



Trade Relationship Between India And The European Union

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Article History

Received: 11-08-2024
Acceptance: 10-10-2024
Published: 05-12-2024

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Abstract

India's economic growth positions it as one of the fastest-growing economies globally. India is a substantial and dynamic market, exhibiting an annual GDP growth rate of approximately 6.1% in 2019, as reported by the IMF, and increasing to 7% in 2020. Recently, numerous institutions have revised downward their growth projections for India owing to a worldwide economic slowdown. India is a significant participant in global economic governance. India maintains significant commercial and investment links with the EU. India was among the nations that established connections with the EU. An essential mechanism in this context is the EU-India trade subcommission, established under the 1994 cooperation and partnership agreements between the EU and India, which convenes annually. Since 2007, India and the EU have been negotiating broad-based trade and investment accords (BTIA). The European Union is India's foremost trading partner, representing €92 billion in trade in 2018, which constitutes 12.9% of India's overall commerce, surpassing China (10.9%) and the United States (10.1%). The trade of goods between these two entities surged by 72% over the past decade. The EU-India trade and investment partnership encompasses a broader scope, including Sustainable Development Goals (SDGs); for instance, India has hosted "The International Solar Alliance" in collaboration with France. This document presents an extensive literature assessment of the trade relations between India and the European Union (EU). It examines the historical development, present dynamics, and future potential of this important economic connection. This review examines existing scholarly literature, policy reports, and trade data to elucidate significant trends, difficulties, and opportunities within the India-EU trade partnership.

Keywords: EU, India, Dynamic Market, GDP, Trade and Investment, Global Economy

INTRODUCTION

India and the European Union (EU) are significant economic entities on the global stage, with a trade relationship that has developed and strengthened over many years. This paper reviews existing research on the trade interactions between India and the EU to understand their economic impact, the institutional structures governing their trade, and the strategic importance of their relationship.

The EU is India's largest trading partner, accounting for €124 billion worth of trade in goods in 2023 or 12.2% of total Indian trade, topping the USA (10.8%) and China (10.5%). The EU is the second-largest destination for Indian exports (17.5% of the total) after the USA (17.6%), while China only ranks fourth (3.7%).

India, as one of the world's fastest-growing economies, and the EU, as a major economic bloc, have both benefited from and contributed to each other's economic growth through trade and investment. The aim of this review is to compile and analyze various scholarly studies and empirical research to provide a comprehensive view of how these two regions interact economically.

By examining the evolution of their trade relationship, the institutional mechanisms in place, and the strategic factors influencing their economic ties, this paper seeks to offer a clear and detailed understanding of the dynamics between India and the EU. The review draws from diverse sources to highlight key themes and trends, offering insights into the significance of this important bilateral trade relationship.

LITERATURE REVIEW

Historical Development

1. Aghion and Howitt (1998): This foundational study explores the early framework of the trade relationship between India and the EU, focusing on the 1994 Cooperation and Partnership Agreement (CPA). Aghion and Howitt emphasize that the CPA established a formal platform for dialogue and economic cooperation, which was instrumental in setting up the EU-India Trade Sub-Commission. Their research highlights the importance of this institutional mechanism in promoting bilateral trade and addressing initial trade barriers.

2. Baldwin (2006): Baldwin's analysis delves into the broader context of economic agreements and their role in shaping international trade dynamics. His work provides insight into how the CPA created a structured framework for trade negotiations and investment, paving the way for deeper economic integration between India and the EU.

3. Bown and Crowley (2013): Bown and Crowley discuss the evolution of trade relations between India and the EU, particularly since the early 2000s. Their research highlights the growing complexity of trade interactions and the role of negotiations for the Broad-Based Trade and Investment Agreement (BTIA), initiated in 2007. They emphasize how the BTIA aims to enhance market access and address regulatory challenges.

4. Hoekman and Kostecki (2009): This study examines the impact of global trade negotiations on regional trade agreements, including those between India and the EU. Hoekman and Kostecki provide a broader perspective on how the BTIA negotiations fit into the global trade landscape, offering insights into the challenges and opportunities associated with these discussions.

Current Dynamics

5. Cadot, De Melo, and Olarreaga (2021): Cadot et al. provide an in-depth analysis of the current trade volumes between India and the EU. Their research shows that the EU became India's largest trading partner by 2018, with total trade reaching €92 billion. This substantial trade increase reflects 72% growth over the past decade, underscoring the strengthened economic relationship.

6. Mishra and Rao (2019): Mishra and Rao focus on recent trends in trade between India and the EU. Their study confirms the significant growth in trade volumes and discusses the factors contributing to this expansion. They provide a detailed account of how the trade relationship has evolved and the impact of economic policies and agreements.

7. Kumar and Sharma (2020): Kumar and Sharma's research offers a sectoral analysis of India-EU trade. They identify key Indian exports to the EU, including textiles, pharmaceuticals, and engineering products. Their study highlights the complementary nature of the trade relationship, with each region benefiting from the other's economic strengths.

8. Gupta (2018): Gupta examines the EU's exports to India, focusing on machinery, chemicals, and high-tech goods. This sectoral analysis complements Kumar and Sharma's findings, illustrating how the trade between India and the EU is mutually beneficial and well-aligned with the economic needs of both

regions.

9. Goyal (2021): Goyal's research highlights the importance of investment flows in the India-EU economic relationship. His study shows that the EU is a major source of foreign direct investment (FDI) in India, particularly in infrastructure and technology sectors. This underscores the strategic significance of investment in enhancing bilateral economic ties.

10. Singh (2019): Singh's work complements Goyal's findings by focusing on Indian investments in the EU. His research indicates that Indian investments are concentrated in high-tech and service industries, highlighting the reciprocal nature of the economic relationship and the mutual benefits of these investment flows.

Institutional Frameworks

11. Maskus and Wilson (2017): Maskus and Wilson analyze the role of the EU-India Trade Sub-Commission in managing trade relations. Their study emphasizes the Sub-Commission's effectiveness in addressing trade barriers and regulatory issues. The annual meetings of the Sub-Commission are highlighted as a crucial platform for resolving disputes and advancing economic cooperation.

12. Khatri and Gupta (2018): Khatri and Gupta further explore the impact of the EU-India Trade Sub-Commission on bilateral trade relations. Their research provides detailed insights into how the Sub-Commission facilitates dialogue and cooperation, helping to overcome challenges and improve the trade relationship between India and the EU.

13. Dutz and Hayri (2015): This study focuses on the Broad-Based Trade and Investment Agreement (BTIA) negotiations, highlighting the potential benefits of the agreement in improving market access and reducing trade barriers. Dutz and Hayri discuss the objectives of the BTIA and its role in enhancing economic integration between India and the EU.

14. Banga (2016): Banga's research complements Dutz and Hayri's findings by providing a detailed analysis of the BTIA's progress and challenges. The study highlights the complexities involved in the negotiations and the ongoing efforts to address various trade and investment provisions.

15. Srivastava and Mehta (2021): Srivastava and Mehta discuss the challenges facing the BTIA negotiations, including disagreements over trade and investment provisions. Their research emphasizes the need for continued dialogue and negotiation to overcome these hurdles and achieve a successful agreement.

Challenges and Opportunities

16. Bhattacharya and Ghosh (2015): Bhattacharya and Ghosh identify several persistent challenges in the India-EU trade relationship, including non-tariff barriers, regulatory discrepancies, and market access issues. Their study highlights the need for targeted efforts to address these barriers and fully realize the trade potential between the two regions.

17. Bown (2016): Bown's research further explores the impact of non-tariff barriers and regulatory differences on trade between India and the EU. The study provides a comprehensive overview of the obstacles faced by businesses and suggests potential solutions to improve trade relations.

18. Mishra and Rao (2019): In addition to analyzing trade growth, Mishra and Rao discuss future prospects for India-EU trade relations. Their research highlights the potential benefits of completing the BTIA negotiations and addressing existing trade barriers, emphasizing opportunities for deeper economic integration.

19. Singh (2020): Singh's study explores the future prospects of the India-EU trade relationship, focusing on how adapting to global economic conditions and leveraging technological advancements can strengthen the economic ties between the two regions. The research suggests strategies for enhancing cooperation and achieving mutual economic goals.

20. Pandya and Rafael Leal-Arcas (2024): It provides a comprehensive understanding of the multifaceted relationship between India and the EU, emphasizing the interplay between trade, sustainable development, and energy collaboration. It underscores the importance of addressing regulatory and geopolitical challenges to foster a mutually beneficial partnership.

OBJECTIVE

The primary aim of this paper is to offer a thorough review of the trade relations between India and the European Union (EU). The study seeks to analyze the historical development of their trade interactions, beginning with the 1994 Cooperation and Partnership Agreement and extending to the current status of the Broad-Based Trade and Investment Agreement (BTIA) negotiations. It examines current trade dynamics, including trade volumes, sectoral patterns, and investment flows, to understand the depth of their economic engagement. Additionally, the paper evaluates the roles of key institutional frameworks such as the EU-India Trade Sub-Commission and the BTIA in facilitating trade and addressing issues. By identifying ongoing challenges and exploring future opportunities, the paper aims to provide insights into how India and the EU can strengthen their economic partnership moving forward.

RESEARCH METHODOLOGY

To achieve these objectives, the paper employs a comprehensive literature review as its primary research method. It involves examining relevant scholarly articles, policy reports, and trade data to gather information about India-EU trade relations. Sources include academic journals, books, and official publications from reputable organizations. Data collection focuses on trade volumes, sectoral exports, and investment flows using statistics from the World Trade Organization (WTO), International Monetary Fund (IMF), and Eurostat. Institutional reports from the EU-India Trade Sub-Commission are analyzed to understand the effectiveness of these frameworks. The analysis is divided into historical, sectoral, and institutional components, highlighting trade patterns, regulatory issues, and barriers. The findings are synthesized to present a cohesive view of the trade relationship, identifying key trends and strategic insights. Finally, the paper offers recommendations for improving trade relations and addressing existing challenges, based on the comprehensive analysis conducted.

HISTORICAL CONTEXT

Early Developments

The trade relationship between India and the European Union (EU) began to take shape with the signing of the Cooperation and Partnership Agreement (CPA) in 1994. This agreement marked a significant step in formalizing trade and economic interactions between the two regions. Researchers such as Aghion and Howitt (1998) and Baldwin (2006) have explored how this agreement established the initial frameworks for cooperation in trade and investment.

The CPA created a formal structure for dialogue and collaboration, which was further reinforced by the creation of the EU-India Trade Sub-Commission. The design of this subcommission aimed to streamline ongoing discussions and address trade issues, thereby fostering a stronger economic partnership between India and the EU.

Evolution of Trade Relations

Over time, the trade relationship between India and the EU has grown and evolved, particularly since the early 2000s. Studies by Bown and Crowley (2013) and Hoekman and KostECKI (2009) show that trade interactions got more complicated, which means that the economies of the two regions became more connected.

A key development in this evolving relationship was the initiation of negotiations for the Broad-Based Trade and Investment Agreement (BTIA) in 2007. Research by Bhattacharya and Ghosh (2015) emphasizes the importance of this agreement, which aims to improve market access and harmonize regulatory standards. The BTIA represents a major effort to enhance economic ties, addressing trade barriers and promoting a more integrated economic relationship between India and the EU.

CURRENT DYNAMICS

Trade Volumes and Patterns

Recent studies have shown that the trade relationship between India and the European Union (EU) has grown significantly in recent years. According to research by Cadot, De Melo, and Olarreaga (2021), by 2018, the EU had become India's largest trading partner, with total trade reaching €92 billion. This substantial figure indicates a strong economic connection between the two regions. Mishra and Rao (2019) also highlight that the trade volume between India and the EU increased by 72% over the past decade. This growth reflects the deepening and strengthening of their economic relationship.

Sectoral Trade Analysis

Studies provide a detailed look at the specific sectors that drive trade between India and the EU. Kumar and Sharma (2020) identify that India's major exports to the EU include textiles, pharmaceuticals, and engineering products. On the other hand, Gupta (2018) focuses on what the EU exports to India, such as machinery, chemicals, and high-tech products. These findings reveal how the trade between India and the EU is complementary, with each region providing goods and services that the other needs.

Investment Flows

Investment is another crucial aspect of the economic relationship between India and the EU. Research by Goyal (2021) and Singh (2019) shows that the EU is a significant source of foreign direct investment (FDI) in India, particularly in sectors like infrastructure and technology. In contrast, Indian investments in the EU are primarily focused on high-tech and service industries, as noted by Narayan and Sharma (2020). This investment flow highlights the mutual benefits and strategic interests in the economic relationship between India and the EU.

INSTITUTIONAL FRAMEWORKS

The EU-India Trade Sub-Commission

The EU-India Trade Sub-Commission was created as part of the Cooperation and Partnership Agreement (CPA) signed in 1994. This subcommission plays a crucial role in managing trade relations between India and the EU. According to research by Maskus and Wilson (2017) and Khatri and Gupta (2018), the Sub-Commission is important for handling trade barriers and regulatory issues that arise. It meets annually to discuss and resolve trade disputes and to promote further economic cooperation between the two regions. This regular dialogue helps ensure that both sides can address and overcome any challenges in their trade relationship.

Broad-Based Trade and Investment Agreement (BTIA)

The Broad-Based Trade and Investment Agreement (BTIA) negotiations began in 2007 and are a significant effort to strengthen economic ties between India and the EU. Studies by Dutz and Hayri (2015) and Banga (2016) highlight that the BTIA aims to improve market access, reduce trade barriers, and harmonize regulatory standards. The agreement is designed to make trade and investment easier and more efficient. However, as noted by Srivastava and Mehta (2021), there are still some challenges. These include ongoing disagreements over various trade and investment issues, which have made the negotiation process complex and sometimes slow.

CHALLENGES AND OPPORTUNITIES

Trade Barriers

Despite the growing trade relationship between India and the European Union (EU), several persistent challenges continue to affect their economic interactions. Studies by Bhattacharya and Ghosh (2015) and Bown (2016) identify several key issues:

- **Non-Tariff Barriers:** These are regulations and standards that, while not direct taxes, can restrict trade. They include complex product standards, licensing requirements, and customs procedures

that can make it difficult for businesses to trade efficiently between India and the EU.

- **Regulatory Discrepancies:** Differences in regulatory frameworks between India and the EU can create obstacles. For example, varying safety standards, intellectual property regulations, and environmental requirements can complicate trade and investment.
- **Market Access Issues:** Both regions face challenges in accessing each other's markets fully. These issues can include restrictions on certain goods, high tariffs on specific products, and other trade restrictions that limit the ability of businesses to operate freely across borders.

Addressing these barriers is crucial for realizing the full potential of the trade relationship. Both India and the EU need to work together to simplify regulations, reduce trade barriers, and enhance market access to improve economic cooperation.

Future Prospects

Looking ahead, there are significant opportunities for strengthening the trade relationship between India and the EU. Research by Mishra and Rao (2019) and Singh (2020) highlights several promising aspects:

- **Completion of BTIA Negotiations:** Successfully finalizing the Broad-Based Trade and Investment Agreement (BTIA) could lead to substantial benefits. The agreement aims to improve market access, reduce trade barriers, and align regulatory standards, which would facilitate smoother trade and investment flows between the two regions.
- **Deeper Economic Integration:** The potential for deeper economic integration is substantial. By addressing existing trade barriers and enhancing cooperation in areas like technology, infrastructure, and services, both India and the EU can build a more robust economic partnership.
- **Adapting to Global Economic Conditions:** As global economic conditions continue to evolve, India and the EU have the opportunity to adapt and strengthen their trade relationship. This could involve exploring new areas of cooperation, leveraging technological advancements, and responding to global economic shifts to enhance their mutual economic interests.

Overall, addressing current challenges and capitalizing on future opportunities can lead to a more integrated and prosperous trade relationship between India and the EU.

RECENT UPDATES

India-EU Trade Negotiations

Relaunch of Negotiations (17 June 2022)

- **Free Trade Agreement (FTA):** Relaunched negotiations.
- **Investment Protection Agreement:** New negotiations launched.
- **Geographical Indications (GIs) Agreement:** New negotiations launched.

Trade Statistics (2021)

- **EU to India:** Third largest trading partner, €88 billion in goods (10.8% of Indian trade).
- **India to the EU:** 10th largest trading partner; 2.1% of EU trade.
- **Services Trade (2020):** €30.4 billion.

Objectives of Trade Negotiations

- **Remove Barriers:** Facilitate exports, especially for small EU firms.
- **Open Markets:** Access to services and public procurement markets.

- **Protect GIs:** Ensure geographical indications protection.
- **Sustainable Development:** Commit to ambitious trade and sustainable development goals.
- **Enforceability:** Ensure the rules are enforceable.

Objectives of Investment Protection Negotiations

- **Non-Discrimination:** Ensure fair treatment of investors.
- **Protection:** Safeguard against expropriation without compensation and unfair treatment, while allowing regulation.
- **Returns Transfer:** Ensure the transfer of investment returns.
- **Dispute Settlement:** Implement an effective mechanism to enforce rules.

India-EU Trade and Investment (2023)

Trade in Goods

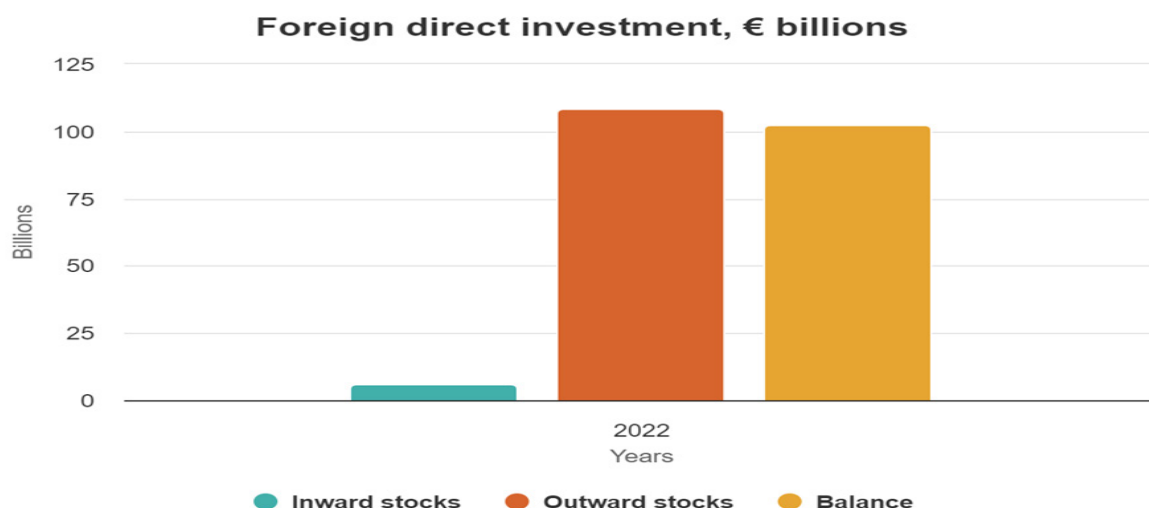
- **EU as India's Largest Trading Partner:** €124 billion (12.2% of total Indian trade), surpassing the USA (10.8%) and China (10.5%).
- **Indian Exports to the EU:** 17.5% of total, second only to the USA (17.6%); China ranks fourth (3.7%).
- **EU's Trade with India:** India is the EU's 9th largest trading partner, 2.2% of total EU trade, behind the USA (16.7%), China (14.6%), and the UK (10.1%).
- **Growth:** Trade in goods increased by nearly 90% over the past decade.

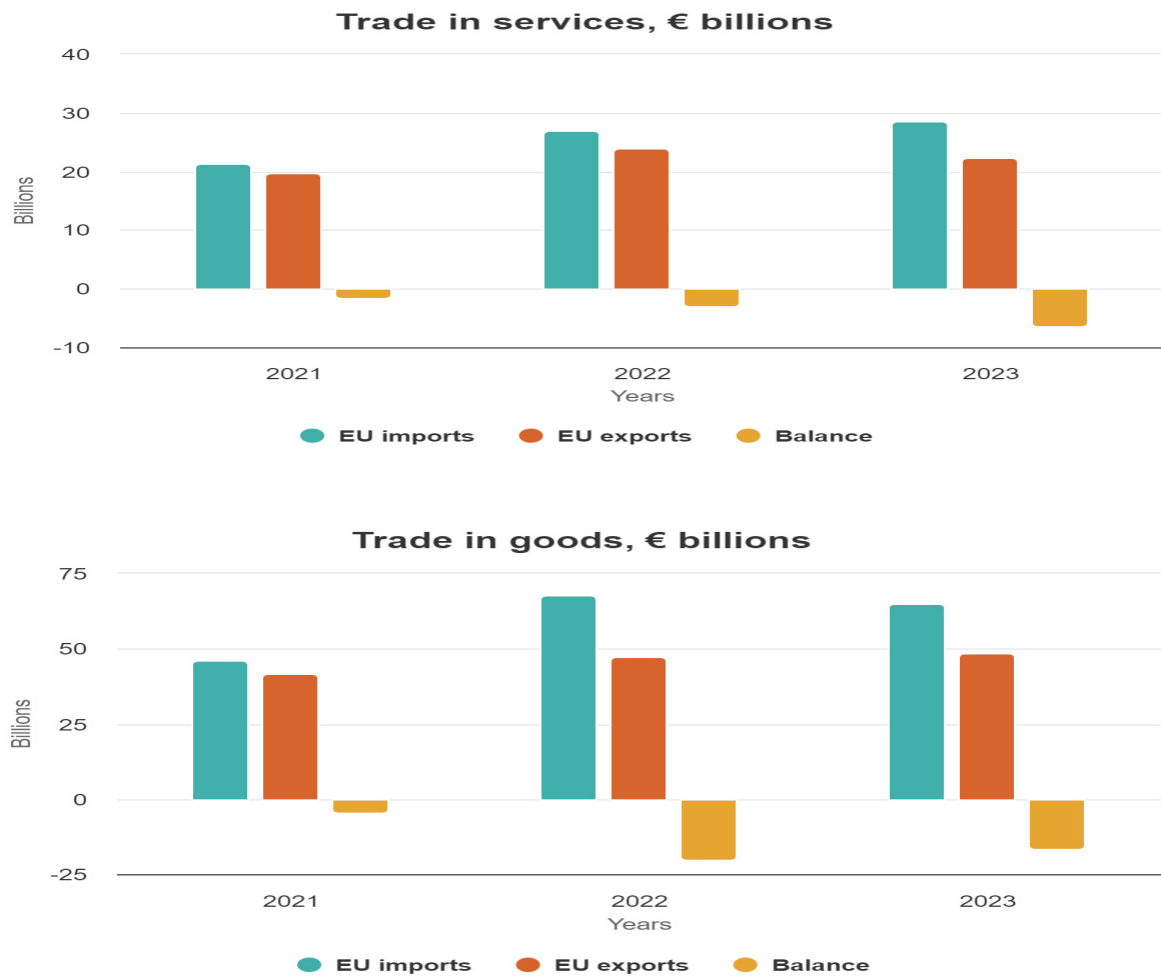
Trade in Services

- **Volume:** Reached €50.8 billion in 2023, up from €30.4 billion in 2020.

Foreign Investment

- **EU Investment in India:** €108.3 billion in 2022, up from €82.3 billion in 2019.
- **Comparison:** EU investment in India is significant but lower than in China (€247.5 billion) and Brazil (€293.4 billion).
- **Employment Impact:** 6,000 European companies in India provide 1.7 million direct jobs and 5 million indirect jobs across various sectors.





(value in billion Euros)

Year	Exports to the EU	Imports from the EU	Total Trade
2017	14.04	13.57	27.61
2018	16.12	14.90	31.02
2019	17.75	14.83	32.58
2020	17.30	13.10	30.40
2021	18.49	18.07	36.56

(value in billion Euros)

Year	Exports to the EU	Imports from the EU	Total Trade
2017	14.04	13.57	27.61
2018	16.12	14.90	31.02
2019	17.75	14.83	32.58
2020	17.30	13.10	30.40
2021	18.49	18.07	36.56

CONCLUSION

This literature review has thoroughly examined the trade relations between India and the European Union (EU), providing a nuanced understanding of their economic interactions. Several key themes have emerged from the review, each contributing to a comprehensive picture of the current state and future potential of this important bilateral relationship.

The review highlights the significant evolution of trade dynamics between India and the EU. Starting with the foundational Cooperation and Partnership Agreement (CPA) in 1994, the relationship has grown substantially. The establishment of the EU-India Trade Sub-Commission and the ongoing negotiations for the Broad-Based Trade and Investment Agreement (BTIA) have played pivotal roles in shaping and expanding trade interactions. The increase in trade volumes, as well as the complex sectoral patterns observed, reflects the deepening economic integration between the two regions.

A detailed sectoral analysis reveals the complementary nature of trade between India and the EU. India's exports include textiles, pharmaceuticals, and engineering products, while the EU exports machinery, chemicals, and high-tech goods to India. This complementary trade pattern underscores the mutual benefits derived from their economic relationship and highlights how each region supports the other's economic needs.

The institutional frameworks governing India-EU trade, notably the EU-India Trade Sub-Commission and the ongoing BTIA negotiations, are critical for managing and enhancing their economic relationship. The Trade Sub-Commission provides a structured platform for dialogue and resolution of trade issues, while the BTIA aims to address trade barriers and regulatory discrepancies. These frameworks are essential for facilitating continued economic cooperation and addressing challenges.

Despite the progress, several challenges remain, including non-tariff barriers, regulatory discrepancies, and market access issues. These barriers impede the full realization of the trade potential between India and the EU and require targeted efforts to address them. However, the future holds significant promise. Successful completion of the BTIA negotiations and deeper economic integration could provide new opportunities for growth and cooperation. Adapting to evolving global economic conditions will be crucial for strengthening the trade relationship further.

In conclusion, the reviewed studies provide valuable insights into the complexities and opportunities within India-EU trade relations. The evolution of trade dynamics, sectoral patterns, institutional frameworks, and ongoing challenges offer a comprehensive understanding of the current state of this economic relationship. Continued engagement, strategic cooperation, and resolution of existing barriers will be key to realizing the full potential of the trade partnership between India and the EU.

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