

## Indian Economic Development

### Political will wanted: Why India must be flexible on FTA with EU (The Financial Express; 20/6/2016)



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The article discuss about the major impediments in India-EU FTA and need to sort out differences soon.

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- The EU-India FTA (free trade agreement) negotiations have been ongoing for more than nine years.
- The EU has been India's largest trading partner and the two-way trade is likely to swell significantly if the parties could firm up the long-pending FTA, officially called the **Broad-based Bilateral Trade and Investment Agreement (BTIA)**.
- Negotiations focused on market access for goods (to improve coverage of offers on both sides), services, a meaningful chapter on government procurement and sustainable development.
- India has a lot to gain from an FTA with the EU, particularly in regard to preferential and duty-free access to the European market.
- However, it is evident that the negotiations have been tedious and the path to finalising the FTA is fraught with difficulties, given India's high trade-related regulatory barriers and partial access to a few services sectors like professional services, financial services and government procurement.
- **There are key contentious issues:**
  - India wants the EU to give it greater market access in the services (especially Mode 4) and pharmaceuticals sectors, provide data secure nation status (beneficial to India's IT sector) and liberalise visa norms for Indian professionals.
  - On the other hand, the EU wants India to overhaul its financial sector, cut taxes on wines and spirits, reduce tariff on the dairy sector and create a stronger intellectual property regime and reduce duties on automobiles.
  - With regard to the financial sector, the EU has requested for various regulations pertaining to bank branches, numerical quotas, foreign ownership, equity ceilings, voting rights and

investments by state-owned companies in foreign banks in India removed, among other changes.

- The negotiations have reached a roadblock on the question of whether the EU will liberalise its visa regime for Indian professionals. India's demographic advantages have provided it with a skilled, competitive, English-speaking workforce, of which Europe will be lacking in the near future.
  - Considering this, India places considerable importance to Mode 4 liberalisation. Mode 4 refers to the delivery of a service within the territory of a member with the service provider being present as a natural person.
  - High customs duties on European products such as automobiles and alcohol remain key issues.
  - The IPR provisions in India-EU draft FTA also raise concerns as they will limit the capacities of both India and the EU to use public health safeguards and flexibilities allowed in WTO's TRIPS Agreement.
  - In addition, negotiations are stuck on the issue of Indian policy on government procurement. India considers government procurement a sensitive issue from a development perspective and is reluctant to make changes in its policy.
    - The importance of signing the India-EU FTA is immense. Unfortunately, despite talks of a potential revival of the stalled EU-India FTA, the chances of it getting signed remain grim.
    - Blockages in India's tariff and non-tariff barriers policy and EU's reluctance to open doors to Indian professionals in the IT sector will be hard to overcome. This FTA needs political will from both sides.
    - A practical solution is to find a midway wherein both the partners can relent on certain issues.
    - For instance, India need not worry about giving access to the European automobile industry, as the Indian automobile sector is hugely competitive and has sufficient demand from within the country.
    - Similarly, the Indian dairy sector should be able to cope with reduction of tariffs on dairy imports from the EU.
    - For the FTA to become a reality by the end of the year, India has to adopt a flexibility approach and iron out differences on crucial issues.
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#### **Question:**

**Against the backdrop of the changing global trade architecture, with world trade shifting towards mega trade pacts such as the TPP and TTIP, away from the MFN route, it is imperative for India to sign the FTA with the EU at the earliest. Examine.**

#### **Suggested approach:**

1. The benefits of India-EU FTA.
  2. The major impediments.
  3. Practical solutions.
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Link: <http://www.financialexpress.com/article/fe-columnist/political-will-wanted-why-india-must-be-flexible-on-fta-with-eu/290253/>

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