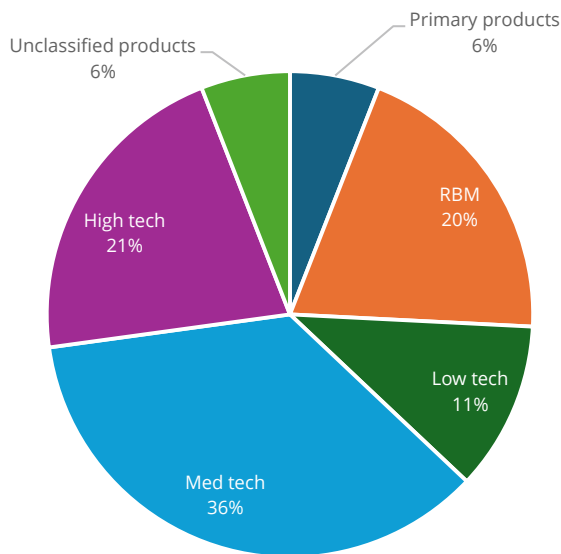
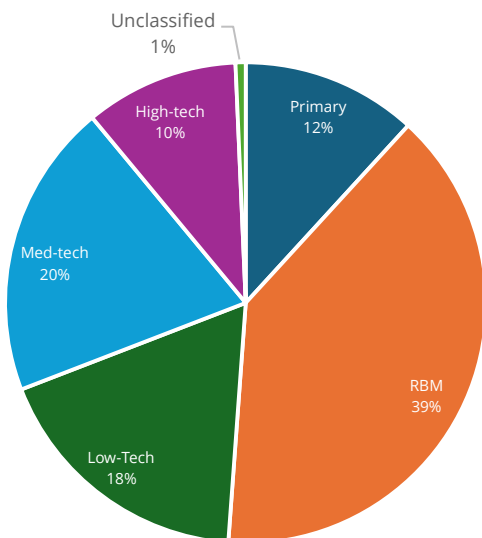


Chart 2: India Exports (Lall Classification)



Source: UNCTAD, complied by MVIRDC WTC Mumbai

manufactures with a combined export value of USD 1.6 trillion. This was followed by exports of resource-based manufactures. Together, these three categories accounted for 77% of the EU's exports to the world. Medium-tech exports from the EU stood at USD 985 billion in 2022, 53% of which came from exports of engineering manufactures with an export value of USD 520 billion.

On the other hand, of the total USD 453 billion merchandise exports from India in 2022, 59% was from resource based and medium-tech manufactures. Together their combined export value amounted to USD 267 billion. This was followed by exports of low-tech manufactures accounting for 18% of total exports. 87% of resource-based exports came from the other category and the rest came from agro-based exports.

India-EU bilateral trade

The EU is among the largest trading partners of India. In 2022, India's total goods trade with the EU stood at USD 128 billion, accounting for 11% of India's total goods trade. Over the years, India's trade with the EU has witnessed a steady rise. Trade between the two economies grew by 45%, from USD 88.6 billion in 2012 to USD 128 billion in 2022. This trade growth is slightly less than India's overall trade growth of 48%. However, the significant share of the EU in India's total trade indicates that while India has diversified its trade to other countries, trade with the EU remains a crucial pillar of India's international trade.

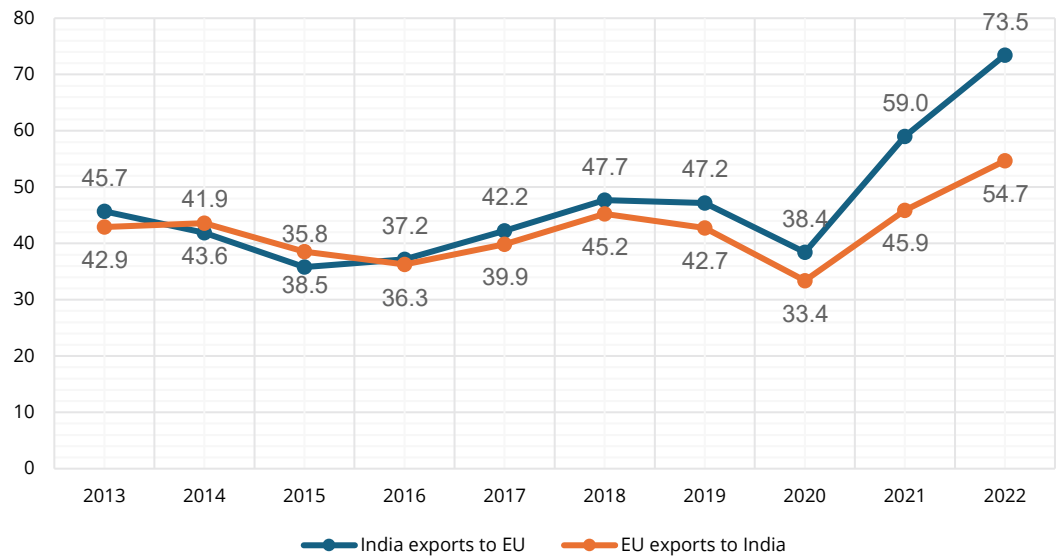
Trade

As one of the most prosperous economies, the EU is also one of India's largest export destinations. Although the growth in total trade with the EU has been slightly less than India's overall trade growth, the growth in exports to the EU has outperformed India's total export growth over the last decade.

As of 2022, India has a trade surplus with the EU with India's exports to the bloc at USD 73.4 billion and EU's exports to the country at USD 54.6 billion. Over the last decade India's exports to the EU has grown by 61% from USD 45.7 billion to USD 73.4 billion and its imports have grown by 27% from USD 43 billion to USD 54.6 billion.



Chart 3: India-EU bilateral trade (USD bn)



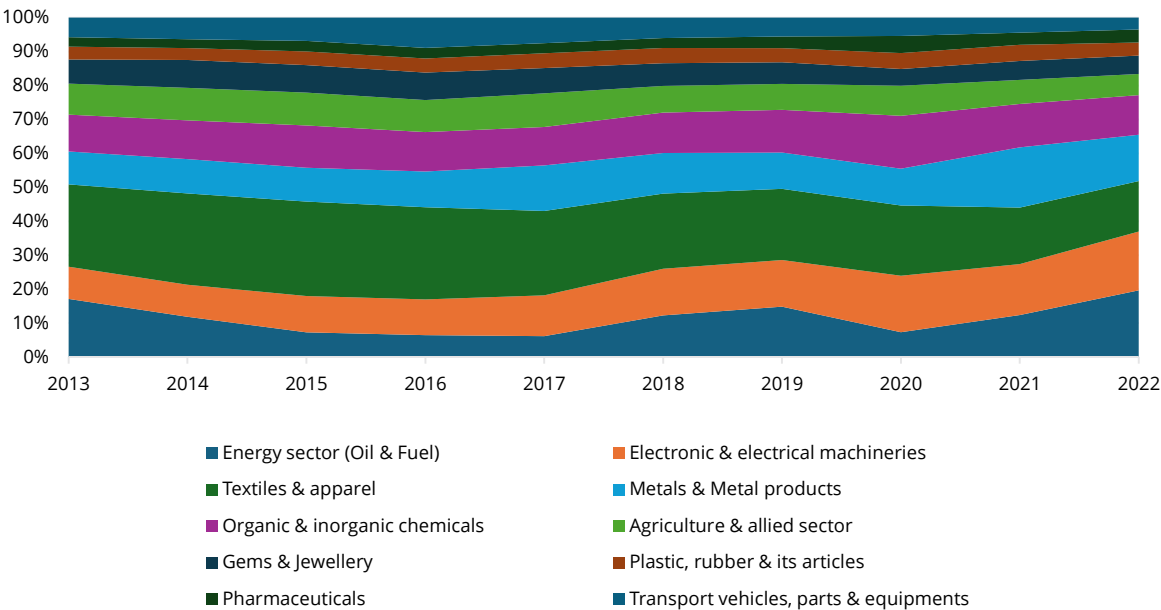
Source: ITC TradeMap, compiled by MVIRDC WTC Mumbai

Sectorwise trends

As of 2022, India's exports to the EU are dominated by commodities from the energy sector, electronic and

electrical machinery, textiles and apparel, metals, and organic and inorganic chemicals, collectively accounting for 73% of the total exports. The chart below shows trends in the composition of India's exports to the EU.

Chart 4: Sectorwise composition of India's exports to EU



Source: ITC TradeMap, compiled by MVIRDC WTC Mumbai

Over the past decade, the composition of these exports has shifted significantly. The share of electronic and electrical machinery has increased from 9% to 16%, while the share of metals and metal products has risen from 13% to 16%. Although the energy sector has experienced volatility, its overall share in India's exports to the EU has marginally increased from 16% to 18%. In contrast, the share of textiles and apparel has witnessed a decline from 23% to 14%.

On the other hand, India's imports from the EU majorly comprise of electronic and electrical machinery which alone account for 30% of total imports. Major imports from the EU include electronic and electrical machinery, organic and inorganic chemicals, gems and jewellery, and energy. These sectors together account for 70% of India's imports from the bloc. Over the last decade, the share of the energy sector in imports has grown from 1% to 7%, while the share of gems and jewellery has decreased significantly from 20% to 10%. Additionally, the share of transport vehicles in imports has declined from 10% to 4%.

Countrywise trends:

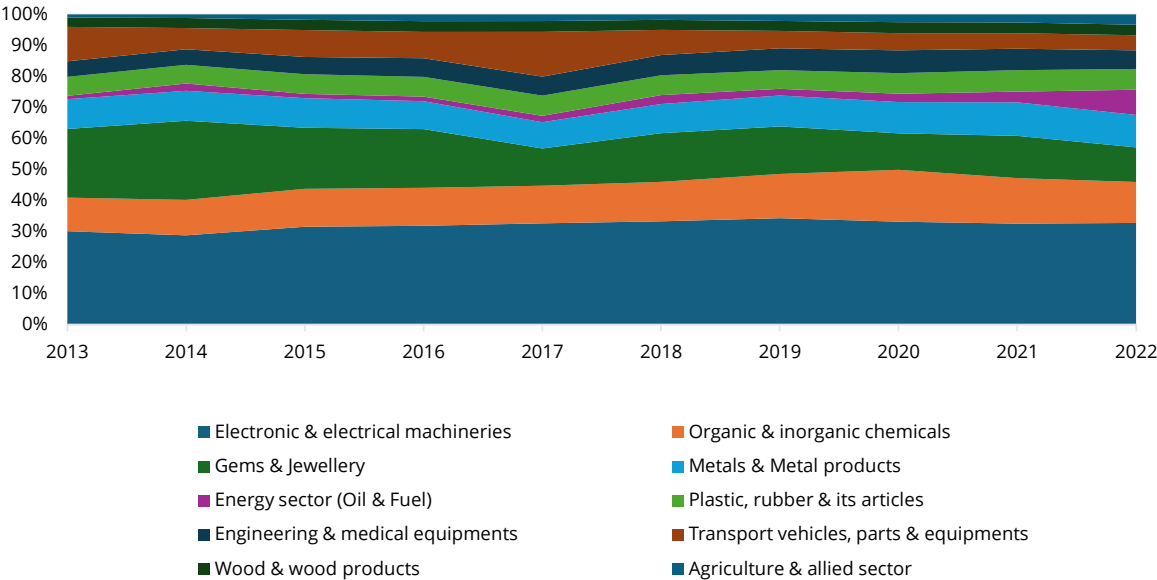
Trade:

Among the EU nations, the Netherlands emerged as India's largest trading partner, accounting for 19.1% of India's total trade with the EU, with a trade value of USD 24.4 billion. Germany closely followed with a 19% share in total trade, amounting to USD 24.3 billion.

In 2022, there was a significant increase in trade with the Netherlands. Over the last decade, Germany consistently held the position as India's largest trading partner within the EU, contributing more than 20% of India's total trade with the EU. However, trade with the Netherlands surged by 67%, from USD 14.4 billion in 2021 to USD 24.4 billion in 2022, resulting in a substantial increase in the Netherlands' share of India's trade with the EU.

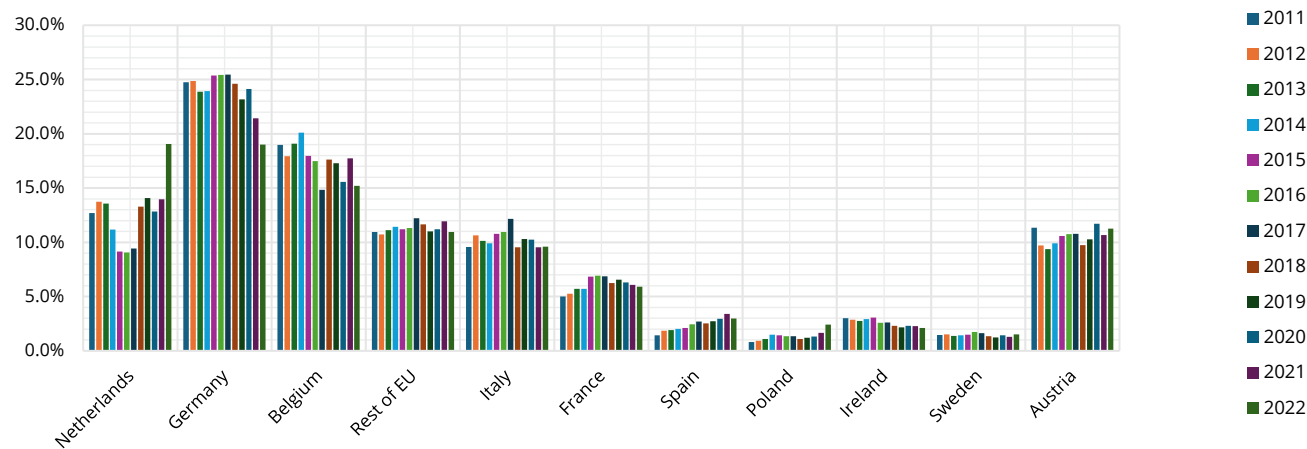
Conversely, Belgium's share has sharply declined over the past decade. In 2011, Belgium accounted for 19% of India's total trade with the EU, but this figure decreased to 15.2% in 2022. Meanwhile, Poland has gradually emerged as a significant trading partner for India within the EU, with trade growing by 182%, from USD 1.3 billion in 2011 to USD 3.8 billion in 2022.

Chart 5: Sectorwise composition of India's imports from EU



Source: ITC TradeMap, compiled by MVIRDC WTC Mumbai

Chart 6: Country-wise share in India-EU goods trade



Source: ITC TradeMap, complied by MVIRDC WTC Mumbai

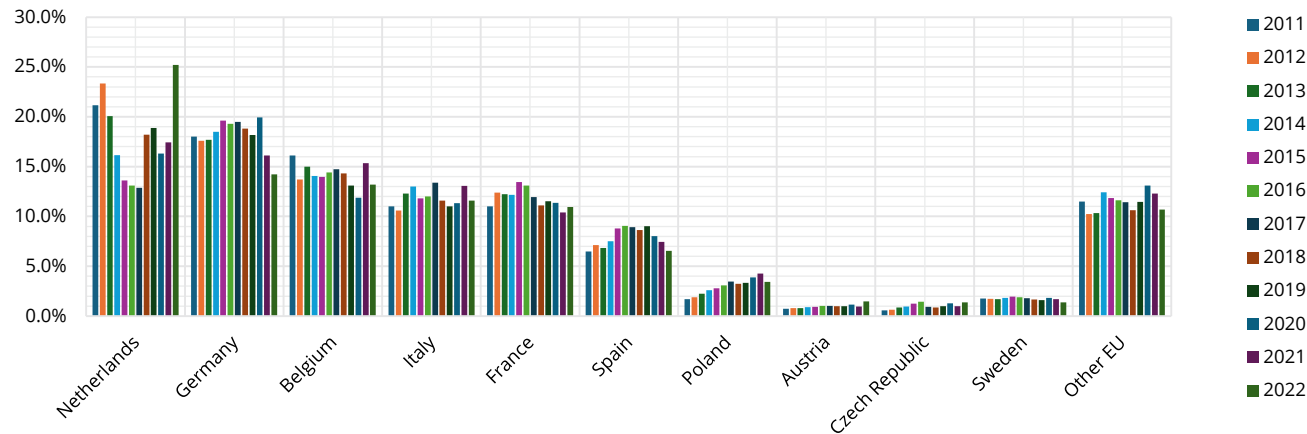
### Country-wise exports

In 2022, the Netherlands emerged as a dominant recipient of India's exports to the EU, constituting over 25% of the total, with a value reaching USD 18.5 billion. Germany followed closely, ranking second with exports valued at USD 10.4 billion, comprising 14.2% of India's total goods exports to the EU. Throughout the past decade, Germany and the Netherlands have consistently stood as principal export destinations for India within the EU, jointly accounting for an average of 36% of India's total exports to the region.

India's exports to the Netherlands experienced a remarkable surge of 80% year-on-year, primarily

propelled by energy exports, escalating from USD 10.3 billion to USD 18.5 billion. Consequently, its share in total exports to the EU surged from 17.4% to 25.2%. Additionally, there has been a noteworthy upsurge in exports to Poland over the same period. Exports to Poland have soared by over 220%, escalating from USD 800 million to USD 2.5 billion. This growth is chiefly driven by industrial commodities such as turbojets, turbopropellers, and other gas turbines (HS code 8411), electric generating sets and rotary converters (HS code 8502), as well as parts and accessories for tractors and motor vehicles (HS code 8708). Despite these shifts, India's country-wise export composition to the EU has remained relatively stable.

Chart 7: EU country-wise share in India's goods export



Source: ITC TradeMap, complied by MVIRDC WTC Mumbai



Country-wise imports

Germany has historically served as India's primary import partner within the EU. However, its contribution to India's total imports from the EU has dwindled from 31.2% in 2011 to 25.4% in 2022. Meanwhile, the Netherlands has experienced a notable uptick, increasing its share from 4.6% to 10.8% over the same period. Key imports from Germany encompass Machinery, Mechanical Appliances, Medical Equipment, and Transportation Equipment and their respective components.

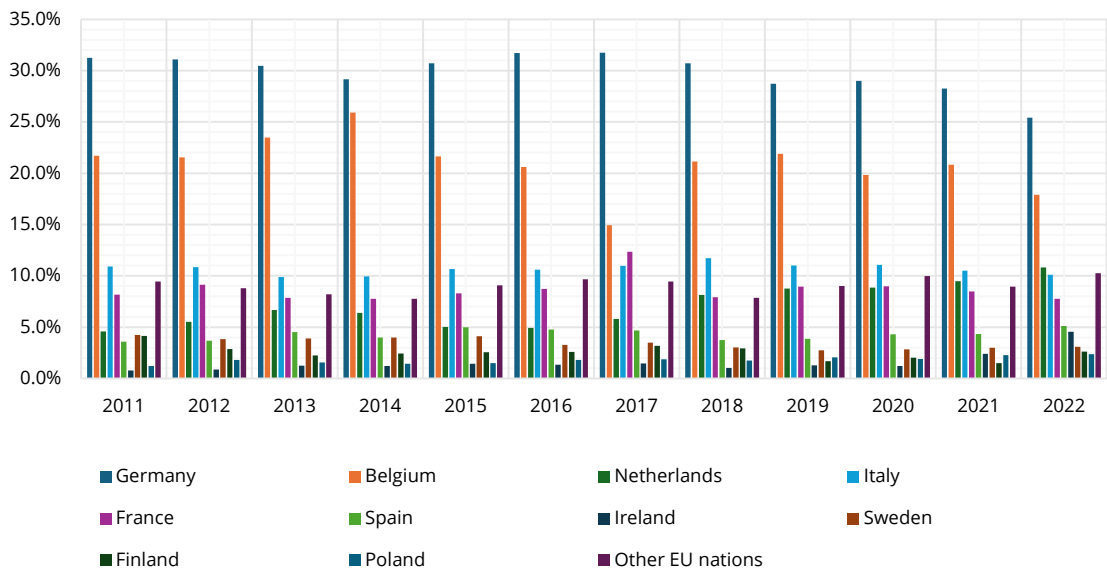
Belgium, another significant import source for India within the EU, has also seen a decline in its share from 21.7% to 17.9%. Notably, over 50% of India's imports from Belgium comprise precious metals and stones. Consequently, Belgium's share in India's total imports from the EU may be susceptible to fluctuations in the prices of these precious commodities.

The analysis of EXIM data for India and the European

Union (EU) reveals that India's trade with the EU is heavily concentrated among a few member states, primarily Germany, the Netherlands, and Belgium. Over the past decade, the composition of India's exports to these countries has remained relatively stable. However, Poland is emerging as a significant trade partner for India within the EU region.

This trend underscores the potential for India to expand its trade footprint beyond its traditional EU partners. By fostering deeper trade relations with other EU nations, India could mitigate risks associated with over-reliance on a few countries and enhance the resilience of its trade network. Moreover, diversifying trade partnerships can open up new markets for Indian goods and services, stimulate economic growth, and create more opportunities for bilateral investment and collaboration. The strategic focus on broader engagement within the EU is essential for achieving a more balanced and sustainable trade portfolio in the region.

Chart 8: India's country-wise imports from EU



Source: ITC TradeMap, complied by MVIRDC WTC Mumbai

## Chapter 2: Gains from Trade for India and EU: Gravity Model

To understand the gains from trade between India and the European Union (EU), this report employs the Gravity Model of International Trade.

The analysis considers variables such as India's exports to the EU, the EU's exports to India, the GDPs of both India and the EU, the populations of both regions, and the distance between them as a proxy for trade costs.

The gravity equation is a simple empirical model for analysing bilateral trade flows between geographical entities. It is analogous to the Newtonian physics function that describes the force of gravity.

The model explains the flow of trade between a pair of countries as being proportional to their economic "mass" (national income) and inversely proportional to the distance between them. The model, developed by Tinbergen (1962) and Pöyhönen (1963), is expressed as:

$$\text{Trade}_{ij} = \alpha \cdot \text{GDP}_i \cdot \text{GDP}_j / \text{Distance}_{ij} \dots (1)$$

where  $\text{Trade}_{ij}$  is the value of the bilateral trade between country  $i$  and  $j$ ,  $\text{GDP}_i$  and  $\text{GDP}_j$  are country  $i$  and  $j$ 's respective national incomes.  $\text{Distance}_{ij}$  is a measure of the bilateral distance between the two countries and  $\alpha$  is a constant of proportionality.

Taking logarithms of the gravity model equation as in (1) we get the linear form of the model and the corresponding estimable equation as:

$$\log(\text{Trade}_{ij}) = \alpha + \beta_1 \log(\text{GDP}_i \cdot \text{GDP}_j) + \beta_2 \log(\text{distance}_{ij}) + u_{ij} \dots (2)$$

Where  $\alpha$ ,  $\beta_1$  and  $\beta_2$  are coefficients to be estimated and  $u_{ij}$  is the error term capturing any other shocks and

chance events that may affect bilateral trade between the two countries.

Equation (2) is the core gravity model equation where bilateral trade is predicted to be a positive function of income and negative function of distance.<sup>1</sup>

To account for additional factors, we include the population of the respective nations, resulting in the augmented gravity model:

### Augmented gravity model:

$$\log(\text{Trade}_{ij}) = \alpha + \beta_1 \log(\text{GDP}_i \cdot \text{GDP}_j) + \beta_2 \log(\text{distance}_{ij}) + \beta_3 \log(\text{Population}_i \cdot \text{Population}_j) + u_{ij} \dots (3)$$

In the first stage, we have an estimated gravity model. Using OLS, we estimated Equation (3) with cross-sectional data from 1996 to 2022 sourced from the Directorate General of Foreign Trade (DGFT), Government of India.

Taking the dependent variable as the natural log of exports measured in current international prices (Dollar value), we estimated two different sets of models. One with the dependent variable as total exports from India to the EU; and the second with Exports from the EU to India.

In the second stage, the estimated coefficients from the first stage have been used to analyse India's and the EU's trade pattern in general and its impact on their GDP as well as on the standard of living of people in respective nations with the help of coefficient of Per Capita Income. GDP and PCI data in US dollars of both entities from 1996 to 2022 have been taken from the World Bank. Bilateral distance is measured, in kilometres.

**Table 2: Gravity Model of Indian Exports to the EU**

Adj. R-squared: 0.83				
	Coefficient	Std. Error	[0.025	0.975]
Log GDP_IN*EU	5.632e+07***	1.83e+07	1.77e+07	9.49e+07
Log Distance	3.372e+08***	9.83e+07	5.45e+08	1.3e+08
Log Population_IN	0.0151	0.052	0.126	0.095

Level of significance <0.05\*; <0.01\*\*; 0.00\*\*\*

### Analysis and Interpretation

In the first Gravity model, the dependent variable is exports from India to the EU. The independent variables are the GDPs of both regions, geographical distance, and the population of India.

$$\text{Exports\_IN to EU} = \alpha + \beta_1. \text{Log}(\text{GDP}_{\text{IN}} * \text{GDP}_{\text{EU}}) + \beta_2. \text{Log}(\text{Distance}_{\text{IN, EU}}) + \beta_3. \text{Log}(\text{Population}_{\text{IN}}) + u_{ij}$$

The table below shows the results of OLS estimation.

The gravity model of Indian exports to the EU explains that for a 1% increase in the combined GDPs of India and the EU results in a 5.63% increase in India's exports to the EU. This is along the lines of the theoretical gravity model which suggests that trade is positively related to the size of the economy and negatively to the distance among the nations.

It can be observed from the coefficients of other independent variables that with every 1% increase in the distance and population of India, the exports from India to the EU will fall by 3.37% and 0.01%, respectively. However, there will be gains from trade in terms of GDP for both.

Notably, a change in India's GDP has a more substantial positive impact on its exports to the EU compared to a change in the EU's GDP. An economic rationale behind this could be attributed to India's status as an emerging market economy, which has significant potential for expanding its economic activities, ultimately calculated as GDP. One such activity is trade where India can diversify and increase its range of exported goods and services.

Secondly, to analyse the gains of trade for the EU, we took

Exports of the EU to India as the dependent variable and the independent variables are the GDP of both nations; geographical distance; and population of the EU.

$$\text{Exports\_EU to IN} = \alpha + \beta_1. \text{Log}(\text{GDP}_{\text{IN}} * \text{GDP}_{\text{EU}}) + \beta_2. \text{Log}(\text{Distance}_{\text{IN, EU}}) + \beta_3. \text{Log}(\text{Population}_{\text{IN}}) + u_{ij}$$

The table below shows the results of OLS estimation.

The gravity model of EU's exports to India follows the theory and presents similar results as India's trade model mentioned above.

With every 1% increase in the combined GDPs of the EU and India, the exports from the EU to India will increase by 9.44 %. However, with a 1% increase in the distance and population of the EU, the trade will decline by 2.17% and 3.33% respectively.

**The gravity models suggest that bilateral trade between India and the EU is positively influenced by the GDPs of both regions and negatively influenced by distance and population. Increasing GDPs foster trade, while greater distance and population discourage and limit the gains from the trade.**

**To convert distance into a positive attribute for trade, expansion and re-establishment of trade routes that can reduce transportation costs should be undertaken by both authorities. Reduction in regulations will reduce the cost of exports to the EU and allow Indian manufacturers to reach the EU markets. Undoubtedly, to sign the trade agreement a great deal of effort from both entities will be required.**

**Table 3: Gravity Model of the EU's Exports to India**

Adj. R-squared: 0.90				
	Coefficient	Std. Error	[0.025	0.975]
Log GDP_ EU*IN	9.44e+07***	1.34e+07	6.6e+07	1.23e+08
Log Distance	-2.179e+08***	1.94e+07	-2.59e+08	-1.77e+08
Log Population_ EU	-3.3315***	0.778	-4.973	-1.690
Level of significance <0.05*; <0.01**; 0.00***				

<sup>1</sup> Batra, A. (2004, December). India's Global Trade Potential: The Gravity Model Approach. Indian Council for Research on International Economic Relations.



# Chapter 3: Estimating India's untapped export potential

The following chapter aims to estimate India's export potential with the EU based on an analysis of trade data using six-digit HS codes. This analysis helps understand trade patterns at the product and industry levels between the two economies. It also identifies tariff lines where India has export potential to the EU whose inclusion in the Free Trade Agreement (FTA) may provide the maximum benefit to the Indian economy.

## Understanding EU's imports

The EU, as a customs union, is the largest importing bloc, with a total import value of USD 3.5 trillion in 2022. While global imports grew by 37% over the last 12 years, EU imports increased by 40%, rising from USD 2.5 trillion in 2012, with a CAGR of 3%. However, this growth has not been consistent throughout the last 12 years. During the first half of the period (2011-2016), EU's imports shrank by 23%, from USD 2.5 trillion to USD 1.9 trillion, with a CAGR of -4%. In contrast, the last six years saw a remarkable rise in merchandise imports. Between 2017 and 2018, the EU's merchandise imports surged by 61%, from USD 2.17 trillion to USD 3.5 trillion, with a CAGR of 8%.

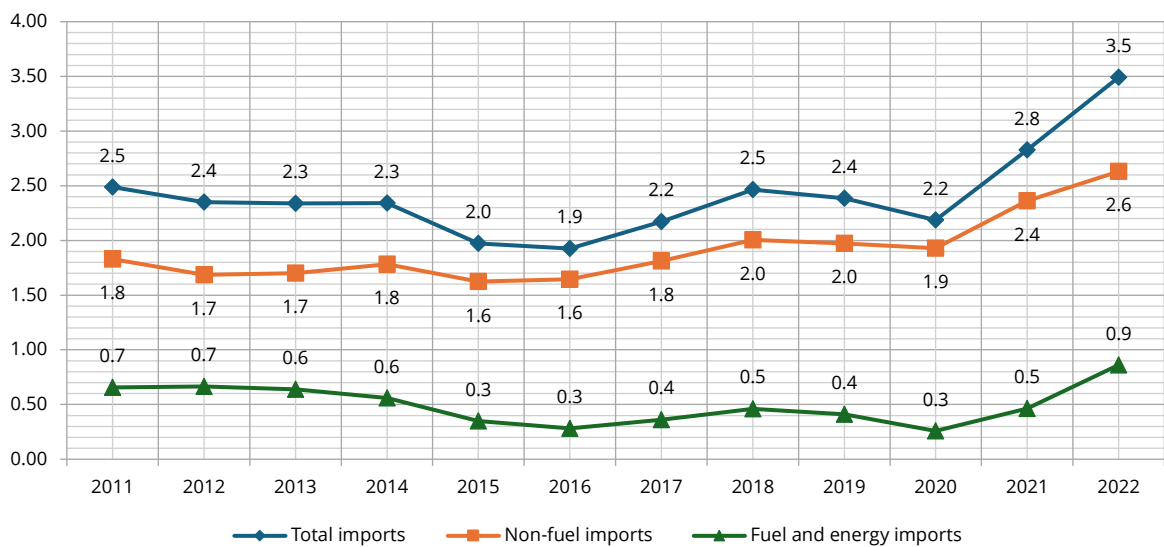
Energy imports are a significant component of the EU's import basket, accounting for 25% share in 2022.

However, this share has been inconsistent over the years, peaking in 2012. Since then, there has been a gradual decline, with the share of energy imports falling to 12% in 2020. Over the past two years, there has been a sharp increase in energy imports, which may be explained by fluctuations in global energy prices.

Electrical and mechanical machinery & equipment together have the second-highest share in the EU's merchandise imports, making up 22% of total imports with a combined value of USD 752 billion. Within this category, electrical machinery & equipment accounts for USD 420 billion, while mechanical machinery and equipment make up the rest.

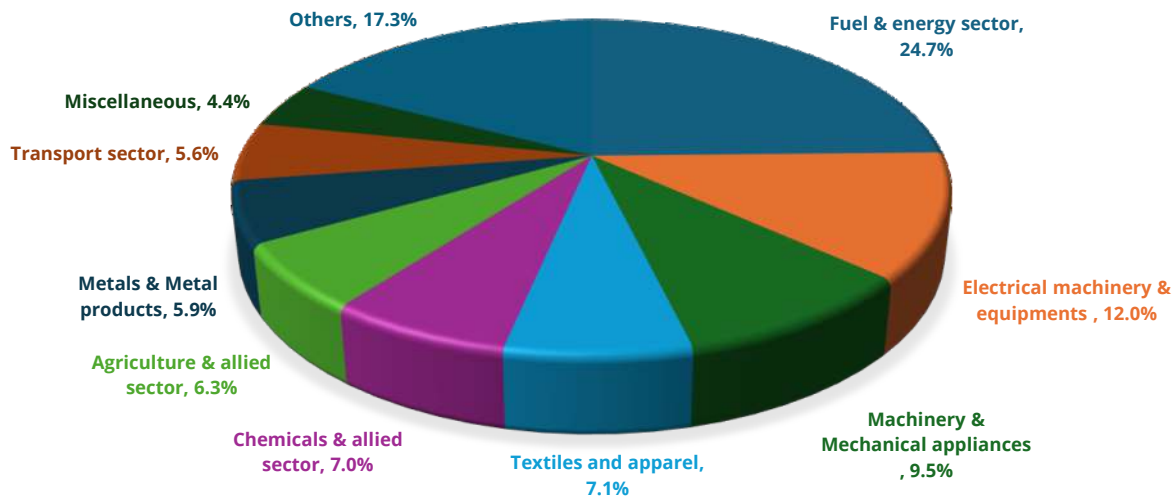
Among electrical machinery and equipment, smartphones account for the highest imports into the EU with import value of USD 49.3 billion. Other significant imports include communication apparatus at USD 41 billion, semiconductors at USD 26.4 billion, and lithium-ion accumulators (excluding spent) at USD 23.3 billion. In the mechanical appliances and machinery sector, automatic data processing machines and their parts are the highest imported commodity at USD 75 billion, followed by turbojets and other gas turbines at USD 35.3 billion.

Chart 9: EU's merchandise imports (in \$ trillion)



Source: Ministry of Commerce, compiled by MVIRDC WTC Mumbai

CHART 10: SECTOR WISE EU IMPORTS



Source - ITC Trade Map, compiled by MVIRDC WTC Mumbai

Textiles and apparel imports, along with imports from the chemical and allied sectors, constitute the fourth and fifth largest import categories for the EU, with total values of USD 248 billion and USD 246 billion, respectively, representing 7.1% and 7% of EU's total import basket. Among textiles and apparel, articles of clothing alone accounts for 56% of total imports, with an import value of USD 138.5 billion. The EU is also among the major importers of transport equipment, which comprises 6% of its total imports, valued at USD 197 billion.

**Trends in EU's Imports:**

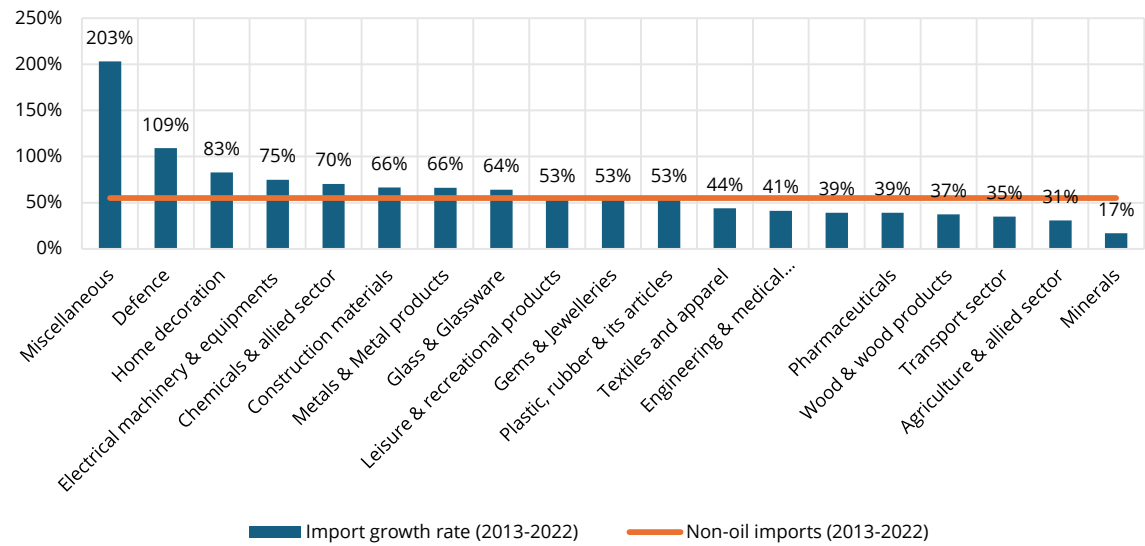
Adjusting for oil imports, which showcase higher variability due to price fluctuations, the composition of the EU import basket has remained relatively stable. Over the last ten years, EU's non-oil imports have grown by

55%, increasing from USD 1.7 trillion in 2013 to USD 2.6 trillion in 2022. Using the non-oil import growth rate as a benchmark to identify trends, eight out of the nineteen import sectors have shown higher growth rates than the overall non-oil import growth rate during this period.

Among these, the imports of miscellaneous commodities have shown the highest growth rate at 209%, with their value rising from USD 50.7 billion in 2013 to USD 153.5 billion in 2022. The defense sector and home decoration imports have also outpaced non-oil import growth, with 10-year growth rates of 109% and 83%, respectively. Other sectors exhibiting higher growth rates than the total non-oil import growth include electrical machinery & equipment, chemicals & allied sectors, construction materials, metals & metal products, and glass & glassware.



Chart 11: Sector-wise EU's non-oil import growth rate

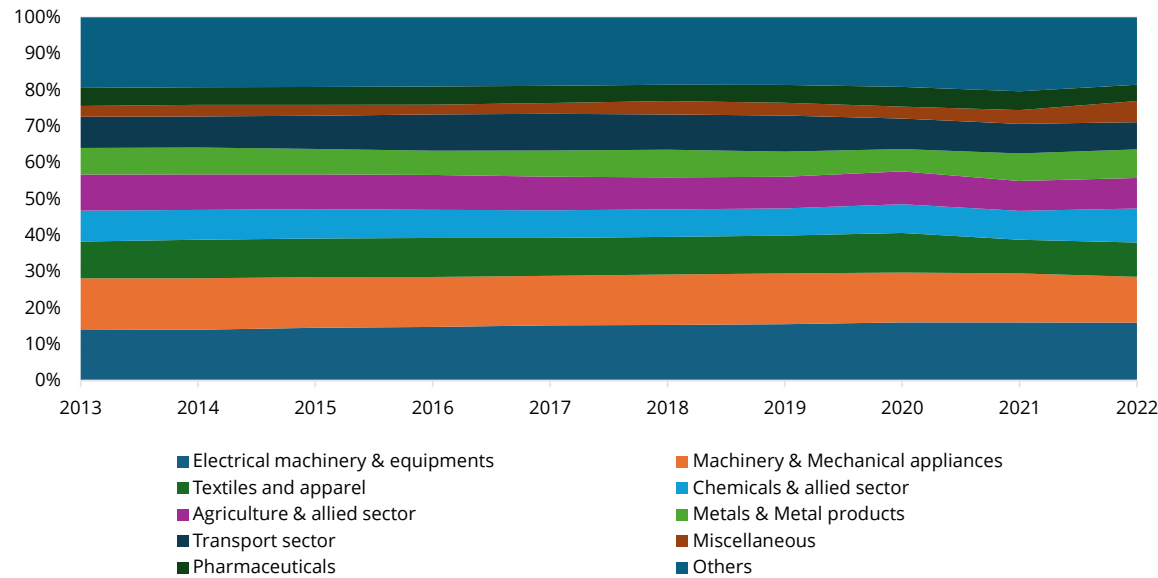


Source – ITC Trade Map, compiled by MVIRDC WTC Mumbai

While sectors such as defense and home decoration have shown strong import growth over the past ten years, their smaller import values mean they haven't significantly altered the EU's non-oil import basket. However, notable changes have occurred in other sectors. The share of electrical machinery & equipment imports in the EU's total non-oil import basket increased from 14.1% in 2013 to 16% in 2022. Conversely, the share of machinery &

mechanical appliances imports declined from 14% to 12.6% during the same period. The share of miscellaneous goods imports rose from 2% in 2013 to 5.8% in 2022. Meanwhile, the shares of the chemical and allied sectors, as well as textiles & apparel, have seen only marginal changes. The most significant shift is in agriculture, where its share in total non-oil imports dropped sharply from 9.95% to 8.4%.

Chart 12: EU's merchandise import basket composition



Source – ITC Trade Map, compiled by MVIRDC WTC Mumbai



### Estimating export potential based on Revealed Comparative Advantage (RCA)

Although the EU is India's largest trading partner, India ranks only 10th among the EU's principal trading partners, contributing merely 2% to the EU's overall merchandise trade. Similarly, India holds the 10th spot as the EU's primary source of imports, accounting for just 2.2% of the EU's total goods imports. This indicates substantial untapped potential for India's merchandise exports to the EU. To identify products in which India has export competitiveness and that are imported by the EU, the Revealed Comparative Advantage (RCA) model can be utilized.

The RCA model highlights the comparative advantage of a country in exporting a particular commodity based on the share of that commodity in global exports relative to the country's overall share in world exports. RCA values range from zero to infinity; a value above one indicates a revealed comparative advantage. For this analysis, the threshold for determining export competitiveness under RCA is set at 2 for six-digit HS code tariff lines. This means that India is competitive in exporting commodities where the RCA is more than 2, indicating that India's share in world exports of that commodity is more than double its overall global export share.

There are 1,090 tariff lines where India has an RCA greater than 2, indicating global export competitiveness at varying levels in these categories. For these tariff lines, India holds a global share of 9.1%, with a total export value of USD 327.3 billion, representing 72% of India's total global exports in 2022.

The EU's total import for these 1,090 tariff lines was approximately USD 453 billion in 2022, representing 13% of its total merchandise imports. Imports from India account for 12% of these imports, valued at USD 49.5 billion. Thus, based on the RCA calculation, India has an untapped export potential of USD 403.5 billion. India's highest untapped export potential lies in HS code 271019 (petroleum oils and oils obtained from bituminous minerals, other than crude, and preparations containing 70% or more by weight of petroleum oils or oils from bituminous minerals) with a potential of USD 74 billion, followed by HS code 300490 (medicaments used for therapeutic or prophylactic purposes) at USD 49 billion, and HS code 271012 (light oils and preparations containing at least 70% petroleum oils or oils from bituminous minerals by weight) at USD 20 billion.

Out of the 1,090 tariff lines where India has an untapped export potential of USD 403.5 billion, the top ten tariff lines account for 50% of this potential, amounting to USD 200.7 billion.<sup>2</sup>

The below table provides a list of top tariff lines at six-digit HS code having the highest untapped export potential.

**TABLE 4: Tariff lines with highest untapped export potential (6 digit HS Code)**

Sr. no	Product code	Product label	Untapped export potential (in USD billion)
1	271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	74.3
2	300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	49.4
3	271012	Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl. ...	19.9
4	841112	Turbojets of a thrust $> 25$ kN	12.6
5	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	10.0
6	293399	Heterocyclic compounds with nitrogen hetero-atom[s] only (excl. those containing an unfused ...	9.1

<sup>2</sup> For the complete list of 1090 tariff lines and their export potential at six digit HS Code, contact [research@wtcmumbai.org](mailto:research@wtcmumbai.org)

Sr. no	Product code	Product label	Untapped export potential (in USD billion)
7	760110	Aluminium, not alloyed, unwrought	7.8
8	870321	Motor cars and other motor vehicles principally designed for the transport of ...	6.5
9	711319	Articles of jewellery and parts thereof, of precious metal other than silver, whether or not ...	5.9
10	293359	Heterocyclic compounds with nitrogen hetero-atom[s] only, containing a pyrimidine ring, whether ...	5.2
<b>Total</b>			<b>200.7</b>

### Sector wise untapped export potential

Fuel & energy sector provide India the highest untapped export potential to the EU, estimated at USD 96.8 billion. The textiles & apparel sector holds the second-highest export potential to the EU, estimated at USD 60.5 billion. Within this sector, cotton t-shirts and other vest garments (HS Code 610910) have the highest export

potential at USD 10 billion, followed by non-cotton t-shirts and other vest garments (HS Code 610990) at USD 3.4 billion. The chemicals sector ranks third, with an untapped export potential of USD 53.23 billion. Among chemicals, nitrogen heterocyclic compounds (HS Code 2933) have the highest export potential at USD 20 billion, followed by oxygen-function amino-compounds with an untapped potential of USD 3 billion.

**Table 5: Sector wise export potential using RCA calculation (in USD billion)**

Sectors	EU's total import	India's export to EU	Export potential
<b>Total</b>	<b>453.0</b>	<b>49.5</b>	<b>403.5</b>
Fuel & Energy Sector	110.3	13.5	96.8
Textiles & Apparel	68.6	8.1	60.5
Chemicals & Allied Sector	59.8	6.6	53.2
Pharmaceuticals	55.5	2.3	53.2
Metals & Metal Products	37.5	5.6	32.0
Machinery & Mechanical Appliances	29.5	2.1	27.4
Agriculture & Allied Sector	25.2	3.2	22.0
Transport Sector	14.2	0.5	13.7
Electrical Machinery & Equipments	12.9	1.4	11.5
Gems & Jewellery	14.4	3.2	11.2
Plastic, Rubber & Its Articles	9.2	1.4	7.8
Minerals	6.7	0.4	6.3
Wood & Wood Products	2.1	0.2	1.9
Construction Materials	2.1	0.5	1.7
Home Decoration	1.6	0.1	1.5
Glass & Glassware	1.0	0.0	0.9
Engineering & Medical Equipments	1.2	0.3	0.9
Miscellaneous	0.8	0.1	0.8
Leisure & Recreational Products	0.2	0.0	0.2
Defence	0.2	0.0	0.1

**Source – ITC Trade Map, compiled by MVIRDC WTC Mumbai**

In labor-intensive sectors like Textiles & Apparel, Agriculture & Allied products, Gems & Jewellery, Plastic & Rubber & their articles, Wood & Wood products, and Home Decorations, there exists a combined export potential of USD 105.8 billion. In 2023, India's total exports from these seven sectors amounted to USD 141.5 billion, presenting an opportunity to scale up exports by 75% in these sectors. This growth could significantly enhance employment opportunities.

**Estimating export potential through trend analysis**

While the RCA model provides a framework to estimate export potential based on the country's global competitiveness in specific tariff lines, it may overlook recent trends in India's export basket. In recent years, significant policy support has been provided by the government to promote manufacturing in India. Although India may not yet be globally competitive in sectors receiving such support, it is probable that competitiveness will develop in the coming years. These potential sectors can be identified using trend analysis.

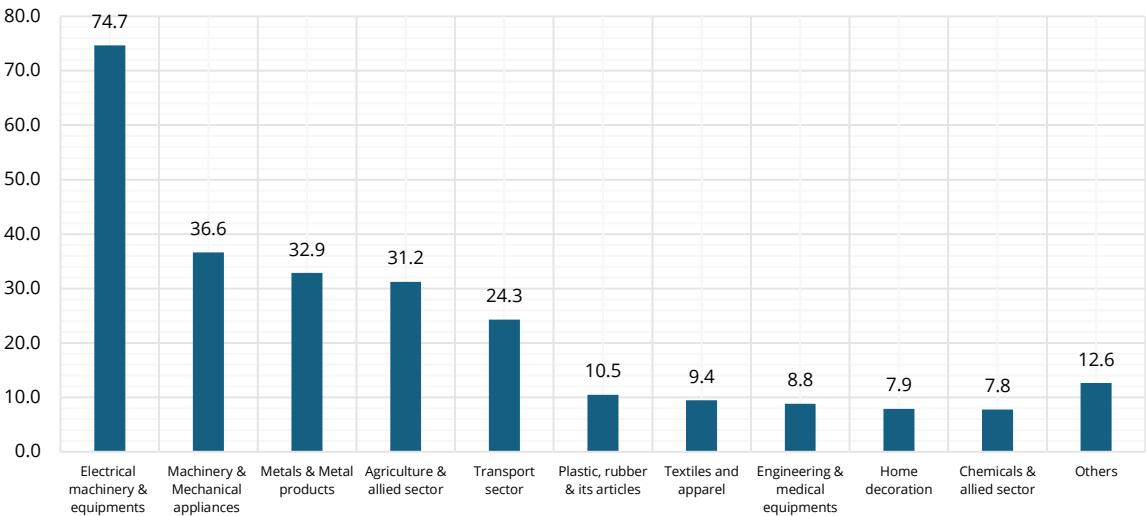
Over the last five years, India's total exports grew by 40%, with a compound annual growth rate (CAGR) of 7%, increasing from USD 324 billion in 2018 to USD 452.7 billion in 2022. By using India's total export growth as a benchmark, tariff lines that exhibited higher export growth during the same period, but where the RCA is

currently low—indicating that India is not yet competitive in these areas—can be identified as potential export opportunities for India in the coming years.

There are 153 tariff lines where exports have outperformed India's overall goods export growth in the last five years, and the RCA is less than 2, indicating a lack of current global competitiveness. India's total exports for these 153 tariff lines stood at USD 55.5 billion, while global exports for these lines amounted to USD 5.9 trillion, with India having a 0.94% share in global exports. After adjusting for products where India has more than 1% global share, 109 tariff lines can be identified where India may have export potential based on recent trends. For these 109 tariff lines, the EU's total imports stood at USD 266 billion, with imports from India amounting to USD 9 billion, providing a market of USD 256 billion to Indian exporters for these emerging tariff lines.

Among the emerging export commodities, electrical machinery & equipment have the highest untapped export potential of USD 74.6 billion, with smartphones alone having an untapped export potential of USD 44.7 billion, followed by static converters with an untapped export potential of USD 19.5 billion. Machinery and mechanical appliances have the second-highest export potential among the emerging tariff lines, amounting to USD 36 billion, with machines & mechanical appliances, n.e.s., having the highest potential at USD 6 billion.

**Chart 13: Sector wise export potential in emerging tariff lines (\$billion)**



Source- ITC TradeMap, Compiled by MVIRDC WTC Mumbai

**Table 6: Untapped Export Potential in top 10 emerging tariff lines (USD billion)**

Sr. no	Product code	Product label	Untapped export potential (in USD billion)
1	851713	Smartphones for wireless networks	44.7
2	100199	Wheat and meslin (excl. seed for sowing, and durum wheat)	1.8
3	850440	Static converters	19.5
4	760120	Unwrought aluminium alloys	11.9
5	100590	Maize (excl. seed for sowing)	7.1
6	730890	Structures and parts of structures, of iron or steel, n.e.s. (excl. bridges and bridge-sections, ...	3.6
7	880730	Parts of aeroplanes, helicopters or unmanned aircraft, n.e.s. (excl. those for gliders)	10.3
8	401120	New pneumatic tyres, of rubber, of a kind used for buses and lorries (excl. tyres with lug, ...	2.6
9	090111	Coffee (excl. roasted and decaffeinated)	11.7
10	940360	Wooden furniture (excl. for offices, kitchens and bedrooms, and seats)	3.2
<b>Total of top ten</b>			<b>116.4</b>
<b>Total export potential</b>			<b>256.6</b>



## Chapter 4: Tariff & Non-Tariff measures

### Import duty

Import duty, also known as a tariff, is a tax imposed on goods when they are brought into a country. FTAs aim to reduce or eliminate these duties among the participating countries to facilitate trade. The Most Favored Nation (MFN) rate is the lowest tariff a World Trade Organization member applies uniformly to all other members, ensuring non-discriminatory trade treatment.

As India and EU both are members of the WTO, MFN rate can be used to analyze EU's tariff profile for Indian imports. While the non-discriminatory trade treatment is among the main principles for a free and fair treatment under the WTO, the Generalized System of Preferences (GSP) trade program was introduced to promote exports of goods from less developed or developing economies to developed economies. Under the GSP trade program, developed countries were allowed to offer lower tariffs or duty-free entry to imports from developing and underdeveloped economies, promoting economic growth in those countries.

### EU-India Tariff profile

The EU region has among the lowest MFN tariff rate in the world. While the global average for simple average MFN rate applied in year 2021 was 8.5%, EU's average MFN rate

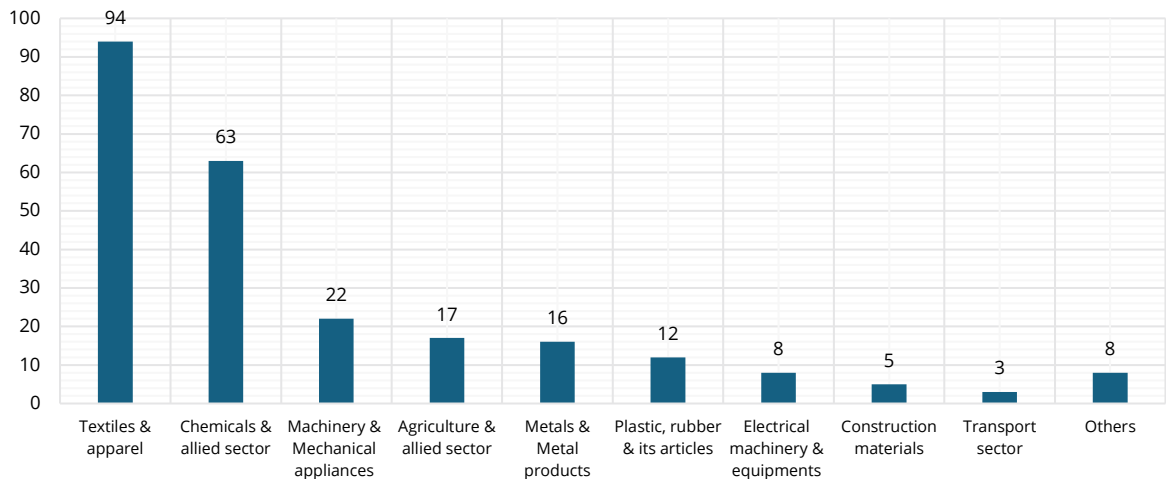
for the same year was at 5% making it the 27th lowest in the world. For 1090 tariff lines wherein India has global competitiveness and have an estimated untapped export potential of USD 403.5 billion, the EU's average MFN rate is at 4.7%, lower than its global average. Also, the EU has extended GSP status to India in 248 out of these 1090 tariff lines.

### Tariff lines with GSP status

The EU has granted GSP status to India on 248 out of 1090 tariff lines. These specific tariff lines benefit from a zero MFN rate on imports from India. The total untapped export potential for these 248 tariff lines is estimated at USD 68.3 billion. The Textiles & Apparel sector has the highest number of tariff lines with GSP status, followed by the Chemicals & Allied sector. However, the highest untapped export potential is in the Machinery and Mechanical Appliances sector, followed by the Textiles and Apparel sector. The charts below illustrate the sector-wise distribution of tariff lines under the GSP status and their respective untapped export potential.

Despite the 248 tariff lines that benefit from duty-free access to the EU market, India has not fully exploited these opportunities. According to the WTO Integrated Trade Intelligence Portal, bilateral Non-Tariff Measures (NTMs) have been imposed on 24 of these 248 tariff lines.

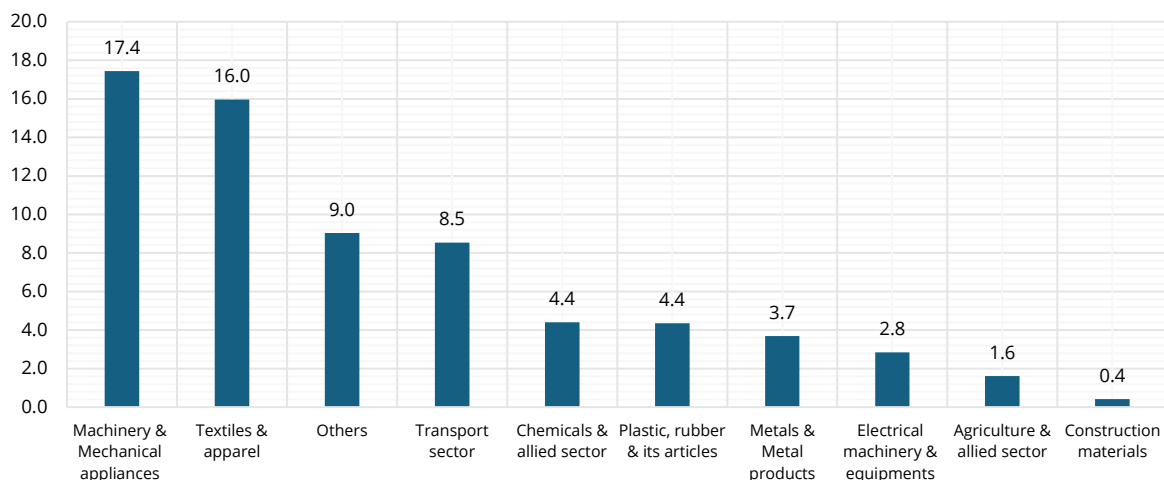
Chart 14: Number of tariff lines under GSP



Source: WTO Tariff Profile, ITC TradeMap, compiled by MVIRDC WTC Mumbai



**Chart 15: Untapped export potential in GSP Tariff lines \$billion**



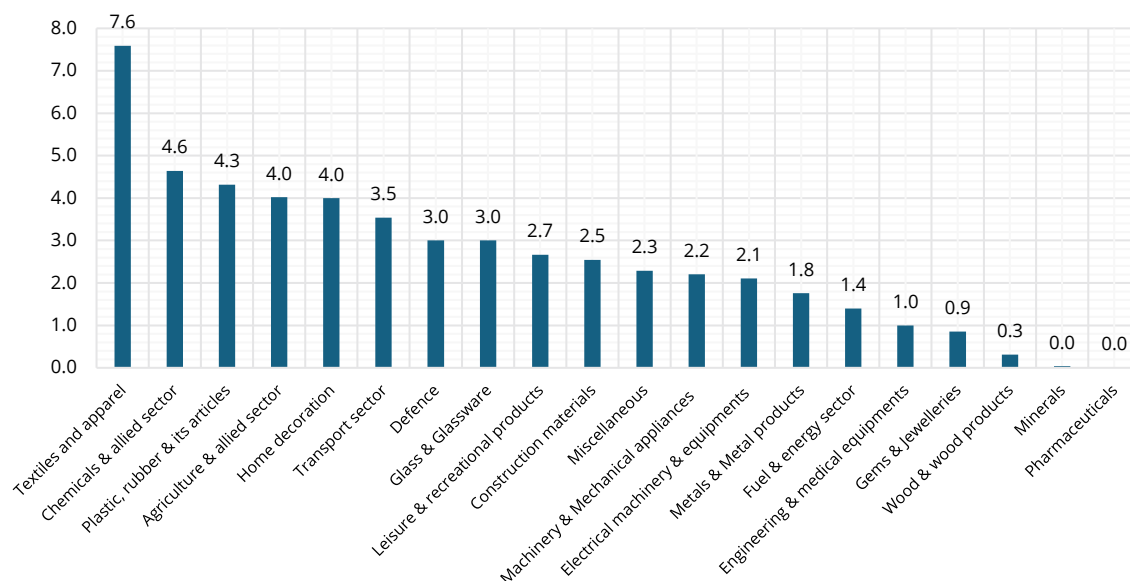
**Source: WTO Tariff Profile, ITC TradeMap, compiled by MVIRDC WTC Mumbai**

The untapped export potential of these 23 tariff lines amounts to only USD 10.58 billion, indicating that NTMs are not a significant barrier to India's exports to the EU. It is possible that India is losing out to intense competition from other emerging economies or lacks the necessary industrial capacity to capitalize on these potential opportunities. Chemicals and allied sector had the highest number of tariff lines under the NTMs followed by Agriculture and textiles with five tariff line each under the NTMs.

#### Tariff lines with non GSP status

For the remaining 842 tariff lines, the average simple Most Favored Nation (MFN) rate applied by the EU is 4.5%, which is lower than the EU's overall average MFN rate of 5%. The total untapped export potential for these tariff lines is USD 335 billion. Including these 842 tariff lines in the Free Trade Agreement (FTA), and thereby providing them with concessional duty rates, could significantly enhance India's export prospects to the EU. Among the non-GSP sectors, pharmaceuticals have the second

**Chart 16: Sector wise average of simple average MFN Duty**



**Sources- WTO Tariff Profile, ITC TradeMap, compiled by MVIRDC WTC Mumbai**

highest export potential after the fuel and energy sector, with a total untapped export potential of USD 53.2 billion and zero import duties. This makes pharmaceuticals the most lucrative sector, provided that other barriers such as certifications and intellectual property laws are addressed. There is considerable potential for joint investment and research and development in the pharmaceutical sector. Moreover, reducing import duties on tariff lines within the textile sector could provide a significant boost to exports. The textile sector currently faces the highest average import duty among

all sectors at 7.6%, with a total untapped export potential of USD 44.5 billion.

The average simple Most Favored Nation (MFN) rate in labor-intensive sectors such as agriculture and allied industries, plastics and rubber products, and home decoration is approximately 4%. Lowering the MFN rates in these sectors would not only boost exports from India to the EU but also aid in promoting employment within the country.

**Table 7: Export potential and tariffs of non-GSP sectors**

Sectors	Untapped Export Potential (\$ billion)	Average of HS MFN - Simple average ad valorem duty
<b>Grand Total</b>	<b>335.2</b>	<b>4.5</b>
Fuel & energy sector	95.2	1.4
Pharmaceuticals	53.2	0.0
Chemicals & allied sector	48.8	4.6
Textiles and apparel	44.5	7.6
Metals & Metal products	28.3	1.8
Agriculture & allied sector	20.4	4.0
Machinery & Mechanical appliances	9.9	2.2
Electrical machinery & equipments	8.7	2.1
Minerals	6.3	0.0
Transport sector	5.2	3.5
Gems & Jewelleries	3.9	0.9
Plastic, rubber & its articles	3.4	4.3
Wood & wood products	1.9	0.3
Home decoration	1.5	4.0
Construction materials	1.3	2.5
Engineering & medical equipments	0.9	1.0
Glass & Glassware	0.8	3.0
Miscellaneous	0.8	2.3

Sectors	Untapped Export Potential (\$ billion)	Average of HS MFN - Simple average ad valorem duty
Leisure & recreational products	0.2	2.7
Defence	0.1	3.0

## Non- Tariff Measures

A Non-Tariff Measure (NTM) includes all those policy measures other than tariffs which have a direct or indirect impact on international trade. These NTMs are grouped into import and export measures which are further classified into two groups: Technical and Non-technical measures.

Technical measures pertain to regulatory and testing standards such as Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). The SPS measures are generally applied on those products which pose a risk to human or animal life due to existence of various contaminants, additives, toxins or even disease-causing organisms in food products. The TBT measures refer to those regulations and procedures which assess conformity with technical regulations and standards.

On the other hand, non-technical measures include various other measures such as Quotas, Pre-shipment Inspections, Contingent Trade Protective Measures (Anti-Dumping Duties (ADD), Countervailing Duties (CVD), Safeguards), Non-Automatic Licensing, Prohibitions, Price Control Measures, and Export Related Measures.

## Global NTMs

Though there has been a reduction in tariff on various commodities due to the increase in international free trade agreements, the number of NTMs in international trade have seen a rise. Globally, the number of NTMs in force has witnessed a steady rise over the last five years. As of 2023, there were 16,669 NTMs enforced globally, marking a 5% growth from 15,918 in 2019. The total NTMs in force have been dominated by the SPS, TBT and ADD measures with their share increasing from 46% to 48% in the last five years.

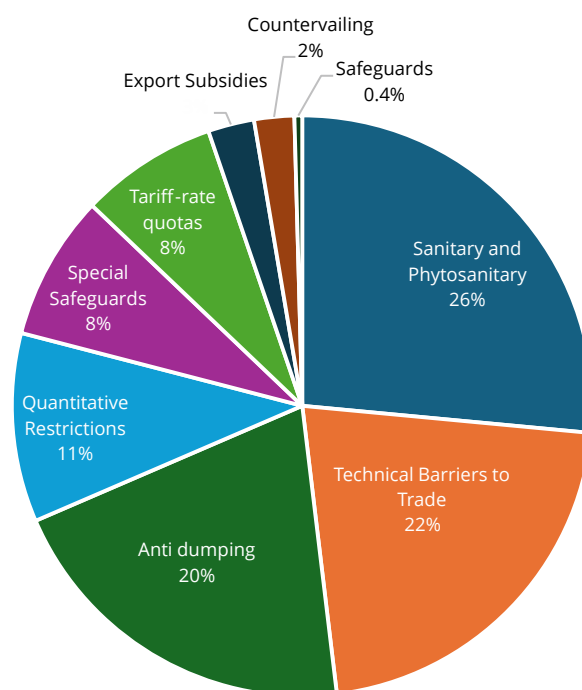
As of 2023, the highest number of NTMs in force were imposed by USA with a total of 2,848. This was followed by European Union, Brazil, India, and Canada. Together these five countries account for just 35% of total NTMs in force.

## India NTMs

During the last five years, India has consistently had the fourth highest number of NTMs in force although this number has reduced from 598 to 569. Of the 569 NTMs imposed, 126 were on China and 103 were imposed on all members. As of 2023, 95% of the total NTMs imposed by India consisted of ADD (78%), Quantitative Restrictions (QR)(10%) and SPS (7%) measures.

As of 2023, India stands as the third-largest affected nation by NTMs, following China and South Korea, with 258 NTMs imposed on the country. ADD, CVD and SPS were the most commonly imposed measures on India. USA holds the top position as the largest imposer of NTMs with 91 bilateral NTMs in force in 2023. These

**Chart 17: Global NTMs in force (2023)**



**Source: WTO, complied by MVIRDC WTC Mumbai**

measures largely consisted of ADD and CVD measures. The EU and Turkey were the second and third highest imposers of NTMs on India. Together these three nations accounted for 55% of the total NTMs imposed on India.

EU NTMs

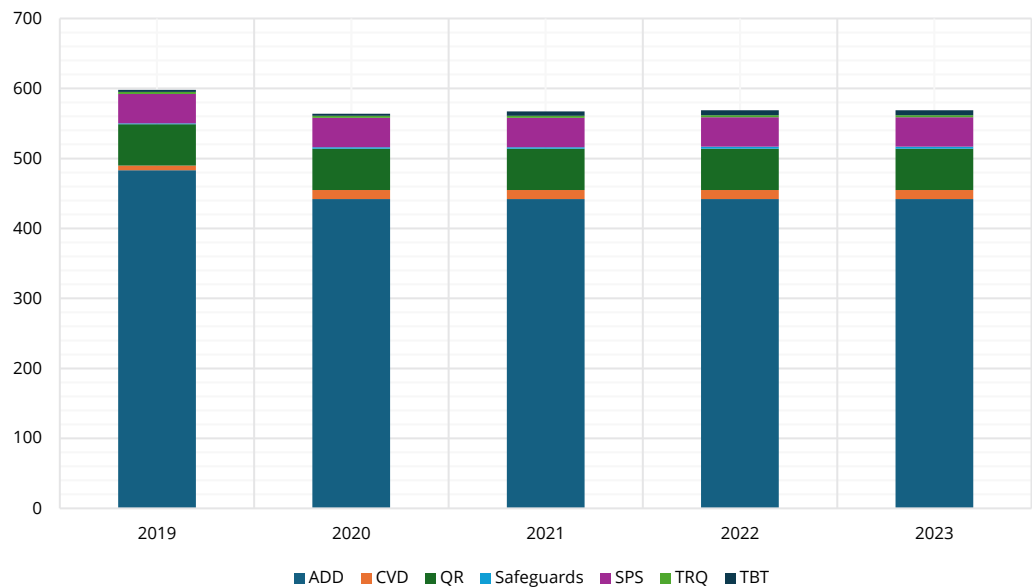
As of 2023, EU has the second-highest number of NTMs in force with the number of NTMs increasing from 955 to 973 from 2019 to 2023. It has consistently had the second highest number of NTMs in force since the last five years, just behind that of USA. Of the 973 measures currently in place, 481 affect all the WTO members whereas the remaining are bilateral measures. The SPS, ADD and TBT

measures are among the most employed NTMs by the EU. Together, these three measures account for 76% of the total NTMs in force by the EU.

The EU has imposed the highest number of bilateral NTMs on China followed by India, Russia and Thailand.

As per the available data, Agriculture & allied sector, Metals & Metal products, Chemicals & allied sector, Machinery & Mechanical appliances and Textiles & apparel are the sectors most affected by NTMs imposed by the EU with 86% of the total HS Codes belonging to these sectors. Of this, 56% of the affected HS Codes come from the Agriculture & allied sector alone.

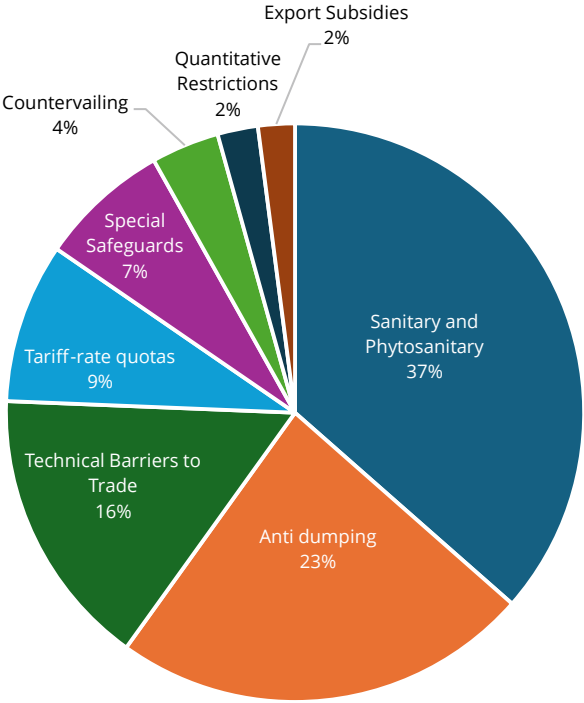
Chart 18: India NTMs in force (2019-2023)



Source: WTO, complied by MVIRDC WTC Mumbai



Chart 19: EU NTMs in force (2023)



EU-India NTMs

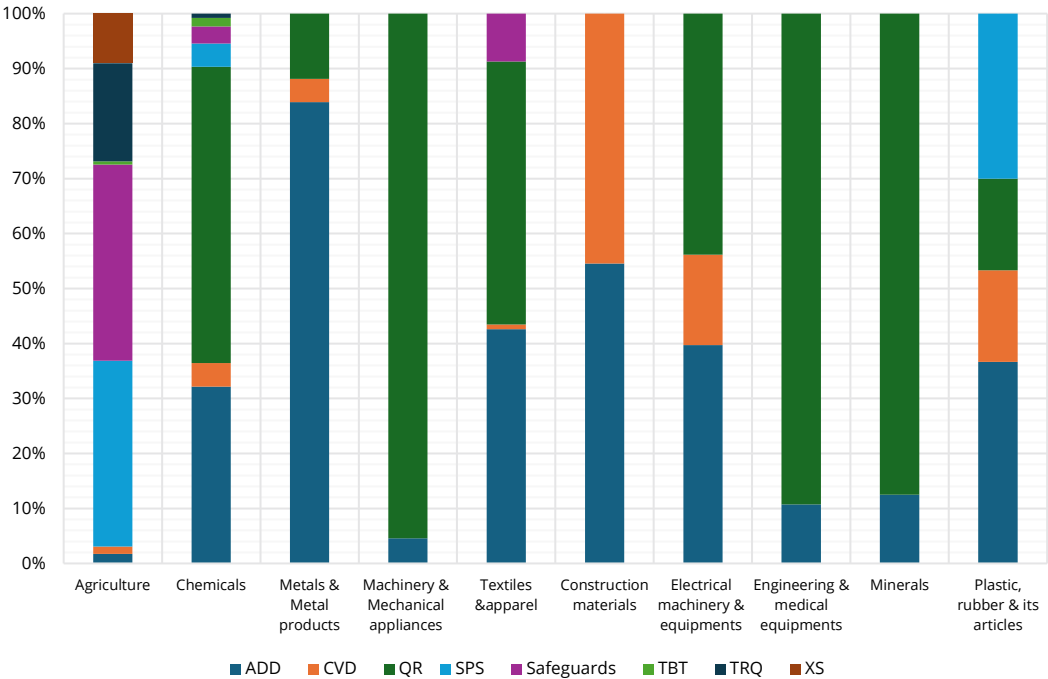
India has the second largest number of bilateral NTMs imposed by the EU after China. As of 2023, the EU has imposed 26 bilateral NTMs on India which consist of ADD, SPS and CVD measures.

India's Agriculture & allied sector, Metals & Metal products and Textiles and apparel sector are the highest affected by the bilateral NTMs imposed by the EU as per the available data. 85% of the total HS Codes affected belong to the above-mentioned sectors. India's agricultural sector faces the highest brunt of these bilateral NTMs with 59% of the total HS Codes coming from this sector. This sector is majorly affected by various SPS measures. On the other hand, Metals & Metal products and Textiles & apparel sector is majorly affected by ADD measures imposed by the EU.

From the identified 1090 tariff lines, bilateral NTMs imposed by EU in the above-mentioned sectors represent USD 8.5 billion of India's untapped export potential to the EU.

Source: WTO, complied by MVIRDC WTC Mumbai

Chart 20: EU sector-wise NTMs in force (2023)



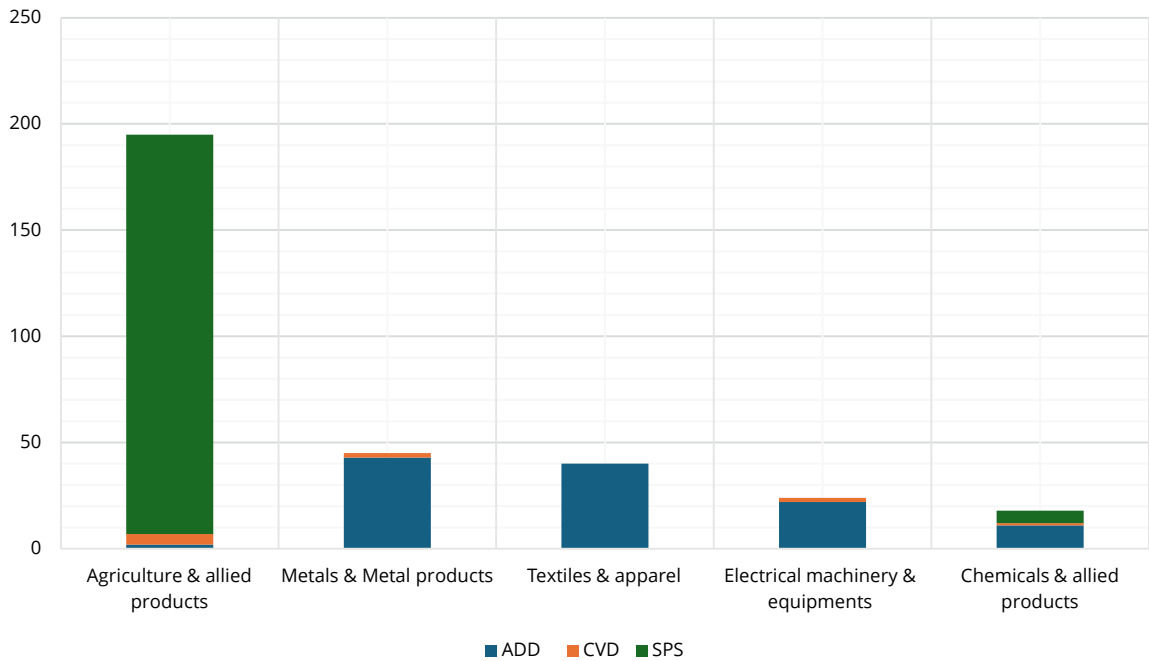
Source: WTO, complied by MVIRDC WTC Mumbai



Of this USD 8.5 billion, USD 7.6 billion comes from textiles (USD 3.3 billion), metals and metal products (USD 3.2 billion), and agricultural products (USD 1.1 billion). Textiles and metals are particularly affected by anti-dumping duties (ADD) imposed on footwear, iron, and steel. In agriculture, sanitary and phytosanitary (SPS) measures impact products like oil seeds, marine products, and fruits and vegetables.

In the electrical machinery and equipment sector, ADD measures, mainly on iron and steel, impact goods with an export potential of USD 764 million. The chemicals sector also faces ADD on commodities with an export potential of USD 159 million.

Chart 21: EU-India sectorwise NTMs in force (2023)



Source: WTO, complied by MVIRDC WTC Mumbai



## Chapter 5: Views from industry experts

**This chapter provides recommendations and suggestions derived from the insights of industry experts and leaders. These insights could serve as valuable considerations for the Indian government during negotiations for the Free Trade Agreement with the EU.**

### Key Recommendations:

#### Facilitating merchandise exports to EU

- Implementing measures in domestic industry such as mandatory carbon emission disclosure in test certificates to enhance transparency and compliance with carbon emission standards and other regulations among Indian manufacturers.
- Harmonizing standards and regulations to overcome non-tariff barriers through mutual recognition agreements and adopting international standards to streamline compliance processes and reduce costs for exporters.
- Adoption of Digital Product Passport (DPP) to enhance sustainability, transparency, and circular economy practices in the Indian manufacturing ecosystem.
- Mandatory adherence of Indian e-commerce businesses to the EU's General Data Protection Regulation (GDPR) to ensure smooth operations and compliance with European regulations, thereby fostering trust and facilitating trade.
- Increasing the export quantity under the Tariff Rate Quota (TRQ) by at least 50% or reduce the post TRQ tariff for engineering goods such as steel, iron etc. to alleviate the restriction on Indian exports.

#### Promoting service exports to EU

- Streamlining and harmonization of regulation and compliance procedures of different EU member countries with regards to Mode 1 service exports.
- Facilitating Mode 4 service exports by advocating for more flexible immigration regulations to ease the movement of skilled and semi-skilled professionals to the EU member countries.
- Advocating for harmonizing qualification recognition

processes and promoting mutual recognition of standards between India and the EU to overcome barriers for Indian professionals seeking entry into EU markets.

#### Supporting Indian MSME exporters

- Developing and implementing training programs for MSME exporters on the importance of human rights and environmental standards through NGOs, international bodies, and educational institutions to ensure effective knowledge dissemination regarding ESG (Environmental, Social, and Governance) integration and compliance requirements.
- Negotiating with EU authorities to secure a three-year deferment for MSME exporters from the requirement to provide carbon emission certificates, giving them time to comply with the new regulations without facing immediate penalties.
- Financial support from the Indian government, such as reimbursement of energy audit costs, to assist MSME exporters in meeting carbon emission standards mandated by the EU.
- Negotiating for financial and technical support from EU's development banks for adoption and promotion of sustainable technology and business practices among Indian MSMEs.



## Dr Rajat Srivastava

Director, EEPC India (An EPC under Ministry of Commerce, Govt. of India)

### Tariff Rate Quota Issue from the EU

The Tariff Rate Quota (TRQ) governing steel, valid until 30th June 2024, is proving to be a constraint on Indian exports, simultaneously elevating input costs for EU manufacturers. This circumstance inadvertently harms EU consumers as well, as safeguard duties are borne by EU importers and subsequently passed on to customers within the EU. Consequently, the competitiveness of EU manufacturers is compromised due to inflated raw material costs, particularly steel and stainless steel, burdening EU manufacturing units.

A plea has been submitted to the government to consider increasing the TRQ by at least 50% and eventually phasing it out upon its expiry in June 2024. However, recent indications suggest the EU's inclination to extend the TRQ deadline beyond this date. EEPC India has urged the Department of Commerce to engage with EU authorities to prevent further extensions of the TRQ.

### Exporters' Struggles Amidst the Red Sea Crisis

The Red Sea serves as a critical conduit for India's exports to key markets such as Europe, the US East Coast, the Middle East, and Africa. However, recent geopolitical tensions in the region have precipitated the Red Sea Crisis, significantly impeding India's export activities to these vital markets.

This crisis has triggered a nearly threefold surge in shipping charges and an additional 15 days of transit time on average. Importantly, the delayed shipping schedules have led to exporters missing delivery deadlines and experiencing TRQ exhaustion in Europe.

Notably affected are shipments bound for major European ports like Antwerp, Rotterdam, and Hamburg, where transit times have extended beyond 40 days, exceeding TRQ opening periods. With TRQ quotas depleting within just 2 to 3 days of opening, exporters frequently find themselves unable to meet these critical deadlines.

### Carbon Border Adjustment Mechanism (CBAM)

Furthermore, EU policymakers have reached an accord to implement the Carbon Border Adjustment Mechanism



(CBAM), designed to impose emission taxes on specific imports. This measure aims to shield domestic industries in the EU, subject to stringent climate regulations, from unfair competition from countries with laxer environmental standards.

Products such as cement, fertilizer, iron and steel, and aluminium will incur additional import duties once this mechanism is enforced, posing a substantial downside risk to India's exports of iron and steel and aluminium to the EU. The transitional phase of the CBAM has already commenced as of 1st October 2023.

Given that the primary source of carbon emissions occurs during the raw material stage, it is imperative for the government to mandate all steel manufacturers, whether in the primary or secondary sector, to include carbon emission data in their test certificates.

As per industry sources, carbon emission certificates will be furnished if it is made obligatory. Further the estimated cost of conducting energy audits would amount to approximately 15 lakhs, with consultancy fees comprising around 10 lakhs and certification costs about 5 lakhs.

EEPC INDIA has petitioned the government to reimburse 50% of these expenses to MSME units under the MAI Scheme. Monitoring mechanisms for carbon emissions commenced on 1st October 2023. EU importers have begun intimating Indian exporters, warning of their removal from vendor lists if carbon emission certificates are not furnished. Hence, it is recommended that India negotiate with the EU for a three-year deferment for MSME exporters on similar grounds.

## Dr. Siddhartha Rajagopal

Executive Director, The Cotton Textiles Export Promotion Council (TEXPROCIL)

Addressing tariff and non-tariff barriers in cotton textile exports is essential for bolstering trade relations, fostering economic growth, and advancing sustainable development. The cotton textile industry is significant in the global economy, with the European Union (EU) being a key market.

A thorough evaluation of the concerns surrounding tariff and non-tariff barriers for cotton textile exports to the EU is imperative. These barriers impede the seamless flow of exports, necessitating a multifaceted approach involving policy reforms, trade negotiations, and industry collaboration.

### Tariff and Non-Tariff Measures (NTMs)

Tariffs represent one of the major barriers for cotton textile exports to the EU, increasing costs and diminishing competitiveness. EU tariffs impact profit margins and market share for exporters. Presently, tariffs for cotton yarn and fabrics in the EU stand at 4% and 8% respectively.

The EU imports mostly finished goods like apparel and home textiles due to limited textile manufacturing. However, tariffs for such finished goods in the EU are 9.6% (due to the 20% GSP applied on the MFN tariff of 12%), making them less competitive compared to countries with duty-free access like Bangladesh, Vietnam, Pakistan, and Turkey. Reducing or eliminating tariffs through trade agreements or negotiations is imperative to facilitate smoother trade flows and enhance competitiveness against suppliers from other regions.

Non-tariff barriers encompass a broad spectrum of measures, including technical regulations, sanitary and phytosanitary standards, customs procedures, and licensing requirements. While these measures protect consumers, the environment, and domestic industries, they often burden exporters, especially from developing countries. Retailers and brands frequently impose their own standards for social, labor, and environmental compliance, increasing costs for Micro, Small, and Medium-sized Enterprises (MSME) exporters.

Harmonizing standards and regulations between exporting countries and the EU can reduce these barriers. Mutual recognition agreements and adopting international standards can streamline compliance

processes and cut costs for exporters.

Enhancing transparency and information sharing about non-tariff measures is vital for exporters to navigate regulatory requirements. Providing up-to-date information on regulations, procedures, and certification requirements can help exporters comply with EU standards efficiently.

### Carbon Border Adjustment Mechanism (CBAM)

A significant non-tariff measure poised to play a crucial role in the coming years is the CBAM proposed by the EU. This mechanism ensures that carbon costs are reflected in the price of goods exported to the EU, imposing substantial costs on MSME Indian exporters of cotton textiles, especially products like kitchen and toilet linen. Indian exporters must assess the carbon footprint of their cotton textile production processes and invest in green technologies to mitigate emissions.

Keeping abreast of the evolving regulations and requirements of the EU CBAM is crucial for Indian exporters. They should stay informed about the CBAM implementation timeline, product coverage, and any exemptions or allowances that may apply to cotton textiles.

### Digital Product Passport

Another important non-tariff measure adopted by the EU is the Digital Product Passport (DPP), aimed at enhancing sustainability, transparency, and circular economy practices. The DPP provides detailed information about a product's lifecycle, enabling better tracking of raw materials and compliance with environmental and safety standards. It facilitates recycling, refurbishment, and reuse of products, contributing to the EU's goal of achieving a climate-neutral, resource-efficient, and circular economy by 2050.

In conclusion, addressing tariff and non-tariff barriers in cotton textile exports to the EU requires a comprehensive approach involving trade negotiations, regulatory reforms, capacity-building initiatives, and stakeholder collaboration. By reducing trade barriers and boosting the competitiveness of cotton textile exporters, both exporting countries and the EU can benefit from increased trade flows, economic growth, and sustainable development.



**Dr. Geetanjali Nataraj**  
International Trade Policy Expert

Between 2011 and 2021, the landscape of India's services trade with the European Union has undergone significant transformation, marking a remarkable 74% growth. From USD 33.8 billion in 2011, the total services trade surged to USD 59 billion in 2021, underscoring the dynamic nature of this economic relationship. Notably, India's exports to the EU soared from USD 17.5 billion to USD 31.9 billion during this period, while imports from the EU escalated from USD 16.3 billion to USD 27.1 billion. This robust growth has resulted in a surplus for India in services trade with the EU, expanding from USD 1.2 billion in 2011 to USD 4.8 billion in 2021.

Key sectors driving India's exports to the EU encompass Other Business services, Telecommunications, Computer & Information Services, and Transport services, indicative of a diverse export portfolio. Conversely, significant imports from the EU include Transport services, Other Business services, and Telecommunications, Computer & Information Services, highlighting the reciprocal nature of this bilateral trade relationship.

In the European Union, India is interested in various sectors like IT/ITES, Construction, Engineering, Architectural services, Audiovisual services, Financial Services, Education Services, Healthcare services, and other business services. In healthcare, India can focus on areas like geriatricians and caregiving, offering services online. For audiovisual services, while the EU refrains from commitments in this area within WTO and FTAs due to cultural sensitivity, binding cooperation agreement can be worked out as in the case with Singapore. It's crucial for India to explore other avenues and alternatives, by looking at some target sectors/member states in EU that are less sensitive.

### **Digital Trade**

The digital economy has boosted services trade between India and the EU. Indian companies provide various digital services, such as software development, IT consulting, and business process outsourcing, to EU clients. Conversely, EU companies offer digital services, including e-commerce platforms and digital marketing solutions, to Indian businesses. In 2022, 17 billion Euros of digital products and services were traded. The majority of the European Union's trade in services with India is led

by industries such as transportation, telecommunications/information technology, various business services, and travel. These sectors contribute to more than 80% of the EU's exports to India and about 90% of its imports from India.

The European Union (EU) introduced the General Data Protection Regulation (GDPR) in 2018 as a response to the widely publicized Cambridge Analytica data breach incident in March of that year. As a result, e-commerce businesses operating outside of Europe are now required to comply with a similar regulatory framework. It is crucial for India's e-commerce businesses to adhere to these strict regulations.

### **Mode 1 Barriers**

Indian service firms face various barriers when offering services remotely from India to EU member states. These barriers include compliance with diverse regulations and standards set by each member state, particularly in sectors like finance where specific licensing requirements and regulatory frameworks must be met. Language and cultural differences pose challenges, as some EU member states prefer services in their local language, necessitating an understanding of local business practices and cultural nuances for effective service delivery.

### **Mode 4 Barriers**

India has expressed a desire to expand its participation in Mode 4 of the General Agreement on Trade in Services (GATS), specifically in sectors such as hospitality, healthcare, and pharmaceuticals. This expansion would involve facilitating the movement of skilled professionals proficient in English, potentially leading to more flexible immigration regulations. However, achieving this objective may prove challenging due to the diverse immigration policies of individual member states within the European Union.

### **India's asks in services in the India EU FTA**

India should therefore seek reforms that would facilitate temporary residency and employment opportunities for skilled Indian professionals in European Union (EU) member states. The objective is to enhance Indian



businesses' access to the EU services market by relaxing regulations on professional mobility. However, the EU maintains that it lacks the authority to intervene in this matter, as work permits and visas are determined by individual member states. Additionally, the varying qualifications and professional standards among EU partners create barriers for Indian professionals seeking

entry into EU markets. India should seek the recognition of Indian qualifications by the EU, enabling Indian professionals to practice their respective professions in EU Member States. This could involve harmonizing qualification recognition processes and promoting mutual recognition of standards.

### Dr Shatadru Chattopadhyay Managing Director, Solidaridad Asia

The India-European Union Free Trade Agreement (FTA) has reached a critical juncture. Amidst the complex negotiations, EU's new regulation on Corporate Sustainability Due Diligence- European Union's Corporate Sustainability Due Diligence Directive (EUCSDDD) has now emerged as major contention among the Indian export ecosystems.

The directive mandates that large businesses, both European and those operating within the EU, conduct exhaustive due diligence to identify, end, prevent, mitigate, and account for human rights abuses and environmental damage across their global supply chains.

#### **Impact on India's Textile, Apparel and Leather Sector**

The EU market holds significant relevance for India's textile, apparel, and leather sectors, acting as a substantial source of revenue and employment generation. As per Ministry of Commerce, EU accounted for more than 30% of total exports from these sectors. This trade not only bolsters India's economy but also supports millions of jobs, particularly in rural and semi-urban areas, where these industries are predominantly based.

The EU-India Free Trade Agreement with EUCSDDD compliance might lead to a more significant reduction in tariffs for Indian products compared to the countries under the Generalized Scheme of Preferences (GSP) enjoying low tariff access to the EU.

Interestingly, sustainability is not a novel concept for India's textile and leather sectors. Historically, these industries have embraced practices aimed at minimising environmental impact and enhancing social welfare, driven by both traditional knowledge and pressure from Western brands to comply with Voluntary Sustainability Standards (VSS), which are private schemes that certify

compliance against social and environmental guidelines. Frameworks such as the Better Cotton Initiative (BCI) and the Global Organic Textile Standard (GOTS) have been instrumental in guiding Indian manufacturers towards more eco-friendly practices.

These standards ensure the use of organic materials, reduce chemical use, and promote fair labour practices, aligning with global sustainability goals (Mellick et al., 2021).

Furthermore, a significant portion of the Indian textile industry has adopted voluntary sustainability standards like SA 8000, Ethical Trading Initiative, Fair Wear Foundation, and Fair Labour Association. These standards cover a wide range of ethical practices, from fair wages to safe working conditions and environmental stewardship, helping Indian textiles meet the expectations of international consumers and markets (Mongabay India, 2023).

Similarly, the leather sector has not been left behind. Many Indian leather manufacturers have adopted the Leather Working Group (LWG) certification, which ensures that leather products meet stringent environmental standards. On average, Indian textile companies spend approximately 1-2% of their revenue on obtaining various sustainability certifications, which translates to an estimated USD 100-200 million annually across the sector (Fibre2Fashion, 2023).

The EUCSDDD has several advantages over these voluntary standards. First, it ensures a level-playing field, holding all businesses to the same standard. It creates a fairer market where responsible practices aren't a competitive disadvantage. Second, voluntary standards lack robust enforcement mechanisms, leading to uneven implementation and limited impact. Third, the current landscape of voluntary sustainability standards can lead

to a “race to the bottom” where some standards become less stringent to attract companies (International Institute for Sustainable Development [IISD], 2023). The EUCSDDD would eliminate this competition, ensuring all businesses adhere to a minimum threshold.

Fourth, companies can significantly reduce their legal and reputational risks by adhering to mandatory due diligence requirements. Voluntary standards do not provide the same level of assurance, leaving companies vulnerable to lawsuits and public backlash if they are found to be non-compliant with sustainability expectations (Mayer & Gereffi, 2022).

Lastly, the directive states that companies should assess the “appropriateness” of audits, certifications, multi-stakeholder or other industry initiatives (voluntary standards) as part of their due diligence and use those that it considers appropriate to the goals and obligations set out in the directive. Regardless of the appropriateness of an initiative, companies cannot shield themselves from liability or regulatory action by using such initiatives.

Transitioning from voluntary to mandatory sustainability standards may not be as daunting for Indian businesses as it appears. Many sectors are already familiar with rigorous voluntary standards and have integrated sustainable practices into their operations.

The EUCSDDD will standardise these efforts, ensuring consistency and robust enforcement. This shift can be seen as an opportunity for Indian industries to further enhance their global competitiveness and secure their position in the European market.

### Challenges in Adopting EUCSDDD

While there are great opportunities, the Indian textile, apparel and leather sector will face some initial challenges. The main challenge is many textile and leather exporters from India lack the necessary knowledge and expertise to fully understand and implement the complex requirements of the EUCSDDD.

There is a significant gap in awareness about the benefits of ESG integration and the specifics of compliance. This gap can lead to inconsistent implementation and difficulties in meeting the stringent standards set by the directive.

Second, implementing the mandatory due diligence requirements will involve substantial costs. These include expenses for monitoring, upgrading infrastruc-

ture, and ensuring that all parts of the supply chain adhere to the new standards. These additional costs can be particularly burdensome for MSMEs, which operate on thin margins.

Third, effective compliance requires robust documentation and transparency throughout the supply chain. Many textile and leather exporters have inadequate systems for record-keeping, which can hamper their ability to demonstrate compliance. This lack of visibility and traceability is a major hurdle, as buyers and regulators require clear evidence of sustainable practices.

Fourth, the directive could shift economic activities towards companies that are already compliant, potentially disadvantaging non-compliant firms. This could lead to a reduction in market share and economic activities for those unable to meet the standards, exacerbating competitive pressures and possibly leading to job losses in the short term. However, over time, compliant companies are expected to benefit from increased market opportunities and improved economic welfare due to the reduction of negative externalities.

Fifth, the challenges are even more pronounced for the leather industry, known for its significant environmental footprint. Adopting stringent measures for waste management, pollution control, and sustainable sourcing of raw materials is essential for compliance but involves substantial technological upgrades. These upgrades are costly and require specialised expertise, which many MSMEs might lack. Additionally, non-compliance with the EUCSDDD can lead to legal repercussions and damage the reputation of Indian exporters. This risk necessitates a comprehensive overhaul of existing practices, further adding to the operational burden.

### The Way Forward with EUCSDDD and EU-India FTA

It is becoming increasingly clear that the Free Trade Agreement with the European Union is tied to different sustainability legislation enacted by the European Union in general and the EUCSDDD in particular.

It would be crucial to develop training programmes for businesses on the importance of human rights and environmental standards. This can be facilitated through partnerships with NGOs, international bodies, and educational institutions to ensure widespread and effective knowledge dissemination.

Financial and technical assistance from the European development banks in collaboration with Indian financial institutions will be crucial in upgrading the practices and infrastructures of the MSME exporters.

Moreover, the new rules should be introduced gradually, especially for smaller entities, giving them sufficient time to adhere to the directive without excluding them from the trade. Additionally, it is essential to establish a fair, inclusive, and transparent governance structure for the vast amounts of EUCSDD data being transmitted worldwide, ensuring that there is no misuse of data of Indian MSME players.

The European Union has emerged in the past five decades as a powerful force in shaping the global conversation around sustainable international trade. However, there is a belief that India could use the core motto of EUCSDDD, which is corporate accountability

and transparency, to develop its own Corporate Due Diligence Directive.

By adopting similar principles, India can foster a culture of accountability among its corporations, leading to better governance and ethical business practices (Sharma & Srivastava, 2023). Some early signals towards this direction are visible from the Indian Government's efforts towards a significant reform in its wage structure. The country is aiming to transition from a minimum wage system to a living wage system by 2025.

The government is collaborating with the International Labour Organization (ILO) to develop a framework for calculating and implementing this living wage, which should align with national standards and laws to prevent confusion and duplication of efforts. There should be, then, negotiation with the EU to benchmark and acknowledge each other's due diligence regulations.

### Dr. James J. Nedumpara

Head and Professor, Centre for Trade and Investment Law and India Chair, WTO Chairs Programme

There has been a new momentum in negotiating Free Trade Agreements (FTAs) with India's trading partners. Together with the trade agreements, negotiations to complete bilateral investment treaties is also afoot. In that sense, Bilateral Investment Treaties (BITs) are a complement to FTAs. Both investment promotion and protection are crucial for fostering a positive investment environment. They ensure that investors feel secure while investing in a country. The Investor-State Dispute Settlement (ISDS) mechanism is another vital component of investment treaties, providing a legal framework for foreign investors to seek legal redress in the event of investment concerns.

In the ongoing negotiations with jurisdictions such as the UK and the EU, investment protection chapters are not part of trade agreement negotiations; however, parallel discussions are underway to negotiate BITs.

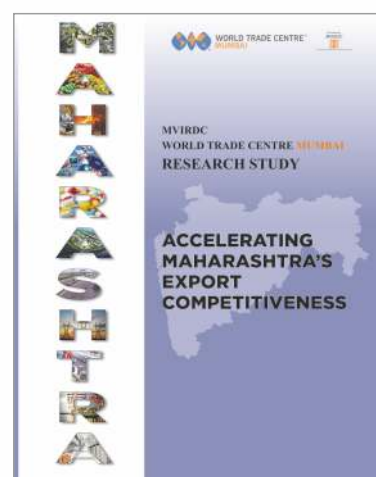
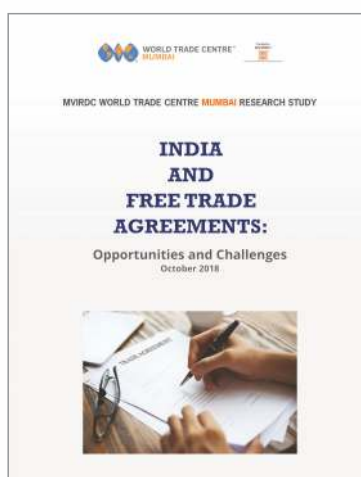
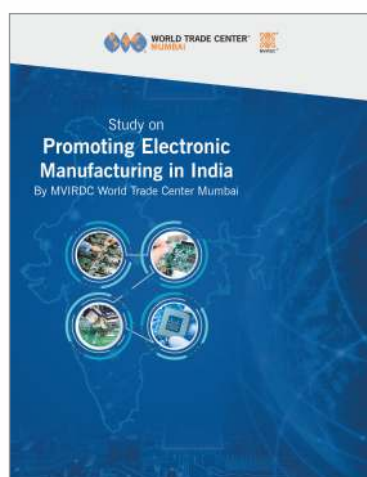
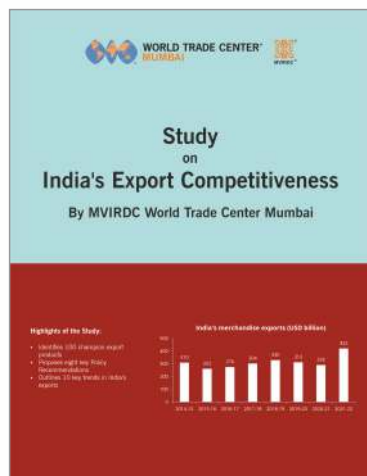
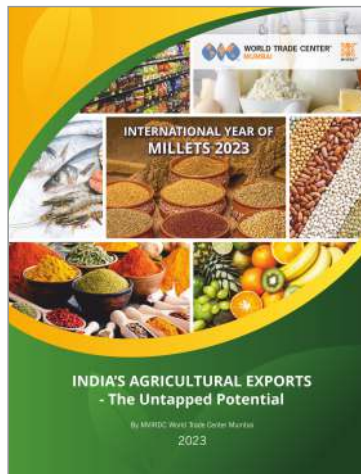
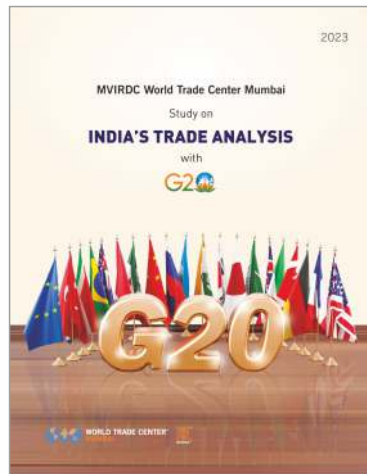
While BITs provide additional protection, they do not guarantee higher investments. In fact, it is possible to create an environment conducive to investments without investment treaties. Investment agreements can influence the dynamics and flow of investments, but ultimately, investment decisions are made by private investors, not states. Therefore, it is essential for India to focus on creating a favourable investment environment to facilitate investments.

Several steps have been taken in India to liberalize the investment climate, but major reforms are required to make India a major investment destination. Judicial reforms are particularly critical, as the expedited processing of cases will facilitate prompt and effective resolution of disputes. Land acquisition is another area that requires reform as acquiring land for various projects remains a major challenge. Availability of quality and skilled labour force is again a major challenge for foreign investors looking to invest in India. Governmental efforts to provide training and worker well-being is important to enhance productivity.

A coordinated effort between the central and state governments is also necessary. While the central government can focus on designing attractive investment regimes, state governments must proactively create an environment conducive to attracting investments. To facilitate easy and cost-effective clearance, a centralized single window clearance system, etc could help attracting foreign direct investment.

Additionally, a guarantee and insurance fund could be established to further promote investors' confidence. This would provide a safety net for investors and help mitigate potential risks associated with investing in India. Alternative mechanism to BITs should also be explored.

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