

A NEW ERA OF INDIA-EUROPEAN UNION STRATEGIC PARTNERSHIP



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Executive Summary

India and the European Union (EU) together account for more than 20% of the world GDP and represent a market of over 1.8 billion people. In 2021, the EU's GDP was 5 times larger than that of India. In both the economies, services sector accounts for the major share in GDP, though differ in concentration. Services sector contributes almost 2/3rd of GDP in the EU, followed by industry sector and marginal share of agriculture sector. However, in India, services contribute to almost half of GDP, followed by industry and agriculture sector. India's population is over 3 times that of the EU, representing a large market for good and services. Both the economies have strong demographic dividend as almost two-third of the population is in the working age group.

Trade is of great importance to both the economies. In India, total trade accounts for around 43.7% of GDP, while for the EU, it accounts for a significant share of over 93.3% of GDP in 2021. For both countries, contribution of merchandise exports is larger than that of services exports. However, in case of the EU, the difference is substantially larger as merchandise exports is almost 3 times the services exports, while in India, services exports are rapidly catching up with the merchandise exports. At a disaggregated level, India's primary sector merchandise exports are much larger compared to the EU. The share of manufactured exports in total merchandise exports stood over 65% in case of both India and the EU. However, high technology manufactured goods account for only a marginal share (10.3%) in manufactured exports of India, while the share is higher in case of the EU at 16.1%.

Economic Profile of European Union

The EU is a unique economic and political union between 27 European countries. As a bloc, based on US\$ current prices, the EU is equivalent to the second largest economy in the world, after USA in 2021 and the third largest in purchasing power parity (PPP) terms, after China and USA. The EU's GDP was US\$ 17.2 trillion (nominal) in 2021, accounting for 17.7% of the world GDP. The Euro is the second largest reserve currency in the world after US dollar¹, accounting for over 20% of global reserves. Euro is the official currency of 19 out of 27 EU countries in a currency union. The remaining 8 countries continue to use their own currency.

Merchandise Trade of India and EU-27

The India-EU trade has grown steadily over the years and India remains a net exporter of merchandise to the EU 27. On the other hand, as a partner country for the EU's foreign trade, India's share in both the EU's global exports and global imports is still relatively low. In 2021, India ranked as the 26th largest export destination (10th largest among extra-EU countries) and the 24th largest import source (10th largest among extra-EU countries) for the EU.

¹ Standard and Poor Global Market Intelligence

The total trade between India and the EU amounted to US\$ 104.9 billion in 2021, increasing from US\$ 93.6 billion in 2011. India has been witnessing a positive trade balance with the EU since 2016, which increased from US\$ 0.9 billion in 2016 to US\$ 13.1 billion in 2021, with exports of US\$ 59 billion and imports of US\$ 45.9 billion.

India's Exports to the EU: In 2021, the EU was the 2nd largest export destination of India with a share of 14.9% in India's total exports. Overall, India's exports to the EU rose from US\$ 45.9 billion in 2011 to US\$ 47.2 billion in 2019. However, total exports to the EU declined by 18.6% amounting to US\$ 38.4 billion in 2020, due to the uncertainties around the end of Brexit transition period and the pandemic. With recovery in global demand, India's exports to the EU witnessed the highest ever level of US\$ 59 billion in 2021, growing by 53.5%.

In 2021, the principal item of export to the EU from India was mineral fuels and oils, which constituted 11.6% of the total exports from India to the EU. This was followed by iron and steel (accounting for 9.8% of India's total exports to the EU), organic chemicals (8.5%), machinery and mechanical appliances (7.3%), electrical machinery, equipment and parts (6.8%), and pearls and precious stones (5.3%). Organic chemicals were the largest exported items from India to the EU in 2020, accounting for a share of 10.4% in the total exports.

India's Imports from the EU: In 2021, the EU was the second largest import source for India after China, with 8% share in India's imports. India's imports from the EU have decreased from US\$ 47.7 billion in 2011 to US\$ 45.9 billion in 2021. In 2020, imports witnessed a significant fall to US\$ 33.4 billion from US\$ 42.7 billion in 2019 due to the pandemic.

In product terms, machinery and mechanical appliances dominate India's import basket from the EU, accounting for as much as 20.8% of India's total imports from the EU in 2021. Other major imports include pearls and precious stones (12.5% of India's total imports from the EU), electrical machinery and equipment (9.1%), optical, photographic, cinematographic apparatus (6.4%), organic chemicals (5.5%), plastics and articles (5.1%), and miscellaneous chemical products (3.2%).

India's Revealed Comparative Advantage Analysis and Goods Trade Potential

Using the revealed comparative advantage, India's exports to the EU have been classified into 4 groups based on its competitiveness.

Product Champions: These products have the maximum potential, as the EU's import demand for these products have shown robust growth, while India's exports of these products to the EU are also competitive. Out of the 1615 items at the HS 6-digit level, 549 items fell into the category of the product champions. The combined exports of these items from India to the EU were US\$ 15.9 billion in 2019, representing approximately 33.7% of India's exports to the EU. Major product champions include turbojets of a thrust > 25 kN, footwear with outer soles of rubber, plastics or composition leather, separate chemically defined organic compounds, light-vessels, fire-floats, floating cranes and other vessels, and flexible intermediate bulk containers, among others.

Winners in Declining Sectors: These are the products in which India has attained a significant share in the EU's import basket, but the EU's import demand for these products has been falling. The total number of products

in winners in declining sectors category stood at 476, with India's exports amounting to US\$ 23.4 billion, constituting a share of 49.6% in India's exports to the EU in 2019. Major products include medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel; diamonds, worked, but not mounted or set (excluding industrial diamonds); medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes; non-industrial diamonds unworked or simply sawn, cleaved or bruted (excluding industrial diamonds); parts and accessories, for tractors, and motor vehicles for the transport of ten or more persons, among others.

Underachievers: India does not have competitiveness in these products although their import demand has grown in the EU significantly. At 6-digit HS code, 415 items fall under this category with India's exports worth US\$ 4.1 billion to the EU. These products constitute a marginal share of 8.7% in India's total exports to the EU. Major products in this category include motor cars and other motor vehicles principally designed for the transport of persons; telephones for cellular networks "mobile telephones" or for other wireless networks; machines for the reception, conversion and transmission or regeneration of voice, and appliances for pipes, boiler shells, tanks, vats, among others.

Lagging in Declining Sectors: The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the EU market, whilst India's exports also hold a comparative advantage in them. While in the long run, India needs to develop capabilities in the export of items in the underachievers category as import demand of these products in the EU market is rising, but India does not have the required competitiveness in the export of these items.

Barriers in India-EU Goods Trade

Currently, there is no preferential agreement between India and the EU, therefore, the effectively applied tariff on the EU is the same as the MFN tariffs. India have a very high binding coverage with binding on majority of its tariff lines except in few product categories (15 products at 2-digit HS Code) with zero tariff lines under binding.

However, it is the effectively applied tariff that the EU exporters face while exporting to India. There are 49 categories of products (at 2-digit HS code) that have effectively applied tariff rate of 0%-10%, which amounted to the total imports of US\$ 26.3 billion in 2020, and this corresponds to over 80.3% of the total imports of India from the EU in 2020. There are 23 product categories under 11%-20% effectively applied tariff rates, which corresponds to over 14.7% of the total imports in 2020, amounting to US\$ 4.8 billion. So cumulatively, 95% of Indian imports from the EU faces effectively applied tariff rate of less than 21%. 24 product categories face effectively applied tariff ranging between 21% - 150% with the total import share of 5% in 2020. There is only one product category, i.e., beverages, spirits and vinegar, which has an effectively applied tariff of 111% with the weighted average of 103.1%, which alone constitutes US\$ 86.4 million of imports from the EU during 2020.

On the other hand, it is interesting to note that none of the tariff lines of the EU is bound under WTO, unlike India where nearly 100% binding coverage exists (except for few products). The EU, being a developed region, has low MFN tariffs, thus promoting free and easy trade with its partners. Since India is provided benefits under the GSP scheme by the EU, the effectively applied tariff is less than or equal to MFN tariff.

The simple average of the effectively applied tariff is low in the case of the EU, with the EU being a developed region. There are 26 categories of products (at 2-digit HS code), imports of which amount to US\$ 6.9 billion in 2020, on which the EU imposes an effectively applied tariff of 0% on Indian imports. These products constitute 18.3% of the EU's imports from India in 2020. There are 67 product categories amounting to US\$ 30.5 billion under the 1%-10% effectively applied tariff, which correspond to over 80.9% of the EU's imports from India in 2020. So cumulatively, 99.2% of the EU's imports from India face an effectively applied tariff of less than 10% when exported to the EU. Three product categories face effectively applied tariff ranging between 11%-20% with the total import share of 0.8% in 2020. Preparations of vegetables, fruit and nuts; dairy produce, birds' eggs and natural honey, and tobacco and manufactured tobacco substitutes are the products under these tariff range.

Non-Tariff Barriers in Goods Trade

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, as of December 2021, India has imposed 1,023 NTMs towards the WTO members (including the European Union), as well as bilaterally imposed by India on the EU. Out of 1,023 NTMs, 360 were put into force and 663 initiated. SPS and TBT are among the most widely used NTMs, with 272 SPS (32 in force and 240 initiated) and 271 TBT (6 in force and 265 initiated) in place. Quantitative restrictions have also been adopted by India, followed by protection through anti-dumping, State Trading Enterprises, safeguard, and tariff-rate quota measures as of December 2021. Amongst the NTMs imposed by India on the WTO members (including the EU), there are 39 measures bilaterally imposed on the EU in the form of Anti-Dumping (ADP) measures. Amongst the 39 ADP measures, 27 are in force and 12 in initiation, impacting 27 and 12 products under HS classification, respectively.

As of December 2021, the EU has imposed 2618 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by the EU. Among 2618 NTMs, 510 were put into force and 2108 were initiated. SPS and TBT measures are among the mostly used NTMs, with 944 SPS (148 in force and 796 initiated), and 1,464 TBT (153 in force and 1311 initiated). Among other NTMs, the EU has adopted tariff-rate quota, special safeguards, export subsidies and anti-dumping measures, among others. Amongst the NTMs imposed by the EU on the WTO members (including India), there are 38 measures bilaterally imposed on India in the form of ADP (15), Countervailing measures (4) and Sanitary and Phytosanitary measures (19). Amongst 38 NTMs, 26 are in force and 12 in initiation, and these impact 25 and 11 product categories under HS classification, respectively.

Comparative Tariff Analysis

Generalised Scheme of Preferences (GSP)² is a set of rules which provide concession or total relaxation on duties to exporters from developing countries on their exports to the European Union. Developing countries like India and Vietnam qualify for Standard GSP. However, Vietnam now enjoys preferential access stemming

² Generalised Scheme of Preferences, European Commission

from its FTA with the EU, which came into force in August 2020. The FTA allows for duty elimination for 71% of Vietnamese exports to the EU and elimination of 99% of custom duties within the next 7 years. The FTA allows for the application of tariff rate quotas for remaining agricultural items where import duties are not phased out. India's neighbours, Sri Lanka and Bangladesh enjoy GSP+ and Everything But Arms (EBA) relaxations under the GSP, respectively.

At 2-digit HS Code, effectively applied tariff rate (AHS) for Bangladesh is below 5% for 86 product categories and 3 product categories, namely, albuminoidal substances and glues, photographic or cinematographic goods and plastics and articles face AHS of more than 5%.

The AHS for Sri Lanka is 0% for 84 out of 96 product categories. For 6 categories, namely fish and crustaceans, edible vegetables and roots, edible fruit and nuts, sugars and sugar confectionery, miscellaneous edible preparations and arms and ammunition, the AHS ranges between 0.1% to 5%. In case of cereals, Sri Lanka faces highest AHS of 5.1%.

Vietnam being a developing country used to avail Standard GSP benefit from the EU, however, after its FTA with the EU in 2019, which came into force in August 2020, Vietnam enjoys add-on concessional benefits. Vietnam faces AHS of 0% in 64 product categories, while for 27 commodity groups the AHS ranges between 0.1% to 5%. There are four product categories for which Vietnam's export to the EU faces AHS of more than 5%. These include preparations of meat and fish or of crustaceans, sugars and sugar confectionery, tobacco and manufactured tobacco substitutes and articles of apparel and clothing accessories (not knitted).

At 2-digit HS level, Bangladesh through its EBA eligibility under the GSP enjoys Preferential Tariff Rate (PRF) of 0% on 78 out of 96 product categories. Sri Lanka under GSP+ avails PRF of 0% for 76 product categories and for 2 categories PRF ranges between 0.1% to 5%.

Vietnam through its FTA concessions faces 0% PRF in 55 product categories. In 26 categories, the PRF ranges between 0.1% to 5% and for four categories, including, preparations of meat and fish, sugars and sugar confectionery, tobacco and manufactured tobacco substitutes and articles of apparel and clothing accessories (not knitted), Vietnam faces PRF of more than 5%. The highest tariff rate of 27.2% encountered by Vietnam is in the case of tobacco and manufactured tobacco substitutes.

As far as India is concerned, stemming from its eligibility under the Standard GSP, India faces an AHS of 0% in 26 product categories. For 48 commodity classifications, India faces an AHS ranging between 0.1% and 5%. India faces an AHS of more than 5% in 22 product categories, which is much higher than that of the immediate competitors of India in the EU export market. Being a beneficiary of Standard GSP scheme India enjoys a PRF of 0% in one product (cereals).

India-EU BTIA Status

India currently qualifies for Standard GSP benefits from the EU; however, India has got only limited edge as compared to countries like Vietnam, which has an FTA agreement with the EU. According to an India Exim Bank study³, India also started negotiating the Bilateral Trade and Investment Agreement (BTIA) with

³<https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/ResearchPapers/OP/156file.pdf>

the EU since June 2007 to liberalize the trade in goods and services in a WTO compliant manner. The BTIA negotiations were suspended in 2013, after sixteen rounds, over diverging opinions on the 'sensitive lists' of both the parties, especially concerning the opening up of Indian markets like automobile, alcoholic beverages and Banking, financial services and insurance (BFSI) for the EU businesses, services as well as the wine and spirits sector, both of which lay at the core of the BTIA⁴.

However, in May 2021 both the countries decided to resume the negotiations for a “balanced, ambitious, comprehensive and mutually beneficial” trade agreement, and to launch separate negotiations on an investment protection agreement and another agreement on geographical indications.

Opportunities from the India-EU Trade Agreement

The identification of products based on competitiveness, followed by the comparative tariff analysis shows that there exist enormous opportunities for expanding Indian exports in case of articles of apparels both knitted and non-knitted (HS-61 and HS-62), and footwears and gaiters (HS-64), among others. The EU currently imported US\$ 2.9 billion worth products from India under HS-61, imposing an AHS of 9.4%, which is far more than that faced by its competitors like Bangladesh and Vietnam. The EU globally imported articles of apparel and clothing accessories knitted or crocheted (HS-61) amounting to US\$ 93.7 billion in 2021. Bangladesh, enjoying a 0% PRF under EBA scheme, exported US\$ 15.0 billion worth of HS-61 to the EU, while Vietnam facing a PRF of 3.8% as a result of its FTA with the EU, exported US\$ 2.3 billion worth of products under this category.

In case of articles of apparel and clothing accessories, not knitted or crocheted (HS-62), the EU imported US\$ 2.6 billion worth products from India in 2021, at an AHS of 9%, while its global imports amounted to US\$ 85.7 billion during the same year. Bangladesh, enjoying a 0% PRF under EBA scheme, exported US\$ 9.3 billion worth of HS-62 to the EU, while Vietnam due to its Standard GSP eligibility and FTA with the EU faces a PRF of 6.3%, exported US\$ 2.9 billion worth of products under this category in 2021.

In case of footwear and gaiters (HS-64), the EU imported goods worth US\$ 1.4 billion from India in 2021, imposing an AHS of 6.6%, with its global imports amounting to US\$ 59.6 billion in 2021. Vietnam due to its Standard GSP eligibility and FTA with the EU faces a PRF of 2.1% and exported US\$ 7.4 billion worth of products under this category in 2021.

In product categories like vehicles other than railway or tramway (HS-87), aluminium and articles (HS-76), organic chemicals (HS-29), and articles of iron and steel (HS-73), India is facing higher tariff rates compared to its competitors. Tariff reduction or elimination in these categories can be highly beneficial given India's export capability and import demand in the EU.

India's Services Exports

India's global services exports have more than doubled in the last decade from US\$ 117.1 billion in 2010 to US\$ 240.7 billion in 2021. India's share in global services exports have also increased from 2.9% in 2010 to 4% in 2021. According to the RBI, during 2021-22, services exports stood at US\$ 254.5 billion surpassing the pre-pandemic levels of US\$ 213.2 billion in 2019-20.

⁴ <https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/ResearchPapers/OP/156file.pdf>

India's Services Trade with the EU

India has strong services trade relations with the EU. In 2020, India was the 26th largest services export destination of the EU (12th largest among extra-EU countries), with 0.7% share in the EU's global services exports and the 20th largest services import source for the EU (8th largest among extra-EU countries), with a 1% share in the EU's global services imports.

The EU's trade in services with India has grown considerably over the last decade. Growth in services trade has been promising, with the EU-India trade flows increasing by 70% over the past decade from US\$ 20.7 billion in 2010 to US\$ 37.7 billion in 2019. In 2020, the services trade between the two economies was severely impacted by Covid-19, resulting in the total services trade between the EU and India declining by 7.9% to US\$ 34.7 billion, amounting to a deficit of US\$ 4.8 billion for the EU in 2020. During the year, the EU exported US\$ 15 billion worth services to India and imported US\$ 19.8 billion.

EU's Services Exports to India: India is among the top 30 services exports destinations for the EU in 2020. The services exports of the EU to India have increased steadily over the last decade, from US\$ 11 billion in 2010 to US\$ 15 billion in 2020. With a share of 44.2%, telecommunications, computer, and information services accounted for the largest share in the EU's total services exports to India in 2020. This was followed by transport (27.3%), business services (26%), charges for the use of intellectual property (7.4%), goods related services (3.2%), travel (3%), and financial services (2%), among others.

EU's Services Imports from India: In 2020, India stands as the 20th largest services import source to the EU. During 2010-2020, the EU's services imports from India have increased from US\$ 9.7 billion in 2010 to US\$ 19.8 billion in 2020. The EU's services imports from India consist mainly of commercial services with negligible share of government services. Business services make almost half (48.3%) of the EU's services imports from India. Other major services imports of the EU from India include telecommunications, computers and information services, constituting 31.1% of the total services imports from India in 2020, followed by transport (10.6%), goods related services (2.6%), and financial services (2.3%), amongst others.

Barriers Faced by Indian Service Suppliers in the EU: Horizontal Restrictions

Mode-wise horizontal restrictions imposed by the EU on the services sector include:

Under Mode 1 (Cross-border Trade): Under horizontal restrictions, 22 EU economies considered under the OECD Services Trade Restrictiveness Index (STRI) have imposed conditions on operation through conditions on service suppliers. The laws of the 22 economies distinguish between countries or regions to which data may be transferred to or accessed from abroad. The general rule is that data transfers are only possible to countries that ensure an adequate level of protection or if certain safeguards are in place.

Under Mode 3 (Commercial Presence): Under horizontal restrictions, some of the EU economies have imposed conditions on market entry as well as conditions on operations through service suppliers. In terms of market entry, in 12 economies of the EU, acquisition of land and real estate by foreigners are restricted or regulated at the federal state level. In terms of operations, laws in 21 EU economies' (except Latvia) distinguish between countries or regions to which data may be transferred to or accessed from abroad. However, there are no restrictions on subsequent transfer of capital and investment under Mode 3 in 21 economies (except Estonia⁵).

⁵ Data not specified

Under Mode 4 (Movement of Natural Persons): Under horizontal restrictions, some of the EU economies have imposed conditions on market entry, operations as well as through administrative procedures and regulatory transparency. In terms of market entry, Denmark, Estonia, Hungary and Italy have imposed quantitative restrictions through limit on the total number or the share of foreigners employed in the domestic economy.

In terms of operations, 21 economies, except Latvia, have imposed conditions on service suppliers. The laws of these jurisdictions distinguish between countries or regions to which data may be transferred to or accessed from abroad. In terms of administration procedures, average visa processing time is 15 days in majority of the EU economies which means processing can take up to 15 calendar days after receiving the application. However, it takes much lesser time in Ireland (6 days), Latvia (10 days) and Poland (14 days). The application for a business visa comes with a fee of approximately US\$ 67 in all economies, except Estonia (US\$ 90) and Austria (US\$ 110). The number of documents needed to obtain a business visa ranges from 5 (Estonia) to 17 (Austria) documents.

Also in Mode 4, countries in the European Union impose Economic Need Test (ENT) or Labour Market Test (LMT) requirement. These are the tests that condition access in Mode 4, upon the fulfilment of certain economic criteria. These economic criteria include conditions like the work permit to foreigner can be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy, among others. The EU countries impose ENT/LMT conditions on three categories of workers, namely, contractual service suppliers, independent professionals and intra-corporate transferees.

France, Portugal, Slovenia and Spain have no ENT/LMT requirement in their market for any of the above three mentioned categories of workers. While on the other hand, Austria, Belgium, Denmark, Finland, Hungary, Ireland, Netherlands, and Poland are restricted as these countries have imposed ENT/LMT requirements on all 3 categories of workers in all the sectors. For the rest of the EU countries, the conditions vary across sectors and categories of workers.

India's Investments in the EU: The EU, comprising of the major developed economies like France, Germany, and Netherlands, among others, offers an attractive investment arena. During January 2011 to December 2020, total capital investment of India in the EU stood at a cumulative amount of US\$ 10.1 billion, making India the 8th largest non-EU investing country in the region through 536 projects and creating 31,691 jobs in the region.

Germany was the largest recipient of investments from India into the EU, with a major share of 22.7% (US\$ 2,282.5 million of Indian investments to the EU). Other major recipients of Indian investments are Slovakia (17%), Hungary (14.9%), and Ireland (8.1%), among others. In terms of capital investments, the largest share has been in the software & IT services (20.1% of Indian investments to the EU), automotive OEM (18.2%), and metals (10.1%), among others.

EU's Investments in India: In the recent times, India has emerged as an attractive FDI destination stemming from its liberal policy for sensitive sectors like insurance, defence, pharmaceuticals, e-commerce, and health services, among others. India was the 7th largest FDI destination for investments flowing out of the EU during January 2011 to December 2020. India accounted for US\$ 76.4 billion of FDI from the EU coming through 1,809 projects and resulting in 3,92,554 jobs during 2011-2020.

Germany and France together accounted for 54.7% of the total FDI flowing from the EU into India between 2011-2020, with the investments being made in 955 projects and generating more than 2 lakh jobs. The strength of the EU as a partner lies in the diversity of its sectoral engagement with India. While in terms of investments, the larger share has been in the sectors of renewable energy (14.1%), transportation & warehousing (12%), automotive OEM (7.6%), industrial equipment (7.5%), and metals (7%), during 2011-2020.

India has emerged as an unmatched magnet for investors stemming from its lucrative market, immense consumer base, skilled technical workforce, and favourable investor policies. Key opportunities for the EU's FDI in India exist in capital/engineering goods, pharmaceuticals, civil aviation, defence, single-brand retailing and e-commerce, among others.

The EU is the biggest FDI provider and the top global destination of foreign investment. Immense market potential and convenience of transportation present profitable opportunities for foreign investors in the EU. There exist numerous opportunities for Indian investors in sectors like, manufacturing, information and communication technology, infrastructure, renewable energy and health and life sciences, among others.

Way Forward and Recommendations

India and the EU have witnessed a new dynamism in their relationship in 2021, with both the economies eager to sign a comprehensive agreement to further promote economic partnership. It is an opportune time for India and the EU to build on its solid trade and investment engagements and take this relationship to newer heights. A few policy catalysts that could help boost bilateral cooperation include (i) expansion of trade based on identified commodities which hold export potential for India, (ii) focusing on negative list instead of positive list of products while signing FTA, as also considering the concessions that the EU has made under its FTA with India's competitors in the EU market, (iii) focusing on reducing the non-tariff barriers, (iv) moving up the value chain by ensuring that raw materials have lower duties except for any sensitive items, (v) promoting collaboration in digital technology, (vi) promoting investments from the EU through a liberal foreign investment policy through which foreign services supplier can easily establish operations in India and collaborate with Indian companies, (vii) liberal commitment for Mode 4, covering both the high and low skilled workers in terms immigration policies, visa requirements, stay-back after studies, and social security benefits, (viii) improving logistical infrastructure, (ix) promoting equal exchange, and (x) promoting collaboration in renewable energy.

India-European Union (EU) relations date back to 1960s, when India became one of the first Asian countries to establish diplomatic relations with the European Economic Community. The first India-EU Summit, held in 2000, marked a watershed in the development of these relationship. Over a period of time, a multi-tiered institutional architecture with the EU has been established with the Summit as its apex organ. Since then, developing along a positive track, the bilateral relationship has translated into a strategic partnership during the 5th India-EU Summit held at the Hague in 2004.

The advancement of bilateral relationship was not only inspired by political association but also derives its roots from ancient Indian thought of *Vasudhaiva Kutumbakam*. The Polish refugees who took shelter in India during World War II, till date remain indebted to Maharaja Jam Saheb of Jamnagar, who was awarded Poland's highest honour in 2016 commemorating him on his 50th death anniversary. Historical references such as Maharaja's benevolence rightly resemble India's ideals and faith in its foreign policy.

In 2018, the EU came out with a strategy paper titled Partnership for "Sustainable Modernization and Rules-based Global Order". The strategy identified India as an emerging global market and called for greater India-EU political, security and defence cooperation. During the 15th India-EU Summit in 2020, both sides adopted the "India-EU Partnership: A Roadmap to 2025". The roadmap is intended to act as a guide for bilateral engagements for further strengthening of the India-EU Strategic Partnership over the next five years. The roadmap emphasised collaboration in five critical areas—Foreign policy and security cooperation; Trade and economy; Sustainable modernisation partnership; Global governance; and People-to-people relations.

India and the EU both share similar interests and concerns which in turn binds them more firmly. Maritime security in the Indo-Pacific remains a priority for both the partners. The EU announced its Indo-Pacific Strategy in 2021, through which it aims at shaping a rules-based worldwide order and addressing global challenges. The EU has trade agreements with several Indo-Pacific nations like Japan, Vietnam and South Korea, among others. After Brexit, the EU is attempting to secure trade deals to diversify supply chains and identify attractive exporting destinations for European countries. Bilateral trade and investment ties between India and the EU have traversed a long way. Yet, there exists a huge untapped potential. The EU reiterates the importance of an India-EU trade and investment agreement which will considerably enhance the bilateral economic relationship.

Economic Complementarities between India and the EU

India and the EU together account for more than 20% of the world GDP, and represent a market of more than 1.8 billion people. In 2021, the EU's GDP was 5 times larger than GDP of India. In both the economies, services

sector accounts for the major share in GDP, though differ in concentration. Services contributes almost 2/3rd of GDP in the EU, followed by industry sector and marginal share of agriculture sector. However, in India, services contribute to almost half of GDP, followed by industry and agriculture sectors. India's population is over 3 times that of the EU, representing a large market for goods and services. Both the economies have strong demographic dividend as almost two-third of the population is in the working age group.

Table 1.1: Economic Indicators of India and the EU, 2021

| Indicator | India | EU |
|---|---------|----------|
| GDP (current US\$ billion) | 3,176.3 | 17,165.4 |
| Agriculture, forestry, and fishing, value added (% of GDP) | 16.8 | 1.6 |
| Industry (including construction), value added (% of GDP) | 25.9 | 23.0 |
| Services, value added (% of GDP) | 47.7 | 74.7 |
| Population (million) | 1,393.4 | 446.9 |
| Population ages 15-64 (% of total population) | 67.4 | 63.9 |
| Gross savings (% of GDP) | 30.2 | 25.9 |
| Gross fixed capital formation (% of GDP) | 28.3 | 22.0 |
| Trade (% of GDP) | 43.7 | 93.3 |
| Trade in services (% of GDP) | 11.9 | 25.9 |
| Exports of goods and services (% of GDP) | 20.8 | 50.7 |
| Merchandise trade (% of GDP) | 30.5 | 76.6 |
| Merchandise exports (current US\$ billion) | 395.4 | 6,625.6 |
| Agricultural raw materials exports (% of merchandise exports) | 1.5 | 1.6 |
| Ores and metals exports (% of merchandise exports) | 4.8 | 3.4 |
| Food exports (% of merchandise exports) | 11.3 | 10.0 |
| Fuel exports (% of merchandise exports) | 14.3 | 4.8 |
| Manufactured exports (% of merchandise exports) | 68.1 | 77.1 |
| High-technology exports (% of manufactured exports) | 10.3 | 16.1 |
| Service exports (BoP, current US\$ billion) | 240.7 | 2,388.6 |

Note: 2020 data is used wherever 2021 data is not available

Source: World Development Indicators (WDI), October 2022 and World Economic Outlook (WEO), October 2022

Trade is of great importance to both the economies. In India, total trade accounts for around 43.7% of GDP, while for the EU, it accounts for a significant share of 93.3% of GDP in 2021 (**Table 1.1**). For both parties, contribution of merchandise exports remains larger than that of services exports. However, in case of the EU, the difference is substantially larger as merchandise exports is almost 3 times the services exports, while in India, services exports are rapidly catching up with the merchandise exports. At a disaggregated level, India's primary sector merchandise exports are much larger compared to the EU. The share of manufactured exports in total merchandise exports stands over 65% in case of both India and the EU, however, high technology manufactured goods accounts for only a marginal share (10.3%) in manufactured exports of India, while the share is higher in case of the EU at 16.1%.

Economic Profile of European Union

The EU is a unique economic and political union between 27 European countries, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. The EU operates as a single market, which enables most goods, services, money, and people to move freely.

As a bloc, based on US dollar current prices, the EU is equivalent to the second largest economy in the world, after USA in 2021 and the third largest in purchasing power parity (PPP) terms, after China and USA. The EU's GDP (nominal) was US\$ 17.2 trillion in 2021, accounting for 17.7% of the world GDP (**Table 1.2**). The Euro is the second largest reserve currency in the world after US dollar⁶, accounting for over 20% of global reserves. Euro is the official currency of 19 out of 27 EU countries in a currency union. The remaining 8 countries continue to use their own currencies.

The EU economies have particularly been hard hit by Covid with the GDP contracting by (-) 5.6% in 2020. A major reason for this sharp decline is the EU's strong trade-based economy, which was hit hard by the pandemic induced preventive measures and mobility restrictions. With the lifting of the pandemic related restrictions and recovery in demand, the economy recovered in 2021 and registered a growth of 5.4%. However, the ongoing geopolitical tension between Russia and Ukraine is likely to disrupt the EU economy in the following years.

Table 1.2: Macroeconomic Indicators of the EU

| Indicator | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 ^e | 2023 ^f | 2024 ^f |
|---------------------------------------|----------|----------|----------|----------|----------|-------------------|-------------------|-------------------|
| Real GDP Growth (% change) | 3.0 | 2.2 | 2.0 | -5.6 | 5.4 | 3.2 | 0.7 | 2.1 |
| GDP, current prices (US\$ trn) | 14.8 | 16.0 | 15.7 | 15.3 | 17.2 | 16.6 | 17.0 | 17.9 |
| GDP per capita, current prices (US\$) | 43,183.0 | 45,123.7 | 46,737.6 | 44,536.4 | 48,902.6 | 53,959.9 | 56,160.9 | 58,455.3 |
| Inflation (avg, % change) | 1.6 | 1.8 | 1.4 | 0.7 | 2.9 | 9.2 | 6.8 | 3.0 |
| Population (mn) | 443.1 | 443.8 | 444.7 | 445.3 | 444.9 | 445.7 | 446.4 | 446.9 |
| General government gross debt (% GDP) | 83.2 | 81.1 | 79.1 | 91.5 | 89.8 | 86.9 | 85.0 | 83.6 |
| Current account balance (US\$ bn) | 502.2 | 509.1 | 467.7 | 418.7 | 571.6 | 190.5 | 262.3 | 375.0 |
| Current account balance (% of GDP) | 3.4 | 3.2 | 3.0 | 2.7 | 3.3 | 1.1 | 1.5 | 2.1 |
| Exchange Rate (avg; €:US\$) | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | - |

Note: ^e- Estimates; ^f-Projections; - not available

Source: WEO, IMF, October 2022 and WDI, October 2022

The EU has announced its intentions to reduce the demand for Russian gas by two-thirds and make the EU independent from Russian fossil fuels before 2030. Russia has also mandated the EU to settle the gas payment in rubles rather than in foreign currencies. Similarly, the EU embargo on Russian crude oil (prohibition to unload Russian oil into an EU port), came into force on December 5, 2022. On February 5, 2023, this ban will extend to the maritime transport of Russian-origin petroleum products, such as diesel, unless the products are sold at or below a price cap to be announced before February 5, 2023. For coal, the embargo came into force in August 2022. According to the IMF, the EU being a net energy importer, the main channel through

⁶ Standard and Poor's Global Market Intelligence

which the conflict in Ukraine and resultant sanctions on Russia to affect the euro area economy is through rising global energy prices and energy security. Higher global energy prices represent a negative terms-of-trade shock for most European countries, translating to lower output and higher inflation. Supply chain disruptions have also hurt some industries in the region including the automobile sector, with the conflict and sanctions further hindering production of key inputs.

The reopening of the economy has led to a sharp rise in inflation in 2021, owing to increased consumer spending and supply-chain disruptions in the domestic and global markets. Due to the EU's heavy reliance on natural gas imports, the significant increase in gas prices in 2021 has driven up electricity prices in the country. The general government gross debt was estimated at 89.8% of GDP in 2021. The EU has run a persistent current account surplus, which is estimated at US\$ 571.6 billion (3.3% of the EU's GDP) in 2021. The ratio is expected to narrow down to 1.1% in 2022, on account of the ongoing geopolitical tension. Country-wise major macroeconomic indicators of the EU are provided in **Table 1.3**.

Table 1.3: Select Macroeconomic Indicators of the EU Countries

| Country | GDP (US\$ bn) | | | Real GDP (%) | | | GDP per capita (US\$) | | | Current Account (% of GDP) | | |
|-----------------|---------------|--------|-------------------|--------------|------|-------------------|-----------------------|----------|-------------------|----------------------------|------|-------------------|
| | 2020 | 2021 | 2022 ^e | 2020 | 2021 | 2022 ^e | 2020 | 2021 | 2022 ^e | 2020 | 2021 | 2022 ^e |
| Austria | 432.9 | 477.1 | 468.0 | -6.7 | 4.6 | 4.7 | 48,636 | 53,332 | 52,062 | 1.9 | -0.5 | -2.6 |
| Belgium | 521.3 | 599.1 | 589.5 | -5.7 | 6.2 | 2.4 | 45,239 | 51,849 | 50,598 | 0.8 | -0.4 | -2.2 |
| Bulgaria | 70.0 | 80.3 | 85.0 | -4.4 | 4.2 | 3.9 | 10,120 | 11,746 | 12,505 | -0.1 | -0.4 | -0.9 |
| Croatia | 57.2 | 67.7 | 69.4 | -8.1 | 10.2 | 5.9 | 14,131 | 16,785 | 17,318 | -0.1 | 3.4 | 2.2 |
| Cyprus | 24.7 | 27.7 | 26.7 | -5.0 | 5.6 | 3.5 | 27,784 | 30,957 | 29,535 | -10.1 | -7.2 | -8.5 |
| Czech Republic | 246.0 | 281.8 | 295.6 | -5.5 | 3.5 | 1.9 | 23,001 | 26,849 | 28,095 | 2.0 | -0.9 | -4.3 |
| Denmark | 355.2 | 398.3 | 386.7 | -2.0 | 4.9 | 2.6 | 61,006 | 68,202 | 65,713 | 8.0 | 8.8 | 8.2 |
| Estonia | 31.3 | 37.2 | 39.1 | -0.6 | 8.0 | 1.0 | 23,576 | 27,962 | 29,344 | -0.3 | -1.6 | -0.2 |
| Finland | 271.6 | 297.6 | 281.4 | -2.2 | 3.0 | 2.1 | 49,158 | 53,774 | 50,818 | 0.6 | 0.9 | -0.8 |
| France | 2636.0 | 2957.4 | 2778.1 | -7.9 | 6.8 | 2.5 | 40,378 | 45,188 | 42,330 | -1.8 | 0.4 | -1.3 |
| Germany | 3886.6 | 4262.8 | 4031.1 | -3.7 | 2.6 | 1.5 | 46,735 | 51,238 | 48,398 | 7.0 | 7.4 | 4.2 |
| Greece | 188.7 | 216.4 | 222.0 | -9.0 | 8.3 | 5.2 | 17,603 | 20,263 | 20,876 | -7.3 | -6.5 | -6.7 |
| Hungary | 156.7 | 182.3 | 184.7 | -4.5 | 7.1 | 5.7 | 16,044 | 18,732 | 18,983 | -1.1 | -3.2 | -6.7 |
| Ireland | 425.5 | 504.5 | 519.8 | 6.2 | 13.6 | 9.0 | 85,225 | 1,00,129 | 1,02,217 | -6.8 | 14.2 | 12.2 |
| Italy | 1891.1 | 2101.3 | 1996.9 | -9.0 | 6.7 | 3.2 | 31,707 | 35,473 | 33,740 | 3.7 | 2.4 | -0.2 |
| Latvia | 33.6 | 38.9 | 40.6 | -3.8 | 4.5 | 2.5 | 17,623 | 20,546 | 21,482 | 2.9 | -2.9 | -3.3 |
| Lithuania | 56.5 | 65.5 | 68.0 | -0.1 | 5.0 | 1.8 | 20,216 | 23,386 | 24,032 | 7.3 | 1.4 | -1.6 |
| Luxembourg | 73.3 | 86.8 | 82.2 | -1.8 | 6.9 | 1.6 | 1,17,064 | 1,36,701 | 1,27,673 | 4.1 | 4.8 | 4.3 |
| Malta | 14.9 | 17.4 | 17.2 | -8.3 | 10.3 | 6.2 | 28,997 | 33,667 | 32,912 | -2.9 | -4.9 | -3.1 |
| Netherlands | 909.1 | 1013.5 | 990.6 | -3.9 | 4.9 | 4.5 | 52,222 | 57,997 | 56,298 | 7.1 | 9.0 | 7.5 |
| Poland | 599.8 | 679.1 | 716.3 | -2.2 | 5.9 | 3.8 | 15,802 | 17,946 | 19,023 | 2.9 | -0.7 | -4.0 |
| Portugal | 228.4 | 250.1 | 255.9 | -8.4 | 4.9 | 6.2 | 22,177 | 24,296 | 24,910 | -1.0 | -1.2 | -1.1 |
| Romania | 249.5 | 284.1 | 299.9 | -3.7 | 5.9 | 4.8 | 12,909 | 14,795 | 15,619 | -5.0 | -7.0 | -8.4 |
| Slovak Republic | 105.1 | 114.9 | 112.4 | -4.4 | 3.0 | 1.8 | 19,254 | 21,053 | 20,565 | 0.3 | -2.0 | -3.7 |
| Slovenia | 53.7 | 61.8 | 62.2 | -4.3 | 8.2 | 5.7 | 25,605 | 29,298 | 29,469 | 7.6 | 3.8 | -0.1 |
| Spain | 1280.5 | 1426.2 | 1389.9 | -10.8 | 5.1 | 4.3 | 27,039 | 30,090 | 29,198 | 0.8 | 0.9 | -0.2 |
| Sweden | 547.1 | 635.7 | 603.9 | -2.2 | 5.1 | 2.6 | 52,706 | 60,816 | 56,361 | 5.9 | 5.4 | 3.8 |

Note: ^e- Estimates

Source: WEO, IMF, October 2022

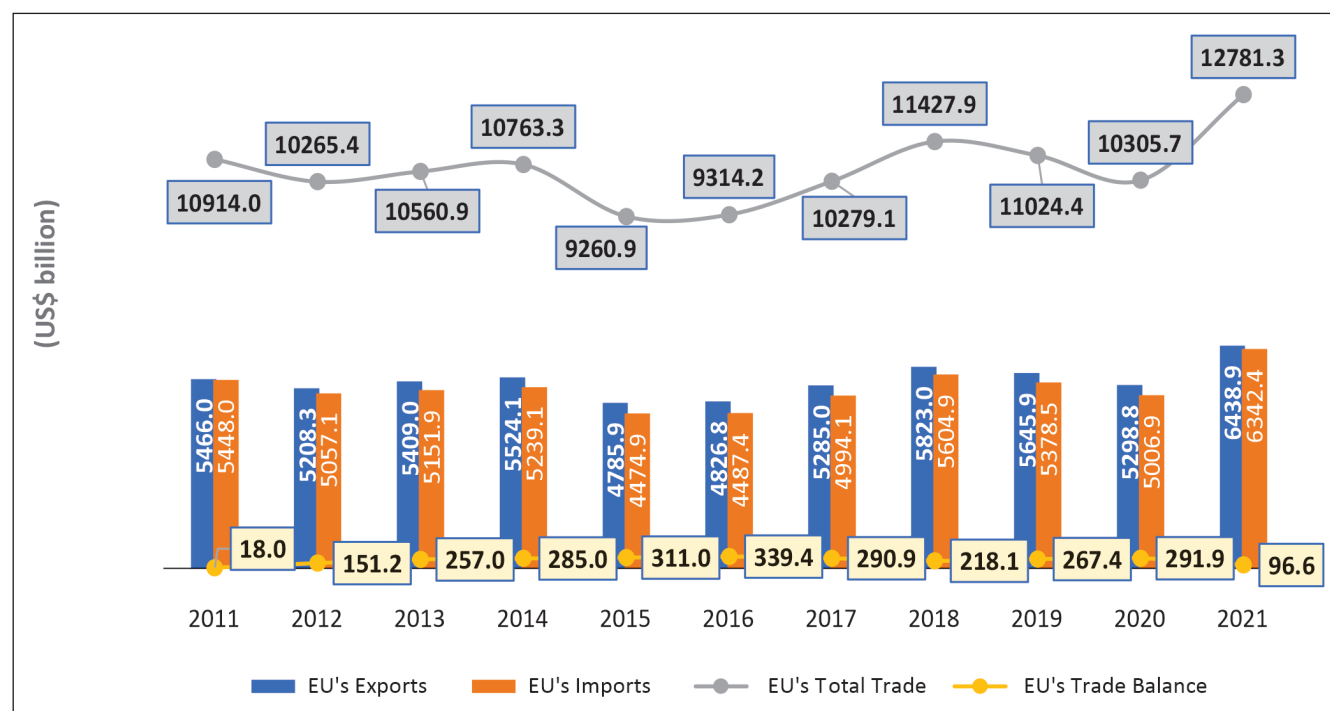
Foreign Trade of the EU

The role of the EU in the international trade and investment order is important for the representation of the interests of the EU and its member states, but also for the maintenance of an open, rules-based international trade and investment order. The EU's trade with the rest of the world is a major driver of its economic prosperity. Since 1993, the EU 'internal' or single market has facilitated free movement of goods, capital, services, and people within the EU. The internal market was intended to drive economic integration amongst member states to become a single EU wide economy. The European Single Market has created one territory without any internal borders or other regulatory obstacles. The EU is the most integrated of the main trading blocs in the world as almost 60% of trade of the EU countries' is with other member states. As a bloc, the EU is the single largest trading economy in the world. In 2021, the EU accounted for 29.1% of the world exports, while its imports accounted for 28.3% of the world imports. The EU is also the world's largest services exporter, accounting for 39.7% of global services exports in 2021. It is also the largest services importer globally, accounting for 38.7% of total global services imports in 2021. Services exports account for 27.1% of total exports (merchandise + services) of the EU in 2021.

Merchandise Trade

Total merchandise trade of the EU has risen from US\$ 10.9 trillion in 2011 to US\$ 12.8 trillion in 2021, reflecting the rise in both exports and imports. The EU has a persistent trade surplus in the past decade, which has risen from US\$ 18 billion in 2011 to US\$ 339.4 billion in 2016, though declined thereafter to record US\$ 96.6 billion in 2021. Exports have increased from US\$ 5.5 trillion in 2011 to US\$ 6.4 trillion in 2021. Imports have also witnessed an increase from US\$ 5.4 trillion to US\$ 6.3 trillion during the same period (**Chart 1.1**).

Chart 1.1: International Merchandise Trade of the EU



Source: ITC TradeMap and India Exim Bank Analysis

Among the EU member countries, Germany remained the largest exporter in 2021, accounting for over a quarter of total exports by the EU. Germany was followed by the Netherlands (10.8% of exports), Italy (9.3%), France (8.8%), and Belgium (8.5%). In terms of imports, Germany is again the largest importer among the EU countries, accounting for 22.4% of total imports by the EU. Germany was followed by France (11.1% of imports), the Netherlands (9.8%), Italy (8.8%) and Belgium (8.4%).

While countries such as Germany, Ireland, Italy, the Netherlands, Belgium, Czech Republic, Denmark, Hungary, and Sweden recorded a trade surplus in 2021, rest of the EU countries recorded a deficit. While Germany recorded the largest trade surplus of US\$ 205.2 billion among the member countries in 2021, France recorded the largest trade deficit at US\$ 132.4 billion (**Table 1.4**).

Table 1.4: Merchandise Exports and Imports of the EU Countries

(US\$ billion)

| Country | Exports | | | Imports | | | Total Trade | | | Trade Balance | | |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|---------------|--------------|-------------|
| | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| Total EU | 5645.9 | 5298.8 | 6438.9 | 5378.5 | 5006.9 | 6342.4 | 11024.4 | 10305.7 | 12781.3 | 267.4 | 291.9 | 96.6 |
| Austria | 171.5 | 162.1 | 201.6 | 176.6 | 164.6 | 219.0 | 348.1 | 326.8 | 420.6 | -5.1 | -2.5 | -17.3 |
| Belgium | 446.9 | 419.5 | 549.5 | 427.8 | 395.9 | 532.5 | 874.6 | 815.3 | 1082.0 | 19.1 | 23.6 | 17.0 |
| Bulgaria | 33.4 | 31.9 | 41.9 | 37.7 | 35.0 | 47.5 | 71.0 | 66.9 | 89.4 | -4.3 | -3.1 | -5.5 |
| Croatia | 17.1 | 17.0 | 22.7 | 28.0 | 26.1 | 33.6 | 45.1 | 43.1 | 56.3 | -10.9 | -9.1 | -11.0 |
| Cyprus | 3.5 | 3.1 | 3.9 | 9.2 | 8.7 | 10.1 | 12.7 | 11.9 | 14.0 | -5.7 | -5.6 | -6.2 |
| Czech Republic | 199.5 | 192.3 | 227.2 | 179.3 | 171.4 | 211.8 | 378.7 | 363.7 | 439.0 | 20.2 | 20.9 | 15.3 |
| Denmark | 109.9 | 106.9 | 125.0 | 97.0 | 95.8 | 121.8 | 206.9 | 202.6 | 246.8 | 12.9 | 11.1 | 3.2 |
| Estonia | 16.8 | 16.9 | 22.3 | 18.7 | 17.8 | 24.2 | 35.5 | 34.7 | 46.4 | -1.9 | -0.9 | -1.9 |
| Finland | 72.8 | 65.6 | 81.3 | 73.7 | 68.3 | 86.0 | 146.6 | 133.9 | 167.3 | -0.9 | -2.7 | -4.7 |
| France | 556.6 | 476.1 | 569.5 | 644.0 | 569.3 | 701.9 | 1200.5 | 1045.4 | 1271.4 | -87.4 | -93.2 | -132.4 |
| Germany | 1486.9 | 1379.9 | 1626.4 | 1236.2 | 1172.9 | 1421.2 | 2723.1 | 2552.8 | 3047.6 | 250.7 | 207.0 | 205.2 |
| Greece | 37.9 | 35.1 | 47.2 | 62.2 | 55.5 | 76.0 | 100.1 | 90.6 | 123.2 | -24.3 | -20.5 | -28.8 |
| Hungary | 122.2 | 120.0 | 141.3 | 117.3 | 113.4 | 138.9 | 239.5 | 233.4 | 280.2 | 4.9 | 6.5 | 2.4 |
| Ireland | 169.6 | 180.1 | 190.0 | 101.1 | 99.5 | 119.5 | 270.8 | 279.6 | 309.5 | 68.5 | 80.6 | 70.5 |
| Italy | 537.7 | 498.8 | 601.7 | 475.0 | 426.5 | 557.2 | 1012.7 | 925.3 | 1158.9 | 62.8 | 72.3 | 44.4 |
| Latvia | 14.4 | 15.2 | 19.4 | 17.8 | 17.3 | 23.1 | 32.2 | 32.5 | 42.5 | -3.3 | -2.1 | -3.6 |
| Lithuania | 33.2 | 32.8 | 40.8 | 35.8 | 33.3 | 44.6 | 68.9 | 66.2 | 85.4 | -2.6 | -0.5 | -3.8 |
| Luxembourg | 14.7 | 13.5 | 16.2 | 22.7 | 20.9 | 25.5 | 37.3 | 34.4 | 41.8 | -8.0 | -7.4 | -9.3 |
| Malta | 3.2 | 2.7 | 3.2 | 7.4 | 5.2 | 7.1 | 10.6 | 7.9 | 10.3 | -4.2 | -2.6 | -3.9 |
| Netherlands | 576.8 | 551.4 | 693.8 | 514.9 | 484.1 | 623.2 | 1091.6 | 1035.4 | 1317.0 | 61.9 | 67.3 | 70.6 |
| Poland | 251.9 | 254.2 | 317.8 | 246.7 | 254.7 | 335.5 | 498.5 | 508.8 | 653.3 | 5.2 | -0.5 | -17.6 |
| Portugal | 67.1 | 61.5 | 75.2 | 89.5 | 77.9 | 98.3 | 156.6 | 139.4 | 173.6 | -22.5 | -16.4 | -23.1 |
| Romania | 77.3 | 71.0 | 88.4 | 96.6 | 92.1 | 116.4 | 173.9 | 163.1 | 204.8 | -19.3 | -21.0 | -28.0 |
| Slovakia | 89.9 | 86.7 | 104.4 | 90.9 | 85.0 | 104.7 | 180.8 | 171.7 | 209.0 | -1.0 | 1.7 | -0.3 |
| Slovenia | 37.6 | 37.5 | 46.8 | 38.2 | 36.5 | 49.6 | 75.7 | 74.0 | 96.4 | -0.6 | 1.0 | -2.8 |
| Spain | 337.2 | 312.1 | 391.6 | 375.5 | 329.7 | 426.1 | 712.7 | 641.8 | 817.6 | -38.3 | -17.7 | -34.5 |
| Sweden | 160.5 | 154.9 | 189.8 | 159.0 | 149.4 | 187.1 | 319.5 | 304.4 | 377.0 | 1.6 | 5.5 | 2.7 |

Source: ITC TradeMap and India Exim Bank Analysis

A significant share of the EU trade is within the EU bloc itself (**Table 1.5**). Much of the import needs of the EU is fulfilled by member nations itself. Germany is the largest market for the EU's exports, accounting for 13.5% of total exports of the EU in 2021, followed by France (7.3% of exports). Among the extra-EU markets,

USA was the largest export destination, with 7.3% share in total exports in 2021, followed by China and the UK, with 4% and 3.9% shares, respectively in the EU's exports. India was the 26th largest export destination for the EU's exports in 2021.

Concomitantly, Germany was also the largest source of imports for the EU in 2021 and it alone fulfils 13.1% of import demand of the EU. China was the largest source of imports outside the EU, accounting for 9.6% of the total imports of the EU in 2021. Other sources include the Netherlands, France, USA, and Italy, among others. India was the 24th largest import source for the EU in 2021.

Table 1.5: Leading Merchandise Export Destinations and Import Sources of the EU

(US\$ billion)

| Sl. No. | Country | EU's Major Export Destinations | | | |
|---------|------------------|--------------------------------|---------|---------|-----------------|
| | | 2019 | 2020 | 2021 | % Share in 2021 |
| | Total EU Exports | 5,645.9 | 5,298.8 | 6,438.9 | 100.0 |
| | Intra EU | 3,257.3 | 3,091.1 | 3,845.8 | 59.7 |
| | Extra EU | 2,388.6 | 2,207.7 | 2,593.2 | 40.3 |
| 1 | Germany | 730.8 | 708.2 | 868.0 | 13.5 |
| 2 | France | 418.3 | 385.3 | 472.8 | 7.3 |
| 3 | USA | 419.9 | 392.9 | 461.7 | 7.2 |
| 4 | Italy | 270.3 | 248.0 | 320.0 | 5.0 |
| 5 | Netherlands | 257.6 | 246.3 | 308.9 | 4.8 |
| 6 | Belgium | 226.9 | 221.0 | 273.8 | 4.3 |
| 7 | China | 218.5 | 227.3 | 258.6 | 4.0 |
| 8 | UK | 342.1 | 302.9 | 254.3 | 3.9 |
| 9 | Poland | 183.8 | 184.8 | 237.3 | 3.7 |
| 10 | Spain | 202.8 | 179.8 | 222.5 | 3.5 |
| 11 | Switzerland | 163.6 | 161.2 | 184.8 | 2.9 |
| 12 | Austria | 136.7 | 128.1 | 159.5 | 2.5 |
| 13 | Czech Republic | 123.5 | 115.3 | 142.9 | 2.2 |
| 14 | Sweden | 101.9 | 97.6 | 119.1 | 1.8 |
| 15 | Russia | 96.3 | 88.5 | 102.4 | 1.6 |
| 16 | Hungary | 84.3 | 79.8 | 99.2 | 1.6 |
| 17 | Turkey | 75.1 | 78.9 | 92.2 | 1.5 |
| 18 | Denmark | 65.8 | 67.2 | 80.8 | 1.4 |
| 19 | Romania | 67.3 | 64.5 | 78.7 | 1.3 |
| 20 | Slovakia | 63.3 | 61.0 | 77.5 | 1.2 |
| 21 | Japan | 68.7 | 61.1 | 71.7 | 1.2 |
| 22 | Portugal | 62.1 | 54.1 | 68.3 | 1.1 |
| 23 | Norway | 56.6 | 54.1 | 65.3 | 1.1 |
| 24 | South Korea | 47.8 | 50.8 | 60.1 | 1.0 |
| 25 | Finland | 48.1 | 46.1 | 56.7 | 0.9 |
| 26 | India | 41.8 | 34.6 | 46.2 | 0.9 |
| 27 | Mexico | 41.7 | 34.5 | 44.3 | 0.7 |
| 28 | Canada | 42.3 | 37.6 | 43.4 | 0.7 |
| 29 | Ireland | 29.9 | 31.4 | 39.8 | 0.7 |
| 30 | Brazil | 35.3 | 30.8 | 38.9 | 0.6 |

| Country | EU's Major Import Sources | | | |
|------------------|---------------------------|--------|--------|-----------------|
| | 2019 | 2020 | 2021 | % Share in 2021 |
| Total EU Imports | 5378.5 | 5006.9 | 6342.4 | 100.0 |
| Intra EU | 2996.2 | 2823.0 | 3554.1 | 56.0 |
| Extra EU | 2382.3 | 2183.9 | 2788.3 | 44.0 |
| Germany | 700.6 | 657.8 | 831.1 | 13.1 |
| China | 449.1 | 487.4 | 606.4 | 9.6 |
| Netherlands | 316.0 | 295.4 | 393.8 | 6.2 |
| France | 295.1 | 261.7 | 317.0 | 5.0 |
| USA | 292.8 | 263.9 | 309.9 | 4.9 |
| Italy | 251.4 | 238.6 | 302.1 | 4.8 |
| Belgium | 214.1 | 195.5 | 265.2 | 4.2 |
| Poland | 175.0 | 177.2 | 220.3 | 3.5 |
| Spain | 183.7 | 173.8 | 217.2 | 3.4 |
| Russia | 151.2 | 100.6 | 178.0 | 2.8 |
| Switzerland | 121.0 | 125.0 | 149.9 | 2.4 |
| Czech Republic | 130.3 | 122.0 | 148.1 | 2.3 |
| UK | 204.8 | 180.6 | 136.0 | 2.1 |
| Austria | 107.6 | 101.4 | 123.4 | 1.9 |
| Turkey | 82.1 | 76.5 | 100.1 | 1.6 |
| Sweden | 82.8 | 78.3 | 99.0 | 1.6 |
| Hungary | 87.2 | 84.4 | 97.8 | 1.5 |
| Ireland | 76.7 | 83.5 | 96.8 | 1.5 |
| Japan | 88.1 | 78.2 | 88.0 | 1.4 |
| Slovakia | 63.6 | 57.5 | 74.4 | 1.2 |
| Norway | 57.8 | 47.2 | 73.6 | 1.2 |
| South Korea | 57.1 | 55.3 | 70.9 | 1.1 |
| Romania | 53.3 | 48.6 | 59.6 | 0.9 |
| India | 48.3 | 42.3 | 59.4 | 0.9 |
| Denmark | 50.8 | 49.5 | 59.0 | 0.9 |
| Vietnam | 47.3 | 48.5 | 57.5 | 0.9 |
| Portugal | 41.3 | 38.3 | 46.9 | 0.7 |
| Finland | 42.3 | 37.3 | 46.0 | 0.7 |
| Taiwan | 32.7 | 32.8 | 44.4 | 0.7 |
| Brazil | 32.3 | 30.3 | 40.5 | 0.6 |

Source: ITC TradeMap and India Exim Bank Analysis

Merchandise Exports from the EU: Commodity Analysis

Machinery and mechanical appliances continued to remain the major exports of the EU in the last decade. Machinery and mechanical appliances accounted for 13% of the EU's total exports in 2021, followed by transport vehicles (10.7%), electric machinery and equipment (9.6%), and pharmaceutical products (7.7%) (**Table 1.6**). At a disaggregated level, the major exported items in 2021 include medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes; medium oils and preparations; immunological products; motor cars; vaccines for human medicine; light oils and preparations, of petroleum or bituminous minerals; and aeroplanes, and other powered aircraft of an unladen weight.

Table 1.6: Major Merchandise Export Commodities of the EU

(US\$ billion)

| HS Code | Product | 2019 | 2020 | 2021 | % Share in 2021 |
|---------|---|---------------|---------------|---------------|-----------------|
| | All products | 5645.9 | 5298.8 | 6438.9 | 100.0 |
| 84 | Machinery and mechanical appliances | 790.1 | 724.4 | 838.3 | 13.0 |
| 87 | Vehicles other than railway or tramway rolling stock, parts | 682.9 | 602.7 | 685.9 | 10.7 |
| 85 | Electrical machinery, equipment and parts | 529.6 | 522.6 | 616.2 | 9.6 |
| 30 | Pharmaceutical products | 376.0 | 424.0 | 498.4 | 7.7 |
| 27 | Mineral fuels, oils and products of distillation | 273.3 | 184.6 | 329.4 | 5.1 |
| 39 | Plastics and articles | 230.0 | 220.6 | 292.8 | 4.5 |
| 90 | Optical, photographic, medical or surgical instruments | 215.5 | 204.3 | 237.4 | 3.7 |
| 72 | Iron and steel | 132.2 | 111.8 | 179.6 | 2.8 |
| 29 | Organic chemicals | 145.9 | 142.7 | 164.0 | 2.5 |
| 73 | Articles of iron or steel | 121.7 | 110.9 | 138.1 | 2.1 |
| 38 | Miscellaneous chemical products | 90.1 | 96.2 | 122.0 | 1.9 |
| 94 | Furniture; bedding, mattresses | 92.1 | 87.3 | 105.7 | 1.6 |
| 48 | Paper and paperboard; articles of paper pulp, of paper or of paperboard | 84.5 | 79.3 | 94.5 | 1.5 |
| 71 | Natural or cultured pearls, precious or semi-precious stones and metals | 72.5 | 76.3 | 94.3 | 1.5 |
| 76 | Aluminium and articles | 62.8 | 57.7 | 78.9 | 1.2 |

Source: ITC TradeMap and India Exim Bank Analysis

Merchandise Imports of the EU: Commodity Analysis

Machinery and mechanical appliances are also the largest items in the EU's import basket, accounting for around 11.3% of total imports in 2021, followed by electrical machinery, mineral fuel and oils, transport vehicles, pharmaceutical products, and plastic and its articles (**Table 1.7**). At a disaggregated level, the major imported items in 2021 include crude petroleum oil; medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes; natural gas in gaseous state; medium oils and preparations; telephones for cellular networks; immunological products and data processing machines, among others.

Table 1.7: Major Merchandise Import Commodities of the EU*(US\$ billion)*

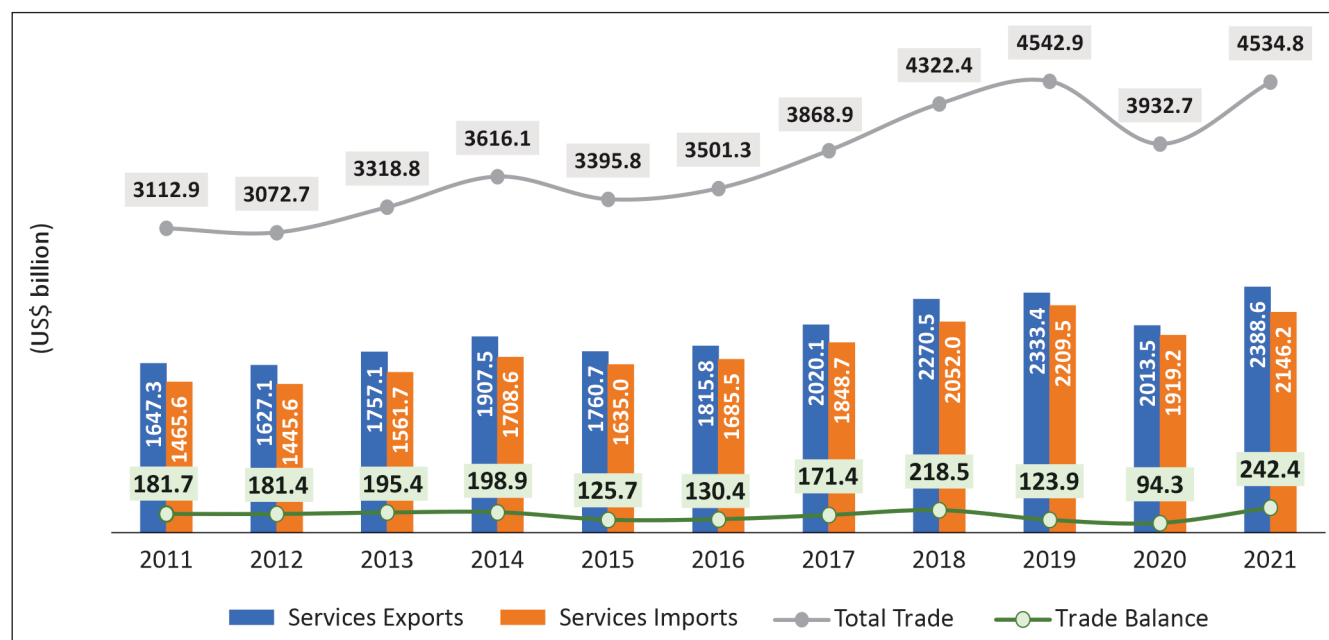
| HS Code | Product label | 2019 | 2020 | 2021 | % Share in 2021 |
|---------|---|---------------|---------------|---------------|-----------------|
| | All products | 5378.5 | 5006.9 | 6342.4 | 100.0 |
| 84 | Machinery and mechanical appliances | 636.6 | 602.4 | 713.8 | 11.3 |
| 85 | Electrical machinery, equipment and parts | 579.8 | 582.0 | 707.2 | 11.2 |
| 27 | Mineral fuels, oils and products of distillation | 581.4 | 378.3 | 685.9 | 10.8 |
| 87 | Vehicles other than railway or tramway rolling stock, parts | 567.1 | 489.7 | 559.3 | 8.8 |
| 30 | Pharmaceutical products | 257.5 | 291.3 | 352.7 | 5.6 |
| 39 | Plastics and articles | 210.7 | 200.7 | 272.4 | 4.3 |
| 72 | Iron and steel | 138.3 | 114.6 | 195.5 | 3.1 |
| 29 | Organic chemicals | 156.5 | 151.0 | 194.6 | 3.1 |
| 90 | Optical, photographic, medical or surgical instruments | 167.4 | 165.8 | 191.3 | 3.0 |
| 73 | Articles of iron or steel | 100.8 | 93.1 | 122.7 | 1.9 |
| 38 | Miscellaneous chemical products | 74.5 | 83.6 | 110.7 | 1.7 |
| 71 | Natural or cultured pearls, precious or semi-precious stones and metals | 67.7 | 79.7 | 107.4 | 1.7 |
| 94 | Furniture; bedding, mattresses | 83.2 | 81.2 | 102.6 | 1.6 |
| 61 | Articles of apparel and clothing accessories, knitted or crocheted | 83.6 | 77.3 | 93.7 | 1.5 |
| 76 | Aluminium and articles | 67.0 | 60.3 | 87.5 | 1.4 |
| 62 | Articles of apparel and clothing accessories, not knitted or crocheted | 85.1 | 78.6 | 85.7 | 1.4 |

Source: ITC TradeMap and India Exim Bank Analysis

Services Trade

The EU's total trade in services has widened from US\$ 3.1 trillion in 2011 to US\$ 4.5 trillion in 2021. Being a contact intensive industry, the total services trade of the EU was severely affected during 2020, witnessing a moderation of 13% due to the mobility restrictions and lockdowns due to the pandemic. Services exports of the EU was recorded at US\$ 2.4 trillion 2021, while services imports of the EU stood at US\$ 2.1 trillion. The EU has a favourable services trade balance, with the trade surplus widening from US\$ 181.7 billion in 2011 to US\$ 242.4 billion in 2021 (**Chart 1.2**).

Chart 1.2: International Services Trade of the EU



Source: WTO database and India Exim Bank Analysis

Services Exports of the EU: Sectoral Analysis

In terms of commercial services, business services accounted for 25.3% of the total commercial services exports of the EU in 2021, followed by transport (19.8%), telecommunications, computer and information services (18.8%), travel (9.7%) and financial services (9.1%). Business services includes technical, trade-related, and other business (12.9% of total commercial services exports), professional and management consulting services (8.8%), and research and development services (3.6%) (**Table 1.8**).

Table 1.8: Services Exports of the EU

(US\$ billion)

| Product/Sector | 2010 | 2015 | 2020 | 2021 |
|--|---------------|---------------|---------------|---------------|
| Total Services Exports | 1457.8 | 1760.7 | 2013.5 | 2388.6 |
| Government goods and services | 16.4 | 14.7 | 16.5 | 18.1 |
| Commercial services | 1441.4 | 1746.0 | 1996.9 | 2370.5 |
| Goods-related services | 63.4 | 75.8 | 99.1 | 110.0 |
| Transport | 327.9 | 331.4 | 355.6 | 468.7 |
| Travel | 318.8 | 343.5 | 182.5 | 230.7 |
| Other commercial services | 731.3 | 995.2 | 1359.8 | 1561.1 |
| Construction | 24.6 | 28.0 | 25.3 | 26.2 |
| Insurance and pension services | 35.4 | 38.9 | 51.6 | 57.6 |
| Financial services | 117.2 | 148.4 | 184.1 | 216.0 |
| Charges for the use of intellectual property | 57.6 | 109.4 | 144.0 | 163.3 |
| Telecommunications, computer, and information services | 171.5 | 224.3 | 366.3 | 445.8 |

| Product/Sector | 2010 | 2015 | 2020 | 2021 |
|---|-------|-------|-------|-------|
| Personal, cultural, and recreational services | 17.3 | 20.5 | 31.8 | 36.4 |
| Services not allocated | 1.4 | 4.0 | 11.9 | 16.4 |
| Other business services | 306.4 | 421.7 | 544.9 | 599.4 |
| Research and development services | 42.5 | 65.2 | 86.9 | 85.5 |
| Professional and management consulting services | 101.1 | 130.2 | 187.8 | 208.0 |
| Technical, trade-related, and other business services | 162.8 | 226.3 | 270.1 | 305.8 |

Source: WTO database and India Exim Bank Analysis

Services Imports of the EU: Sectoral Analysis

In terms of commercial services, business services accounted for 32.2% of the total commercial services imports of the EU in 2021, followed by transport (19.3%), charges on the use of intellectual property (11.4%), telecommunications, computer, and information services (10.5%), travel (9.1%), and financial services (8.1%). Business services includes technical, trade-related, and other business (14.5% of total commercial services exports), professional and management consulting services (11.3%), and research and development services (6.5%) (Table 1.9).

Table 1.9: Services Imports of the EU

(US\$ billion)

| Product/Sector | 2010 | 2015 | 2020 | 2021 |
|--|---------------|---------------|---------------|---------------|
| Total Services Imports | 1325.9 | 1635.0 | 1919.2 | 2146.2 |
| Government goods and services | 17.5 | 14.2 | 16.0 | 18.2 |
| Commercial services | 1308.5 | 1620.8 | 1903.2 | 2127.9 |
| Goods-related services | 29.2 | 57.3 | 85.0 | 91.6 |
| Transport | 290.7 | 294.6 | 323.4 | 411.7 |
| Travel | 276.0 | 269.7 | 153.8 | 193.0 |
| Other commercial services | 712.6 | 999.1 | 1341.0 | 1431.7 |
| Construction | 17.7 | 19.3 | 18.9 | 19.8 |
| Insurance and pension services | 33.6 | 34.6 | 47.7 | 56.4 |
| Financial services | 79.9 | 112.0 | 144.2 | 172.5 |
| Charges for the use of intellectual property | 95.5 | 180.1 | 206.0 | 242.2 |
| Telecommunications, computer, and information services | 117.6 | 157.9 | 196.2 | 223.3 |
| Personal, cultural, and recreational services | 19.7 | 22.9 | 28.0 | 29.9 |
| Services not allocated | 2.1 | 1.4 | 1.7 | 1.5 |
| Other business services | 346.4 | 470.8 | 698.3 | 685.9 |
| Research and development services | 57.0 | 97.8 | 203.9 | 137.4 |
| Professional and management consulting services | 115.1 | 150.7 | 214.4 | 240.8 |
| Technical, trade-related, and other business services | 174.3 | 222.3 | 279.9 | 307.7 |

Source: WTO database and India Exim Bank Analysis

Services Exports Destinations of the EU

Intra-EU economies account for almost half of the total services exports of the EU. Among extra-EU countries, the UK accounted for 10.4% of the total services exports of the EU in 2020, followed by USA (10.4%), Switzerland (6%), and China (2.7%) (Table 1.10).

Table 1.10: Major Services Exports Destinations of the EU

(US\$ billion)

| Partner Country | 2010 | 2015 | 2019 | 2020 | 2021 | Share in 2020 (%) |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Total Services Exports | 1457.8 | 1760.7 | 2333.4 | 2013.5 | 2388.6 | 100.0 |
| <i>Intra EU</i> | 709.3 | 822.5 | 1133.3 | 973.9 | 1147.6 | 48.4 |
| <i>Extra EU</i> | 748.4 | 938.3 | 1200.1 | 1039.6 | 1241.0 | 51.6 |
| UK | 157.2 | 189.1 | 248.6 | 210.2 | - | 10.4 |
| USA | 134.0 | 173.3 | 233.4 | 209.3 | - | 10.4 |
| Switzerland | 89.9 | 109.7 | 127.1 | 120.1 | - | 6.0 |
| China | 22.6 | 42.0 | 59.6 | 53.6 | - | 2.7 |
| Japan | 20.0 | 23.5 | 35.5 | 31.6 | - | 1.6 |
| Singapore | 11.5 | 22.2 | 34.5 | 24.6 | - | 1.2 |
| Russia | 26.7 | 25.0 | 31.6 | 23.5 | - | 1.2 |
| Norway | 24.4 | 28.1 | 29.7 | 22.6 | - | 1.1 |
| Hong Kong | 8.5 | 9.1 | 18.4 | 19.5 | - | 1.0 |
| Australia | 11.8 | 15.7 | 20.4 | 18.2 | - | 0.9 |
| Canada | 13.9 | 16.2 | 24.2 | 17.7 | - | 0.9 |
| India | 11.0 | 12.9 | 17.4 | 15.0 | - | 0.7 |
| Hungary | 9.3 | 11.4 | 16.1 | 14.6 | - | 0.7 |
| Brazil | 17.6 | 15.5 | 17.2 | 14.4 | - | 0.7 |
| South Korea | 8.7 | 12.4 | 15.3 | 14.1 | - | 0.7 |

Note: '-' Country-wise data not available for 2021

Source: WTO database and India Exim Bank Analysis

Services Import Sources of the EU

Intra-EU countries account for almost half of the total services imports of the EU. The US, with a share of 15.6% is the single largest services import source of the EU in 2020, followed by the UK (9.6%), Switzerland (3.4%), Bermuda (2.5%), and Barbados (2.2%) (Table 1.11).

Table 1.11: Major Services Imports Sources of the EU*(US\$ billion)*

| Partner Country | 2010 | 2015 | 2019 | 2020 | 2021 | Share in 2020 (%) |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Total Services Imports | 1325.9 | 1635.0 | 2209.5 | 1919.2 | 2146.2 | 100.0 |
| <i>Intra EU</i> | <i>678.4</i> | <i>780.6</i> | <i>1065.4</i> | <i>916.9</i> | <i>1061.8</i> | <i>47.8</i> |
| <i>Extra EU</i> | <i>647.5</i> | <i>854.5</i> | <i>1144.1</i> | <i>1002.3</i> | <i>1084.4</i> | <i>52.2</i> |
| USA | 156.8 | 197.7 | 256.4 | 298.5 | - | 15.6 |
| UK | 130.3 | 154.1 | 200.3 | 184.7 | - | 9.6 |
| Switzerland | 55.1 | 72.0 | 72.8 | 65.8 | - | 3.4 |
| Bermuda | 18.7 | 28.7 | 106.7 | 48.6 | - | 2.5 |
| Barbados | 0.3 | 0.3 | 41.8 | 41.7 | - | 2.2 |
| China | 20.7 | 29.3 | 37.5 | 35.5 | - | 1.8 |
| Singapore | 11.0 | 20.9 | 29.4 | 32.8 | - | 1.7 |
| India | 9.7 | 11.9 | 20.4 | 19.8 | - | 1.0 |
| Japan | 15.1 | 14.3 | 18.2 | 14.5 | - | 0.8 |
| Cayman Islands | 1.9 | 7.6 | 26.4 | 14.4 | - | 0.8 |
| Canada | 10.8 | 11.7 | 16.0 | 13.4 | - | 0.7 |
| Norway | 13.1 | 16.1 | 16.8 | 13.4 | - | 0.7 |
| Hong Kong | 9.4 | 9.5 | 13.0 | 11.7 | - | 0.6 |
| UAE | 7.4 | 10.8 | 13.2 | 10.2 | - | 0.5 |
| Russia | 14.9 | 11.8 | 14.3 | 10.2 | - | 0.5 |

Note: '-' Country-wise data not available for 2021

Source: WTO database and India Exim Bank Analysis

Benefits and Opportunities from the Proposed India-EU BTIA

The negotiations on the Bilateral Trade and Investments (BTIA) between India and the EU were launched in June 2007 to liberalize the trade in goods and services in a WTO compliant manner. India and the EU have undertaken 16 rounds of trade talks during 2007 and 2013, and since then these talks have been languishing over contentious matters and diverging opinions on the 'sensitive lists' of both the parties. The EU stressed upon India reducing high import duties on sensitive products such as automobiles, alcoholic beverages, farm products and cheese among others, while India wanted greater access to the EU market for Indian professionals through liberalisation of the visa regime, which the bloc was reluctant to accede to.

The conclusion of the BTIA has significantly been affected by Brexit, because of the UK's substantive participation in services as well as the wine and spirits sectors of the EU before Brexit, both of which lay at the core of the BTIA. After 8 years, in 2021, both India and EU announced the resumption of formal negotiations.

Broadly, the negotiations cover trade in goods, trade in services, investments, sanitary and phytosanitary measures, technical barriers to trade, trade remedies, rules of origin, customs and trade facilitation, competition, trade defense, government procurement, dispute settlement, intellectual property rights & geographical indications, and sustainable development⁷. According to recent reports, while both the sides have agreed to eliminate tariffs on 90% of all tradable goods, India wants the EU to up their offer to 95%, and the EU wants India to include 98% of the tradable goods for tariff reduction.⁸

Elimination of Tariff Barriers: FTA member countries enjoy the use of preferential tariff rates, which are lower than general tariff rates such as most favoured nation rates (MFN rates) while trading among FTA members. India is regarded as a country with significant supply side capacity. This means that in response to any meaningful tariff concessions resulting from a bilateral trade agreement, Indian suppliers can substantially increase their exports to the EU. This can be termed as trade creation (trade diversion for EU) for India. For the EU, economic rationale for the FTA is enhanced access for the EU firms to a market of over a billion people, which could be a means to escape long-term economic slowdowns. Since India's tariff protection on a range of products is relatively high, by taking advantage of exchanged tariff concessions under the FTA, the EU suppliers may replace India's imports from other sources, resulting in trade diversion (trade creation for EU) for India. However, the overall welfare gain for both the parties will depend on the relative strength of trade creation and trade diversion. If trade creation dominates, the formation of an FTA will enhance welfare. On the contrary, if the trade diversion effect is greater than the trade creation effect, the FTA will lead to a welfare loss for the country under consideration.


The agreement will encourage the creation of a highly integrated global value chain in which the production is split across the parties in agreement to utilise each nation's comparative advantage and thus driving the cost lower while raising quality. At present, India is hardly integrated into the value chains of the European companies, thus the proposed FTA is likely to lead to greater integration of Indian companies with the EU value chains and vice versa.

Reduction of NTMs: Non-tariff measures (NTMs) are policy measures other than tariffs that can potentially have an economic effect on international trade in goods. The World Trade Organization (WTO) identifies various non-tariff barriers to trade, including import licensing, pre-shipment inspections, rules of origin, custom delayers, and other mechanisms that prevent or restrict trade. NTMs represent a major challenge to both exporters and importers. The agreement will liberalise/reduce the number as well as extent of these barriers to facilitate an easy access for the goods in the partner country.

Promoting Services Trade: Bilateral trade in services between the EU and India would significantly benefit post FTA. For Mode 1 and Mode 4, the agreement is likely to emerge as a medium for India to gain wider market access in the EU, especially for the services in Mode 1 category like KPOs and BPOs. To complement the cross-border trade in services enabled by Mode 1, negotiations around Mode 4 will allow services delivered through the movement of workers as service providers. The latter could bolster the participation of India's skilled professionals across domains like engineering, architecture, and information technology, in the EU's labour market and facilitate higher remittances to India. In Mode 3, it is to be noted that the EU

⁷ Department of Commerce, Ministry of Commerce and Industry: India-EU Broad Based Trade and Investment Agreement (BTIA) negotiations (https://commerce.gov.in/international_nextDetail_WTO.aspx?LinkID=32&idwto=34)

⁸ CII: India-EU BTIA Negotiations: A Status Update (http://newsletters.cii.in/newsletters/mailler/trade_talk/pdf/India-EU%20BITA%20Status.pdf)



has a substantial edge over Indian players in Mode 3 related businesses like insurance, banking, legal services, and retail. Thus, any liberalisation in Mode 3 by India will benefit the EU directly. However, if BITA takes shape of a TRIPS plus agreement, measures need to be taken to protect the intellectual property rights of Indian service providers.

Facilitating Investment: Investment is often a prerequisite for trade in services, and is complementary to goods in trade, and several comprehensive trade agreements include an investment chapter. The agreement opens new arenas of investment opportunity by reducing restrictions in several sectors which were earlier protected. The EU is particularly interested in liberalisation of FDI norms in sectors such as insurance and banking among others. The EU also aims to conclude an investment deal that includes Investor-State Dispute Settlement (ISDS) provisions. These investments would be of mutual benefit to both the parties in agreement as these will provide the EU with lucrative investment opportunity in India while also adding to India's capabilities. Increased investments also lead to better integration of market and also facilitate transfer of skills and technology.

2

India-EU Relations: Merchandise Trade

India is amongst the world's fastest-growing large economies and is an important player in global economic governance. India and the EU are strategic partners, with the relations dating back to early 1960s. A majority of India's exports are being targeted to developed country markets, the most important of which is the EU, which is the largest trading partner for India. The EU is one of the largest and fastest growing markets, with a population of 445 million with several growing opportunities for Indian exporters. The formation of the EU as a single integrated market of European countries offered a new spectrum of opportunities, intensification of competition and initiation of new strategies for India.

The EU countries offer long term large markets for exports for a large variety of manufactured products, comprising a wide technology spectrum. The EU offers viable business diversification opportunities for Indian exporters, both in the short term and long term. However, penetrating these intensely competitive and changing markets entail designing of a proper business strategy, especially in the context of Brexit.

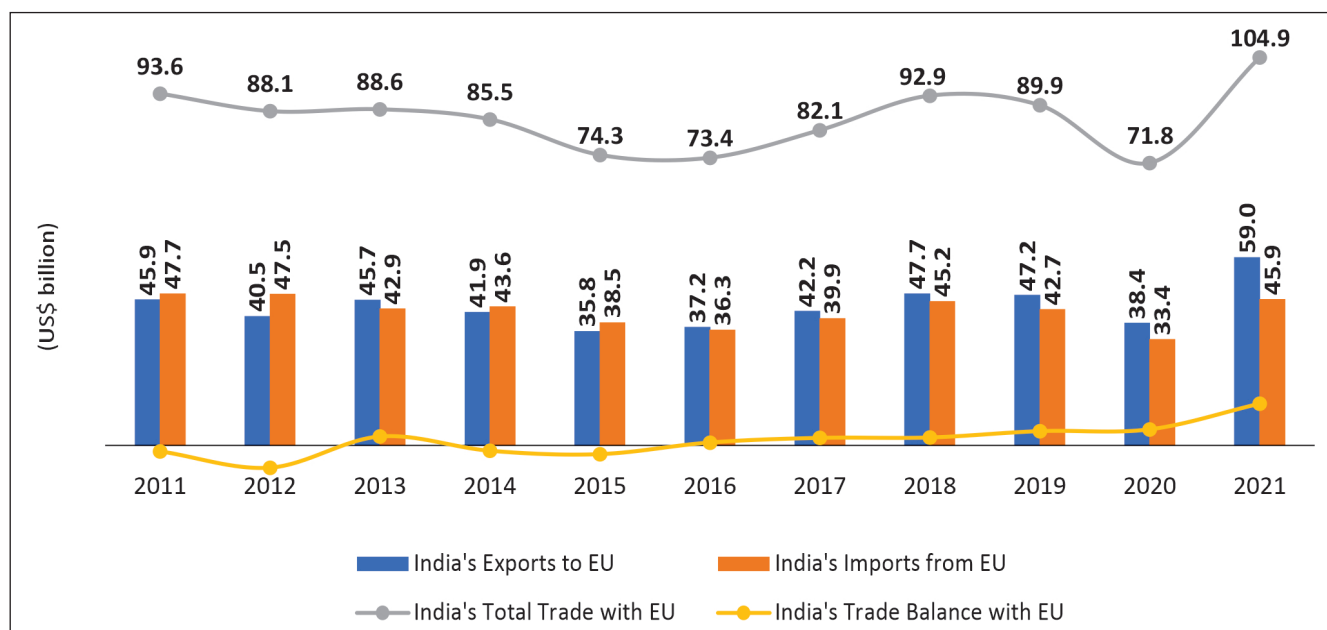
The EU's prominence as a major trading area is very relevant to India's foreign trade. India is an important trade partner for the EU. The EU is India's third largest trading partner, accounting for US\$ 104.9 billion worth of trade in goods in 2021 or 10.9% of total Indian trade, after USA (11.7%) and China (11.5%). The EU is the second-largest destination for Indian exports (14.9% of the total) after USA and the second-largest source of India's imports (8%) after China.

Bilateral Trade Relations of India and EU-27

The India-EU trade has grown steadily over the years and India remains a net exporter of merchandise goods to the EU-27. After starting out at a relatively low level in the 1990's, the trade volumes, both with respect to Indian exports to the EU as well as with respect to Indian imports from the EU, started to increase most noticeably after 2001. The total trade between India and the EU amounted to US\$ 104.9 billion in 2021 increasing from US\$ 93.6 billion in 2011 (**Chart 2.1**). However, in 2020 the trade between the two economies was severely impacted due to Covid-19, resulting in the total trade between India and the EU declining by 20% from 2019 levels. India has been witnessing a positive trade balance with the EU since 2016, which increased from US\$ 0.9 billion in 2016 to US\$ 13.1 billion in 2021.

With the recovery in global demand, India's trade with the EU recorded the highest ever levels in 2021, with exports of US\$ 59 billion and imports of US\$ 45.9 billion.

Chart 2.1: India's Merchandise Trade with the EU



Source: ITC TradeMap and India Exim Bank Analysis

On the other hand, as a partner country for the EU's foreign trade, India's share in both the EU's global exports and global imports is still relatively low. In 2021, India ranked as the 26th largest export destination (and 10th largest among extra-EU countries) and the 24th largest import source (and 10th largest among extra-EU countries) for the EU. Moreover, the composition of trade between both the countries has not changed considerably over the last decade. Despite high trade figures, much of the bilateral trade potential between both countries remains untapped. Given the positive trade balance in favour of India, and the untapped bilateral trade potential on both sides, tariff liberalization under the expected free trade agreement with the EU would lead to greater gains for both countries.

India's Merchandise Exports to the EU

In 2021, the EU was the 2nd largest export destination of India with a share of 14.9% in India's total exports. Over the last decade, Indian exports to the EU have fluctuated, with rapid fall from 2013, followed by a rise after 2015 and then reverting with reaching the peak in 2018. Overall, India's exports to the EU rose from US\$ 45.9 billion in 2011 to US\$ 47.2 billion in 2019. However, total exports to the EU declined by 18.6% amounting to US\$ 38.4 billion in 2020, due to the uncertainties around the end of Brexit transition period and the pandemic. With recovery in global demand, India's exports to the EU witnessed the highest ever level of US\$ 59 billion in 2021, growing by 53.5%.

India's exports to the EU are relatively diversified. In 2021, the principal items of exports to the EU from India were mineral fuels and oils, which constituted 11.6% of the total exports from India to the EU (**Table 2.1**). It was followed by iron and steel (accounting for 9.8% of India's total exports to the EU), organic chemicals (8.5%), machinery and mechanical appliances (7.3%), electrical machinery, equipment and parts (6.8%), and pearls and precious stones (5.3%).

Table 2.1: India's Major Export Products to the EU*(US\$ million)*

| HS Code | Product | 2019 | 2020 | 2021 | Share in 2021 (%) |
|---------|--|----------------|----------------|----------------|-------------------|
| | All products | 47207.6 | 38435.7 | 58995.4 | 100.0% |
| 27 | Mineral fuels, mineral oils and products of distillation | 6610.7 | 2627.2 | 6871.8 | 11.6% |
| 72 | Iron and steel | 2324.9 | 1865.2 | 5776.9 | 9.8% |
| 29 | Organic chemicals | 3798.2 | 4025.3 | 4995.3 | 8.5% |
| 84 | Machinery and mechanical appliances | 3825.0 | 3315.1 | 4316.0 | 7.3% |
| 85 | Electrical machinery and equipment and parts | 2302.3 | 2674.4 | 4038.1 | 6.8% |
| 71 | Pearls, precious or semi-precious stones and metals | 2840.3 | 1776.5 | 3104.5 | 5.3% |
| 61 | Articles of apparel and clothing accessories, knitted or crocheted | 2183.3 | 1724.7 | 2110.0 | 3.6% |
| 30 | Pharmaceutical products | 1532.3 | 1817.8 | 1987.7 | 3.4% |
| 87 | Vehicles other than railway or tramway and parts | 1746.0 | 1263.0 | 1967.9 | 3.3% |
| 73 | Articles of iron or steel | 1535.8 | 1267.8 | 1873.1 | 3.2% |
| 62 | Articles of apparel and clothing accessories, not knitted or crocheted | 2196.1 | 1623.0 | 1813.1 | 3.1% |
| 76 | Aluminium and articles | 442.1 | 376.6 | 1606.4 | 2.7% |
| 39 | Plastics and articles | 1064.2 | 874.2 | 1393.1 | 2.4% |
| 40 | Rubber and articles | 788.8 | 812.1 | 1255.5 | 2.1% |
| 63 | Other made-up textile articles | 1048.5 | 865.5 | 1232.9 | 2.1% |

Source: ITC TradeMap and India Exim Bank Analysis

India's Merchandise Imports from the EU

In 2021, the EU was the second largest import source of India, with 8% share in India's global imports. However, India's imports from the EU moderated from US\$ 47.7 billion in 2011 to US\$ 45.9 billion in 2021. In 2020, the imports too witnessed a significant fall of 21.8% from 2019 levels. Despite witnessing a 37.4% increase, India's imports from the EU are yet to overtake the previous record of US\$ 47.7 billion in 2011.

Table 2.2: India's Major Import Products from the EU*(US\$ million)*

| HS Code | Product | 2019 | 2020 | 2021 | Share in 2021 (%) |
|---------|--|----------------|----------------|----------------|-------------------|
| | All products | 42723.6 | 33394.0 | 45897.8 | 100.0 |
| 84 | Machinery, mechanical appliances, and parts | 9538.7 | 7078.8 | 9565.2 | 20.8 |
| 71 | Pearls, precious or semi-precious stones and metals | 5961.3 | 3569.1 | 5744.1 | 12.5 |
| 85 | Electrical machinery, equipment, and parts | 3835.3 | 3010.5 | 4174.4 | 9.1 |
| 90 | Optical, photographic, and medical equipment | 2738.7 | 2231.4 | 2919.0 | 6.4 |
| 29 | Organic chemicals | 2302.1 | 2226.8 | 2507.5 | 5.5 |
| 39 | Plastics and articles | 1880.2 | 1629.5 | 2323.6 | 5.1 |
| 38 | Miscellaneous chemical products | 1154.5 | 1158.9 | 1491.6 | 3.2 |
| 27 | Mineral fuels, mineral oils and products of distillation | 838.2 | 819.9 | 1455.9 | 3.2 |

| HS Code | Product | 2019 | 2020 | 2021 | Share in 2021 (%) |
|---------|---|--------|--------|--------|-------------------|
| 30 | Pharmaceutical products | 1245.2 | 996.8 | 1437.8 | 3.1 |
| 87 | Vehicles other than railway or tramway, and parts | 1198.6 | 891.5 | 1436.9 | 3.1 |
| 72 | Iron and steel | 1429.6 | 1060.4 | 1426.5 | 3.1 |
| 73 | Articles of iron or steel | 908.4 | 656.9 | 856.7 | 1.9 |
| 76 | Aluminium and articles | 431.7 | 426.2 | 751.8 | 1.6 |
| 74 | Copper and articles | 394.0 | 379.7 | 715.0 | 1.6 |
| 28 | Inorganic chemicals | 451.8 | 426.8 | 640.4 | 1.4 |

Source: ITC TradeMap and India Exim Bank Analysis

In product terms, machinery and mechanical appliances dominate India's import basket from the EU, accounting for as much as 20.8% of India's total imports from the EU in 2021 (**Table 2.2**). Other major import products include pearls and precious stones (12.5% of India's total imports from the EU), electrical machinery and equipment (9.1%), optical, photographic, cinematographic apparatus (6.4%), organic chemicals (5.5%), plastics and articles (5.1%), and miscellaneous chemical products (3.2%).

It is noted that with exports to the EU higher than imports from the EU in the recent years, India transitioned from a net importer to a net exporter of merchandise goods to the EU since 2016. Amongst the items contributing the most to the trade surplus in 2021 were mineral fuels⁹ (US\$ 6.4 billion); worked but unmounted diamonds¹⁰ (US\$ 2 billion); mobile/cellular telephones¹¹ (US\$ 1.1 billion); flat-rolled products of iron or non-alloy steel¹² (US\$ 928 million); aluminium, not alloyed, unwrought¹³ (US\$ 875 million); and non-antibiotic medicaments¹⁴ (US\$ 870.3 million).

India's Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and match it with the EU's import demand for these products are necessary for an India-EU FTA to be successful. Quantification of comparative advantage will help in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

⁹ HS 271019: Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel

¹⁰ HS 710239: Diamonds, worked, but not mounted or set (excluding industrial diamonds)

¹¹ HS 851712: Telephones for cellular networks, mobile telephones or for other wireless networks

¹² HS 721049: Flat-rolled products of iron or non-alloy steel, of a width of ≥ 600 mm, hot-rolled or cold-rolled

¹³ HS 760110: Aluminium, not alloyed, unwrought

¹⁴ HS 300490: Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes

As per Balassa's (1965) measure, RCA index for country I for commodity j is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

Where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

X_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with the EU.

$$RCA_{iju} = (x_{iju}/X_{iu}) / (x_{wju}/X_{wu})$$

Where,

x_{iju} : India's Exports of commodity 'j' to the EU

X_{iu} : India's Total Exports to the EU

x_{wju} : World's Exports of commodity 'j' to the EU

X_{wu} : World Total exports to the EU

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju} - 1) / (RCA_{iju} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to the EU's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted in order to identify products from the industries for which India has existing capabilities in exporting to the EU. These products are the potential export growth drivers from India to the EU and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize

potentially higher values of exports to the EU, especially when considering that the India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in the EU, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to the EU.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2011-2019, as 2020 remains an anomaly or outlier data point due to the pandemic induced disruptions, resulting in erratic movements in trade patterns globally. Data points for 2021 are estimated numbers.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US\$ 1 million from India to the EU is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of the India's performance in the EU, namely, the **NRCA for products**, and **Average Annual Growth Rate (AAGR)** of the EU's global imports.

Based on these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of the EU > World Import AAGR of the EU; Positive NRCA): These products have the maximum potential, as the EU's import demand for these products has shown robust AAGR over the period 2011-19, while India's exports of these products to the EU are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to the EU and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in the EU.

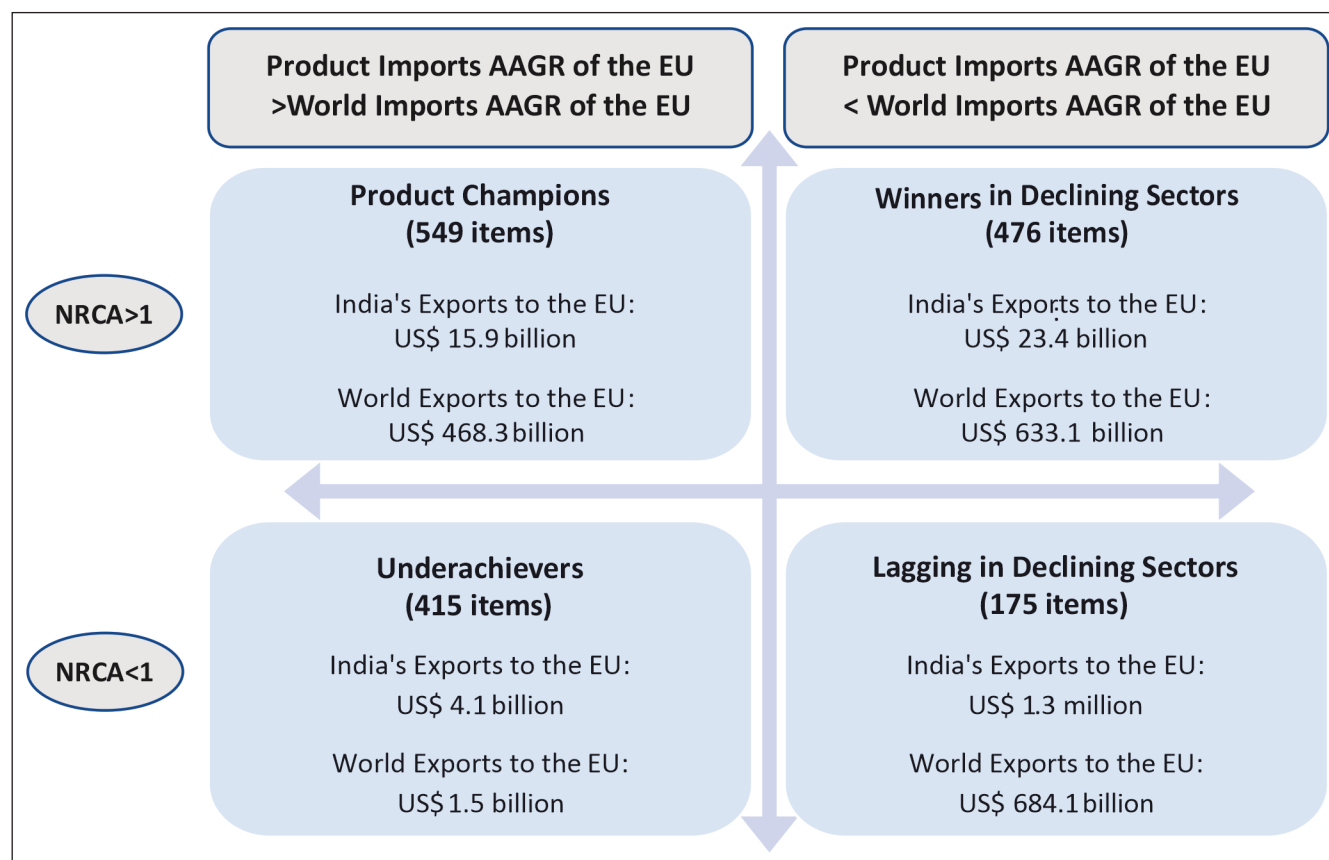
Underachievers (Product Import AAGR of the EU > World Import AAGR of the EU; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in the EU significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to the EU and further expand its bilateral ties with the EU.

Winners in Declining Sectors (Product Import AAGR of the EU < World Import AAGR of the EU; Positive NRCA): India has competitiveness in these products, even though the EU's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of the EU < World Import AAGR of the EU; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in the EU during the period under consideration.

Product Identification Based on Competitiveness

Chart 2.2: Product Identification of Potential Exports from India to the EU (at HS 6-digit level)



Source: ITC TradeMap and India Exim Bank Analysis

To identify the products based on their export competitiveness in the EU, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of the EU for all products. The quadrants are drawn by comparing the overall AAGR of global imports of the EU for all products during 2011-2019 (which was 1.2%), to the NRCA of India's exports to the EU for all products during the same period (**Chart 2.2**). This exercise aims to identify those products for which imports in the EU over the period 2011-2019 have performed better than the overall average of the EU for all products during the same period, implying that the share of such products in the EU's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 1 million from India to the EU, 1615 products have been identified with the total exports from India to the EU amounting to US\$ 44.7 billion while the total world imports to the EU of the same products stood at US\$ 3.3 trillion in 2019.

Out of these 1615 items at the HS 6-digit level, 549 items fell into the category of the product champions. The combined exports of these items from India to the EU were US\$ 15.9 billion in 2019, representing approximately 33.7% of India's exports to the EU in 2019. Major product champions are provided in **Table 2.3**.

Table 2.3: List of Top 15 Product Champions from India to the EU (HS 6-digit level)

| HS Code | Product | India's Exports to the EU (US\$ million) | Share in India's Total Exports to the EU (%) | Global Imports of the EU (US\$ million) | Share in Global Imports of the EU (%) |
|---------|---|--|--|---|---------------------------------------|
| 841112 | Turbojets of a thrust > 25 kN | 719.9 | 1.5 | 15176.7 | 0.3 |
| 640391 | Footwear with outer soles of rubber, plastics or composition leather | 485.5 | 1.0 | 6239.0 | 0.1 |
| 294200 | Separate chemically defined organic compounds | 359.9 | 0.8 | 246.9 | 0.0 |
| 890590 | Light-vessels, fire-floats, floating cranes and other vessels | 345.1 | 0.7 | 181.6 | 0.0 |
| 630532 | Flexible intermediate bulk containers, for the packing of goods, of synthetic or man-made textile | 319.8 | 0.7 | 975.4 | 0.0 |
| 732599 | Cast articles of iron or steel (excluding articles of non-malleable cast iron | 296.7 | 0.6 | 1650.9 | 0.0 |
| 711319 | Articles of jewellery and parts thereof, of precious metal other than silver | 268.3 | 0.6 | 10107.3 | 0.2 |
| 620443 | Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats) | 233.1 | 0.5 | 3178.7 | 0.1 |
| 293339 | Heterocyclic compounds with nitrogen hetero-atom[s] only, containing an unfused pyridine ring | 224.7 | 0.5 | 6718.8 | 0.1 |
| 620640 | Women's or girls' blouses, shirts and shirt-blouses of man-made fibres | 218.6 | 0.5 | 3746.2 | 0.1 |
| 420221 | Handbags, whether or not with shoulder straps, incl. those without handles, with outer surface | 211.0 | 0.4 | 4585.8 | 0.1 |
| 850440 | Static converters | 185.4 | 0.4 | 16541.4 | 0.3 |
| 420231 | Wallets, purses, key-pouches, cigarette-cases, tobacco-pouches and similar articles | 183.5 | 0.4 | 1296.3 | - |
| 380891 | Insecticides, put up in forms or packings for retail sale or as preparations or articles | 182.6 | 0.4 | 2108.5 | - |
| 611120 | Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats) | 181.7 | 0.4 | 2365.1 | - |

Note: - signifies marginal

Source: ITC TradeMap and India Exim Bank Analysis

The total number of products in winners in declining sectors category is 476, with India's exports amounting to US\$ 23.4 billion and constitute a share of 49.6% of India's exports to the EU in 2019. These are the products in which India has attained a significant share in the EU's import basket, but the EU's import demand for these products has been falling in the last decade (**Table 2.4**).

Table 2.4: List of Top 15 Winners in Declining Sectors from India to the EU (HS 6-digit level)

| HS Code | Product | India's Exports to the EU (US\$ million) | Share in India's Total Exports to the EU (%) | Global Imports of the EU (US\$ million) | Share in Global Imports of the EU (%) |
|---------|--|--|--|---|---------------------------------------|
| 271019 | Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel | 6,543.6 | 13.9 | 1,16,738.5 | 2.2 |
| 710239 | Diamonds, worked, but not mounted or set (excluding industrial diamonds) | 1,670.7 | 3.5 | 5,253.4 | 0.1 |
| 300490 | Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes | 1,186.7 | 2.5 | 1,22,583.8 | 2.3 |
| 710231 | Non-industrial diamonds unworked or simply sawn, cleaved or bruted (excluding industrial diamonds) | 684.6 | 1.5 | 6,420.6 | 0.1 |
| 870899 | Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons | 537.6 | 1.1 | 38,901.0 | 0.7 |
| 610910 | T-shirts, singlets and other vests of cotton, knitted or crocheted | 532.1 | 1.1 | 12,646.2 | 0.2 |
| 090111 | Coffee (excluding roasted and decaffeinated) | 330.6 | 0.7 | 7,667.5 | 0.1 |
| 293399 | Heterocyclic compounds with nitrogen hetero-atom[s] | 287.0 | 0.6 | 6,371.3 | 0.1 |
| 880330 | Parts of aeroplanes or helicopters (excluding those for gliders) | 286.5 | 0.6 | 28,802.4 | 0.5 |
| 420310 | Articles of apparel, of leather or composition leather | 266.9 | 0.6 | 1,366.9 | - |
| 151530 | Castor oil and fractions thereof, whether or not refined, but not chemically modified | 239.5 | 0.5 | 344.6 | - |
| 840999 | Parts suitable for use solely or principally with compression-ignition internal combustion | 233.3 | 0.5 | 14,973.2 | 0.3 |
| 240120 | Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured | 224.4 | 0.5 | 3,137.9 | 0.1 |
| 290220 | Benzene | 213.5 | 0.5 | 2,077.2 | - |
| 760120 | Unwrought aluminium alloys | 212.7 | 0.5 | 12,289.2 | 0.2 |

Note: - signifies marginal

Source: ITC TradeMap and India Exim Bank Analysis

This was followed by underachievers with 415 items, with India's exports worth US\$ 4.1 billion to the EU. These products constitute a marginal share of 8.7% in India's total exports to the EU. These are the products in which import demand in the EU market is rising, but India does not have the required competitiveness in the export of these items (**Table 2.5**).

Table 2.5: List of Top 15 Underachievers from India to the EU (HS 6-digit level)

| HS Code | Product | India's Exports to the EU (US\$ million) | Share in India's Total Exports to the EU (%) | Global Imports of the EU (US\$ million) | Share in Global Imports of the EU (%) |
|---------|---|--|--|---|---------------------------------------|
| 870322 | Motor cars and other motor vehicles principally designed for the transport of persons | 377.3 | 0.8 | 60563.2 | 1.1 |
| 851712 | Telephones for cellular networks "mobile telephones" or for other wireless networks | 253.6 | 0.5 | 60890.3 | 1.1 |
| 851762 | Machines for the reception, conversion and transmission or regeneration of voice | 130.2 | 0.3 | 48973.4 | 0.9 |
| 848180 | Appliances for pipes, boiler shells, tanks, vats | 117.0 | 0.2 | 14256.7 | 0.3 |
| 854430 | Ignition wiring sets and other wiring sets for vehicles, aircraft or ships | 115.5 | 0.2 | 16932.3 | 0.3 |
| 870840 | Gear boxes and parts thereof, for tractors, motor vehicles for the transport | 86.0 | 0.2 | 23484.3 | 0.4 |
| 870850 | Drive-axles with differential, whether or not provided with other transmission components | 81.1 | 0.2 | 10212.0 | 0.2 |
| 392690 | Articles of plastics and articles of other materials of heading 3901 to 3914 | 78.4 | 0.2 | 23914.6 | 0.4 |
| 901839 | Needles, catheters, cannulae and the like, used in medical, surgical, dental or veterinary | 77.0 | 0.2 | 11716.7 | 0.2 |
| 901890 | Instruments and appliances used in medical, surgical or veterinary sciences | 68.5 | 0.1 | 20315.9 | 0.4 |
| 611020 | Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted | 62.0 | 0.1 | 8576.9 | 0.2 |
| 853710 | Boards, cabinets and similar combinations of apparatus for electric control or the distribution | 60.4 | 0.1 | 19547.7 | 0.4 |
| 950300 | Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys | 51.2 | 0.1 | 16006.9 | 0.3 |
| 841480 | Air pumps, air or other gas compressors and ventilating | 47.0 | 0.1 | 6628.2 | 0.1 |
| 640411 | Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes | 43.3 | 0.1 | 8345.9 | 0.2 |

Source: ITC TradeMap and India Exim Bank Analysis

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in the EU market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, in order to

make efficient utilization of resources and further enhance exports from India to the EU. Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the EU market, whilst India's exports also hold a comparative advantage in them.

Barriers in India-EU Trade

According to India Exim Bank's study titled "Relooking India's Tariff Policy Framework",¹⁵ top 5 destinations of India's exports of agricultural items were the EU, USA, UAE, Saudi Arabia and Nepal. European Union has the second-highest simple average MFN tariffs among the top 5 agriculture export destinations, though weighted tariff is relatively low. Preference margin (weighted) which is the difference between the duty paid on an MFN basis and duty paid under a preferential system is also relatively higher in the EU than other top export markets. In the EU, India benefits from high duty-free imports in terms of share of imports only, while in terms of tariff lines such concessions are relatively less.

In non-agricultural items, USA, the EU, Hong Kong, UAE and China are the top 5 export destinations, and among these top 5 markets, India faces the highest simple average tariff and weighted tariff in the Chinese market, followed by the EU. In the EU market, India enjoys relatively higher preference margins and also duty-free imports both in terms of tariff lines (49.9%) and in terms of import share (52.7%).

Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. The different types of tariff terminology and data used in the present analysis are as follows.

Most Favoured Nation Tariff

The most favoured nation (MFN) tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) tariffs that WTO members charge one another.

Some countries impose higher tariffs on countries that are not part of the WTO. In some rare cases, WTO members/GATT contracting parties have invoked the "Non-Application Clause" of WTO/GATT agreements and choose not to extend MFN treatment to certain other countries.

Bound Tariff

Bound tariffs (BND) are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

¹⁵ India Exim Bank Publication on 'Relooking India's Tariff Framework' by Dr. H.A.C. Prasad <https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/SpecialPublications/Main-Report-Relooking-Indias-Tariff-Framework-120121.pdf>

Bound tariffs are not necessarily the rate that a WTO member applies in practice to other WTO members' products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis) so long as they don't raise them above their bound levels. If one WTO member raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country does not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff (actual tariff) is less than or equal to the bound tariff in practice for any product.

The gap between the bound (committed and difficult to increase) and applied MFN rates is called the binding overhang. It is argued that a large binding overhang makes a country's trade policies less predictable. This gap tends to be small on average in industrial countries and often large in developing countries.

Effectively Applied Tariff

Effectively applied tariff (AHS) is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the MFN applied tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's country of origin.

Preferential Tariff

A preferential tariff (PRF) is one that falls under a preferential trade agreement, where countries make a deal in which they agree to charge a lower rate than the MFN rate. Virtually all countries in the world are part of at least one preferential trade agreement, under which they promise to charge lower tariffs than their MFN rate to another country's products. In a customs union (such as the Southern Africa Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products. These agreements are reciprocal - all parties agree to give each other the benefits of lower tariffs. Some agreements specify that members will receive a percentage reduction from the MFN tariff, but not necessarily zero tariffs. Preferences therefore differ between partners and agreements.

Tariff on India's Imports from the EU

A detailed analysis of tariffs on India's imports from the EU is provided in **Annexure 1**. In the current analysis, the tariff at 2-digit HS code is taken into consideration, using TRAINS based WITS data for the year 2020. Since there is no current preferential agreement between India and the EU, the effectively applied tariff on the EU is the same as the MFN tariffs. Based on **Table 2.6**, it is quite evident that India has a very high binding coverage with binding on majority of its tariff lines except in few product categories (15 products at 2-digit HS Code) with zero tariff lines under binding. India has very high bound rates (the ceiling tariff), which signifies that India has a huge scope/ability to increase its tariff levels, well within its WTO agreed levels.

Table 2.6: Bound Rates on India's Imports from the EU in 2020

| Bound Tariff Rates (%) | No. of Products (at 2-digit HS Code) | Total Imports (US\$ million) | Share in Total Imports (%) |
|--------------------------|---|---------------------------------|-------------------------------|
| 01-50 | 53 | 30,560.9 | 93.3 |
| 51-100 | 14 | 371.5 | 1.1 |
| 101-150 | 13 | 564.5 | 1.8 |
| >150 | 1 | 196.8 | 0.6 |
| Bound Duty not Specified | 15 | 1,046.8 | 3.2 |
| Total | 96 | 32,740.5 | 100.0 |

Source: WITS database and India Exim Bank Analysis

It can be concluded that highest number of products (at 2-digit HS code) is under the bound tariff rates of 1%-50%, which amounts to total imports of US\$ 30.6 billion in 2020, this category even witnesses the highest number of tariff lines. Under the bound tariff rates of 51%-100%, there are 14 categories of products, with total imports amounting to US\$ 371.5 million in 2020. A very high bound tariff rates of 101%-150%, are levied on 13 product categories, with total imports amounting to US\$ 564.5 million in 2020. These set of products are protected with their high bound tariff rates based upon its sensitivity and domestic significance. It is only 1 product (animal or vegetable fats and oils) which has bound tariff rate of 193.2% which accounted for the total imports of US\$ 196.8 million in 2020. Last category consists of 15 products, where there are no specified bound tariff rates.

Table 2.7 disintegrates the simple average of the effectively applied tariff (AHS) by India on imports from the EU. It is inferred from the previous table that the bound rates are very high in case of India, however, it is the effectively applied tariff that the EU exporters face while exporting to India. There are 49 categories of products (at 2-digit HS code) that have effectively applied tariff rate of 0%-10%, which amounted to total imports of US\$ 26.3 billion in 2020, and this corresponds to over 80.3% of total imports of India from the EU in 2020. There are 23 product categories under 11%-20% effectively applied tariff rates, which corresponds to over 14.7% of total imports in 2020, amounting to US\$ 4.8 billion. So cumulatively, 95% of Indian imports from the EU faces effectively applied tariff rate of less than 21%. 24 product categories face effectively applied tariff ranging between 21%-150%, with the total import share of 5% in 2020.

Table 2.7: Effectively Applied Tariff on India's Imports from the EU in 2020

| Effectively Applied Tariff Rates (%) | No. of Products (at 2-digit HS Code) | Total Imports (US\$ million) | Share in Total Imports (%) |
|---|---|---------------------------------|----------------------------|
| 0-10 | 49 | 26,301.9 | 80.3 |
| 11-20 | 23 | 4,818.8 | 14.7 |
| 21-30 | 12 | 1,091.3 | 3.3 |
| 31-40 | 8 | 374.1 | 1.1 |
| 41-50 | 1 | 3.4 | 0.0 |
| >50 | 3 | 150.9 | 0.6 |
| Total | 96 | 32,740.5 | 100.0 |

Source: WITS database and India Exim Bank Analysis

There is only one product category, i.e., beverages, spirits and vinegar, which has an effectively applied tariff of 111%, with the weighted average of 103.1%. This category alone constitutes US\$ 86.4 million of India's imports from the EU during 2020.

Tariff on the EU's Imports from India

The tariffs imposed by the EU on India's exports at 2-digit HS code level using TRAINS based WITS data is provided in **Annexure 2**. It is interesting to note that none of the tariff lines of the EU is bound under WTO, unlike India where nearly 100% binding coverage (except for few products) exists. The EU, being a developed region, has low MFN tariffs, thus promoting free and easy trade with its partners. Since India is provided benefits under the GSP scheme by the EU, the effectively applied tariff is less than or equal to MFN tariff.

Table 2.8: Effectively Applied Tariff on the EU's Imports from India in 2020

| Effectively Applied Tariff Rates (%) | No. of Products (at 2-digit HS Code) | Total Imports (US\$ million) | Share in Total Imports (%) |
|--------------------------------------|--------------------------------------|------------------------------|----------------------------|
| 0 | 26 | 6,913.9 | 18.3 |
| 01-10 | 67 | 30,543.6 | 80.9 |
| >10 | 3 | 318.5 | 0.8 |
| Total | 96 | 37,776.0 | 100.0 |

Source: WITS database and India Exim Bank Analysis

Table 2.8 disintegrates the simple average effectively applied tariff by the EU on Indian exports. In comparison to India, the effectively applied tariff is low in the case of the EU, with it being a developed region. There are 26 categories of products (at 2-digit HS code), imports of which amount to US\$ 6.9 billion in 2020, on which the EU imposes an effectively applied tariff of 0%. These products constitute 18.3% of the EU's imports from India in 2020. There are 67 product categories amounting to US\$ 30.5 billion under the 1%-10% effectively applied tariff, which correspond to over 80.9% of the EU's imports from India in 2020. So cumulatively, 99.2% of the EU's imports from India face an effectively applied tariff of less than 10% when exported to the EU.

Three product categories face effectively applied tariff ranging between 11%-20%, with the total import share of 0.8% in 2020. Preparations of vegetables, fruit and nuts; dairy produce, birds' eggs and natural honey, and tobacco and manufactured tobacco substitutes are the products under these tariff range.

Non-Tariff Measures in Goods Trade

According to the UNCTAD, non-tariff measures are generally defined as “policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.”¹⁶ A large number of domestic regulations meant to protect the environment, consumers, or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. In many cases, the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff trade measures (NTMs) is large, nature is complex and constantly changing. This leads to challenges to ensure level playing fields between countries.¹⁷ Based on WTO classification, the different types of non-tariff measures used in the present analysis are defined below.

- **Sanitary and Phytosanitary Measures**

Sanitary and Phytosanitary Measures (SPS) are measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins, or disease-causing organisms in their food; to protect human life from plant or animal-borne diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country from the entry, establishment or spread of pests; and to protect biodiversity. These include measures taken to protect the health of fish, wild fauna, forests, and wild flora.

- **Technical Barriers to Trade**

Technical Barriers to Trade (TBT) are measures referring to technical regulations and procedures of assessment of conformity with technical regulations, excluding measures covered by the chapter on sanitary and phytosanitary measures. A technical regulation is a document that sets out product characteristics or related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory.

- **Anti-Dumping Measures**

Anti-Dumping Measures (ADP) are unilateral remedies which may be applied by a WTO member after an investigation and determination by that member, in accordance with the provisions of the Anti-Dumping Agreement, that an imported product is “dumped” and that the dumped imports are causing material injury to a domestic industry producing the like product.

- **Countervailing Measures**

Countervailing Measures (CV) are the actions taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country.

¹⁶ https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf

¹⁷ World Trade Organization, 2012

- **Safeguard**

Under Safeguard (SG), a WTO member restrict imports of a product temporarily to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the industry.

- **Quantitative Restrictions**

Quantitative Restrictions (QR) are prohibitions or restrictions other than duties, taxes or other charges applied by WTO members on imports or exports of goods, which can be made effective through quotas, import or export licences or other measures.

- **Tariff-Rate Quota**

Tariff-Rate Quota (TRQ) allows for quantities inside a quota to be charged lower import duty rates, than those outside (which can be high).

- **State-Trading Enterprises**

State-Trading Enterprises (STE) are defined as governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and/or import. The STE might be used to provide protection for the domestic market in a given product by setting resale prices of imports at very high levels, thus, negating tariff concessions bound.

- **Export Subsidies**

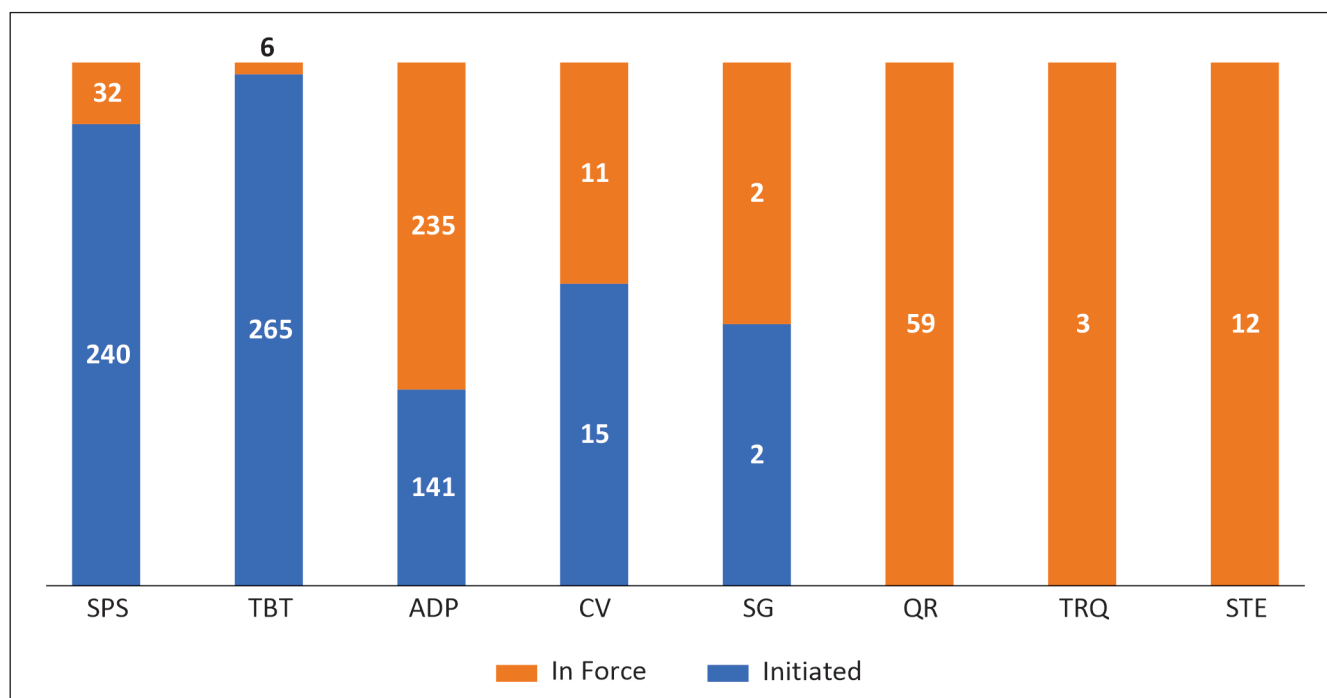
Export Subsidies (XS) are defined as “subsidies contingent on export performance, including the export subsidies listed in detail in Article 9 of Agreement on Agriculture”.

Non-Tariff Measures Imposed by India

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, **Chart 2.3** shows that as of December 2021, India has imposed 1,023 NTMs towards the WTO members (including the European Union), as well as bilaterally imposed by India on the EU. Out of 1,023 NTMs, 360 were put into force and 663 initiated¹⁸. SPS and TBT are among the most widely used NTMs, with 272 SPS (32 in force and 240 initiated) and 271 TBT (6 in force and 265 initiated) in place. Quantitative restrictions have also been adopted by India, followed by protection through anti-dumping, State-Trading Enterprises, safeguard, and tariff-rate quota measures as of December 2021.

¹⁸ Initiation date is the date when the measure in preparation is made known to other WTO members; in SPS and TBT it is the date when the measure is distributed to other members through DOL. In AD, CV, and SG, the date of initiation of investigation is also the date when the affected member is notified of initiation. In agricultural NTMs, initiation is not applicable. In force is when the measure is put in force, in case of Antidumping, Countervailing, and Safeguards measures; while it may or may not be notified for SPS and TBT.

Chart 2.3: Non-Tariff Measures Imposed by India as on December 31, 2021



Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Analysis

Amongst the NTMs imposed by India on the WTO members (including the EU), there are 39 measures bilaterally imposed on the EU in the form of anti-dumping measures (**Table 2.9**). Amongst the 39 ADP measures, 27 are in force and 12 in initiation, impacting 27 and 12 products under HS classification, respectively.

Table 2.9: Bilateral NTMs Imposed by India on the EU as on December 31, 2021

| Non-Tariff Measures | Status | No. of HS Codes Impacted | No. of Measures |
|---------------------|------------|--------------------------|-----------------|
| Anti-dumping | In force | 27 | 27 |
| Anti-dumping | Initiation | 12 | 12 |
| Total | | 39 | 39 |

Source: I-TIP, WTO and India Exim Bank Analysis

According to broad sector classification of I-TIP, WTO, products of the chemical and allied industries face the highest number of NTMs (274) imposed by India as of December 2021 (**Table 2.10**). Majority of the NTMs are in form of ADP (195), followed by TBT (62), SPS (6), QR (5), STE (3) and CV (3). Resins, plastics and articles, and rubber and articles also face significant number of NTMs (128), including measures like ADP (79), TBT (38), SPS (7), CV (3) and QR (1). Live animals and products and vegetable products are substantially protected sectors, with combined NTMs of 207 being imposed. These sectors are largely protected through SPS (128), TBT (45), QR (26), TRQ (2) and STE (6). There are a total of 178 measures for which the HS classification is not available, amongst these also, SPS (91) and TBT (81) are the majority NTMs.

Table 2.10: Broad-Sector Classification of NTMs Imposed by India as on December 31, 2021

| HS Product Description | SPS | TBT | ADP | CV | SSG | SG | QR | TRQ | STE | XS | Total |
|--|------------|------------|------------|-----------|----------|----------|-----------|----------|-----------|----------|-------|
| Total | 272 | 271 | 376 | 26 | 0 | 4 | 59 | 3 | 12 | 0 | |
| Measures without HS code | 91 | 81 | 2 | 0 | 0 | 4 | 0 | 0 | 0 | 0 | 178 |
| Live animals and products | 49 | 21 | 0 | 0 | 0 | 0 | 25 | 1 | 2 | 0 | 98 |
| Vegetable products | 79 | 24 | 0 | 0 | 0 | 0 | 1 | 1 | 4 | 0 | 109 |
| Animal and vegetable fats, oils, and waxes | 13 | 26 | 0 | 6 | 0 | 0 | 25 | 1 | 1 | 0 | 72 |
| Prepared foodstuff, beverages, spirits, vinegar, and tobacco | 76 | 34 | 11 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 122 |
| Mineral products | 6 | 13 | 18 | 0 | 0 | 0 | 1 | 0 | 7 | 0 | 45 |
| Products of the chemical and allied industries | 6 | 62 | 195 | 3 | 0 | 0 | 5 | 0 | 3 | 0 | 274 |
| Resins, plastics and articles, rubber, and articles | 7 | 38 | 79 | 3 | 0 | 0 | 1 | 0 | 0 | 0 | 128 |
| Hides, skins and articles; saddlery and travel goods | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 4 |
| Wood, cork and articles and basket-ware | 7 | 1 | 20 | 7 | 0 | 0 | 1 | 0 | 0 | 0 | 36 |
| Paper, paperboard, and articles | 0 | 6 | 15 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 22 |
| Textiles and articles | 0 | 9 | 64 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 75 |
| Footwear, headgear, feathers, and fans | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Articles of stone, plaster, and ceramic products | 0 | 11 | 28 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 42 |
| Pearls, precious stones, and metals | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 3 |
| Base metals and articles | 0 | 25 | 89 | 13 | 0 | 0 | 1 | 0 | 0 | 0 | 128 |
| Machinery and electrical equipment | 0 | 60 | 34 | 1 | 0 | 0 | 2 | 0 | 0 | 0 | 97 |
| Vehicles, aircraft, and vessels | 0 | 10 | 7 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 18 |
| Instruments, clocks, recorders, and reproducers | 0 | 10 | 9 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 20 |
| Arms and ammunition | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| Miscellaneous manufactured articles | 0 | 13 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 15 |
| Works of art and antiques | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |

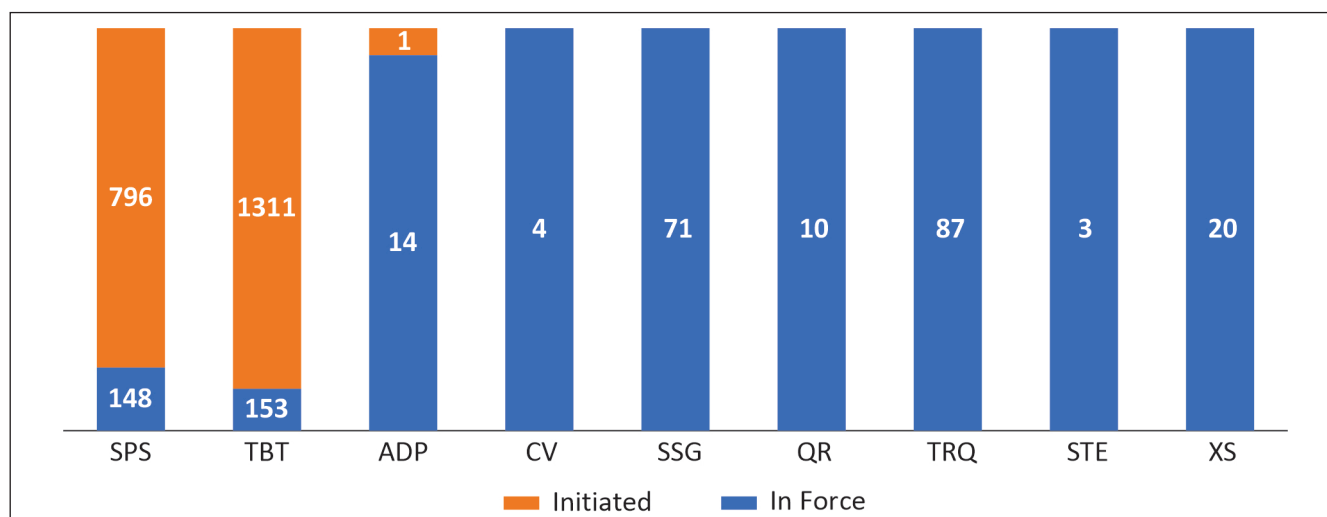
Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Analysis

Non-Tariff Measures Imposed by the European Union

Chart 2.4 shows that as of December 2021, the EU has imposed 2618 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by the EU. Among 2618 NTMs, 510 were put into force and 2108 were initiated. SPS and TBT measures are among the mostly used NTMs, with 944 SPS (148 in force and 796 initiated) and 1,464 TBT (153 in force and 1311 initiated). The EU has also adopted tariff-rate quota, special safeguards, export subsidies and anti-dumping measures, among others.

Chart 2.4: Non-Tariff Measures Imposed by the EU as on December 31, 2021



Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Analysis

Amongst the NTMs imposed by the EU on the WTO members (including India), there are 38 measures bilaterally imposed on India in the form of anti-dumping measures (15), countervailing measures (4) and sanitary and phytosanitary measures (19) (**Table 2.11**). Amongst 38 NTMs, 26 are in force and 12 initiated, and these impact 25 and 111 product categories under HS classification, respectively.

Table 2.11: Bilateral NTMs Imposed by the EU on India as on December 31, 2021

| Non-Tariff Measures | Status | No. of HS Codes Impacted | No. of Measures |
|----------------------------|------------|--------------------------|-----------------|
| Anti-dumping | In force | 14 | 14 |
| Anti-dumping | Initiation | 1 | 1 |
| Countervailing | In force | 4 | 4 |
| Sanitary and Phytosanitary | In force | 7 | 8 |
| Sanitary and Phytosanitary | Initiation | 10 | 11 |
| Total | | 36 | 38 |

Source: I-TIP, WTO and India Exim Bank Analysis

According to broad sector classification of WTO Integrated Trade Intelligence Portal (I-TIP), live animals and products, and vegetable products are the maximum protected sectors by the EU through NTMs, combinedly imposing 894 measures on these products. These sectors are largely protected through SPS (582), TBT (127), SSG (90), QR (4), TRQ (74) and XS (16).

Like in the case of India, prepared foodstuff, beverages, spirits, vinegar, and tobacco is another one of the largely protected sectors by the EU with 462 NTMs, with majority of the NTMs in the form of SPS (278) and TBT (93), followed by SSG (62), TRQ (13), XS (11), STE and QR (2 each) and ADP (1). There are a total of 1,211 measures for which the HS classification is not available, amongst these 234 are SPS measures and 977 are in the form of TBTs.

Table 2.12: Broad-Sector Classification of NTMs Imposed by the EU as on December 31, 2021

| HS Product Description | SPS | TBT | ADP | CV | SSG | SG | QR | TRQ | STE | XS | Total |
|---|-----|-----|-----|----|-----|----|----|-----|-----|----|-------------|
| Measures without HS code | 234 | 977 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1211 |
| Live animals and products | 316 | 59 | 0 | 1 | 58 | 0 | 2 | 39 | 0 | 9 | 484 |
| Vegetable products | 266 | 68 | 0 | 0 | 32 | 0 | 2 | 35 | 0 | 7 | 410 |
| Animal and vegetable fats, oils and waxes | 52 | 53 | 0 | 0 | 4 | 0 | 2 | 0 | 0 | 1 | 112 |
| Prepared foodstuff, beverages, spirits, vinegar and tobacco | 278 | 93 | 1 | 0 | 62 | 0 | 2 | 13 | 2 | 11 | 462 |
| Mineral products | 4 | 62 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 69 |
| Products of the chemical and allied industries | 55 | 230 | 6 | 1 | 8 | 0 | 9 | 1 | 0 | 0 | 310 |
| Resins, plastics and articles, rubber and articles | 38 | 69 | 0 | 1 | 0 | 0 | 3 | 0 | 0 | 0 | 111 |
| Hides, skins and articles; saddlery and travel goods | 4 | 2 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 9 |
| Wood, cork and articles and basket ware | 9 | 6 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 18 |
| Paper, paperboard and articles | 0 | 2 | 1 | 0 | 0 | 0 | | 0 | 0 | 0 | 3 |
| Textiles and articles | 1 | 6 | 2 | 0 | 3 | 0 | 3 | 0 | 0 | 0 | 15 |
| Footwear, headgear, feathers, and fans | 0 | 0 | 1 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 4 |
| Articles of stone, plaster and ceramic products | 2 | 38 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 42 |
| Pearls, precious stones and metals | 9 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 11 |
| Base metals and articles | 1 | 30 | 9 | 2 | 0 | 0 | 4 | 0 | 0 | 0 | 46 |
| Machinery and electrical equipment | 3 | 166 | 3 | 1 | 0 | 0 | 3 | 0 | 0 | 0 | 176 |
| Vehicles, aircraft and vessels | 2 | 59 | 1 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 64 |
| Instruments, clocks, recorders and reproducers | 1 | 50 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 54 |
| Arms and ammunition | 0 | 5 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 8 |
| Miscellaneous manufactured articles | 3 | 44 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 52 |
| Works of art and antiques | 0 | 2 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 4 |

Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Analysis

Generalised Scheme of Preferences (GSP)¹⁹

The Generalised Scheme of Preferences (GSP) is a set of rules which provide, concession or total relaxation on duties to exporters from developing countries on their exports to the European Union. The scheme aims at assisting developing countries in alleviating poverty and increasing employment opportunities based on international ethics, involving suitable labour and human rights. GSP is extensively identified as increasingly progressive in terms of exposure and benefits. The EU offers GSP in following variations depending on the eligibility of the exporting economy:

¹⁹ Generalised Scheme of Preferences, European Commission

- **Standard GSP**

This version of GSP is provided to low and lower-middle income countries. This provides for a partial or full removal of customs duties on 2/3rd of tariff lines. Developing countries are automatically granted GSP if they are classified as having an income level below “upper middle income” by the World Bank and do not benefit from another arrangement (like a Free Trade Agreement) granting them preferential access to the EU market.

- **GSP+**

This is an add-on incentive offered to countries for sustainable development and good governance. The tariffs like in the case of Standard GSP are slashed to 0% for vulnerable low- and lower middle-income countries that implement 27 international conventions related to human rights, labour rights, protection of the environment and good governance.

- **Everything But Arms (EBA)**

Especially curated for the least developed countries, EBA offers complete elimination of tariffs and quotas from LDCs for all product categories, except arms and ammunition.

Table 2.13 lists out countries availing GSP benefits from the EU as on January 1, 2022. Developing countries like India and Vietnam qualify for Standard GSP. However, Vietnam now enjoys preferential access stemming from its FTA with the EU, which came into force in August 2020. The FTA allows for duty elimination for 71% of Vietnamese exports to the EU and elimination of 99% of custom duties within the next 7 years. The FTA allows for the application of tariff rate quotas for remaining agricultural items where import duties are not phased out. India’s neighbours, Sri Lanka and Bangladesh enjoy GSP+ and EBA relaxations under the GSP, respectively.

Table 2.13: List of GSP Beneficiary Countries (as of 01 January 2022)²⁰

| Standard GSP | GSP+ | EBA | |
|--|-------------|--------------------------|---------------|
| Congo | Bolivia | Afghanistan | Eritrea |
| Cook Islands | Cape Verde | Angola | Ethiopia |
| India | Kyrgyzstan | Bangladesh | Gambia |
| Indonesia | Mongolia | Benin | Guinea |
| Kenya | Pakistan | Bhutan | Guinea-Bissau |
| Micronesia | Philippines | Burkina Faso | Haiti |
| Nigeria | Sri Lanka | Burundi | Kiribati |
| Niue | Uzbekistan | Cambodia | Lao PDR |
| Syria | | Central African Republic | Lesotho |
| Tajikistan | | Chad | Liberia |
| Vietnam* | | Comoros | Madagascar |
| *Vietnam will no longer be a beneficiary of the GSP from January 1, 2023 | | Congo (DRC) | Malawi |
| | | Djibouti | Mali |

²⁰ European Commission

| Standard GSP | GSP+ | EBA | |
|--------------|------|---------------------|-------------|
| | | Mauritania | South Sudan |
| | | Myanmar | Sudan |
| | | Nepal | Tanzania |
| | | Niger | Timor-Leste |
| | | Rwanda | Togo |
| | | Sao Tome & Principe | Tuvalu |
| | | Senegal | Uganda |
| | | Sierra Leone | Vanuatu |
| | | Solomon Islands | Yemen |
| | | Somalia | Zambia |

Source: Generalised Scheme of Preferences, European Commission

Table 2.14 presents a comparative analysis of Effectively Applied Tariff Rates (AHS) and Preferential Tariff Rates (PRF), faced by the GSP beneficiaries like India, Bangladesh, and Sri Lanka, as well as Vietnam, which is an FTA partner of the EU.

Table 2.14: Country-wise Comparative Tariff Analysis for 2020 (in %)

| HS Code | Product | India | | Bangladesh | | Sri Lanka | | Vietnam | |
|---------|---|--------------|-----|------------|-----|-----------|-----|---------|-----|
| | | Standard GSP | | EBA | | GSP+ | | FTA | |
| | | AHS | PRF | AHS | PRF | AHS | PRF | AHS | PRF |
| 01 | Live animals | 0.0 | - | - | - | - | - | 0.0 | - |
| 02 | Meat and edible meat offal | 4.4 | - | 1.3 | 0.0 | - | - | 0.3 | 0.4 |
| 03 | Fish and crustaceans | 6.4 | - | 0.02 | 0.0 | 0.1 | 0.1 | 4.0 | 4.1 |
| 04 | Dairy produce, birds' eggs and natural honey | 16.1 | - | 0.0 | 0.0 | - | - | 0.0 | 0.0 |
| 05 | Products of animal origin, not elsewhere specified | 0.0 | - | 0.0 | - | 0.0 | 0.0 | 0.0 | 0.0 |
| 06 | Live trees and other plants | 3.5 | - | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 07 | Edible vegetables and certain roots and tubers | 4.9 | - | 0.2 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| 08 | Edible fruit and nuts | 3.4 | - | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 |
| 09 | Coffee, tea, maté and spices | 0.5 | - | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 10 | Cereals | 1.9 | 0.0 | 0.0 | 0.0 | 5.1 | - | 0.0 | 0.0 |
| 11 | Products of the milling industry | 6.0 | - | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 1.2 |
| 12 | Oil seeds and oleaginous fruits | 0.2 | - | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 13 | Lac, gums, resins and other vegetable saps | 0.4 | - | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 14 | Vegetable plaiting materials and vegetable products | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 15 | Animal or vegetable fats and oils | 3.2 | - | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 16 | Preparations of meat and fish or of crustaceans | 9.5 | - | 0.0 | 0.0 | 0.0 | 0.0 | 7.3 | 7.3 |
| 17 | Sugars and sugar confectionery | 9.1 | - | 0.0 | 0.0 | 0.6 | 0.0 | 9.1 | 9.1 |

| HS Code | Product | India | | Bangladesh | | Sri Lanka | | Vietnam | |
|---------|--|--------------|-----|------------|-----|-----------|-----|---------|------|
| | | Standard GSP | | EBA | | GSP+ | | FTA | |
| | | AHS | PRF | AHS | PRF | AHS | PRF | AHS | PRF |
| 18 | Cocoa and cocoa preparations | 2.3 | - | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 3.2 |
| 19 | Preparations of cereals, flour, starch or milk | 0.8 | - | 0.1 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 |
| 20 | Preparations of vegetables, fruit and nuts | 11.6 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| 21 | Miscellaneous edible preparations | 6.1 | - | 0.0 | 0.0 | 1.5 | 0.0 | 2.0 | 2.0 |
| 22 | Beverages, spirits and vinegar | 1.7 | - | 0.0 | 0.0 | 0.0 | 0.0 | 2.4 | 4.0 |
| 23 | Residues and waste from the food industries | 0.7 | - | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 24 | Tobacco and manufactured tobacco substitutes | 19.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 24.5 | 24.5 |
| 25 | Salt, sulphur, earths and stone | 0.0 | - | 0.2 | 0.0 | 0.0 | - | 0.0 | 0.0 |
| 26 | Ores, slag and ash | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 27 | Mineral fuels and oils | 0.0 | - | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 28 | Inorganic chemicals | 4.8 | - | 1.5 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 |
| 29 | Organic chemicals | 4.8 | - | 3.1 | 0.0 | 0.0 | 0.0 | 1.1 | 1.5 |
| 30 | Pharmaceutical products | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 31 | Fertilisers | 1.7 | - | 0.0 | 0.0 | 0.0 | 0.0 | 1.5 | 3.5 |
| 32 | Tanning or dyeing extracts | 1.2 | - | 3.7 | 0.0 | 0.0 | 0.0 | 0.7 | 0.7 |
| 33 | Essential oils and resinoids | 0.0 | - | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 34 | Soap and organic surface-active agents | 0.0 | - | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 35 | Albuminoidal substances | 0.4 | - | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 36 | Explosives and pyrotechnic products | 0.0 | - | - | - | - | - | - | - |
| 37 | Photographic or cinematographic goods | 0.0 | - | 6.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 38 | Miscellaneous chemical products | 0.0 | - | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 39 | Plastics and articles | 0.8 | - | 5.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 40 | Rubber and articles | 0.3 | - | 2.8 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 |
| 41 | Raw hides and skins (other than fur skins) | 1.5 | - | 0.5 | 0.0 | 0.0 | - | 0.0 | 0.0 |
| 42 | Articles of leather, saddlery and harness | 0.9 | - | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 43 | Fur skins and artificial fur | 0.0 | - | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 44 | Wood and articles of wood | 0.4 | - | 0.9 | 0.0 | 0.0 | 0.0 | 0.5 | 1.1 |
| 45 | Cork and articles of cork | 0.5 | - | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 46 | Manufactures of straw | 0.2 | - | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 47 | Pulp of wood or of other fibrous cellulosic | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 48 | Paper and paperboard | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 49 | Printed books, newspapers and pictures | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| 50 | Silk | 4.7 | - | 0.0 | - | 0.0 | 0.0 | 0.0 | 0.0 |
| 51 | Wool, fine or coarse animal hair | 5.1 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| HS Code | Product | India | | Bangladesh | | Sri Lanka | | Vietnam | |
|---------|--|--------------|-----|------------|-----|-----------|-----|---------|-----|
| | | Standard GSP | | EBA | | GSP+ | | FTA | |
| | | AHS | PRF | AHS | PRF | AHS | PRF | AHS | PRF |
| 52 | Cotton | 6.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 53 | Other vegetable textile fibres | 3.5 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 54 | Man-made filaments | 6.5 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 55 | Man-made staple fibres | 6.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 |
| 56 | Wadding, felt and nonwovens | 6.2 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 57 | Carpets and other textile floor coverings | 7.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 58 | Special woven fabrics and tufted textile fabrics | 7.0 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 59 | Impregnated, coated, covered or laminated textile | 6.3 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 60 | Knitted or crocheted fabrics | 7.9 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 61 | Articles of apparel and clothing accessories (knitted) | 9.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 3.8 | 3.8 |
| 62 | Articles of apparel and clothing accessories (not knitted) | 9.0 | - | 0.0 | 0.0 | 0.0 | 0.0 | 6.3 | 6.3 |
| 63 | Other made-up textile articles | 8.2 | - | 0.0 | 0.0 | 0.0 | 0.0 | 3.8 | 3.8 |
| 64 | Footwear and gaiters | 6.6 | - | 0.7 | 0.0 | 0.0 | 0.0 | 2.1 | 2.1 |
| 65 | Headgear and parts thereof | 0.0 | - | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 66 | Umbrellas, sun umbrellas and walking sticks | 0.9 | - | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 67 | Prepared feathers and down | 0.0 | - | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 68 | Articles of stone, plaster, cement and asbestos | 0.0 | - | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 69 | Ceramic products | 2.0 | - | 0.4 | 0.0 | 0.0 | 0.0 | 1.7 | 1.7 |
| 70 | Glass and glassware | 2.3 | - | 1.4 | 0.0 | 0.0 | 0.0 | 2.4 | 2.4 |
| 71 | Natural or cultured pearls | 1.4 | - | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 72 | Iron and steel | 0.3 | - | 0.0 | - | 0.0 | - | 0.0 | 0.0 |
| 73 | Articles of iron or steel | 2.2 | - | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 74 | Copper and articles thereof | 3.6 | - | 0.7 | 0.0 | 0.0 | 0.0 | 0.5 | 0.6 |
| 75 | Nickel and articles thereof | 1.4 | - | - | - | 0.0 | - | 0.0 | - |
| 76 | Aluminium and articles thereof | 6.4 | - | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 | 1.8 |
| 78 | Lead and articles thereof | 2.1 | - | - | - | 0.0 | 0.0 | 0.0 | 0.0 |
| 79 | Zinc and articles thereof | 4.5 | - | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 80 | Tin and articles thereof | 0.0 | - | - | - | - | - | 0.0 | - |
| 81 | Other base metals | 4.7 | - | - | - | 0.0 | 0.0 | 0.0 | 0.0 |
| 82 | Tools, implements, cutlery, spoons and forks | 3.2 | - | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 83 | Miscellaneous articles of base metal | 2.2 | - | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 84 | Machinery and mechanical appliances | 0.0 | - | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 85 | Electrical machinery and equipment | 0.1 | - | 1.2 | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 |
| 86 | Railway or tramway locomotives | 1.7 | - | 0.0 | - | 0.0 | 0.0 | 0.0 | 0.0 |

| HS Code | Product | India | | Bangladesh | | Sri Lanka | | Vietnam | |
|---------|--|--------------|-----|------------|-----|-----------|-----|---------|-----|
| | | Standard GSP | | EBA | | GSP+ | | FTA | |
| | | AHS | PRF | AHS | PRF | AHS | PRF | AHS | PRF |
| 87 | Vehicles other than railway or tramway | 4.6 | - | 1.2 | 0.0 | 0.0 | 0.0 | 1.0 | 1.0 |
| 88 | Aircraft, spacecraft, and parts thereof | 1.2 | - | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 89 | Ships, boats and floating structures | 2.0 | - | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 90 | Optical, photographic, and medical equipment | 0.0 | - | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 91 | Clocks and watches and parts thereof | 0.6 | - | 0.5 | 0.0 | 0.0 | 0.0 | 0.6 | 0.6 |
| 92 | Musical instruments and parts | 0.0 | - | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 93 | Arms and ammunition and its parts | 2.5 | - | 3.2 | - | 2.7 | - | 0.4 | 0.4 |
| 94 | Furniture, bedding, mattresses and mattresses supports | 0.1 | - | 2.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 95 | Toys, games and sports requisites | 0.0 | - | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 96 | Miscellaneous manufactured articles | 0.0 | - | 3.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 97 | Works of art, collectors' pieces and antiques | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |

Note: “-” Implies not applicable

Source: TRAINS, WITS and India Exim Bank Analysis

At 2-digit HS Code, effectively applied tariff rates for Bangladesh is below 5% for 86 product categories, while 3 product categories, namely, albuminoidal substances and glues, photographic or cinematographic goods and plastics and articles face AHS of more than 5% (**Table 2.15**).

Table 2.15: Effectively Applied Tariff on Country-wise Imports by the EU in 2020

| Effectively Applied Tariff Rates (%) | No. of Products (at 2-digit HS Code) | | | |
|---|--------------------------------------|------------|-----------|-----------|
| | India | Bangladesh | Sri Lanka | Vietnam |
| | Standard GSP | EBA | GSP+ | FTA |
| 0 | 26 | 37 | 84 | 64 |
| 0.1-5 | 48 | 49 | 6 | 27 |
| >5 | 22 | 3 | 1 | 4 |
| Effectively Applied Rates Not Specified | - | 7 | 5 | 1 |
| Total | 96 | 96 | 96 | 96 |

Source: TRAINS, WITS and India Exim Bank Analysis

The AHS for Sri Lanka is 0% for 84 out of 96 product categories. For 6 categories, namely, fish and crustaceans, edible vegetables and roots, edible fruit and nuts, sugars and sugar confectionery, miscellaneous edible preparations and arms and ammunition, the AHS ranges between 0.1% to 5%. In case of cereals, Sri Lanka faces highest AHS of 5.1%.

Vietnam, being a developing country, used to avail Standard GSP benefit from the EU, however, after its FTA with the EU in 2019, which came into force in August 2020, Vietnam enjoys add-on concessional benefits. Vietnam faces AHS of 0% in 64 product categories; for 27 commodity groups, the AHS ranges between 0.1% to 5%. There are four product categories for which Vietnam's export to the EU faces AHS of more than 5%.

These include preparations of meat and fish or of crustaceans, sugars and sugar confectionery, tobacco and manufactured tobacco substitutes and articles of apparel and clothing accessories (not knitted).

Table 2.16: Preferential Tariff Rates on Country-wise Imports by the EU in 2020

| Preferential Tariff Rates (%) | No. of Products (at 2-digit HS Code) | | | |
|---|--------------------------------------|-------------------|-------------------|----------------|
| | India Standard GSP | Bangladesh EBA | Sri Lanka GSP+ | Vietnam FTA |
| 0 | 1 | 78 | 76 | 55 |
| 0.1-5 | - | - | 2 | 26 |
| >5 | - | - | - | 4 |
| Preferential Tariff Rates Not Specified | 95 | 18 | 18 | 11 |
| Total | 96 | 96 | 96 | 96 |

Note: “-” implies not applicable

Source: TRAINS, WITS and India Exim Bank Analysis

At 2-digit HS level, Bangladesh through its EBA eligibility under the GSP enjoys preferential tariff rate (PRF) of 0% on 78 out of 96 product categories (**Table 2.16**). Sri Lanka under GSP+ avails PRF of 0% for 76 product categories and for 2 categories, PRF ranges between 0.1% to 5%.

Vietnam through its FTA concessions faces 0% PRF in 55 product categories. In 26 categories, the PRF ranges between 0.1% to 5% and for four categories, including, preparations of meat and fish, sugars and sugar confectionery, tobacco and manufactured tobacco substitutes and articles of apparel and clothing accessories (not knitted), Vietnam faces PRF of more than 5%. The highest tariff rate of 27.2% encountered by Vietnam was in the case of tobacco and manufactured tobacco substitutes.

As far as India is concerned, stemming from its eligibility under the Standard GSP, India faces an effectively applied tariff of 0% in 26 product categories, while for 48 commodity classifications India faces an AHS ranging between 0.1% and 5%. India faces an AHS of more than 5% in 22 product categories, which is much higher than that of the immediate competitors of India in the EU export market. Being a beneficiary of Standard GSP scheme, India enjoys a PRF of 0% in one product (cereals).

India-EU BTIA Status

India currently qualifies for Standard GSP benefits from the EU; however, India has got only limited edge as compared to countries like Vietnam, which has an FTA agreement with the EU. According to an India Exim Bank study, India also started negotiating the Bilateral Trade and Investment Agreement (BTIA) with the EU since June 2007 to liberalize the trade in goods and services in a WTO compliant manner. The BTIA negotiations were suspended in 2013, after sixteen rounds, over diverging opinions on the ‘sensitive lists’ of both the parties, especially concerning the opening up of Indian markets like automobile, alcoholic beverages and Banking, Financial Services and Insurance (BFSI) for the EU businesses, services as well as the wine and spirits sector, both of which lay at the core of the BTIA²¹.

²¹ <https://www.eximbankindia.in/Assets/Dynamic/PDF/Publication-Resources/ResearchPapers/OP/156file.pdf>

However, in May 2021 both the countries decided to resume the negotiations for a “balanced, ambitious, comprehensive and mutually beneficial” trade agreement, and to launch separate negotiations on an investment protection agreement and another agreement on geographical indications. They agreed to link trade negotiations to finding “solutions to long-standing market access issues”. Additionally, both the sides agreed to set up a dialogue on WTO issues as well as joint working groups on regulatory cooperation and resilient supply chains²². India and the EU aim at concluding the negotiations before 2024. The recent announcement for setting up of Trade and Technology Council during the visit of European Commission President to India provides positive impetus to the ongoing FTA negotiations.

Existing and Potential Opportunities from the India-EU BTIA

The findings from product identification based on competitiveness reveal that there exist immense possibilities for Indian exports in the EU market. The competitiveness analysis identifies that there lies scope for increasing exports in the following product champions categories, namely:

1. Machinery and mechanical appliances (HS-84)
2. Footwear and gaiters (HS-64)
3. Organic chemicals (HS-29)
4. Ships, boats and floating structures (HS-89) and
5. Other made-up textile articles (HS-63), among others.

Subsequently, there exists potential for expanding exports from the underachiever product categories. These are items for which import demand in the EU market is rising, though India does not have the required competitiveness in the export of these items. With increased production capacity and enhanced efficiency, India can cater to the needs of the EU through underlying potential in:

1. Vehicles other than railway or tramway (HS-87)
2. Electrical machinery and equipment (HS-85)
3. Plastics and articles (HS-39)
4. Optical, photographic and medical equipment (HS-90), and
5. Articles of apparel and clothing accessories knitted or crocheted (HS-61), among others.

As India is a developing country like Vietnam and hence eligible for the Standard GSP scheme, an analysis of the reduced tariff for Vietnam after the FTA can give a rough idea about the potential export product categories. A comparative analysis of India and Vietnam’s effectively applied tariff rate (AHS) and preferential tariff rate (PRF) offered by the EU as of 2020 is represented in **Table 2.17**.

²² https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india_en

Table 2.17: India-Vietnam Comparative Tariff Analysis as of 2020

| HS Code | Product | India | | Vietnam | |
|---------|---|--------------|-----|---------|------|
| | | Standard GSP | | FTA | |
| | | AHS | PRF | AHS | PRF |
| 1 | Live animals | 0.0 | - | 0.0 | - |
| 2 | Meat and edible meat offal | 4.4 | - | 0.3 | 0.4 |
| 3 | Fish and crustaceans | 6.4 | - | 4.0 | 4.1 |
| 4 | Dairy produce, birds' eggs and natural honey | 16.1 | - | 0.0 | 0.0 |
| 5 | Products of animal origin, not elsewhere specified | 0.0 | - | 0.0 | 0.0 |
| 6 | Live trees and other plants | 3.5 | - | 0.0 | 0.0 |
| 7 | Edible vegetables and certain roots and tubers | 4.9 | - | 0.0 | 0.0 |
| 8 | Edible fruit and nuts | 3.4 | - | 0.0 | 0.0 |
| 9 | Coffee, tea, maté and spices | 0.5 | - | 0.0 | 0.0 |
| 10 | Cereals | 1.9 | 0.0 | 0.0 | 0.0 |
| 11 | Products of the milling industry | 6.0 | - | 1.2 | 1.2 |
| 12 | Oil seeds and oleaginous fruits | 0.2 | - | 0.0 | 0.0 |
| 13 | Lac, gums, resins and other vegetable saps | 0.4 | - | 0.0 | 0.0 |
| 14 | Vegetable plaiting materials and vegetable products | 0.0 | - | 0.0 | - |
| 15 | Animal or vegetable fats and oils | 3.2 | - | 0.0 | 0.0 |
| 16 | Preparations of meat and fish or of crustaceans | 9.5 | - | 7.3 | 7.3 |
| 17 | Sugars and sugar confectionery | 9.1 | - | 9.1 | 9.1 |
| 18 | Cocoa and cocoa preparations | 2.3 | - | 1.8 | 3.2 |
| 19 | Preparations of cereals, flour, starch or milk | 0.8 | - | 0.3 | 0.3 |
| 20 | Preparations of vegetables, fruit and nuts | 11.6 | - | 0.1 | 0.1 |
| 21 | Miscellaneous edible preparations | 6.1 | - | 2.0 | 2.0 |
| 22 | Beverages, spirits and vinegar | 1.7 | - | 2.4 | 4.0 |
| 23 | Residues and waste from the food industries | 0.7 | - | 0.0 | 0.0 |
| 24 | Tobacco and manufactured tobacco substitutes | 19.4 | - | 24.5 | 24.5 |
| 25 | Salt, sulphur, earths and stone | 0.0 | - | 0.0 | 0.0 |
| 26 | Ores, slag and ash | 0.0 | - | 0.0 | - |
| 27 | Mineral fuels and oils | 0.0 | - | 0.0 | 0.0 |
| 28 | Inorganic chemicals | 4.8 | - | 0.4 | 0.4 |
| 29 | Organic chemicals | 4.8 | - | 1.1 | 1.5 |
| 30 | Pharmaceutical products | 0.0 | - | 0.0 | - |
| 31 | Fertilisers | 1.7 | - | 1.5 | 3.5 |
| 32 | Tanning or dyeing extracts | 1.2 | - | 0.7 | 0.7 |
| 33 | Essential oils and resinoids | 0.0 | - | 0.0 | 0.0 |
| 34 | Soap and organic surface-active agents | 0.0 | - | 0.0 | 0.0 |
| 35 | Albuminoidal substances | 0.4 | - | 0.0 | 0.0 |
| 36 | Explosives and pyrotechnic products | 0.0 | - | - | - |

| HS Code | Product | India | | Vietnam | |
|---------|--|--------------|-----|---------|-----|
| | | Standard GSP | | FTA | |
| | | AHS | PRF | AHS | PRF |
| 37 | Photographic or cinematographic goods | 0.0 | - | 0.0 | 0.0 |
| 38 | Miscellaneous chemical products | 0.0 | - | 0.0 | 0.0 |
| 39 | Plastics and articles | 0.8 | - | 0.0 | 0.0 |
| 40 | Rubber and articles | 0.3 | - | 0.2 | 0.2 |
| 41 | Raw hides and skins (other than fur skins) | 1.5 | - | 0.0 | 0.0 |
| 42 | Articles of leather, saddlery and harness | 0.9 | - | 0.0 | 0.0 |
| 43 | Fur skins and artificial fur | 0.0 | - | 0.0 | 0.0 |
| 44 | Wood and articles of wood | 0.4 | - | 0.5 | 1.1 |
| 45 | Cork and articles of cork | 0.5 | - | 0.0 | 0.0 |
| 46 | Manufactures of straw | 0.2 | - | 0.0 | 0.0 |
| 47 | Pulp of wood or of other fibrous cellulosic | 0.0 | - | 0.0 | - |
| 48 | Paper and paperboard | 0.0 | - | 0.0 | - |
| 49 | Printed books, newspapers and pictures | 0.0 | - | 0.0 | - |
| 50 | Silk | 4.7 | - | 0.0 | 0.0 |
| 51 | Wool, fine or coarse animal hair | 5.1 | - | 0.0 | 0.0 |
| 52 | Cotton | 6.4 | - | 0.0 | 0.0 |
| 53 | Other vegetable textile fibres | 3.5 | - | 0.0 | 0.0 |
| 54 | Man-made filaments | 6.5 | - | 0.0 | 0.0 |
| 55 | Man-made staple fibres | 6.4 | - | 0.4 | 0.4 |
| 56 | Wadding, felt and nonwovens | 6.2 | - | 0.0 | 0.0 |
| 57 | Carpets and other textile floor coverings | 7.4 | - | 0.0 | 0.0 |
| 58 | Special woven fabrics and tufted textile fabrics | 7.0 | - | 0.0 | 0.0 |
| 59 | Impregnated, coated, covered or laminated textile | 6.3 | - | 0.0 | 0.0 |
| 60 | Knitted or crocheted fabrics | 7.9 | - | 0.0 | 0.0 |
| 61 | Articles of apparel and clothing accessories (knitted) | 9.4 | - | 3.8 | 3.8 |
| 62 | Articles of apparel and clothing accessories (not knitted) | 9.0 | - | 6.3 | 6.3 |
| 63 | Other made-up textile articles | 8.2 | - | 3.8 | 3.8 |
| 64 | Footwear and gaiters | 6.6 | - | 2.1 | 2.1 |
| 65 | Headgear and parts | 0.0 | - | 0.0 | 0.0 |
| 66 | Umbrellas, sun umbrellas and walking sticks | 0.9 | - | 0.0 | 0.0 |
| 67 | Prepared feathers and down | 0.0 | - | 0.0 | 0.0 |
| 68 | Articles of stone, plaster, cement and asbestos | 0.0 | - | 0.0 | 0.0 |
| 69 | Ceramic products | 2.0 | - | 1.7 | 1.7 |
| 70 | Glass and glassware | 2.3 | - | 2.4 | 2.4 |
| 71 | Natural or cultured pearls | 1.4 | - | 0.0 | 0.0 |
| 72 | Iron and steel | 0.3 | - | 0.0 | 0.0 |
| 73 | Articles of iron or steel | 2.2 | - | 0.0 | 0.0 |
| 74 | Copper and articles | 3.6 | - | 0.5 | 0.6 |
| 75 | Nickel and articles | 1.4 | - | 0.0 | - |

| HS Code | Product | India | | Vietnam | |
|---------|--|--------------|-----|---------|-----|
| | | Standard GSP | | FTA | |
| | | AHS | PRF | AHS | PRF |
| 76 | Aluminium and articles | 6.4 | - | 1.8 | 1.8 |
| 78 | Lead and articles | 2.1 | - | 0.0 | 0.0 |
| 79 | Zinc and articles | 4.5 | - | 0.0 | 0.0 |
| 80 | Tin and articles | 0.0 | - | 0.0 | - |
| 81 | Other base metals | 4.7 | - | 0.0 | 0.0 |
| 82 | Tools, implements, cutlery, spoons and forks | 3.2 | - | 0.0 | 0.0 |
| 83 | Miscellaneous articles of base metal | 2.2 | - | 0.0 | 0.0 |
| 84 | Machinery and mechanical appliances | 0.0 | - | 0.0 | 0.0 |
| 85 | Electrical machinery and equipment | 0.1 | - | 0.2 | 0.4 |
| 86 | Railway or tramway locomotives | 1.7 | - | 0.0 | 0.0 |
| 87 | Vehicles other than railway or tramway | 4.6 | - | 1.0 | 1.0 |
| 88 | Aircraft, spacecraft, and parts | 1.2 | - | 0.0 | 0.0 |
| 89 | Ships, boats and floating structures | 2.0 | - | 0.0 | 0.0 |
| 90 | Optical, photographic, cinematographic and medical equipment | 0.0 | - | 0.0 | 0.0 |
| 91 | Clocks and watches and parts | 0.6 | - | 0.6 | 0.6 |
| 92 | Musical instruments and parts | 0.0 | - | 0.0 | 0.0 |
| 93 | Arms and ammunition and its parts | 2.5 | - | 0.4 | 0.4 |
| 94 | Furniture, bedding, mattresses and mattress supports | 0.1 | - | 0.0 | 0.0 |
| 95 | Toys, games and sports requisites | 0.0 | - | 0.0 | 0.0 |
| 96 | Miscellaneous manufactured articles | 0.0 | - | 0.0 | 0.0 |
| 97 | Works of art, collectors' pieces and antiques | 0.0 | - | 0.0 | - |

Source: TRAINS, WITS and India Exim Bank Analysis

Table 2.17 segregates the product categories based on comparative tariff analysis for India and Vietnam. In the colour scheme:

Grey – represents product categories for which Vietnam faces 0% AHS or PRF and India faces an AHS of above 0%.

Light Blue – represents product categories wherein India faces an AHS of above 0% and at the same time Vietnam has an AHS or PRF of more than 0% but less than that of India.

Green – represents product categories in which India enjoys a lower AHS or PRF compared to that of Vietnam.

Orange – represents product categories in which India enjoys a PRF under Standard GSP benefits.

Yellow – represents product categories with exceptions.

Non-colour coded product categories are the ones where India currently enjoys tariff levels equivalent to Vietnam.

The analysis shows that there are 39 product categories wherein Vietnam has a tariff rate (AHS or PRF) of 0%. Amongst these categories, the EU imposes highest AHS of 16.1% on the dairy produce, birds' eggs and natural honey (HS-04) product category on India. However, India also imposes an AHS of 34.9% in the dairy sector on the imports from the EU stemming from its protectionist stance on the domestic dairy sector.

Other than the dairy sector there are 7 product categories, where Vietnam enjoys a PRF of 0% and India faces an AHS of more than 5%. These include knitted or crocheted fabrics (HS-60), carpets and other textile floor coverings (HS-57), man-made filaments (HS-54), cotton (HS-52), impregnated, coated, covered or laminated textile (HS-59), wadding, felt and nonwovens (HS-56) and wool, fine or coarse animal hair (HS-51). Subsequently, there are 31 product categories where India faces an AHS between 0% to 5% compared to PRF of 0% enjoyed by Vietnam.

There are 21 product categories wherein India faces an AHS of above 0% but is still facing tariffs higher than that of Vietnam. Amongst these, India faces the highest AHS of 11.6% in comparison to Vietnam's PRF of 0.1% in case of preparations of vegetables, fruits and nuts.

Among these 21 products, in 11 product categories India faces an AHS of more than 5%, and these include, preparations of meat and fish or of crustaceans (HS-16), articles of apparel and clothing accessories (knitted) (HS-61), articles of apparel and clothing accessories (not knitted) (HS-62), other made-up textile articles (HS-63), footwear and gaiters (HS-64), man-made staple fibres (HS-55), aluminium and articles (HS-76), fish and crustaceans (HS-03), miscellaneous edible preparations (HS-21), preparations of vegetables, fruit and nuts (HS-20), and products of the milling industry (HS-11). The tariffs on these 11 products are higher than that faced by Vietnamese exporters.

For 7 product categories, Indian exporters face tariff lower than that observed by Vietnamese exporters. These include cocoa and cocoa preparations (HS-18), beverages, spirits and vinegar (HS-22), tobacco and manufactured tobacco substitutes (HS-24), fertilisers (HS-31), wood and articles of wood (HS-44), glass and glassware (HS-70), and electrical machinery and equipment (HS-85).

In case of sugars and sugar confectionery (HS-17), India faces AHS of 9.1%, equivalent to PRF enjoyed by Vietnam. Another exception in case of tariffs for Indian exports is explosives and pyrotechnic products (HS-36) wherein India enjoys an AHS of 0%, with no such tariff preference given to Vietnam.

India enjoys PRF only in case of cereals (HS-10), stemming from benefits arising out of its Standard GSP eligibility. There are 26 product categories wherein India faces same level of tariffs as Vietnam.

The identification of products based on competitiveness, followed by the above analysis shows that there exist enormous opportunities for expanding exports in case of articles of apparels both knitted and non-knitted (HS-61 and HS-62), and footwears and gaiters (HS-64), among others. The EU imported US\$ 2.9 billion worth products from India under HS-61, while imposing an AHS of 9.4%, which is far more than that faced by its competitors like Bangladesh and Vietnam. The EU globally imported articles of apparel and clothing accessories knitted or crocheted (HS-61) amounting to US\$ 93.7 billion in 2021²³. Bangladesh, enjoying a 0% PRF under EBA scheme, exported US\$ 15.0 billion worth of HS-61 to the EU. Vietnam due to its FTA with the EU faces a PRF of 3.8% and exported US\$ 2.3 billion worth of products under this category.

²³ EU's imports from India reported on a CIF basis.

In case of articles of apparel and clothing accessories, not knitted or crocheted (HS-62), the EU imported US\$ 2.6 billion worth products from India in 2021, at an AHS of 9%, while its global imports amounted to US\$ 85.7 billion during the same year. Bangladesh, enjoying a 0% PRF under EBA scheme, exported US\$ 9.3 billion worth of HS-62 to the EU. Vietnam stemming from its Standard GSP eligibility and FTA with the EU faces a PRF of 6.3% and exported US\$ 2.9 billion worth of products under this category.

In case of footwear and gaiters (HS-64), the EU imported goods worth US\$ 1.4 billion from India in 2021, imposing an AHS of 6.6%, with its global imports amounting to US\$ 59.6 billion in the same year. Vietnam through its Standard GSP eligibility and FTA with the EU faces a PRF of 2.1% and exported US\$ 7.4 billion worth of products under this category.

In product categories like vehicles other than railway or tramway (HS-87), aluminium and articles (HS-76), organic chemicals (HS-29), and articles of iron and steel (HS-73), India is facing higher tariff rates compared to its competitors. Tariff reduction or elimination in these categories can be highly beneficial given India's export capability and import demand in the EU.

Key Sensitivities

In its recent Comprehensive Economic and Partnership Agreement (CEPA) with UAE, India has been vigilant in providing duty free entry to the products entering the Indian market. The CEPA excludes dairy items, most automobiles and components, fruit, cereals, sugar and food preparations, tobacco products, dyes and pigments, natural rubber, tyres, processed marble, TVs, toys, footwear, instant coffee, and petroleum waxes from the list of concessions. These excluded sectors remain points of contention, given concern of the domestic producers.

After several rounds on FTA negotiations between India and the EU, a vacuum originated in the discussion resulting from disagreement in sensitive sectors on both the sides. India insisted on opening up of the EU market for skilled professionals, whereas the EU demanded relaxation in hefty tariffs imposed by India in case of alcoholic beverages, automobiles and dairy products. In order to understand the situation of these critical sectors in a granular manner, an analysis based on 6-digit HS classification is presented below.

Alcoholic Beverages

India has the highest simple average effectively applied tariff of 111% in case of beverages, spirits and vinegar, and this category constitutes US\$ 134.8 million of Indian imports from the EU during 2021. Around 50% of India's imports from the EU under this category are in the form of whiskies (HS-220830), vodka (HS-220860), liqueurs and cordials (HS-220870), and alcoholic liqueurs (HS-220890), attracting an effectively applied tariff of 150%. At 6-digit level, product categories facing effectively applied tariff of 150% are gin and geneve (HS-220850), rum and other spirits obtained by distilling fermented sugar-cane products (HS-220840), spirits obtained by distilling grape wine or grape brandy (HS-220820), undenatured ethyl alcohol greater than 80% by volume (HS-220710), other fermented beverages (HS-220600), vermouth and other flavoured grape wines pack less than 2 litres (HS-220510), other grape must unfermented, except as fruit juice (HS-220430), sherry and other white wines (HS-220422), grape wines, fortified wine or must, pack less than 2 litres (HS-220421) and sparkling wine (HS-220410), among others.

The EU exporters find it difficult entering the Indian market. The alcoholic beverages are not covered under the GST regime, and respective state governments impose hefty excise duties as it is one of the largest sources of revenue. The EU negotiators may advocate inclusion of alcoholic beverages under the GST, but the GST revenue might be much lower than anticipated.

Automobiles

India imported vehicles other than railway and tramway (HS-87), amounting US\$ 1.4 billion from the EU in 2021, constituting 3.1% of total imports from the EU. Although at 2-digit HS code level, the product category faces an effectively applied tariff of 24.5%, motor cars imported from the EU under this category have an effectively applied tariff of 125%. At 6-digit level product, categories including, electrically operated vehicles, including three wheeled electric motor vehicles (HS-870380), vehicles principally designed for transport of more than seven persons, including driver (HS-870360), other vehicles, with both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, other than those capable of being charged by plugging to external source of electric power (HS-870340), automobiles, diesel engine of greater than 2500 cc (HS-870333), automobiles, diesel engine of 1500-2500 cc (HS-870332), automobiles, diesel engine of less than 1500 cc (HS-870331), automobiles, spark ignition engine of greater than 3000 cc (HS-870324), automobiles, spark ignition engine of 1500-3000 cc (HS-870323), automobiles, spark ignition engine of 1000-1500 cc (HS-870322), petrol, Liquefied petroleum gases (LPG) or compressed natural gas (CNG) driven motor vehicles of engine capacity not exceeding 1200cc and of length not exceeding 4000 mm (HS-870321), and vehicles specially designed for travelling on snow; golf cars and similar vehicles (HS-870310) face effectively applied tariff of 125%. Automobiles present a different challenge altogether as India's existing FTA partners like Japan and South Korea are large producers and they may seek for a level-playing field once greater market access is granted to the EU.

Dairy Products

According to the United States report on Non-Tariff Barriers, India imposes certain requirements on dairy imports. India continues to insist that dairy products intended for food be derived from animals that have never consumed any feeds containing internal organs, blood meal, or tissues of ruminant origin, and that exporting countries certify these conditions. India has explained that its position is based on religious and cultural grounds. This requirement, along with high effectively applied tariff rates ranging between 30% to 60%, continues to prevent market access for the EU milk and dairy product exports to India, one of the largest dairy markets in the world.²⁴ The highest tariff rates in the dairy sector faced by the EU, i.e., 60% is in the case of natural honey (HS-040900), milk and cream, concentrated or containing added sugar or other sweetening matter (HS-040221), skimmed milk (HS-040210) and whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter (HS-040410).

One key product of interest for the EU is cheese, which comes under HS-0406, along with curd. The EU is the largest producer and exporter of cheese globally. In 2021, global cheese and curd exports of the EU amounted to US\$ 27.8 billion, constituting 75.6% of total exports in the product category around the globe. The Indian dairy sector largely consists of marginal farmers owning a couple of buffaloes and cows and operating with

²⁴ National Trade Estimate Report on Foreign Trade Barriers, United States Trade Representative, 2021

limited number of resources. According to the report submitted to the Principal Scientific Advisor to the Government of India, despite being the highest milk producer in the world, the average milk production/cow/year is around 1,200 kg (50% of global average) in India, compared with New Zealand (3,343 kg), Australia (5,600 kg), the UK (7,101 kg), USA (9,332 kg) and Israel (10,214 kg)²⁵. Consequently, opening up of dairy sector for the EU can distort the domestic market.

²⁵ https://static.psa.gov.in/psa_prod/publication/Report%20of%20Policies%20and%20Action%20for%20Agriculture.pdf

India's services sector is a key driver of the Indian economy with a share of 52.7% in Gross Value Added (GVA) and a growth of 8.4% of the overall GDP growth in 2021-22²⁶. Growth in value added by services was severely impacted with a contraction of 7.8% in 2020-21 due to the pandemic. India's global services exports have more than doubled in the last decade from US\$ 117.1 billion in 2010 to US\$ 240.7 billion in 2021. India's share in global services exports have also increased from 2.9% in 2010 to 4% in 2021. According to the RBI, during 2021-22, services exports stood at US\$ 254.5 billion surpassing the pre-pandemic levels of US\$ 213.2 billion in 2019-20. While many initiatives have been taken by the Government and Industry to accelerate services growth and trade, some inherent restrictions in the form of domestic regulations and procedures in India and domestic regulations in key markets impacting market access, have been affecting India's services exports.

India's Services Trade with the EU

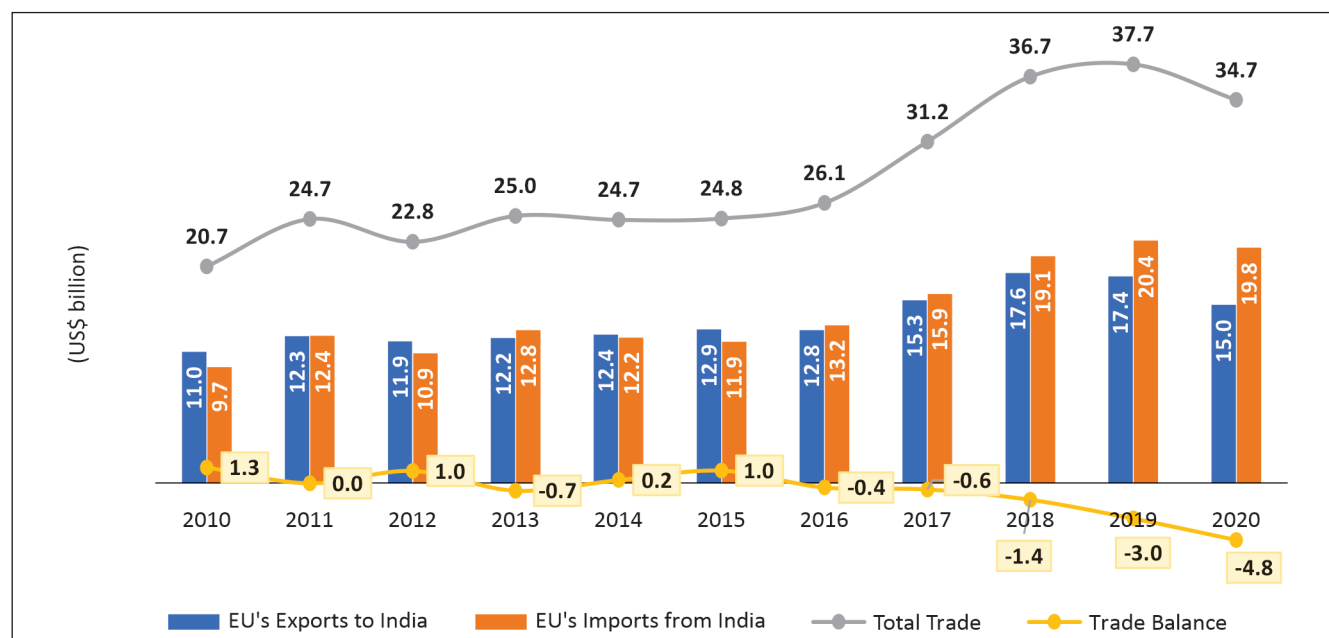
Both India and the EU are major services trading countries globally. As a bloc, the EU is the largest services exporter globally in 2021 while India stood as 8th largest services exporter in the world (ranked 4th among extra-EU countries). In terms of services imports, the EU is also the largest global services importer, while India stood as the 10th largest importer of services in the world in 2021 (ranked 6th among extra-EU countries).

India has strong services trade relations with the EU. In 2020, India was the 26th largest services export destination (12th largest among extra-EU countries) of the EU, with 0.7% share in the EU's global services exports and the 20th largest services import source for the EU (8th largest among extra-EU countries), with a 1% share in the EU's global services imports.

The EU's trade in services with India has grown considerably over the last decade. Growth in services trade has been promising, with the EU-India trade flows increasing by 70% over the past decade from US\$ 20.7 billion in 2010 to US\$ 37.7 billion in 2019. In 2020, the services trade between the two economies was severely impacted by Covid 19, resulting in the total services trade between the EU and India declining by 7.9% to US\$ 34.7 billion, amounting to a deficit of US\$ 4.8 billion for the EU. During the year, the EU exported US\$ 15 billion worth services to India and imported US\$ 19.8 billion (**Chart 3.1**).

²⁶ Advance Estimates

Chart 3.1: The EU's Services Trade with India (2010-2020)



Note: 2021 data not available

Source: WTO database and India Exim Bank Analysis

The EU's Services Exports to India

India is among the top 30 services exports destinations for the EU in 2020 (and the 12th largest among extra-EU countries). The services exports of the EU to India have increased steadily over the last decade, from US\$ 11 billion in 2010 to US\$ 15 billion in 2020. The year 2018 reported the highest level of services exports to India from the EU (US\$ 17.6 billion).

With a share of 44.2%, telecommunications, computer, and information services accounted for the largest share in the EU's total services exports to India in 2020 (**Table 3.1**). This was followed by transport (27.3%), business services (26%), charges for the use of intellectual property (7.4%), goods related services (3.2%), travel (3%), and financial services (2%), among others. Other business services include professional and management consulting services, technical, trade-related, and other business services, and research and development services.

Table 3.1: Services Exports of the EU to India

(US\$ million)

| Product/Sector | 2010 | 2015 | 2019 | 2020 |
|-------------------------------|--------------|--------------|--------------|--------------|
| Total Services Exports | 11021 | 12899 | 17366 | 14969 |
| Government goods and services | 50 | 42 | 65 | 37 |
| Commercial services | 10970 | 12857 | 17301 | 14932 |
| Goods-related services | 706 | 320 | 564 | 478 |
| Transport | 3660 | 3360 | 4758 | 4089 |
| Travel | 868 | 1515 | 1778 | 443 |

| Product/Sector | 2010 | 2015 | 2019 | 2020 |
|--|------|------|-------|------|
| Other commercial services | 5736 | 7663 | 10200 | 9922 |
| Construction | 327 | 263 | 206 | 127 |
| Insurance and pension services | 66 | 98 | 63 | 299 |
| Charges for the use of intellectual property | 346 | 548 | 1214 | 1104 |
| Financial services | 151 | 287 | 229 | 293 |
| Telecommunications, computer, and information services | 3077 | 4104 | 5685 | 6610 |
| Computer services | 2730 | 3718 | 5303 | 6336 |
| Personal, cultural, and recreational services | 50 | 45 | 64 | 46 |
| Other business services | 1709 | 2090 | 4147 | 3895 |

Source: WTO database and India Exim Bank Analysis

The EU's Services Imports from India

In 2020, India stands as 20th largest services import source to the EU (and the 8th largest among extra-EU countries) with a share of 1% in the EU's total services imports. During 2010-2020, the EU's total services imports from India have increased from US\$ 9.7 billion in 2010 to US\$ 19.8 billion in 2020 (**Table 3.2**). Services including contact intensive sectors were severely impacted due to the pandemic, leading to a fall in imports from India.

The EU's services imports from India consist mainly of commercial services with negligible share of government services. Business services make almost half (48.3%) of the EU's services imports from India. Other business services include professional and management consulting services, technical, trade-related, and other business services, and research and development services. Technical, trade-related, and other business services cover architectural, engineering, scientific and other technical services, waste treatment and de-pollution, agricultural and mining services, operating leasing services, trade-related services and other business services.

Other major services imports of the EU from India include telecommunications, computers and information services, constituting 31.1% of the total services imports from India in 2020, followed by transport (10.6%), goods related services (2.6%), and financial services (2.3%), amongst others.

Table 3.2: Services Imports of the EU from India

(US\$ million)

| Product/Sector | 2010 | 2015 | 2019 | 2020 |
|-------------------------------|-------------|--------------|--------------|--------------|
| Total Services Imports | 9726 | 11870 | 20362 | 19766 |
| Government goods and services | 54 | 27 | 45 | 39 |
| Commercial services | 9671 | 11843 | 20317 | 19727 |
| Goods-related services | 78 | 227 | 542 | 517 |
| Transport | 2044 | 1760 | 2363 | 2091 |
| Travel | 1212 | 987 | 1510 | 410 |
| Other commercial services | 6338 | 8870 | 15902 | 16709 |

| Product/Sector | 2010 | 2015 | 2019 | 2020 |
|--|------|------|------|------|
| Construction | 151 | 81 | 210 | 148 |
| Insurance and pension services | 131 | 87 | 154 | 167 |
| Charges for the use of intellectual property | 151 | 62 | 140 | 181 |
| Financial services | 188 | 136 | 272 | 453 |
| Telecommunications, computer, and information services | 2287 | 2612 | 5442 | 6152 |
| Computer services | 2072 | 2176 | 5069 | 5728 |
| Personal, cultural, and recreational services | 34 | 46 | 63 | 60 |
| Other business services | 3374 | 5834 | 9618 | 9539 |

Source: WTO database and India Exim Bank Analysis

Services Trade Restrictiveness Index

The relative restrictiveness of Indian services trade policy can be analysed using the Services Trade Restrictiveness Index (STRI) developed by the OECD. The OECD database includes 22 services sectors for 38 OECD countries and 12 non-OECD countries, including, Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, Singapore, South Africa, Thailand, and Vietnam. These countries and sectors represent over 80% of global trade in services. The Services Trade Restrictiveness Index database contains information on trade restrictions and behind the border regulation in the following sectors:

- Computer services
- Construction
- Professional services (legal, accounting, engineering, and architecture)
- Telecommunications
- Distribution
- Audiovisual services (broadcasting, motion pictures, sound recording)
- Transport (air, maritime, road freight and rail freight)
- Courier
- Financial services (commercial banking, insurance)
- Logistics services (cargo-handling, storage and warehouse, freight forwarding, custom brokerage)

The STRI score takes values between zero and one, with one indicating the most restrictive trade environment. The STRI also harmonizes policy measures implemented by the countries across the 22 services sectors. These policy measures are categorized under five policy areas:

- Restrictions on foreign ownership and other market entry conditions
- Restrictions on the movement of people
- Other discriminatory measures and international standards
- Barriers to competition and public ownership
- Regulatory transparency and administrative requirements

As stated by the OECD, the STRI database records regulations actually in force and does not take into account preferential agreements. In **Chart 3.2**, the STRI values by sectors and policy area for India, the EU and World

are given across 22 sectors in 2021.

As can be seen in the case of the EU, among the sectors, air transport and legal services have the highest STRI value of 0.41 against the world average of 0.17 and 0.33, respectively. The other sectors with high STRI values are accounting services (0.27), architecture Services (0.26), engineering services (0.24), and broadcasting services (0.24). The lowest STRIs are in telecommunications (0.15) and distribution services (0.16) against the world average of 0.20 and 0.19, respectively.

India has a STRI score above world average in all the 22 sectors. Among the sectors, rail freight transport has the highest STRI value of 1 (maximum STRI value) which is well above the world average of 0.32. The other two sectors with high STRI values are legal services (0.88) and accounting services (0.81). The other services with STRI value above 0.5 are architecture services (0.65), air transport (0.54), courier services (0.54), and insurance (0.52). The lowest STRIs are in sound recording (0.23), computer services (0.24) and engineering services (0.24), against the world average of 0.20, 0.22 and 0.23, respectively.

Based on the above analysis, a comparison of India's STRIs with the STRI of the EU reveals that India is a much-restricted economy in services trade than the EU, certainly due to high STRIs in rail freight transport, legal and accounting services as against the EU average of 0.21, 0.41 and 0.27, respectively. However, the EU is restrictive in air transport, legal services, and accounting services trade as the STRI for these remain above the world average in 2021. Thus, transport, legal and accounting services are the potential sectors which are likely to provide comparative advantage to both India and the EU in case of liberalisation due to India-EU FTA.

Barriers Faced by Indian Service Suppliers in the EU: Horizontal Restrictions

Horizontal measures are cross-cutting restrictions across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector - specific measures, the horizontal measures, make the whole sector restrictive. I-TIP of the WTO database provides mode-wise horizontal measures impacting services sector.

Currently, the database covers 31 service sectors in 76 economies. From the EU countries, 22 EU economies namely, Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, and Sweden are covered in the database and hence, these 22 economies are covered in the analysis.

According to the WTO, the 4 modes of services trade are defined as:

Mode 1: Cross-border Trade

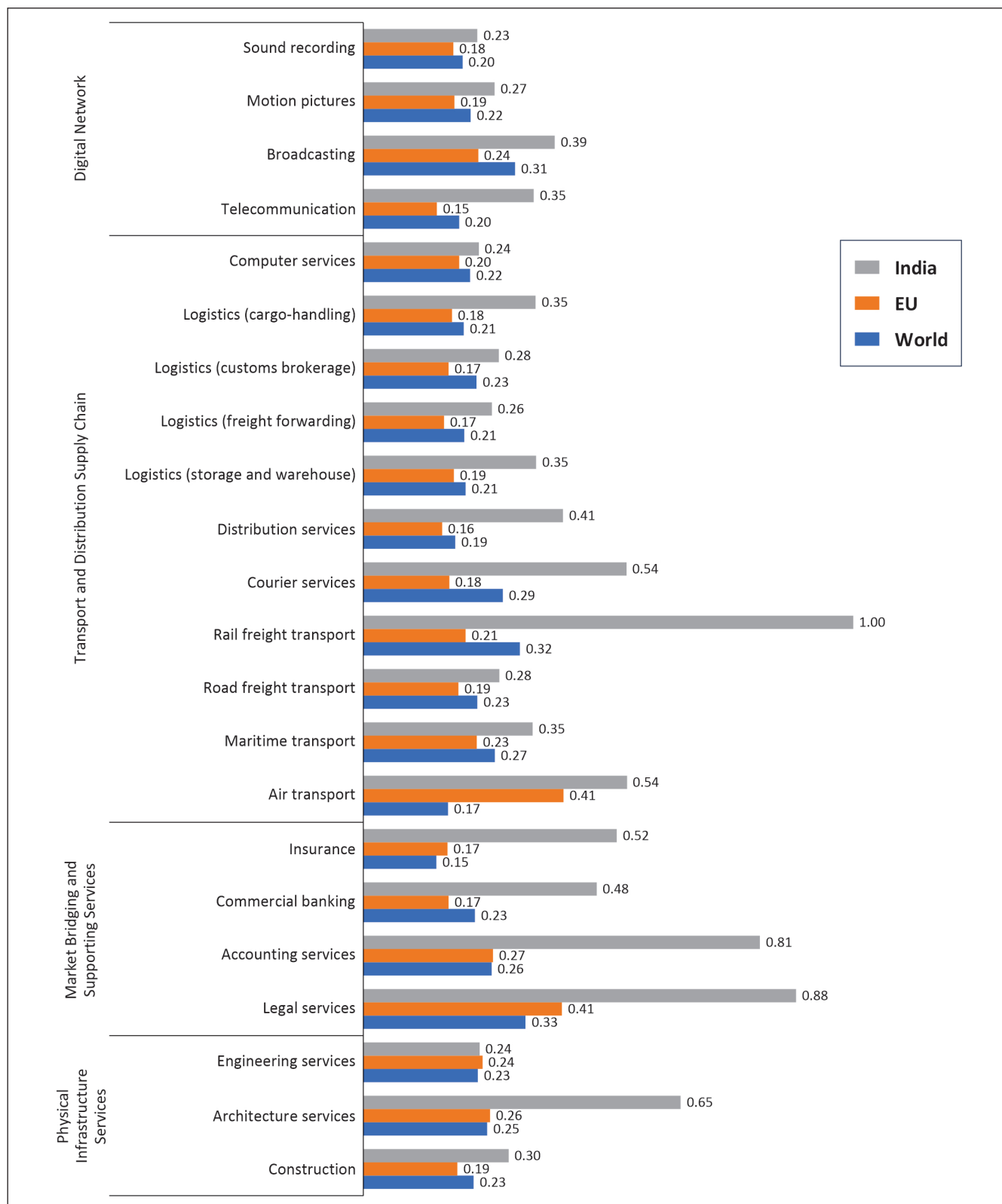
A mode of service supply or trade where services are supplied from the territory of one member of a trade agreement into the territory of another. For example, a user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption Abroad

A mode of service supply or trade where services are supplied in the territory of one member of a trade agreement to the consumers of another. This mode of supply requires that the consumer of services move

abroad. An example is the traveling abroad to receive medical treatment or to enroll in an education program. Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.

Chart 3.2: Services Trade Restrictiveness Index (STRI) for India, the EU, and World in 2021



Note: The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Source: OECD STRI database and India Exim Bank Analysis

Mode 3: Commercial Presence

A mode of service supply or trade where services are supplied through any type of business or professional establishment, i.e. foreign direct investment, of one member of the agreement in the territory of another. An example is the establishment of a branch of a foreign bank or of a franchising outlet in a foreign location. The service is provided within Country A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company of Country B (bank, hotel group, construction company, etc.).

Mode 4: Movement of Natural Persons

A mode of service supply or trade where services are supplied by nationals of one member of a trade agreement in the territory of another, requiring the physical presence of the service provider in the host country. This mode includes both independent service providers as well as employees of the services providers of another member. Examples include consultants, teachers and actors of one country supplying services through their physical presence in a member country, or the managers of a multinational enterprise. A foreign national provides a service (say from country A) within country B as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

These modes of supply require the movement of either the service itself (Mode 1), the service consumer (Mode 2) or the service supplier (Modes 3 and 4). **Table 3.3** analysis Modes 1, 3 and 4 horizontal restrictions imposed by the EU on the services sector.

Under Mode 1: Under horizontal restrictions, all 22 EU economies have imposed conditions on operation through conditions on service suppliers. The laws of the 22 economies distinguish between countries or regions to which data may be transferred to or accessed from abroad. The general rule is that data transfers are only possible to countries that ensure an adequate level of protection or if certain safeguards are in place. The EU Commission determines which third countries are deemed to provide adequate data protection.

Under Mode 3: Under horizontal restrictions, some of the EU economies have imposed conditions on market entry as well as conditions on operations through service suppliers. In terms of market entry, in 12 economies of the EU, acquisition of land and real estate by foreigners are restricted or regulated at the federal state level. Authorisation is required for foreigners when acquiring land or real estate. Additionally, in Estonia and Greece, rental of land or real estate is also prohibited for foreigners.

In terms of operations, laws of 21 EU economies' (except Latvia), distinguish between countries or regions to which data may be transferred to or accessed from abroad. The general rule is that data transfers are only possible to countries that ensure an adequate level of protection or if certain safeguards are in place. The EU Commission determines which third countries are deemed to provide adequate data protection. However, there are no restrictions on subsequent transfer of capital and investment under Mode 3 in 21 economies (except Estonia²⁷).

²⁷ Data not specified

Under Mode 4: Under horizontal restrictions, some of the EU economies have imposed conditions on market entry, operations as well as through administrative procedures and regulatory transparency. In terms of market entry, Denmark, Estonia, Hungary and Italy have imposed quantitative restrictions through limit on the total number or the share of foreigners employed in the domestic economy.

Table 3.3: Mode-wise Horizontal Restrictions on Services Sector Imposed by the EU

| | Austria | Belgium | Czech | Denmark | Estonia | Finland | France | Germany | Greece | Hungary | Ireland | Italy | Latvia | Lithuania | Luxembourg | Netherlands | Poland | Portugal | Slovak | Slovenia | Spain | Sweden |
|---|---------|---------|-------|---------|---------|---------|--------|---------|--------|---------|---------|-------|--------|-----------|------------|-------------|--------|----------|--------|----------|-------|--------|
| Mode 1 | | | | | | | | | | | | | | | | | | | | | | |
| Category: Conditions on operations | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Conditions on service supplier | | | | | | | | | | | | | | | | | | | | | | |
| Measure: International data transfer: distinction between countries/regions | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Mode 3 | | | | | | | | | | | | | | | | | | | | | | |
| Category: Conditions on market entry | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Other conditions on market entry | | | | | | | | | | | | | | | | | | | | | | |
| Measure: Acquisition and/or rental of land and real estate by foreigners restricted | Y | N | N | Y | Y | N | N | N | Y | Y | N | Y | Y | Y | N | N | Y | N | Y | Y | Y | N |
| Measure: Rental of land and real estate by foreigners prohibited | N | N | N | N | Y | N | N | N | Y | N | N | N | N | N | N | N | N | N | N | N | N | N |
| Category: Conditions on operations | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Conditions on service supplier | | | | | | | | | | | | | | | | | | | | | | |
| Measure: International data transfer: distinction between countries/regions | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | N | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Subcategory: Other conditions on operations | | | | | | | | | | | | | | | | | | | | | | |
| Measure: Limits on subsequent transfer of capital and investment | N | N | N | N | - | N | N | N | N | N | N | N | N | N | N | N | N | N | N | N | N | N |
| Mode 4 | | | | | | | | | | | | | | | | | | | | | | |
| Category: Conditions on market entry | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Quantitative measures (for firms and natural persons) | | | | | | | | | | | | | | | | | | | | | | |
| Measure: Limit on share of foreigners employed in the domestic economy | N | N | N | Y | Y | N | N | N | N | Y | N | Y | N | N | N | N | N | N | N | N | N | N |
| Category: Conditions on operations | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Conditions on service supplier | | | | | | | | | | | | | | | | | | | | | | |
| Measure: International data transfer: distinction between countries/regions | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | N | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Category: Administrative procedures and regulatory transparency | | | | | | | | | | | | | | | | | | | | | | |
| Subcategory: Administrative procedures | | | | | | | | | | | | | | | | | | | | | | |
| Measure: Average visa processing time (days) | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 10 | 15 | 15 | 6 | 15 | 10 | 15 | 15 | 15 | 14 | 15 | 15 | 15 | 15 | 15 |
| Measure: Cost to obtain a business visa (US\$) | 110 | 67 | 67 | 67 | 90 | 67 | 67 | - | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 | 67 |
| Measure: Number of documents needed to obtain a business visa | 17 | 9 | 7 | 7 | 5 | 11 | 16 | 15 | 12 | 9 | 12 | 8 | 11 | 10 | 13 | 12 | 13 | 9 | 11 | 7 | 9 | 14 |

Source: I-TIP database and India Exim Bank Analysis

In terms of operations, 21 EU economies, except Latvia, have imposed conditions on service suppliers. The

laws of these jurisdictions distinguish between countries or regions to which data may be transferred to or accessed from abroad. The general rule is that data transfers are only possible to countries that ensure an adequate level of protection or if certain safeguards are in place. The EU Commission determines which third countries are deemed to provide adequate data protection.

In terms of administration procedures, average visa processing time is 15 days in majority of the EU economies, which means processing can take up to 15 calendar days after receiving the application. However, it takes much lesser time in Ireland (6 days), Latvia (10 days) and Poland (14 days). The application for a business visa comes with a fee of approximately US\$ 67 in all economies except Estonia (US\$ 90) and Austria (US\$ 110). The number of documents needed to obtain a business visa ranges from 5 (Estonia) to 17 (Austria) documents.

Also in Mode 4, countries in the European Union impose Economic Need Test (ENT) or Labour Market Test (LMT) requirement. These are the tests that condition access in Mode 4, upon the fulfilment of certain economic criteria. These economic criteria include conditions like the work permit to foreigners may be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy, among others. The EU countries impose LMT/ENT condition on the following 3 category of workers:

- Contractual service suppliers
- Independent professionals
- Intra-corporate transferees

France, Portugal, Slovenia and Spain have no ENT/LMT requirement in their market for any of the above three mentioned categories of workers. While on the other hand, Austria, Belgium, Denmark, Finland, Hungary, Ireland, Netherlands, and Poland are restricted as these countries have imposed ENT/LMT requirements on all 3 categories of workers in all the sectors. For the rest of the EU countries, the conditions vary across sectors and categories of workers.

Potential Services Sectors for Mutual Recognition Agreements

Mutual Recognition Agreements (MRAs) are bilateral agreements focussed on benefitting industries by providing easier access to conformity assessment, thereby facilitating wider market access and promoting trade. Mutual recognition agreements lay down the conditions under which one party will accept conformity assessment results (e.g. testing or certification) performed by the other party's designated conformity assessment bodies (CABs) to show compliance with the first party's requirements and vice versa. Broadly, MRAs include relevant lists of designated laboratories, inspection bodies and conformity assessment.

Entering into MRAs could significantly expand the market access of India's exports (both goods and services) and lead to better price discovery in partner countries, especially the ones that are also the co-signatories to trade agreements. The MRAs with India's existing and potential FTA partners could be focussed on areas like regulatory standards, conformity assessment, accreditation procedures, qualifications, visas and social security.

In a general sense, mutual recognition implies that goods or services produced under a regulatory regime or rules in country A enjoy unhindered market access in country B, presumably having different rules. MRAs

are part of FTAs and facilitate freer movement of people between the countries. MRAs are not expected to override local laws. Instead, the agreements are applicable only in accordance with prevailing laws and regulations of the host country.

In case of India, talent and innovation can be one of the priority areas. The EU could cooperate with India in order to foster the reciprocal mobility of students and researchers, and to consolidate networks of innovators and start-ups. MRAs pave the way for recognition of the professional bodies of one country by the other to institutionally access markets abroad. Furthermore, like in the case of India-UAE CEPA, the EU can move towards mutual recognition of education or experience obtained, qualification requirements and procedures, and licensing requirements and procedures in sectors such as architecture, engineering, medical, nursing, accountancy, tourism and company secretaries, allowing easier mobility of skilled professionals across the two countries.

Like in the case of India-Australia trade deal, the EU economies could agree for post-study work rights in a side letter to a FTA and could extend access for STEM graduates. The EU could provide opportunities for former Indian students to live, study and work temporarily upon completion of a diploma or trade qualification (up to 18 months), bachelor's degree (up to two years), masters degrees (up to three years) or doctoral degree (up to four years). An additional year could be made available for Indians who graduate with bachelor's degrees in STEM and ICT with First Class Honors (from two to three years).

In the course of delivery of professional services, a short-term visa is required and for that, there should be fair and transparent rules. Skilled visas could be provided to more Indians to enable them to work in the EU.

Foreign Direct Investment (FDI) has the potential to bring enormous benefits to the recipient country. Establishment of industries in a country enhances the competition and productivity in the domestic market. The EU identifies the crucial role played by FDI in enabling an investment-friendly environment. According to a report titled, “The World in Europe, global FDI flows towards Europe” by ESPON (European Spatial Planning Observation Network), the average deal size and sectoral composition of intra-European FDI are similar to the extra-European FDI profile, but European investors more frequently conduct Mergers & Acquisitions (M&As), whereas non-European investors to a larger degree carry out greenfield investments. Also, FDI by public investors is less frequent in intra-European FDI compared to extra-European FDI²⁸.

Table 4.1: Envisaged FDI Inflows in the EU (2011-2020)

| Year | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created |
|--------------|-----------------|-------------------------------|---------------------|
| 2011 | 4,052 | 115.3 | 3,67,471 |
| 2012 | 3,798 | 87.1 | 3,02,295 |
| 2013 | 4,051 | 99.4 | 3,14,894 |
| 2014 | 3,919 | 77.6 | 2,66,351 |
| 2015 | 4,458 | 94.4 | 3,26,331 |
| 2016 | 4,580 | 102.5 | 3,81,842 |
| 2017 | 5,523 | 126.5 | 4,80,376 |
| 2018 | 6,150 | 180.3 | 6,04,098 |
| 2019 | 6,313 | 174.4 | 6,13,960 |
| 2020 | 4,775 | 140.2 | 4,62,893 |
| Total | 47,619 | 1,198.2 | 41,20,511 |

Source: fDi Markets online database and India Exim Bank Analysis

To get a meaningful understanding on the trends in the EU’s overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times’ fDi Markets, during January 2011 to December 2020, the EU received a total envisaged investment of US\$ 1.2 trillion from 47,619 projects (**Table 4.1**). The total number of projects and the value of FDI both experienced a sharp increase and peaked during the pre-crisis years. In the years around the financial crisis in 2007-2009, direct investments in Europe undertaken by European and non-European investors experienced a slowdown and reverted almost to the 2004 level. After

²⁸ <https://www.espon.eu/sites/default/files/attachments/ESPON%20FDI%20-%202001%20%20Synthesis%20report.pdf>

the crisis, the level of FDI inflows towards Europe stagnated, before a recovery phase started in 2013 and continued towards 2015. Having recorded US\$ 115.3 billion in 2011, FDI inflows into the EU averaged around US\$ 89.6 billion during the period 2012 to 2015. The envisaged inflows declined from US\$ 174.4 billion in 2019 to US\$ 140.2 billion in 2020, stemming from the uncertainties due to the pandemic.

Table 4.2: Major Investors in the EU (2011-2020)

| Source Country | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created | No. of Companies |
|----------------|-----------------|-------------------------------|---------------------|------------------|
| USA | 9,369 | 282.8 | 8,14,770 | 4,529 |
| Germany | 5,365 | 156.8 | 5,48,504 | 2,089 |
| UK | 4,675 | 89.4 | 3,54,755 | 2,448 |
| France | 3,179 | 88.7 | 3,28,455 | 1,295 |
| Switzerland | 2,758 | 49.0 | 1,49,108 | 1,466 |
| Netherlands | 2,205 | 49.9 | 1,78,072 | 1,007 |
| China | 1,665 | 42.6 | 1,05,437 | 1,099 |
| Sweden | 1,610 | 27.2 | 1,19,227 | 778 |
| Spain | 1,609 | 40.6 | 1,25,870 | 682 |
| Japan | 1,588 | 36.4 | 1,10,416 | 957 |
| Italy | 1,493 | 31.7 | 76,393 | 790 |
| Denmark | 1,077 | 31.5 | 84,489 | 449 |
| Austria | 1,023 | 21.1 | 1,20,400 | 582 |
| Belgium | 779 | 20.4 | 1,23,161 | 421 |
| Canada | 753 | 20.7 | 55,367 | 467 |
| Finland | 593 | 13.6 | 42,221 | 323 |
| Turkey | 541 | 7.0 | 36,214 | 420 |
| India | 536 | 10.1 | 31,691 | 360 |
| Luxembourg | 533 | 15.8 | 72,511 | 200 |
| Norway | 508 | 10.4 | 26,075 | 307 |
| Ireland | 414 | 11.4 | 33,997 | 193 |
| Others | 5,346 | 141.3 | 5,83,378 | 3,317 |
| Total | 47,619 | 1,198.2 | 41,20,511 | 23,935 |

Source: fDi Markets online database and India Exim Bank Analysis

As shown in **Table 4.2**, maximum investment in the EU were from USA, accounting for 23.6% of total capex invested in the region during January 2011 to December 2020. Germany was the second largest investor with a share of 13.1%, followed by UK (7.5% of total investment), France (7.4%), and Switzerland (4.1%). India accounted for capex amounting to US\$ 10.1 billion (1% of total investment) in the EU during the same time period.

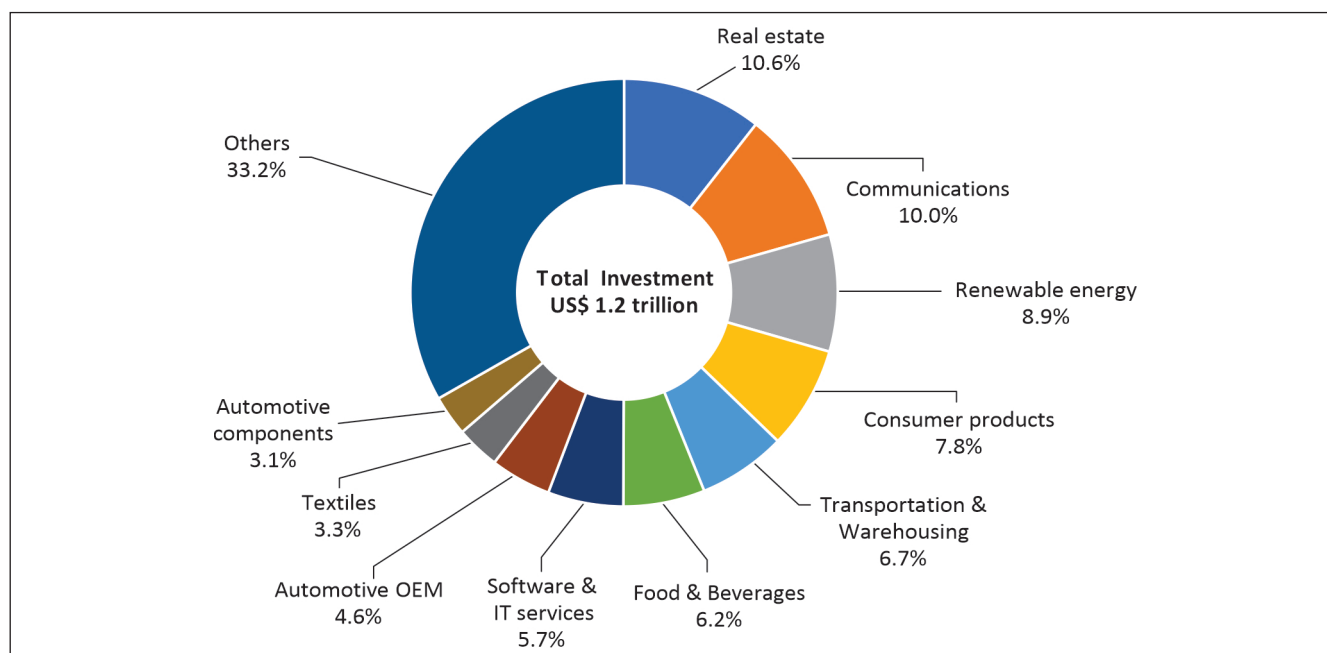
Table 4.3: Major Investment Destinations in the EU (2011-2020)

| Destination Country | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created | No. of Companies |
|---------------------|-----------------|-------------------------------|---------------------|------------------|
| Germany | 10,857 | 175.1 | 3,99,539 | 8,371 |
| Spain | 5,460 | 142.2 | 4,86,252 | 2,988 |
| Poland | 3,573 | 135.9 | 7,71,294 | 1,969 |
| France | 6,404 | 128.5 | 2,84,191 | 4,352 |
| Netherlands | 2,581 | 85.8 | 1,43,823 | 2,160 |
| Ireland | 2,218 | 83.7 | 1,71,627 | 1,469 |
| Romania | 2,091 | 65.3 | 5,72,593 | 1,025 |
| Italy | 1,696 | 54.7 | 1,61,077 | 1,228 |
| Belgium | 1,849 | 48.3 | 87,108 | 1,422 |
| Hungary | 1,072 | 37.3 | 1,66,078 | 760 |
| Czech Republic | 1,171 | 32.4 | 1,86,698 | 784 |
| Slovakia | 542 | 25.2 | 1,18,249 | 410 |
| Finland | 1,371 | 22.3 | 46,117 | 1,195 |
| Portugal | 819 | 21.8 | 69,002 | 614 |
| Bulgaria | 721 | 21.7 | 1,12,585 | 471 |
| Austria | 872 | 20.9 | 52,035 | 656 |
| Sweden | 834 | 20.0 | 36,610 | 703 |
| Greece | 302 | 18.6 | 24,698 | 230 |
| Denmark | 961 | 11.4 | 28,471 | 889 |
| Lithuania | 584 | 11.0 | 56,034 | 440 |
| Croatia | 498 | 9.3 | 40,507 | 287 |
| Latvia | 230 | 6.1 | 31,213 | 175 |
| Estonia | 244 | 5.8 | 23,684 | 189 |
| Luxembourg | 271 | 5.5 | 10,132 | 245 |
| Slovenia | 182 | 4.0 | 19,286 | 137 |
| Malta | 132 | 2.8 | 7,196 | 120 |
| Cyprus | 84 | 2.6 | 14,412 | 79 |
| Total | 47,619 | 1,198.2 | 41,20,511 | 23,935 |

Source: fDI Markets online database and India Exim Bank Analysis

Amongst the EU countries, Germany received the maximum investment of US\$ 175.1 billion (14.6% of total capex inflow) between 2011 and 2020 (**Table 4.3**). Germany was followed by Spain (11.9%), Poland (11.3%), France (10.7%), and Netherlands (7.2%) in terms of capex inflow during the same time period.

Chart 4.1: Major Sectors Attracting FDI in the EU (2011-2020)



Source: fDi Markets online database and India Exim Bank Analysis

Real estate sector received the maximum capex investment of US\$ 126.8 billion, accounting for 10.6% of the total FDI inflows received during January 2011 to December 2020 (**Chart 4.1**). This was followed by investments in communications (US\$ 120.1 billion), renewable energy (US\$ 106.1 billion), consumer products (US\$ 93 billion), transportation & warehousing (US\$ 79.9 billion), food & beverages (US\$ 74 billion), software & IT services (US\$ 68.4 billion), automotive OEM (US\$ 55.3 billion), textiles (US\$ 39.7 billion), automotive components (US\$ 36.7 billion) and other sectors (US\$ 398.3 billion). Maximum number of projects were in software & IT services sector (7,033 projects), followed by textiles (5,103 projects) and business services (4,357 projects).

Table 4.4: Envisaged FDI Outflows from the EU (2011-2020)

| Year | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created |
|--------------|-----------------|-------------------------------|---------------------|
| 2011 | 5,702 | 255.5 | 7,47,945 |
| 2012 | 5,271 | 185.3 | 5,92,320 |
| 2013 | 5,933 | 215.4 | 6,49,416 |
| 2014 | 5,504 | 210.5 | 5,61,961 |
| 2015 | 5,463 | 196.5 | 5,74,679 |
| 2016 | 5,803 | 191.3 | 6,14,184 |
| 2017 | 6,401 | 220.5 | 7,18,223 |
| 2018 | 7,028 | 315.9 | 8,29,401 |
| 2019 | 7,034 | 266.0 | 7,56,445 |
| 2020 | 5,095 | 192.7 | 5,44,335 |
| Total | 59,234 | 2,249.6 | 65,88,909 |

Source: fDi Markets online database and India Exim Bank Analysis

A total outward envisaged investment of US\$ 2.2 trillion was made by the EU entities in 59,234 projects, resulting in 65,88,909 jobs across the globe during January 2011 to December 2020 (**Table 4.4**). FDI outflows from the EU which stood at US\$ 255.5 billion in 2011, increased to reach US\$ 315.9 billion in 2018. Thereafter, FDI outflows witnessed a moderation to US\$ 266 billion in 2019 before suffering a setback from the pandemic and settling at US\$ 192.7 billion in 2020.

Table 4.5: Major FDI Investors from the EU (2011-2020)

| Source Country | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created | No. of Companies |
|----------------|-----------------|-------------------------------|---------------------|------------------|
| Germany | 15,318 | 596.8 | 18,90,533 | 4,984 |
| France | 10,252 | 423.6 | 12,19,592 | 3,253 |
| Spain | 5,981 | 231.4 | 5,87,508 | 1,840 |
| Netherlands | 5,002 | 203.6 | 5,35,279 | 1,892 |
| Italy | 4,561 | 197.4 | 4,25,441 | 1,732 |
| Denmark | 2,386 | 97.8 | 2,33,027 | 736 |
| Sweden | 3,617 | 84.1 | 3,05,637 | 1,242 |
| Belgium | 1,673 | 59.3 | 2,14,558 | 750 |
| Ireland | 1,853 | 58.6 | 1,59,452 | 745 |
| Austria | 1,867 | 56.2 | 2,13,531 | 877 |
| Finland | 1,488 | 53.2 | 1,72,737 | 577 |
| Luxembourg | 1,416 | 47.8 | 1,53,022 | 362 |
| Cyprus | 329 | 31.7 | 50,610 | 145 |
| Portugal | 620 | 22.8 | 59,813 | 257 |
| Czech Republic | 483 | 22.2 | 1,17,934 | 238 |
| Poland | 700 | 16.2 | 70,214 | 316 |
| Greece | 252 | 16.0 | 24,661 | 141 |
| Hungary | 234 | 7.6 | 44,747 | 106 |
| Estonia | 234 | 5.0 | 14,570 | 172 |
| Lithuania | 187 | 4.6 | 25,522 | 84 |
| Slovenia | 154 | 2.8 | 16,479 | 83 |
| Bulgaria | 95 | 2.2 | 9,683 | 66 |
| Romania | 163 | 1.9 | 11,024 | 105 |
| Latvia | 108 | 1.9 | 7,890 | 73 |
| Croatia | 109 | 1.8 | 9,562 | 61 |
| Malta | 85 | 1.6 | 7,067 | 49 |
| Slovakia | 67 | 1.6 | 8,816 | 48 |
| Total | 59,234 | 2,249.6 | 65,88,909 | 20,810 |

Source: fDi Markets online database and India Exim Bank Analysis

Germany was largest outward directed investment source among the EU countries, investing US\$ 596.8 billion (one-fourth of the total envisaged outflows) during 2011-2020 (**Table 4.5**). Germany was followed by France (18.8% of total envisaged outflows), Spain (10.3%), Netherlands (9.0%), Italy (8.8%), Denmark (4.3%), and Sweden (3.7%).

Table 4.6: Major Investment Destinations of the EU (2011-2020)

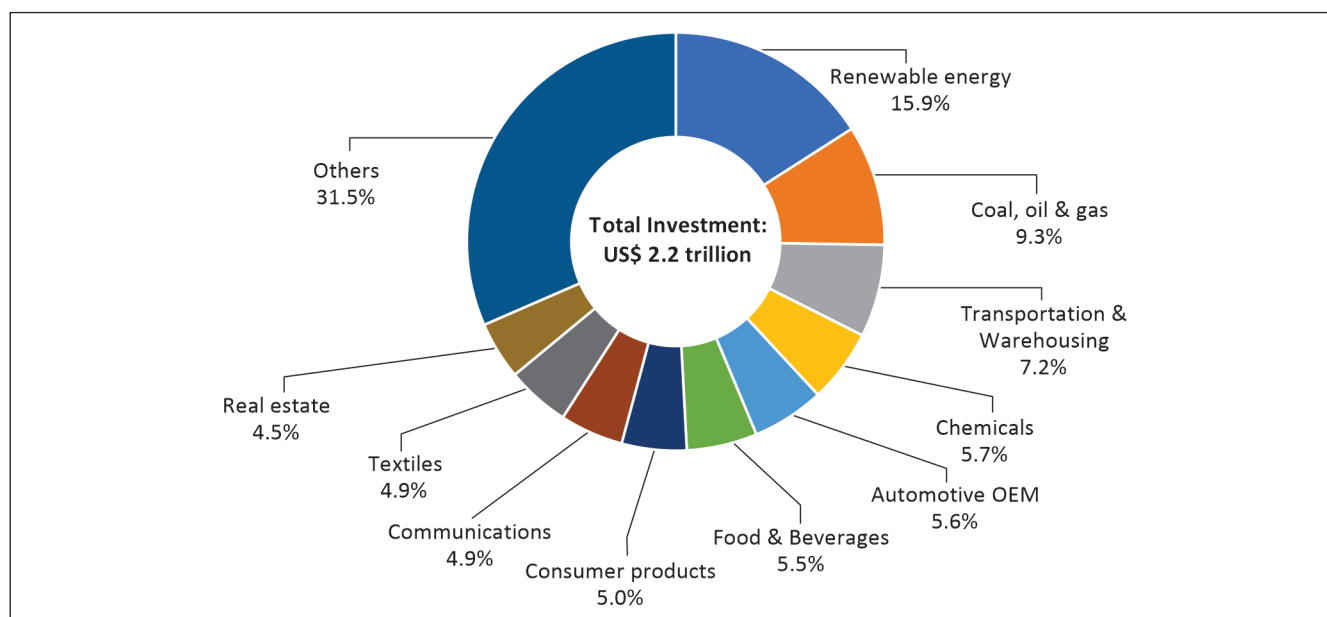
| Destination Country | No. of Projects | Capital Expenditure (US\$ bn) | No. of Jobs Created | No. of Companies |
|---------------------|-----------------|-------------------------------|---------------------|------------------|
| USA | 7,392 | 273.2 | 6,57,010 | 4,259 |
| China | 2,914 | 185.0 | 5,70,911 | 1,764 |
| UK | 4,715 | 157.8 | 2,52,786 | 2,863 |
| Mexico | 1,616 | 87.2 | 3,16,796 | 935 |
| Poland | 2,136 | 83.0 | 4,43,589 | 1,081 |
| Brazil | 1,295 | 80.1 | 1,81,683 | 868 |
| India | 1,809 | 76.4 | 3,92,554 | 1,079 |
| Germany | 3,674 | 75.2 | 1,41,150 | 2,695 |
| Russia | 1,523 | 74.3 | 3,31,440 | 932 |
| Spain | 2,901 | 70.5 | 2,60,416 | 1,409 |
| Canada | 876 | 66.2 | 64,295 | 651 |
| France | 2,711 | 51.9 | 1,12,662 | 1,713 |
| Australia | 943 | 43.6 | 71,114 | 609 |
| Romania | 1,377 | 43.3 | 3,74,636 | 579 |
| Chile | 460 | 40.0 | 48,047 | 316 |
| Egypt | 172 | 31.0 | 31,824 | 119 |
| Angola | 71 | 29.6 | 13,930 | 41 |
| Saudi Arabia | 173 | 25.7 | 19,593 | 140 |
| Italy | 784 | 24.1 | 77,581 | 557 |
| Singapore | 919 | 23.5 | 48,233 | 788 |
| Netherlands | 747 | 22.6 | 46,648 | 610 |
| Others | 20,026 | 685.4 | 21,32,011 | 15,198 |
| Total | 59,234 | 2,249.6 | 65,88,909 | 20,810 |

Source: fDi Markets online database and India Exim Bank Analysis

USA was also the largest recipient of envisaged investment from the EU, with a capex investment of US\$ 273.2 billion during 2011-2020 (**Table 4.6**). USA was followed by China (US\$ 185 billion), the UK (US\$ 157.8 billion), Mexico (US\$ 87.2 billion), and Poland (US\$ 83 billion). India was the 7th largest destination for envisaged investment flowing from the EU, with an investment amount of US\$ 76.4 billion.

Renewable energy sector accounted for 15.9% of the envisaged investment flowing out of the EU, amounting to US\$ 358.5 billion during 2011-2020 (**Chart 4.2**). Other major sectors attracting capex are coal, oil & gas (US\$ 209.6 billion), transportation & warehousing (US\$ 160.9 billion), chemicals (US\$ 127.8), automotive OEM (US\$ 126.1), food & beverages (US\$ 122.9 billion), consumer products (US\$ 113 billion), communications (US\$ 110.6 billion) and textiles (US\$ 110.6 billion). In terms of job creation, real estate, consumer products, food and beverages, textiles, and automotive components sectors dominated in the past decade.

Chart 4.2: Major Sectors Attracting FDI from the EU (2011-2020)



Source: fDi Markets online database and India Exim Bank Analysis

India's Bilateral Investment Relations with the EU

Over the years, several important structural reforms undertaken by the Government of India such as Goods and Services Tax (GST) reforms, programmes such as 'Make in India', 'Digital India', and 'Skill India', relaxing FDI norms across sectors such as defence, PSU oil refineries, power exchanges, stock exchanges, and telecom, and improvements in the Ease of Doing Business (EODB) have enhanced India's position as a major investment destination in the world. India jumped by 14 positions to 63rd rank in Ease of Doing Business ranking as per World Bank's Doing Business Report (DBR) 2020, driven by reforms in the areas of starting a business, paying taxes, trading across borders, and resolving insolvency.

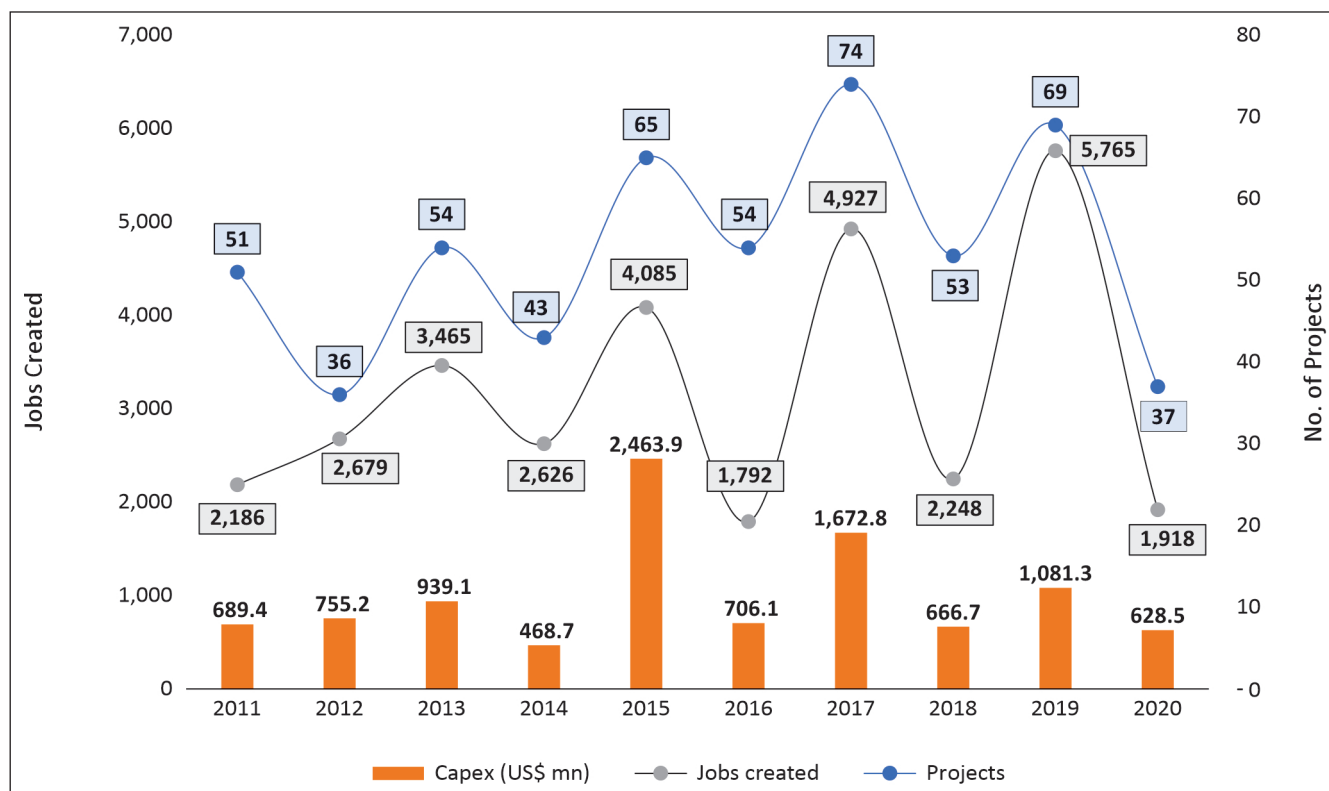
The EU is one of the easiest locations in the globe to start a business. Starting from 2009, the EU handles foreign direct investment policies on behalf of its member countries under a common commercial policy. The EU aims at establishing a more transparent, efficient, and predictable business climate for investors. The initiatives involving making information on investment rules public and easily available or reducing delays in obtaining government permits and approvals have contributed considerably towards creating an investor enabling environment.

India-EU relations have observed substantial progress on political, strategic, and economic front. Connectivity is one of the key areas of cooperation covering physical, human and digital connectivity. The contemporary engagements reflect the importance of bilateral relations for both the sides. Recently, India and EU agreed to launch the India-EU Trade and Technology Council. The arrangement of joint commitment in the form of a council will enable both partners to tackle challenges in the nexus of trade, trusted technology, and security, and thus, strengthen cooperation between the EU and India.

India's Investments in the EU

The EU, comprising of the major developed economies like France, Germany, and Netherlands, among others offers an attractive investment arena. According to the data derived from the Ministry of Finance and the RBI, the EU remains one of the largest FDI outflow regions for India, with FDI outflows of US\$ 74.7 billion during the period April 1996-March 2022. Netherlands is amongst the largest recipient of FDI flowing from India, with a massive share of US\$ 56.4 billion during the same time period. It is through these investments that Indian companies create jobs, contribute tax, and play an important role in deepening and extending the long-standing ties between India and the EU.

Chart 4.3: Indian Foreign Direct Investments in the EU (2011-2020)



Source: fDi Markets online database and India Exim Bank Analysis

To get a more meaningful understanding on the trends in Indian overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during January 2011 to December 2020, total capital investment of India in the EU stood at a cumulative amount of US\$ 10.1 billion, making India the 8th largest non-EU investing country in the region through 536 projects and creating 31,691 jobs in the region (**Chart 4.3**). The total investments in 2014 dropped to US\$ 468.7 million from US\$ 939.1 million in 2013 due to weakened global demand. Investments from India to the EU again picked up in 2015 to US\$ 2.5 billion, before falling to US\$ 706.1 million in 2016 due to the uncertainty related to Brexit referendum. Post 2016, Indian investments in the EU rose to US\$ 1,672.8 million. Stemming from the pandemic, investment by Indian businesses in the EU decreased from US\$ 1,081.3 million in 2019 to US\$ 628.5 million in 2020.

Table 4.7: Major Recipients of Indian FDI in the EU (2011-2020)

| Destination Country | No. of Projects | Capital Expenditure (US\$ mn) | No. of Jobs Created | No. of Companies |
|---------------------|-----------------|-------------------------------|---------------------|------------------|
| Germany | 194 | 2,282.5 | 6,659 | 170 |
| Slovakia | 2 | 1,713.5 | 1,581 | 2 |
| Hungary | 20 | 1,496.8 | 4,956 | 14 |
| Ireland | 19 | 811.6 | 1,640 | 15 |
| Netherlands | 66 | 767.0 | 2,798 | 60 |
| France | 53 | 477.2 | 1,522 | 46 |
| Poland | 21 | 460.7 | 3,325 | 15 |
| Belgium | 32 | 430.0 | 837 | 28 |
| Spain | 30 | 335.1 | 1,529 | 24 |
| Lithuania | 5 | 322.4 | 1,865 | 4 |
| Romania | 11 | 206.0 | 1,474 | 8 |
| Finland | 24 | 191.9 | 575 | 23 |
| Czech Republic | 6 | 122.7 | 426 | 1 |
| Italy | 12 | 110.7 | 633 | 11 |
| Sweden | 14 | 86.7 | 435 | 12 |
| Bulgaria | 5 | 75.8 | 481 | 5 |
| Denmark | 11 | 56.0 | 238 | 11 |
| Portugal | 3 | 44.0 | 210 | 3 |
| Estonia | 3 | 39.3 | 234 | 3 |
| Croatia | 3 | 35.3 | 236 | 2 |
| Malta | 2 | 6.5 | 37 | 2 |
| Total | 536 | 10,071.7 | 31,691 | 360 |

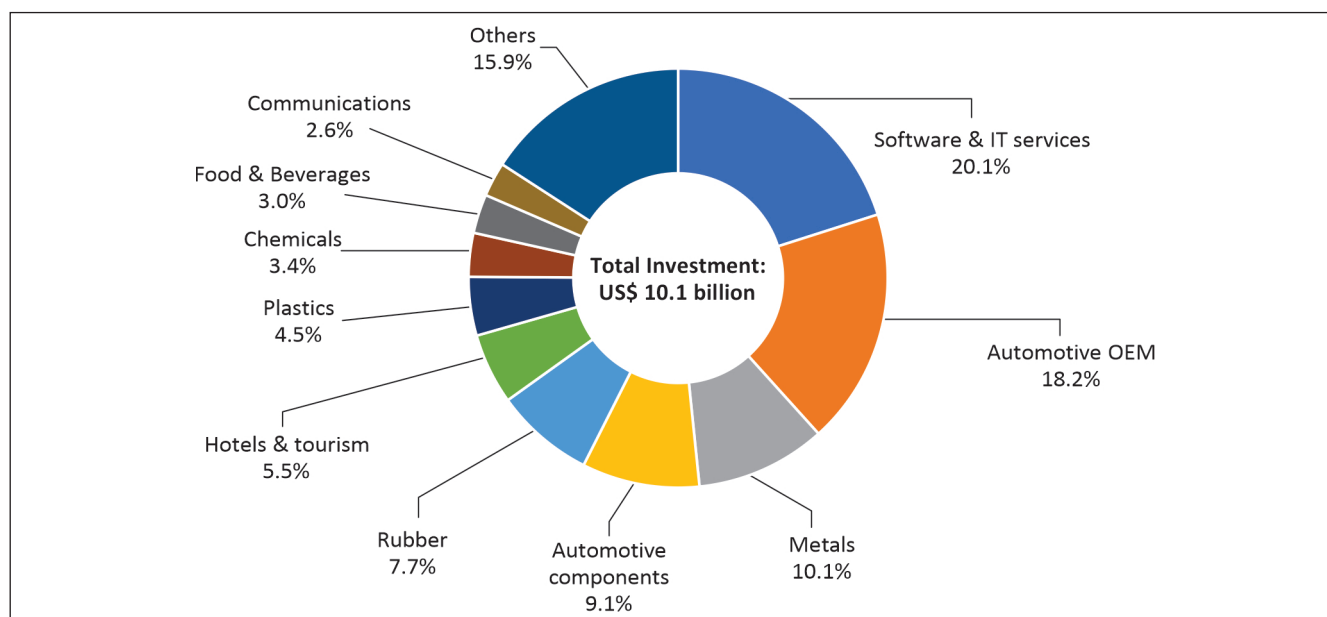
Source: fDi Markets online database and India Exim Bank Analysis

Germany was the largest recipient of investments from India into the EU, with a major share of 22.7% (US\$ 2,282.5 million of Indian investments to the EU) (**Table 4.7**). Other major recipients of Indian investments are Slovakia (17%), Hungary (14.9%), and Ireland (8.1%), among others. The highest number of projects have also been in Germany (194 projects), followed by Netherlands (66 projects), France (53 projects), Belgium (32 projects), and Spain (30 projects), among others.

The highest number of projects in the EU during 2011-2020 have been in software and IT services (196 projects), business services (56 projects), automotive OEM (37 projects), metals (36 projects), industrial equipment (25 projects), and plastics (23 projects), among others.

In terms of capital investments, the largest share has been in the software & IT services (20.1% of Indian investments to the EU), automotive OEM (18.2%), metals (10.1%), automotive components (9.1%), rubber (7.7%), hotels & tourism (5.5%), plastics (4.5%), and chemicals (3.4%) (**Chart 4.4**). In terms of job creation, software & IT services, automotive components, business services and automotive OEM have been the largest employment generating sectors during 2011-2020.

Chart 4.4: Major Sectors Attracting Indian Investments in the EU (2011-2020)



Source: FDI Markets online database and India Exim Bank Analysis

Tata Group alone accounted for 21.5% of the total investment from India in the EU, making it the single largest Indian company in the EU during 2011-2020. Other major companies include Apollo Tyres (7.5% of investment), Aditya Birla (7.5%), Cox & Kings (5%), Samvardhana Motherson Group (5%), and Mahindra Group (3.6%), among others.

The EU's Investments in India

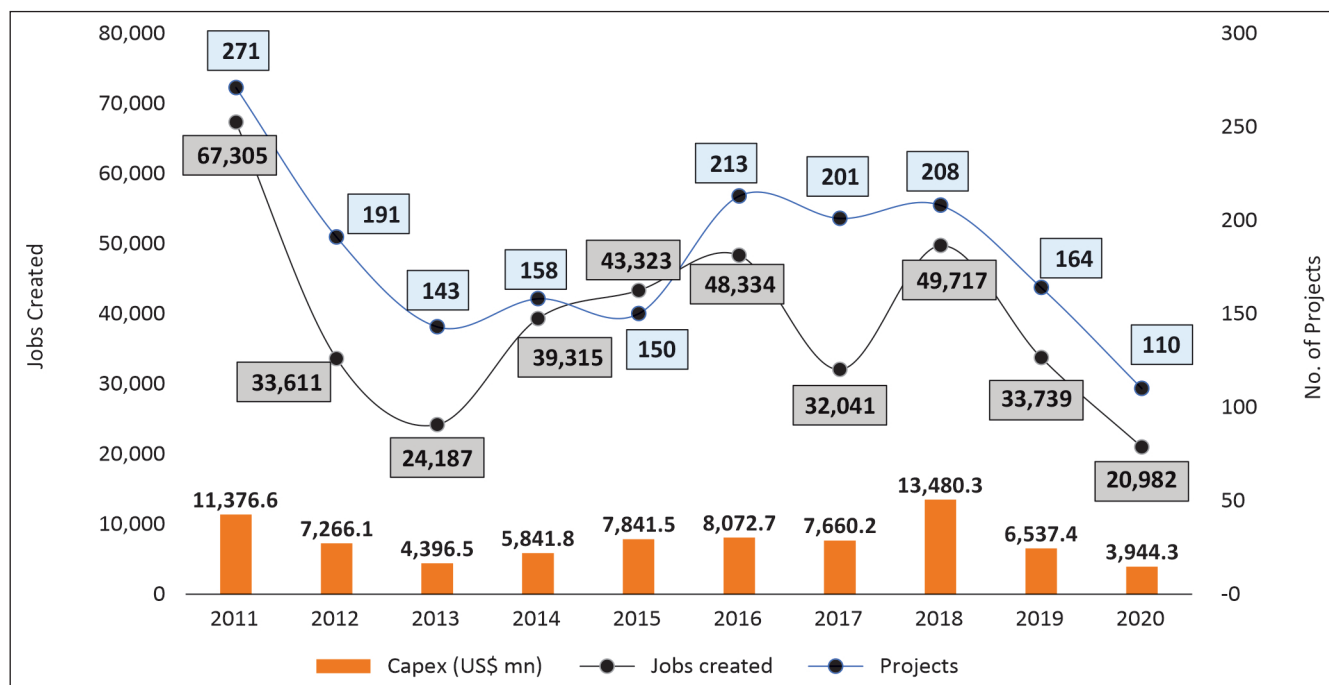
In the recent times, India has emerged as an attractive FDI destination stemming from its liberal policy for sensitive sectors like insurance, defence, pharmaceuticals, e-commerce, and health services, among others. India was the 7th largest FDI destination for investments flowing out of the EU during January 2011 to December 2020. India accounted for US\$ 76.4 billion of FDI from the EU, coming through 1,809 projects and resulting in 3,92,554 jobs during 2011-2020.

In 2014, the Government of India launched 'Make in India' in order to drive FDI into India. Make in India was launched to encourage companies to manufacture in India and incentivize dedicated investments into manufacturing. Government of India also launched 'Digital India' campaign in 2015 to transform India into a digitally empowered society and knowledge economy. Owing to various government initiatives, the EU investments in India started to rise. FDI inflows from the EU averaged around US\$ 6.8 billion between 2012-2017. Envisaged FDI inflows peaked at US\$ 13.5 billion in 2018, supported by the increased FDI investment limit in critical sectors. Investment inflow witnessed a decline in 2020 resulting from the distorted economic scenario due to the pandemic (**Chart 4.5**).

Germany and France together accounted for 54.7% of the total FDI flowing from the EU to India between 2011-2020 (**Table 4.8**). The investments were made in 955 projects, generating more than 2 lakh jobs. Other major investors are Spain (US\$ 6.1 billion), Netherlands (US\$ 6 billion), Sweden (US\$ 4.9 billion), and Italy (US\$ 4.8 billion), among others.

The highest number of projects into India from the EU during the last decade have been in industrial equipment (253 projects), software and IT services (184 projects), automotive components (137 projects), business services (133 projects), chemicals (111 projects), transportation and warehousing (108 projects), and textiles (88 projects), among others.

Chart 4.5: The EU's Foreign Direct Investments in India (2011-2020)



Source: fDi Markets online database and India Exim Bank Analysis

Table 4.8: India's Major FDI Sources from the EU (2011-2020)

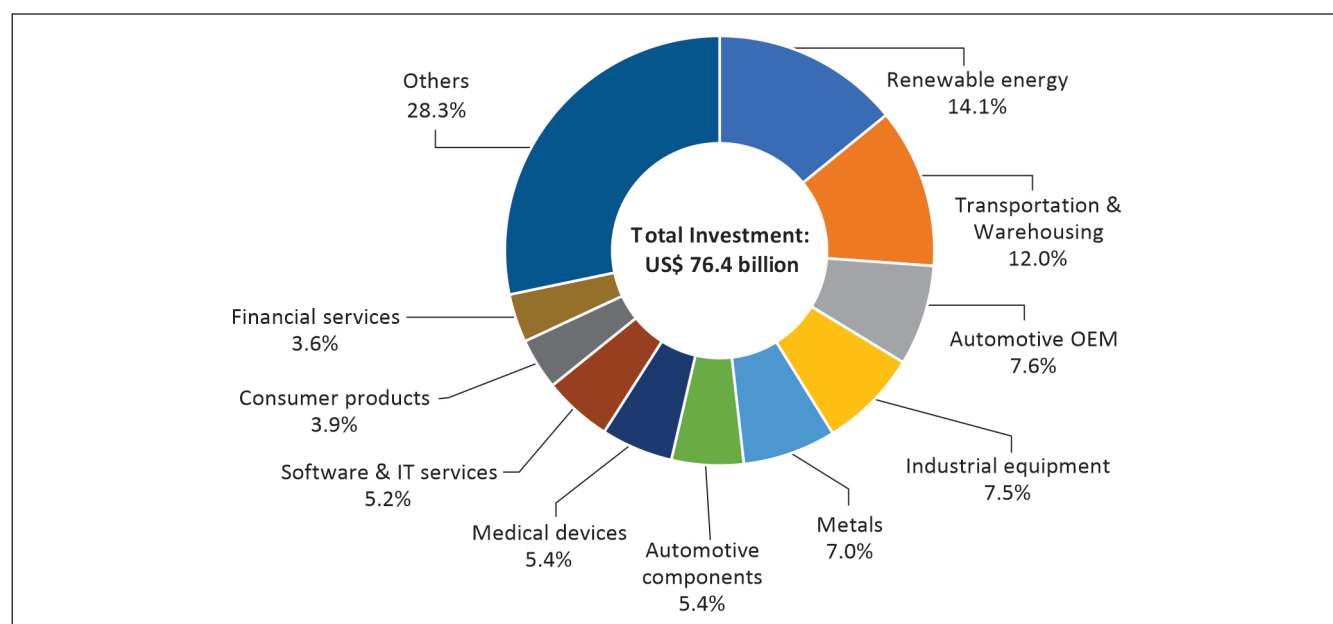
| Source Country | No. of Projects | Capital Expenditure (US\$ mn) | No. of Jobs Created | No. of Companies |
|----------------|-----------------|-------------------------------|---------------------|------------------|
| Germany | 644 | 25,266.2 | 1,29,083 | 357 |
| France | 311 | 16,543.1 | 71,326 | 191 |
| Spain | 103 | 6,052.6 | 17,968 | 78 |
| Netherlands | 147 | 6,000.6 | 44,775 | 87 |
| Sweden | 116 | 4,893.3 | 29,708 | 64 |
| Italy | 145 | 4,758.4 | 31,007 | 84 |
| Luxembourg | 58 | 2,982.7 | 8,271 | 24 |
| Finland | 70 | 2,667.1 | 15,470 | 46 |
| Denmark | 58 | 2,042.0 | 10,202 | 34 |
| Ireland | 39 | 1,607.6 | 13,342 | 26 |
| Austria | 35 | 1,439.7 | 6,465 | 29 |
| Belgium | 44 | 1,140.0 | 5,980 | 27 |
| Czech Republic | 10 | 399.8 | 2,813 | 8 |
| Poland | 7 | 305.8 | 2,621 | 6 |

| Source Country | No. of Projects | Capital Expenditure (US\$ mn) | No. of Jobs Created | No. of Companies |
|----------------|-----------------|-------------------------------|---------------------|------------------|
| Cyprus | 3 | 70.9 | 723 | 3 |
| Portugal | 3 | 69.2 | 566 | 3 |
| Slovenia | 1 | 65.4 | 622 | 1 |
| Hungary | 4 | 24.1 | 121 | 3 |
| Malta | 3 | 22.2 | 298 | 2 |
| Romania | 1 | 19.6 | 287 | 1 |
| Greece | 3 | 19.4 | 430 | 3 |
| Latvia | 1 | 10.3 | 318 | 1 |
| Lithuania | 2 | 10.0 | 62 | 2 |
| Estonia | 1 | 7.4 | 96 | 1 |
| Total | 1,809 | 76,417.4 | 3,92,554 | 1,079 |

Source: fDi Markets online database and India Exim Bank Analysis

The strength of the EU as a partner lies in the diversity of its sectoral engagement with India. In terms of investments, the larger share has been in the sectors of renewable energy (14.1%), transportation & warehousing (12%), automotive OEM (7.6%), industrial equipment (7.5%), and metals (7%), during 2011-2020 (**Chart 4.6**). In terms of job creation, software and IT services, business services, industrial equipment, and automotive components sector dominated in the past decade.

Chart 4.6: Major Sectors Attracting EU's Investments in India (2011-2020)



Source: fDi Markets online database and India Exim Bank Analysis

Deutsche Post is the single largest investor from the EU in India, with a share of 6.1% during 2011-2020. Other major investing companies in India include Peters Surgical (4.5%), Volkswagen (2.4%), Solarpac (2.3%), Mercedes-Benz Group (Daimler) (2.1%), Eren Groupe (2.1%), and SKF (2%), among others. In terms of projects,

Deutsche Post also has invested in the maximum number of projects in India, followed by Volkswagen, Assicurazioni Generali, and Robert Bosch during the same time period.

Key Opportunities for FDI from the EU in India

India has emerged as an unmatched magnet for investors stemming from its lucrative market, immense consumer base, skilled technical workforce, and favourable investor policies. According to World Competitiveness Index 2021 compiled by the Institute for Management Development (IMD), India ranked second in terms of competitiveness among the BRICS nations. India maintains its position for the last 3 years with a significant improvement in government efficiency in 2021²⁹. Deloitte's survey report titled, "India's FDI opportunity through an investor's lens", surveyed 1,200 business leaders of multinational corporations in the US, UK, Japan, and Singapore, and concluded that, India remains an attractive destination for investments, scoring highly for its skilled workforce and prospects for economic growth³⁰.

Even during the pandemic year of 2020-21 India was able to attract highest ever annual total FDI equity inflow of US\$ 82 billion, 10% more than the previous financial year inflow of US\$ 74.4 billion³¹. Majority of the investments were received in the computer software and hardware (44% share of the total FDI equity inflow), followed by infrastructure activities (13%) and services sector (8%) during the same time period. In terms of top investor countries, Singapore was on top of the list with 29% share in total investments, followed by USA (23%) and Mauritius (9%) for 2020-21. During 2021-22, total FDI inflows to the country marginally increased to US\$ 83.6 billion.

Although India remains a preferred FDI destination, the country still has vast potential for investment by the foreign investors. FDI flows are intended to play a meaningful role in attaining the US\$ 5 trillion economy target. The recent initiatives by the Government of India in the form of liberalised FDI norms and Production Linked Incentives (PLI) present immense opportunities for investment in the following sectors:

- **Capital/Engineering Goods**

Engineering goods accounted for 12% of the total manufacturing in India and contributed 1.8% to India's GDP. The sector offers approximately 1.4 million direct and 7 million indirect jobs. Engineering Goods exports registered a tremendous growth of 46% and jumped to US\$ 112 billion during 2021-22 as compared to US\$ 76.7 billion during same period in 2020-21. The sector is further segregated into heavy electrical equipment, process plant equipment, earth-moving and mining machinery, and printing machinery, among others³².

The Government of India introduced a Scheme for Enhancing Global Competitiveness of the Capital Goods Sector in 2014, with an outlay of INR 996 crores. The scheme aims at addressing the technology gaps, by establishing new advanced Centres of Excellence, bringing together academia of repute and private industry for development of new improved indigenous technologies /products. Followed by the success of Phase-I of the Scheme, recently the Government of India notified Phase-II of the Scheme with a financial outlay

²⁹ <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/>

³⁰ India's FDI opportunity Through an investor's lens - A survey report, Deloitte, September 2021

³¹ Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry

³² Invest India, National Investment Promotion and Facilitation Agency, 2022

of INR 1,207 crores, with budgetary support of INR 975 crore and industry contribution of INR 232 crore³³. Subsequently, there are ample opportunities for engineering, procurement, and construction companies as well as package and component suppliers. Transportation sector presents plethora of opportunities through ongoing intensive railway and metro expansion projects in the country. Large capital-goods makers could set up coach and locomotive manufacturing facilities in collaboration with the railways, while smaller companies could supply components and sub-assemblies like bogie castings, underframes, and superstructures. With increased awareness for inland water transport and plans for developing port capacity, there exist prospects for providing opportunities for material handling equipment, construction-equipment manufacturers, and engineering, procurement, and construction providers.

FDI Rule: 100% FDI permitted under the automatic route.

- **Pharmaceuticals**

During the adverse times of coronavirus pandemic, through its enormous vaccine production capacity India proved that it is the real “Pharmacy of the world”. India ranks third worldwide in pharmaceuticals production by volume. India is the largest supplier of generic medicines with a 20% share in the global supply. Price competitiveness and good quality have enabled Indian medicines producers to become dominant players in the world market. FDI in the pharmaceutical sector has seen a sudden spurt in 2020-21 vis-a-vis the previous year showing a 200% increase³⁴.

The Government of India has approved a Scheme for promotion of bulk drug parks, which will provide easy access to world class common infrastructure facilities to bulk drug units located in these parks, intensifying the competitiveness of the domestic bulk drug industry. The government also introduced Production linked incentive (PLI) scheme for bulk drugs and promoting domestic manufacturing of 53 critical APIs in the country. Under the PLI Scheme for pharmaceuticals, three categories namely biopharmaceuticals, API/KSM/drug intermediates, and drugs not covered under Category 1 and Category 2, will be incentivized based on their incremental sales for 6 years starting 2020. PLI scheme is also introduced for supporting domestic manufacturing of medical devices. However, the Scheme is applicable only to the greenfield projects and intends to attract large investments in the medical devices sector. Given the increased significance of health sector amid the pandemic, pharmaceutical sector will be a forerunner in terms of gaining from FDI investments.

FDI Rule: 100% FDI permitted under the automatic route (Greenfield projects) and government approval route (Brownfield projects).

- **Civil Aviation**

India has emerged as one of the rapidly developing aviation markets in the world. However, there exists huge growth opportunities, bearing in mind that air travel is still exclusive for majority of the country’s population, of which nearly 40% is the upwardly mobile middle class, which will be a major consumer in the coming future. The domestic passenger traffic has expanded by over 14% per annum from 2013 to 2020, with the

³³ Ministry of Heavy Industries, Government of India, 2022

³⁴ Economic Survey of India, 2021-22

number more than doubling from around 61 million in 2013-14 to around 137 million in 2019-20.³⁵ In order to expand the evolving civil aviation sector Indian Government has introduced incentives like privatization and modernization of airports, boost to the regional connectivity scheme - UDAN, incentivization of maintenance, repair, and overhaul (MROs) operations etc. Successively, investment by foreign entities is anticipated to yield lucrative results for the economy. Under the UDAN Regional Connectivity Scheme (RCS), a rapid expansion of airport infrastructure has taken place. In four rounds of bidding under the Scheme, 153 RCS airports including 12 water aerodromes and 36 Helipads have been identified for operation of RCS flights. Besides passenger traffic, expanding air cargo operations offer opportunities for investment to foreign investors. Subsequently, with PLI Scheme for drones introduced in September 2021 and given their reach, versatility, and ease of use, especially in India's remote and inaccessible areas, the policy reforms will likely catalyse super-normal growth in the drone sector.

FDI Rule: 100% FDI permitted under the automatic route.

- **Defence**

India largely depends on imports for its defence needs. A major portion (13.3%) of the 2022-23 general budget was meant for the defence sector. In the annual budget for FY2022-23, 68% of the military's capital acquisition budget was earmarked for purchasing locally produced weapons and systems to boost self-reliance in the defence sector, besides setting aside 25% of the defence R&D budget for private industry, start-ups, and academia to encourage them to pursue design and development of military platforms.³⁶

India is forerunner in defence spending. Russia has been a traditional defence partner of India, and over time there has been an increase in collaboration with USA and Europe. France is a leading defence partner of India amongst the EU nations. With the opening up of the defence sector to the private corporations and approving of 100% FDI in the sector, India offers a big opportunity to foreign entities to enter Indian markets through fully owned subsidiaries and also start production and work jointly with Indian private firms. As state-owned Indian defence firms are looking for resources and technology, foreign firms would find it easier to access India's huge defence sector.

The government is introducing policies for achieving the vision of an Atmanirbhar Bharat. After the recent liberalisation in FDI limits for the defence sector, now, up to 74% of FDI is allowed through automatic route (from earlier 49%) for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under Government route. For existing FDI approved holders/defence licensees, infusion of fresh foreign investment up to 49% resulting in change in equity/ shareholding pattern can be done by making declaration within 30 days.

FDI Rule: FDI up to 74% through automatic route and up to 100% by government route.

- **Single-Brand Retailing and E-Commerce**

India has a rapidly evolving retail and e-commerce sector. With improved per capita income and expanding consumer base, the sector offers lucrative opportunity for foreign investors. Kearney's Global Retail Development Index (GRDI) ranks 35 developing countries on a scale of zero to 100—the higher the ranking,

³⁵ Economic Survey of India, 2021-22

³⁶ Union Budget 2022-23, Government of India

the more profitable for an investor to enter a country. India was ranked second worldwide in attractiveness of its retail sector in GRDI 2021³⁷. With improved digital and transportation connectivity, accessibility has improved for e-commerce users. Increasing population and subsequently expanding urbanization offers immense opportunities for retail and e-commerce. Fast Moving Consumer Goods (FMCG) is one of the fastest growing sections of retail with consumers demanding range of products, and a shift in consumer taste and preferences calls for increased investments with profitable yield.

FDI Rule:

Single-Brand Retailing

FDI through the automatic route with a cap set at 100% is allowed for retail trading, except the multi-brand retail trading. The multi-brand retail trading has to seek government approval, and a cap of 51% is set.

E-Commerce

The FDI Policy allows 100% FDI under the automatic route for the marketplace model of e-commerce activities. However, FDI is not permitted for the inventory-based model of e-commerce activities.

Key Opportunities for Indian FDI in the EU

The EU is the biggest FDI source and the top global destination of foreign investment. According to the UNCTAD's World Investment Report 2021, in the wake of the pandemic, the EU along with 25 other countries, adopted or reinforced screening regimes for foreign investment. The screening procedure aims at ensuring that the EU is better equipped to identify, assess, and mitigate potential risks for security or public order, while remaining among the world's most open investment area. According to EY's report, 63% of the 550 investors interviewed are confident that Europe's attractiveness will increase in the next three years followed by the pandemic³⁸.

Immense market potential and convenience of transportation present profitable opportunities for foreign investors in the EU. Some of the potential sectors for Indian FDI in the EU include:

- **Manufacturing**

Beginning from the industrial revolution, manufacturing sector has been at the forefront of the European economy. The sector currently contributes 15% of the European GDP and provides employment to about 33 million individuals. Through its Make in Europe programme, the EU seeks to increase the number and attractiveness of jobs in manufacturing, while securing the environmental, economic and social sustainability for future generations in Europe. The 2030 vision for the partnership reiterates to strengthen the global position of Europe's manufacturing industry in terms of competitiveness, productivity, and technology leadership. Subsequently, emerging from the recent semiconductor chip shortage around the globe, the EU introduced European Chips Act. The Act aims at providing access across Europe to design tools and pilot lines for the prototyping, testing and experimentation of cutting-edge chips and easing certification procedures for energy-efficient and trusted chips to guarantee quality and security for critical applications. The Act will

³⁷ <https://www. Kearney.com/global-retail-development-index>

³⁸ https://www.ey.com/en_gl/attractiveness/21/foreign-investors-back-europe-but-is-europe-back

enable a more investor-friendly framework for establishing manufacturing facilities in the EU. Conclusively, the sustainably growing manufacturing sector has a lot to offer to the Indian entities³⁹.

- **Information and Communication Technology (ICT)**

The ICT sector contributes around 4% to the EU's GDP. ICT services accounted for the vast majority of ICT activity, as those were more than 12 times as large as ICT manufacturing when measured in value added terms. In March 2021, the European Commission presented the vision for Europe's digital transformation, which aims at establishing secure and sustainable digital infrastructure through doubling of the EU's share in global semiconductor production, ensuring 5G for everyone, increased use of AI/Big Data and 100% digitisation of public services, among others. Indian companies specializing in digitization can benefit largely by taking advantage of the huge European market.

- **Infrastructure**

Infrastructure not only plays a key role in linking and integrating markets, but also in ensuring the shift to a carbon negative country. Taking into account the European Commission's infrastructure agenda, there is need for significant investments in the infrastructure of the region. The Trans-European Transport Network (TEN-T) policy of the EU aims at developing Europe-wide network of railway lines, roads, inland waterways, maritime shipping routes, ports, airports, and railroad terminals. The ultimate objective is to close gaps, remove bottlenecks and technical barriers, as well as to strengthen social, economic, and territorial cohesion in the EU. TEN-T comprises of two network layers - the Core Network includes the most important connections, linking the most important nodes, and is to be completed by 2030. The Comprehensive Network covers all European regions and is to be completed by 2050.

- **Renewable Energy**

Given that the EU's climate and energy targets require a deep decarbonisation of energy supply, the renewable energy sector presents immense opportunities for Indian investors. In order to meet its decarbonisation target, the EU needs to more than double its renewable energy capacity by 2030. The European Green Deal⁴⁰ aims to transform the EU into a modern, resource-efficient, and competitive economy, ensuring no net emissions of greenhouse gases by 2050 and economic growth decoupled from resource use.

The European Green Deal presents an ambitious package of measures ranging from ambitiously cutting greenhouse gas emissions, to investing in cutting-edge research and innovation, to preserving Europe's natural environment. Nearly one-third of the € 1.8 trillion investments from the NextGeneration EU Recovery Plan, and the EU's seven-year budget will finance the European Green Deal. These ambitious targets will supplement the investments in the renewable energy sector. The India-EU BTIA could combine the likely increase in uptake of renewable energy in the EU region with India's ability to manufacture the required machinery at competitive prices to achieve the goals of European Green Deal. At the same time, the agreement may help the flow of technology and investments from the EU to India, and thereby optimizing the cross-border

³⁹ https://ec.europa.eu/info/research-and-innovation/research-area/industrial-research-and-innovation/key-enabling-technologies/advanced-manufacturing_en

⁴⁰ European Green (https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

trade of environment goods like equipment needed for tidal and geothermal energy, wind turbine blades and solar panels.

- **Health and Life Science**

A sound healthcare sector plays an important role in the overall efficient functioning of the economy. In the EU, healthcare sector accounts for 8% of the total workforce and contributes 10% to its GDP⁴¹. The EU supports investments ensuring universal access to high-quality and affordable services. According to GlobalData's database, Western Europe was the leading region when it came to attracting FDI projects in medical devices in 2019 and 2020, with about 45% of all projects announced or opened globally⁴². With Indian companies proving their capability in the healthcare arena during the tough times of the pandemic, the EU presents ample opportunities for Indian investors to enter the European market.

Other Areas of Investment Collaboration with the EU

Bilateral trade and investment ties between India and the EU have traversed a long way. Yet, there still exists a huge untapped potential. India is an emerging economy with a sizable and dynamic market. Promoting India's economic growth and development through various key initiatives such as 'Make in India', among others, remains the key focus area of the Government of India. Both regions require strong domestic technology bases to remain competitive in the coming years. Exchange of ideas, innovation and capability building through joint research partnerships especially in sectors such as ICT, pharmaceuticals, and apparels could be beneficial for both regions. With both regions trying to readjust their global supply chains to avoid concentration in few partners, importance of the EU as a preferred economic partner for India would increase in the post pandemic period. Some of the potential areas for collaboration between India and the EU are provided below.

- **Establishing Joint Ventures in Textile Machinery:** India is not only a major importer of textile machinery but also a supplier in several key import markets. To meet the burgeoning domestic demand and to increase share in global market, Indian textile machinery manufacturers could enter into joint ventures with foreign companies. This shall also help upgrade the quality and performance of machineries produced in the country. Currently, except for the units in the spinning sector where the machineries are of international standards, other textile machinery manufacturing leaves a lot of scope for improvement in terms of quality and performance, compared to the European manufacturers. According to the fDi markets database, the EU members are among the top investors in the textile machinery segment. Indian companies can make an attempt to forge ties with companies from these top investor countries. The Market Access Initiative (MAI) scheme of the Government can include visits for scouting JV partners from top source countries as an eligible activity for high-technology sectors.
- **Plastics Industry:** Indian plastics industry has emerged as one of the most diversified industries in the country, producing and exporting a wide array of products – from raw material to finished goods. With more than 2,000 exporters and 30,000 processing units, the industry caters to a wide spectrum of end-use industries including automotive, construction, electronics, healthcare, and FMCG, among others. However, the sector has a significant trade deficit of over US\$ 10 billion in 2021, and the challenges exist

⁴¹ European Investment Bank

⁴² <https://www.investmentmonitor.ai/sectors/lifesciences/fdi-medical-devices-state-of-play>

especially in the area of sourcing of raw materials needed for plastic manufacturing. This exacerbation of trade imbalance is becoming a source of concern for the sector which aspires to improve domestic capabilities to achieve greater self-reliance and enhance exports. There is a need for strengthening cooperation in plastics industry, focusing on technology transfer and investments in India from major importers of plastic in the EU, which accounted for one-third (34.5%) of the world imports of plastics in 2021.

- **Healthcare Sector:** The recent pandemic has proven the importance of cooperation in healthcare sector. It reiterated the importance of technology in the healthcare sector, especially in areas such as telemedicine, contact tracing apps, online/video consultation, and conferences. The EU is heavily dependent on Asian economies, especially China for pharmaceuticals. The recent global events have necessitated the need for a shift from overdependence on China, towards other Asian economies. India with its expertise in pharmaceutical sector (drug manufacturing) could collaborate with the EU which has the technical expertise.
- **Digital Technology:** The pandemic induced supply chain disruptions has created a geo-political shift, necessitating the need for enhanced cooperation in digital technologies and their applications. India and the EU could explore development and innovative cooperation in emerging technologies. Joint development of pioneering technologies such as artificial intelligence, 5G/6G, agritech, healthtech and blockchain would open up enormous opportunities for both the regions and reduce dependency on countries such as China. India's 'Digital India' initiative and the EU's 'Digital Single Market' initiative could be made symbiotic. Cyber security is another important area of cooperation. The EU's DIGITAL4DEVELOPMENT (D4D) strategy and its cyber diplomacy strategy could be explored to enhance the cooperation.

The recent global challenges have led to a realignment of the global value chains due to changes in the supply chain dynamics. India with its recent improvements in doing business environment, low cost of production and skilled labour, favourable attitude of Government towards foreign investment to supplement 'Make in India' programme could be in an advantageous position to enhance its supply chain integration. A collaborative approach with the EU will provide impetus to the EU companies to increase their investments in India, which will allow India to gain access to high tech, advanced technologies, and sophisticated hardware to complement its indigenous capabilities. This will enable both the countries to leverage complementary strengths and thus enhancing Indian manufacturing for exporting from India to the EU.

5

Way Forward and Recommendations

The trajectory of the trading partnership and complementarity discussed in the earlier chapters reiterate the significance of the bilateral partnership between India and the EU. The two regions stand thousands of miles apart with different cultures, but built upon the shared value of democracy, rule of law and a strong commitment towards free trade and open markets.

India and the EU have witnessed a new dynamism in their relationship in recent years, with both the economies eager to sign a comprehensive agreement to further promote economic partnership. It is an opportune time for India and the EU to build on its solid trade and investment engagements and take this relationship to newer heights. A few policy catalysts that could help boost bilateral cooperation are briefly discussed below.

Enhancing Trade Based on Trade Potential

India needs to expand its production and trade in products in which it has comparative advantage with the EU. This would help in expansion of trade and further increase in trade surplus with the EU. The study has already identified potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential for the products which are already showing a robust growth in the EU market, where India's exports also hold a comparative advantage. In the medium to long run, efforts and investments are to be enhanced in Underachievers category products to develop capacities in these products, which will help in coping with the demands of the EU market in a more competitive manner. The products in the respective categories have been discussed elaborately in Chapter 2.

Free Trade Agreement

It is found that 95% of India's imports from the EU face tariff of less than 21%. Major exception being 'beverages, spirits and vinegar' category, with tariff of 111% and imports worth US\$ 86.4 million from the country. Around 50% of India's imports from the EU in this category is of whiskies, vodka, liqueurs and cordials and alcoholic liqueurs, with a tariff of 150%. Similarly, India imported vehicles other than railway and tramway (HS-87), amounting to US\$ 104 billion from the EU in 2021, constituting 3.1% of total imports from the EU. Although at 2-digit HS code level, the product category faces an effectively applied tariff of 24.5%, motor cars imported from the EU under this category have an effectively applied tariff of 125%. Automobiles present a different challenge altogether as India's existing partners like Japan and South Korea are large producers and may seek for a level-playing field once greater market access is granted to the EU. India's protection to its dairy sector through NTMs, along with high effectively applied tariff rates ranging between 30% to 60%, continues to prevent market access for the EU milk and dairy product exports to India, one of the largest dairy markets in the world. One key product of interest for the EU is cheese (HS-0406), along with

curd. The EU is the largest producer and exporter of cheese globally. In 2021, global cheese and curd exports of the EU amounted to US\$ 27.8 billion, constituting 75.6% of total exports in the product category around the globe. In comparison, 99.2% of India's exports to the EU fall within 10% effectively applied tariff. Three product categories face effectively applied tariff ranging between 11%-20%, with the total import share of 0.8%, including preparations of vegetables, fruit and nuts, dairy produce, birds' eggs and natural honey, and tobacco and manufactured tobacco substitutes. India would also be seeking greater access through reduced tariffs for its textiles and garments and engineering goods exports in the EU market. In negotiation for an FTA between India and the EU, the study has identified few additional aspects for consideration:

- **Focus on Negative List instead of Positive List of Products**

Ex-ante sector-specific impact analysis is crucial for any tariff rationalization policy, as it prevents miscalculation arising due to generalization. Based on this examination, a sensitive/negative list of products could be developed which includes those products which in case of tariff liberalization may negatively impact the domestic economy. While negotiating FTA, instead of focusing on list of products on which import tariff concessions are to be given, the focus should be on the products in the sensitive/ negative list on which tariff concession would be limited to protect the interest of the sector as well as people involved in it. For the current FTA negotiations between India and the EU, the report highlights sensitive sectors, including alcoholic beverages, automobile, and dairy sector, wherein the EU will demand increased access to Indian market.

- **Trade Liberalization Relative to Other FTAs Signed by the EU**

While negotiating for concessions under FTA, India needs to take into consideration the concessions that the EU has made under its FTA as well as GSP framework with India's competitors (like Vietnam, Bangladesh, and Sri Lanka) in the EU market. The product identification based on competitiveness, followed by the country-wise comparative tariff analysis shows that there exist enormous opportunities for expanding exports if tariff concessions are provided in line with India's competitors. Specifically, the report highlights prevalence of immense opportunities in case of articles of apparels both knitted and non-knitted (HS-61 and HS-62), and footwears and gaiters (HS-64), among others. For articles of apparel and clothing accessories, knitted or crocheted (HS-61), India currently faces an AHS of 9.4% in the EU, which is far more than that faced by its competitors like Bangladesh (0%) and Vietnam (3.8%). In case of articles of apparel and clothing accessories, not knitted or crocheted (HS-62), Indian exports to the EU currently face an AHS of 9%, while Bangladesh enjoys a 0% PRF under EBA scheme and Vietnam stemming from its Standard GSP eligibility and FTA with the EU faces a PRF of 6.3%.

In case of footwear and gaiters (HS-64), India currently faces an AHS of 6.6%, while Vietnam stemming from its Standard GSP eligibility and FTA with the EU faces a PRF of 2.1%. In product categories like vehicles other than railway or tramway (HS-87), aluminium and articles (HS-76), organic chemicals (HS-29), and articles of iron and steel (HS-73), among others, India is facing higher tariff rates compared to its competitors. To sum up, the possibility of Indian exports expanding in the EU would depend on the tariff concessions provided by the EU to these competitor countries relative to India.

- **Reducing Non-Tariff Barriers**

In case of India's exports to the EU, the reduction in the tariff rates may not lead to a significant increase in

the exports from India since the import tariffs are already low in the EU. Higher market access opportunities for India can only be realized if the NTMs are properly addressed. Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP) as of December 2021, the EU has 2618 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by the EU. Among the 2618 NTMs, 510 were put into force and 2108 were initiated. In disaggregated terms, Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures are the largest NTMs with 944 SPS (148 in force and 796 initiated), and 1,464 TBT (153 in force and 1311 initiated). Among other NTMs, the EU has adopted tariff-rate quota, special safeguards, export subsidies and anti-dumping measures, among others.

Amongst the NTMs imposed by the EU on the WTO members (including India), there are 38 measures bilaterally imposed on India, in the form of Anti-Dumping (ADP) measures (15), Countervailing measures (4) and SPS (19). According to broad sector classification of WTO I-TIP, live animals and products and vegetable products are the maximum protected sectors through NTMs, followed by prepared foodstuff, beverages, spirits, vinegar, and tobacco, products of the chemical and allied industries, and machinery and electrical equipment, among others. For instance, the process of exporting dairy products to the EU is complex and require adherence to several stringent requirements. Similar is the case of agri-food exports to India from the EU, which face various non-tariff barriers. Thus, India and the EU need to address these non-tariff barriers in order to help both sides trade more easily.

India and the EU could also work towards drawing up 'Mutual Recognition Agreements' (MRAs). The MRAs are agreements between two trading partners to reduce technical barriers to trade and is an agreement for mutual recognition of 'conformity assessment'. Conformity assessment (i.e., product safety and standard testing) may take various forms, including inspection, testing, certification, and licensing according to technical regulations and standards which are aimed at preventing safety, environmental and health risks. The EU needs to recognize that the designated testing body in India could perform required testing based on the technical requirements of the EU and vice versa with India. This will allow a product produced and certified in India to be exported to the EU without undergoing further testing in the EU and vice versa, to assess whether the product meets the EU technical requirements. Additionally, India also requires institutional interventions for certifications. In this regard, the Digital Global Identity Systems for supplier verification and certification, based on Blockchain can be developed with the EU's assistance, which is particularly beneficial to the industries dominated by SMEs. These interventions could reduce non-tariff barriers to trade between both the partners.

• **Moving Up the Value Chain**

An inverted duty structure emerges when import duties on finished products are lower than those on parts/raw materials, effectively incentivizing imports of goods rather than imports of parts and inputs for local manufacturing. A new type of inverted duty has also arisen due to FTAs wherein the finished goods imported from an FTA partner country have zero or low duty, but products of earlier stages of production like raw materials and intermediate goods imported from non-FTA countries have higher duties. Inverted duty structure is forcing many multinationals to shut down their production facilities in India and move out. This could also be due to the composition of raw materials particularly agricultural raw materials which have relatively higher tariffs. There is an urgent need to ensure that raw materials have lower duties except for any sensitive items. Sensitive items particularly in the agricultural sector and having livelihood concerns should also be taken care of. This will also help in addressing the inverted duty structure and can further help India move up in the

global value chain. This would give a boost to the Make in India through promoting manufacturing in India.

Data and Digital Technology

Movement of cross-border data is important to promote innovation and investments. The key to the expansion of digital and data services trade between India and the EU is the data protection regimes in both the countries and this need to be in alignment with each other. India has recently proposed and promulgated several data localization requirements that would serve as significant barriers to digital trade between the EU and India. Data protection is vital; however, it is equally important to ensure that barring personal and sensitive data, non-personal and anonymized personal data can move cross borders, thus promoting new innovations based upon the needs of the consumers. Both parties could agree over an India-EU Data Adequacy Agreement that facilitates these data movements based on mutual adequacy. The agreement must incorporate clauses that protects the personal data and privacy of the citizens of both the regions and the governments would guarantee the enforceability of these rights.

Another area for India-EU enhanced partnership is Fintech and the unification of **the payment system**. India and the EU have seen increased investment in new FinTech companies, involved especially in advanced payment application systems. In September 2021, under an agreement, India and Singapore linked their fast payment systems, i.e., linking India's Unified Payments Interface (UPI) to Singapore's PayNow. This development is expected to transform the way money is sent abroad or remitted in India. Indians would be able to make transactions with Singapore with the same ease of operating UPI in India. Over the years, the cost of the payments for the cross-border transactions have become quite expensive and thus linking of payment system between India and the EU will not only make financial transactions faster but also cheaper, thus, promoting easy flow of remittances and payments.

In terms of investment, with Digital India and the EU's Digital Strategy in place, developing advanced digital infrastructure and services would be lucrative for investors from both countries. Artificial Intelligence (AI), Robotics, the Internet of Things (IoT), Distributed Ledger Technology (DLT)/Blockchain, Big Data, Cloud Computing, and 3D Printing are opening new opportunities for collaborations and investment in both countries. Indian companies could partner with the EU based companies to provide innovative digital solutions for customer management and operating model by offering a comprehensive advanced people, processes, technology and data analytics services.

Services Trade

Both India and the EU have interest in reciprocal market access in services. Considering that both India and the EU are service dominated economies and major services exporters, there lies an underlying opportunity for both India and the EU to align their interests and act in complementarity. This will further boost their partnership and help them become the world leaders in the services exports. India's score in the OECD Services Trade Restrictiveness Index (STRI) is relatively high compared to the EU. India could benefit from more open markets for services trade and competition enhancing reforms in key services sectors that overarch the entire economy. India could promote investments from the EU through a liberal foreign investment policy through which foreign services supplier can easily establish operations in India and collaborate with Indian companies, thus adding to its competence in the global market. Sectors such as telecommunications, financial

services, transport services, and energy services in India are of particular interest to the EU, where efforts should be concentrated but with cautiousness so that it does not harm the interest of the domestic economy.

Movement of People

The Indian diaspora could be the key foundation on which the India-EU relationship can be further strengthened. Temporary movement of natural person for the supply of services (Mode 4) is one of the four modes of trade in services under Generalized Agreement on Trade in Services of the WTO. Thus, a comprehensive trade agreement with the EU could be used to further promote interest of Indians in the EU. When India is negotiating with the EU, it can request for a liberal commitment for Mode 4, covering both the high and low skilled workers in terms of immigration policies, visa requirements, stay-back after studies, and social security benefits.

This deal could support regulators of all regulated professions to deliver recognition of more Indian professional qualifications. This could mean professionals will be able to take on jobs in EU without having to re-sit numerous exams/courses. Indian professionals will benefit from new opportunities to work in the EU or deliver services remotely, and the EU companies will be able to attract and retain more global talent.

The Indian companies which are providing services in the EU, operating in important sectors, including travel agents, engineers and consultants should be able to send Indian staff to the EU for work, without being subject to ENT/LNT requirements. This would provide certainty and assurance to Indian businesses seeking to make further inroads into providing services in the EU. Through these ENT/LMT relaxation, businesses in the EU will also no longer have to prove that they couldn't find an EU local to fill a job before they sponsor a visa for an Indian professional. This process currently exists for almost all businesses in the EU (barring few economies) hiring anyone from overseas.

Supportive Logistical Infrastructure

A robust logistics sector can go a long way in boosting India's exports to the EU. Efforts to be made to reduce transaction and transport costs. With better infrastructure planning, increased coordination among stakeholders and improved operational efficiencies, India can unlock its potential in the EU, thus promoting economic growth. The shortage of containers witnessed in recent times has led to the rise in price of the containers and the subsequent hike in freight rates. These container shortages directly impact the low value export items that are exported in high volumes as well as the items that are exported via ship or ship to air. Thus, both India and EU need to ensure ideal container capacity at different ports while in the long run additional container capacity should be added along with speedy clearance by the customs and swift unloading to effectively respond to its demand to support exports.

Equal Exchange

Since the EU's tariffs are already low, the EU stands to gain more from the tariff liberalization in case of an FTA. Hence, the trade deal should be based upon the principle of give and take where on one hand India provides greater market access to the EU, and on the other there could be greater investments from the EU

in enhancing R&D capacity of Indian manufacturers and technological partnerships. India needs to continue its efforts to undertake reforms to create a smooth journey for investors in areas such as land acquisition, and enforcement of contracts, among others.

Collaboration in Renewable Energy

The India-EU BTIA could play a critical role in redirecting and significantly augmenting the trade and investment flows across the Renewable Energy sector, especially in the wind and solar sectors. This primarily rests on two premises:

One, India could lead the discussions on Renewable Energy or the Environment Goods, under the umbrella of the International Solar Alliance (ISA). Being the anchor of the ISA, India could work with like-minded countries to establish an agreement which could be on the lines of the Emirates Global Aluminium (EGA), based in UAE, but with a greater thrust on investment promotion and technology transfer, albeit only for solar related items. It may be noted that the solar energy sector is undergoing a rapid metamorphosis. The solar installations in the last 10 years have increased at a substantial pace, and this exponential growth provides significant opportunities for the ISA countries to augment their production capabilities from solar energy. *Two*, the European Green Deal aims to transform the EU into a modern, resource-efficient, and competitive economy, ensuring no net emissions of greenhouse gases by 2050 and economic growth decoupled from resource use.

The India-EU BTIA could combine the likely increase in uptake of renewable energy in the EU region with India's ability to manufacture the required machinery at competitive prices to achieve the goals of European Green Deal. The agreement may help the flow of technology and investments from the EU to India, thereby optimizing the cross-border trade of environment goods like equipment needed for tidal and geothermal energy, wind turbine blades and solar panels.

Annexures

Annexure 1: Tariffs Imposed by India on Imports from the EU in 2020

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|---|-------|-------|-------|---------------------|---------------------|---------------------|------------------|
| 1 | Live animals | 30.0 | 100.0 | 30.0 | 2.5 | 10.0 | 5062.8 | 100.0 |
| 2 | Meat and edible meat offal | 30.0 | 87.0 | 30.0 | 5.0 | 10.0 | 1295.0 | 100.0 |
| 3 | Fish and crustaceans | 30.0 | 150.0 | 30.0 | 0.0 | 20.0 | 3729.2 | 25.0 |
| 4 | Dairy produce; birds' eggs; natural honey | 34.9 | 82.8 | 35.4 | 0.0 | 25.0 | 25763.4 | 100.0 |
| 5 | Products of animal origin | 29.1 | 100.0 | 29.2 | 5.0 | 10.0 | 8754.4 | 100.0 |
| 6 | Live trees and other plants | 19.7 | 73.6 | 27.3 | 10.0 | 10.0 | 8989.5 | 100.0 |
| 7 | Edible vegetables, certain roots and tubers | 25.7 | 97.7 | 24.9 | 5.0 | 10.0 | 8586.4 | 100.0 |
| 8 | Edible fruit and nuts | 35.2 | 94.1 | 34.8 | 5.0 | 20.0 | 50327.3 | 100.0 |
| 9 | Coffee, tea, maté and spices | 56.6 | 132.2 | 54.7 | 10.0 | 20.0 | 14012.7 | 100.0 |
| 10 | Cereals | 41.1 | 78.6 | 42.9 | 5.0 | 20.0 | 3439.7 | 100.0 |
| 11 | Products of the milling industry | 31.7 | 118.0 | 32.0 | 10.0 | 10.0 | 16241.5 | 100.0 |
| 12 | Oil seeds and oleaginous fruits | 18.6 | 98.0 | 23.8 | 10.0 | 20.0 | 52696.4 | 100.0 |
| 13 | Lac; gums, resins and other vegetable saps | 25.0 | 102.8 | 26.5 | 2.5 | 10.0 | 27061.3 | 100.0 |
| 14 | Vegetable plaiting materials | 30.0 | 100.0 | 30.0 | 10.0 | 10.0 | 19.4 | 100.0 |
| 15 | Animal or vegetable fats and oils a | 36.5 | 193.2 | 37.1 | 10.0 | 10.0 | 196806.1 | 93.6 |
| 16 | Preparations of meat, of fish or of crustaceans | 33.9 | 109.3 | 38.8 | 0.0 | 125.0 | 835.8 | 87.5 |
| 17 | Sugars and sugar confectionery | 34.9 | 121.1 | 36.4 | 0.0 | 20.0 | 65205.0 | 100.0 |
| 18 | Cocoa and cocoa preparations | 30.0 | 121.9 | 30.0 | 10.0 | 15.0 | 20282.1 | 100.0 |
| 19 | Preparations of cereals, flour, starch or milk | 30.5 | 106.6 | 31.2 | 0.0 | 20.0 | 11039.1 | 100.0 |
| 20 | Preparations of vegetables, fruit and nuts | 35.8 | 100.2 | 35.0 | 10.0 | 10.0 | 13354.7 | 100.0 |
| 21 | Miscellaneous edible preparations | 56.3 | 135.0 | 39.3 | 20.0 | 20.0 | 50504.2 | 100.0 |
| 22 | Beverages, spirits and vinegar | 111.0 | 150.0 | 112.9 | 0.0 | 10.0 | 86422.0 | 100.0 |
| 23 | Residues and waste from the food industries | 24.2 | 102.9 | 22.1 | 2.5 | 10.0 | 87334.1 | 100.0 |
| 24 | Tobacco and manufactured tobacco substitutes | 34.7 | 137.5 | 33.8 | 2.5 | 10.0 | 5611.4 | 100.0 |
| 25 | Salt; sulphur; earths and stone | 6.0 | 39.1 | 6.0 | 0.0 | 60.0 | 99031.7 | 98.2 |
| 26 | Ores, slag and ash | 3.4 | 29.5 | 3.2 | 30.0 | 30.0 | 43587.5 | 90.9 |
| 27 | Mineral fuels and oils | 4.4 | 29.2 | 4.5 | 30.0 | 60.0 | 819912.1 | 10.3 |

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|--|------|-------|------|---------------------|---------------------|---------------------|------------------|
| 28 | Inorganic chemicals | 7.4 | 40.0 | 7.4 | 10.0 | 100.0 | 426832.4 | 100.0 |
| 29 | Organic chemicals | 7.2 | 40.4 | 7.0 | 30.0 | 100.0 | 2226823.5 | 99.7 |
| 30 | Pharmaceutical products | 9.8 | 38.8 | 9.7 | 0.0 | 10.0 | 996806.5 | 54.3 |
| 31 | Fertilisers | 6.1 | 4.5 | 6.0 | 15.0 | 100.0 | 294006.0 | 47.6 |
| 32 | Tanning or dyeing extracts | 8.7 | 39.2 | 8.3 | 30.0 | 60.0 | 408148.4 | 61.4 |
| 33 | Essential oils and resinoids | 18.8 | 121.7 | 19.3 | 15.0 | 25.0 | 176261.8 | 37.9 |
| 34 | Soap, organic surface-active agents | 10.0 | 40.0 | 10.2 | 0.0 | 10.0 | 212586.0 | 26.1 |
| 35 | Albuminoidal substances | 14.3 | 92.3 | 16.4 | 10.0 | 20.0 | 137371.9 | 100.0 |
| 36 | Explosives and pyrotechnic products | 10.0 | 40.0 | 10.0 | 10.0 | 20.0 | 4365.5 | 40.0 |
| 37 | Photographic or cinematographic goods | 10.0 | 40.0 | 10.0 | 7.5 | 25.0 | 32727.4 | 100.0 |
| 38 | Miscellaneous chemical products | 8.3 | 49.0 | 8.6 | 30.0 | 150.0 | 1158888.8 | 100.0 |
| 39 | Plastics and articles thereof | 10.1 | 40.0 | 9.5 | 10.0 | 10.0 | 1629438.3 | 80.3 |
| 40 | Rubber and articles thereof | 10.4 | 38.4 | 11.3 | 10.0 | 20.0 | 382450.7 | 64.9 |
| 41 | Raw hides and skins (other than furskins) | 8.1 | 27.5 | 7.7 | 30.0 | 50.0 | 84924.8 | 100.0 |
| 42 | Articles of leather, saddlery and harness | 13.3 | | 13.0 | 10.0 | 20.0 | 22554.9 | 0.0 |
| 43 | Furskins and artificial fur; manufactures thereof | 4.6 | 60.0 | 5.0 | 0.0 | 30.0 | 1432.2 | 50.0 |
| 44 | Wood and articles of wood | 9.2 | 35.7 | 8.8 | 2.5 | 10.0 | 170161.6 | 65.3 |
| 45 | Cork and articles of cork | 10.0 | 40.0 | 10.0 | 10.0 | 20.0 | 3674.1 | 100.0 |
| 46 | Manufactures of straw | 10.0 | | 10.0 | 10.0 | 10.0 | 528.3 | 0.0 |
| 47 | Pulp of wood or of other fibrous cellulosic material | 2.8 | 28.3 | 3.9 | 30.0 | 30.0 | 384772.1 | 100.0 |
| 48 | Paper and paperboard | 10.0 | 39.8 | 10.0 | 5.0 | 10.0 | 496348.4 | 68.7 |
| 49 | Printed books, newspapers and pictures | 8.5 | 25.0 | 7.3 | 5.0 | 30.0 | 18458.0 | 56.3 |
| 50 | Silk | 17.5 | | 16.0 | 20.0 | 20.0 | 169.5 | 0.0 |
| 51 | Wool, fine or coarse animal hair | 6.2 | 43.2 | 7.8 | 0.0 | 80.0 | 14371.9 | 91.3 |
| 52 | Cotton | 9.6 | 36.1 | 9.8 | 0.0 | 10.0 | 19854.6 | 64.0 |
| 53 | Other vegetable textile fibres | 8.8 | 55.0 | 9.2 | 0.0 | 40.0 | 54385.5 | 100.0 |
| 54 | Man-made filaments | 20.0 | 20.5 | 20.0 | 7.5 | 40.0 | 34378.8 | 96.8 |
| 55 | Man-made staple fibres | 20.1 | 21.0 | 20.1 | 2.5 | 12.5 | 93527.9 | 86.2 |
| 56 | Wadding, felt and nonwovens | 12.7 | 24.5 | 12.1 | 10.0 | 25.0 | 41356.3 | 100.0 |
| 57 | Carpets and other textile floor coverings | 20.0 | 35.0 | 20.0 | 7.5 | 15.0 | 10182.8 | 40.0 |
| 58 | Special woven fabrics | 11.3 | 25.0 | 10.6 | 2.5 | 10.0 | 6727.1 | 65.6 |
| 59 | Impregnated, coated, covered or laminated textile | 13.6 | 30.2 | 12.9 | 20.0 | 20.0 | 44713.1 | 87.5 |
| 60 | Knitted or crocheted fabrics | 16.7 | 30.0 | 16.0 | 10.0 | 20.0 | 8148.7 | 28.6 |
| 61 | Articles of apparel and clothing accessories | 19.9 | 36.7 | 19.8 | 10.0 | 10.0 | 40540.5 | 51.0 |
| 62 | Articles of apparel and clothing accessories (not knitted) | 20.0 | 37.5 | 20.0 | 10.0 | 15.0 | 62918.4 | 70.1 |

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|--|------|------|------|---------------------|---------------------|---------------------|------------------|
| 63 | Other made-up textile articles | 11.5 | 35.0 | 10.9 | 0.0 | 30.0 | 41498.0 | 43.8 |
| 64 | Footwear and gaiters | 22.7 | | 23.8 | 10.0 | 25.0 | 26648.6 | 0.0 |
| 65 | Headgear and parts thereof | 10.0 | | 10.0 | 0.0 | 30.0 | 2118.3 | 0.0 |
| 66 | Umbrellas, sun umbrellas and walking sticks | 10.0 | | 10.0 | 7.5 | 15.0 | 168.6 | 0.0 |
| 67 | Prepared feathers | 10.0 | | 10.0 | 0.0 | 70.0 | 236.4 | 0.0 |
| 68 | Articles of stone, plaster and cement | 12.1 | 40.0 | 12.9 | 20.0 | 20.0 | 109384.2 | 100.0 |
| 69 | Ceramic products | 10.0 | 37.9 | 10.6 | 0.0 | 7.5 | 125306.0 | 70.0 |
| 70 | Glass and glassware | 10.4 | 38.0 | 10.3 | 0.0 | 5.0 | 122871.9 | 62.7 |
| 71 | Natural or cultured pearls | 14.0 | 40.0 | 12.4 | 10.0 | 20.0 | 3569108.9 | 63.4 |
| 72 | Iron and steel | 9.2 | 39.7 | 9.4 | 2.5 | 5.0 | 1060322.6 | 91.1 |
| 73 | Articles of iron or steel | 10.3 | 40.0 | 10.1 | 10.0 | 10.0 | 656943.1 | 63.9 |
| 74 | Copper and articles thereof | 7.0 | | 6.4 | 5.0 | 30.0 | 379687.4 | 0.0 |
| 75 | Nickel and articles thereof | 0.0 | 38.9 | 0.0 | 30.0 | 30.0 | 124168.0 | 93.3 |
| 76 | Aluminium and articles thereof | 8.5 | | 8.5 | 30.0 | 150.0 | 426169.9 | 0.0 |
| 78 | Lead and articles thereof | 5.7 | | 5.6 | 5.0 | 60.0 | 20451.0 | 0.0 |
| 79 | Zinc and articles thereof | 6.2 | | 5.8 | 30.0 | 100.0 | 29640.7 | 0.0 |
| 80 | Tin and articles thereof | 6.9 | 36.3 | 6.3 | 5.0 | 30.0 | 1576.9 | 100.0 |
| 81 | Other base metals | 7.1 | 38.9 | 6.6 | 30.0 | 30.0 | 52851.9 | 93.3 |
| 82 | Tools, implements and cutlery | 10.0 | 25.0 | 10.0 | 2.5 | 10.0 | 185462.4 | 1.6 |
| 83 | Miscellaneous articles of base metal | 11.7 | | 11.3 | 0.0 | 30.0 | 120669.9 | 0.0 |
| 84 | Machinery and mechanical appliances | 7.5 | 28.2 | 7.6 | 30.0 | 30.0 | 7078821.3 | 97.6 |
| 85 | Electrical machinery and equipment | 8.1 | 26.0 | 8.4 | 30.0 | 50.0 | 3010539.4 | 91.1 |
| 86 | Railway or tramway locomotives | 10.0 | 40.0 | 10.0 | 10.0 | 10.0 | 198213.7 | 100.0 |
| 87 | Vehicles other than railway or tramway | 24.5 | 40.0 | 38.7 | 0.0 | 0.0 | 891509.5 | 58.3 |
| 88 | Aircraft, spacecraft, and parts thereof | 6.3 | 22.7 | 6.9 | 30.0 | 50.0 | 129856.9 | 100.0 |
| 89 | Ships, boats and floating structures | 10.4 | 30.0 | 11.6 | 0.0 | 10.0 | 462821.6 | 54.6 |
| 90 | Optical, photographic, cinematographic equipment | 7.2 | 32.8 | 7.7 | 15.0 | 80.0 | 2231432.1 | 83.1 |
| 91 | Clocks and watches and parts thereof | 15.1 | 40.0 | 15.1 | 10.0 | 25.0 | 5274.6 | 63.6 |
| 92 | Musical instruments and parts | 10.0 | | 10.0 | 0.0 | 10.0 | 1676.0 | 0.0 |
| 93 | Arms and ammunition | 10.0 | | 10.0 | 10.0 | 15.0 | 10669.9 | 0.0 |
| 94 | Furniture; bedding and mattresses | 19.1 | 35.0 | 19.0 | 10.0 | 10.0 | 149629.1 | 2.4 |
| 95 | Toys, games and sports requisites | 20.0 | 40.0 | 20.0 | 2.5 | 20.0 | 30502.9 | 7.4 |
| 96 | Miscellaneous manufactured articles | 11.2 | 27.8 | 11.5 | 10.0 | 20.0 | 52147.9 | 6.3 |
| 97 | Works of art, collectors' pieces and antiques | 9.7 | | 8.3 | 0.0 | 20.0 | 5413.9 | 0.0 |

Source: WITS database and India Exim Bank Analysis

Annexure 2: Tariffs Imposed by the EU on Imports from India in 2020

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|---|------|-----|------|---------------------|---------------------|---------------------|------------------|
| 1 | Live animals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.1 | 0.0 |
| 2 | Meat and edible meat offal | 4.4 | 0.0 | 5.5 | 0.0 | 15.4 | 141.9 | 0.0 |
| 3 | Fish and crustaceans | 6.4 | 0.0 | 11.2 | 0.0 | 19.5 | 661265.5 | 0.0 |
| 4 | Dairy produce; birds' eggs; natural honey | 16.1 | 0.0 | 16.5 | 2.6 | 17.3 | 810.9 | 0.0 |
| 5 | Products of animal origin | 0.0 | 0.0 | 0.1 | 0.0 | 1.6 | 32298.7 | 0.0 |
| 6 | Live trees and other plants | 3.5 | 0.0 | 6.2 | 0.0 | 7.4 | 25349.9 | 0.0 |
| 7 | Edible vegetables and certain roots and tubers | 4.9 | 0.0 | 7.1 | 0.0 | 12.8 | 131879.9 | 0.0 |
| 8 | Edible fruit and nuts | 3.4 | 0.0 | 5.5 | 0.0 | 20.8 | 478164.7 | 0.0 |
| 9 | Coffee, tea, maté and spices | 0.5 | 0.0 | 1.8 | 0.0 | 8.0 | 416768.4 | 0.0 |
| 10 | Cereals | 1.9 | 0.0 | 3.0 | 0.0 | 12.8 | 206504.2 | 0.0 |
| 11 | Products of the milling industry | 6.0 | 0.0 | 9.5 | 4.2 | 15.7 | 7778.7 | 0.0 |
| 12 | Oil seeds and oleaginous fruits | 0.2 | 0.0 | 0.9 | 0.0 | 4.8 | 295023.9 | 0.0 |
| 13 | Lac; gums, resins and other vegetable saps | 0.4 | 0.0 | 1.1 | 0.0 | 13.4 | 136568.4 | 0.0 |
| 14 | Vegetable plaiting materials | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 50846.9 | 0.0 |
| 15 | Animal or vegetable fats and oils a | 3.2 | 0.0 | 6.2 | 0.0 | 11.2 | 277039.9 | 0.0 |
| 16 | Preparations of meat, of fish or of crustaceans | 9.5 | 0.0 | 18.4 | 2.0 | 21.5 | 30327.1 | 0.0 |
| 17 | Sugars and sugar confectionery | 9.1 | 0.0 | 12.9 | 8.0 | 9.3 | 40710.2 | 0.0 |
| 18 | Cocoa and cocoa preparations | 2.3 | 0.0 | 5.6 | 0.0 | 6.1 | 13050.9 | 0.0 |
| 19 | Preparations of cereals, flour, starch or milk | 0.8 | 0.0 | 11.6 | 0.0 | 2.9 | 12432.9 | 0.0 |
| 20 | Preparations of vegetables, fruit and nuts | 11.6 | 0.0 | 16.6 | 0.0 | 28.5 | 146885.8 | 0.0 |
| 21 | Miscellaneous edible preparations | 6.1 | 0.0 | 9.6 | 0.0 | 12.8 | 108340.5 | 0.0 |
| 22 | Beverages, spirits and vinegar | 1.7 | 0.0 | 2.7 | 0.0 | 6.1 | 3520.8 | 0.0 |
| 23 | Residues and waste from the food industries | 0.7 | 0.0 | 2.3 | 0.0 | 4.2 | 69490.7 | 0.0 |
| 24 | Tobacco and manufactured tobacco substitutes | 19.4 | 0.0 | 42.8 | 0.0 | 52.4 | 170296.4 | 0.0 |
| 25 | Salt; sulphur; earths and stone | 0.0 | 0.0 | 0.1 | 0.0 | 1.7 | 100114.4 | 0.0 |
| 26 | Ores, slag and ash | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20695.0 | 0.0 |
| 27 | Mineral fuels and oils | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 | 9283.1 | 0.0 |
| 28 | Inorganic chemicals | 4.8 | 0.0 | 4.8 | 0.0 | 5.5 | 159766.0 | 0.0 |
| 29 | Organic chemicals | 4.8 | 0.0 | 4.8 | 0.0 | 6.5 | 4868687.2 | 0.0 |
| 30 | Pharmaceutical products | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1707932.3 | 0.0 |
| 31 | Fertilisers | 1.7 | 0.0 | 3.2 | 0.0 | 6.5 | 10582.9 | 0.0 |
| 32 | Tanning or dyeing extracts | 1.2 | 0.0 | 5.9 | 0.0 | 5.8 | 554883.2 | 0.0 |
| 33 | Essential oils and resinoids | 0.0 | 0.0 | 2.5 | 0.0 | 0.0 | 199401.7 | 0.0 |

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|--|-----|-----|------|---------------------|---------------------|---------------------|------------------|
| 34 | Soap, organic surface-active agents | 0.0 | 0.0 | 1.9 | 0.0 | 0.0 | 44752.0 | 0.0 |
| 35 | Albuminoidal substances | 0.4 | 0.0 | 5.8 | 0.0 | 6.4 | 27962.3 | 0.0 |
| 36 | Explosives and pyrotechnic products | 0.0 | 0.0 | 6.4 | 0.0 | 0.0 | 3300.1 | 0.0 |
| 37 | Photographic or cinematographic goods | 0.0 | 0.0 | 4.9 | 0.0 | 0.0 | 37.8 | 0.0 |
| 38 | Miscellaneous chemical products | 0.0 | 0.0 | 5.1 | 0.0 | 2.8 | 375806.9 | 0.0 |
| 39 | Plastics and articles thereof | 0.8 | 0.0 | 6.1 | 0.0 | 3.0 | 914012.4 | 0.0 |
| 40 | Rubber and articles thereof | 0.3 | 0.0 | 3.0 | 0.0 | 2.2 | 887396.0 | 0.0 |
| 41 | Raw hides and skins (other than fur skins) | 1.5 | 0.0 | 4.1 | 0.0 | 6.5 | 111340.5 | 0.0 |
| 42 | Articles of leather, saddlery and harness | 0.9 | 0.0 | 4.5 | 0.0 | 5.5 | 1113789.8 | 0.0 |
| 43 | Fur skins and artificial fur; manufactures thereof | 0.0 | 0.0 | 3.1 | 0.0 | 0.0 | 2848.0 | 0.0 |
| 44 | Wood and articles of wood | 0.4 | 0.0 | 1.7 | 0.0 | 6.5 | 69663.6 | 0.0 |
| 45 | Cork and articles of cork | 0.5 | 0.0 | 3.6 | 0.0 | 1.2 | 452.4 | 0.0 |
| 46 | Manufactures of straw | 0.2 | 0.0 | 3.2 | 0.0 | 1.2 | 10653.4 | 0.0 |
| 47 | Pulp of wood or of other fibrous cellulosic material | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 111.5 | 0.0 |
| 48 | Paper and paperboard | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 78569.6 | 0.0 |
| 49 | Printed books, newspapers and pictures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 30359.4 | 0.0 |
| 50 | Silk | 4.7 | 0.0 | 4.7 | 0.0 | 7.5 | 10314.6 | 0.0 |
| 51 | Wool, fine or coarse animal hair | 5.1 | 0.0 | 5.1 | 0.0 | 8.0 | 22826.8 | 0.0 |
| 52 | Cotton | 6.4 | 0.0 | 6.4 | 0.0 | 8.0 | 429460.0 | 0.0 |
| 53 | Other vegetable textile fibres | 3.5 | 0.0 | 3.5 | 0.0 | 8.0 | 66003.3 | 0.0 |
| 54 | Man-made filaments | 6.5 | 0.0 | 6.5 | 3.8 | 8.0 | 118686.8 | 0.0 |
| 55 | Man-made staple fibres | 6.4 | 0.0 | 6.4 | 4.0 | 8.0 | 149082.1 | 0.0 |
| 56 | Wadding, felt and nonwovens | 6.2 | 0.0 | 6.2 | 3.2 | 12.0 | 42876.0 | 0.0 |
| 57 | Carpets and other textile floor coverings | 7.4 | 0.0 | 7.4 | 3.0 | 8.0 | 368882.9 | 0.0 |
| 58 | Special woven fabrics | 7.0 | 0.0 | 7.0 | 5.0 | 8.0 | 51886.7 | 0.0 |
| 59 | Impregnated, coated, covered or laminated textile | 6.3 | 0.0 | 6.3 | 0.0 | 8.0 | 25037.2 | 0.0 |
| 60 | Knitted or crocheted fabrics | 7.9 | 0.0 | 7.9 | 6.5 | 8.0 | 5611.0 | 0.0 |
| 61 | Articles of apparel and clothing accessories | 9.4 | 0.0 | 11.7 | 6.4 | 9.6 | 2205498.7 | 0.0 |
| 62 | Articles of apparel and clothing accessories (not knitted) | 9.0 | 0.0 | 11.3 | 5.0 | 9.6 | 2219739.2 | 0.0 |
| 63 | Other made-up textile articles | 8.2 | 0.0 | 10.3 | 0.0 | 9.6 | 973217.8 | 0.0 |
| 64 | Footwear and gaiters | 6.6 | 0.0 | 10.7 | 0.0 | 11.9 | 1188189.6 | 0.0 |
| 65 | Headgear and parts thereof | 0.0 | 0.0 | 2.7 | 0.0 | 0.0 | 12467.2 | 0.0 |
| 66 | Umbrellas, sun umbrellas and walking sticks | 0.9 | 0.0 | 4.1 | 0.0 | 1.7 | 1151.0 | 0.0 |
| 67 | Prepared feathers | 0.0 | 0.0 | 2.9 | 0.0 | 0.0 | 16291.3 | 0.0 |

| HS Code | Product | AHS | BND | MFN | Minimum Rate in AHS | Maximum Rate in AHS | Imports (US\$ '000) | Binding Coverage |
|---------|--|-----|-----|-----|---------------------|---------------------|---------------------|------------------|
| 68 | Articles of stone, plaster and cement | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 296350.9 | 0.0 |
| 69 | Ceramic products | 2.0 | 0.0 | 5.3 | 0.0 | 8.4 | 229651.3 | 0.0 |
| 70 | Glass and glassware | 2.3 | 0.0 | 5.6 | 0.0 | 7.5 | 165658.6 | 0.0 |
| 71 | Natural or cultured pearls | 1.4 | 0.0 | 1.4 | 0.0 | 4.0 | 1936732.9 | 0.0 |
| 72 | Iron and steel | 0.3 | 0.0 | 0.3 | 0.0 | 7.0 | 1747213.9 | 0.0 |
| 73 | Articles of iron or steel | 2.2 | 0.0 | 2.2 | 0.0 | 3.7 | 1116593.2 | 0.0 |
| 74 | Copper and articles thereof | 3.6 | 0.0 | 3.6 | 0.0 | 5.2 | 68851.3 | 0.0 |
| 75 | Nickel and articles thereof | 1.4 | 0.0 | 1.4 | 0.0 | 3.3 | 7195.0 | 0.0 |
| 76 | Aluminium and articles thereof | 6.4 | 0.0 | 6.4 | 0.0 | 10.0 | 360563.4 | 0.0 |
| 78 | Lead and articles thereof | 2.1 | 0.0 | 2.1 | 0.0 | 5.0 | 3641.5 | 0.0 |
| 79 | Zinc and articles thereof | 4.5 | 0.0 | 4.5 | 2.5 | 5.0 | 3033.5 | 0.0 |
| 80 | Tin and articles thereof | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 746.1 | 0.0 |
| 81 | Other base metals | 4.7 | 0.0 | 4.7 | 0.0 | 9.0 | 13192.4 | 0.0 |
| 82 | Tools, implements and cutlery | 3.2 | 0.0 | 3.2 | 1.7 | 8.5 | 188588.3 | 0.0 |
| 83 | Miscellaneous articles of base metal | 2.2 | 0.0 | 2.2 | 0.0 | 3.7 | 188196.6 | 0.0 |
| 84 | Machinery and mechanical appliances | 0.0 | 0.0 | 1.7 | 0.0 | 0.0 | 3121650.2 | 0.0 |
| 85 | Electrical machinery and equipment | 0.1 | 0.0 | 1.7 | 0.0 | 9.8 | 2980145.3 | 0.0 |
| 86 | Railway or tramway locomotives | 1.7 | 0.0 | 1.7 | 0.0 | 3.7 | 22068.0 | 0.0 |
| 87 | Vehicles other than railway or tramway | 4.6 | 0.0 | 4.6 | 0.0 | 22.0 | 1225302.1 | 0.0 |
| 88 | Aircraft, spacecraft, and parts thereof | 1.2 | 0.0 | 1.2 | 0.0 | 3.7 | 98065.9 | 0.0 |
| 89 | Ships, boats and floating structures | 2.0 | 0.0 | 2.0 | 0.0 | 2.7 | 630.6 | 0.0 |
| 90 | Optical, photographic, cinematographic equipment | 0.0 | 0.0 | 0.9 | 0.0 | 2.3 | 617199.9 | 0.0 |
| 91 | Clocks and watches and parts thereof | 0.6 | 0.0 | 4.1 | 0.0 | 2.1 | 10484.8 | 0.0 |
| 92 | Musical instruments and parts | 0.0 | 0.0 | 3.1 | 0.0 | 0.0 | 6890.6 | 0.0 |
| 93 | Arms and ammunition | 2.5 | 0.0 | 2.5 | 0.0 | 3.2 | 8145.3 | 0.0 |
| 94 | Furniture; bedding and mattresses | 0.1 | 0.0 | 2.2 | 0.0 | 2.2 | 647589.5 | 0.0 |
| 95 | Toys, games and sports requisites | 0.0 | 0.0 | 2.1 | 0.0 | 1.2 | 99230.8 | 0.0 |
| 96 | Miscellaneous manufactured articles | 0.0 | 0.0 | 3.3 | 0.0 | 2.5 | 83489.7 | 0.0 |
| 97 | Works of art, collectors' pieces and antiques | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3269.6 | 0.0 |

Source: WITS database and India Exim Bank Analysis

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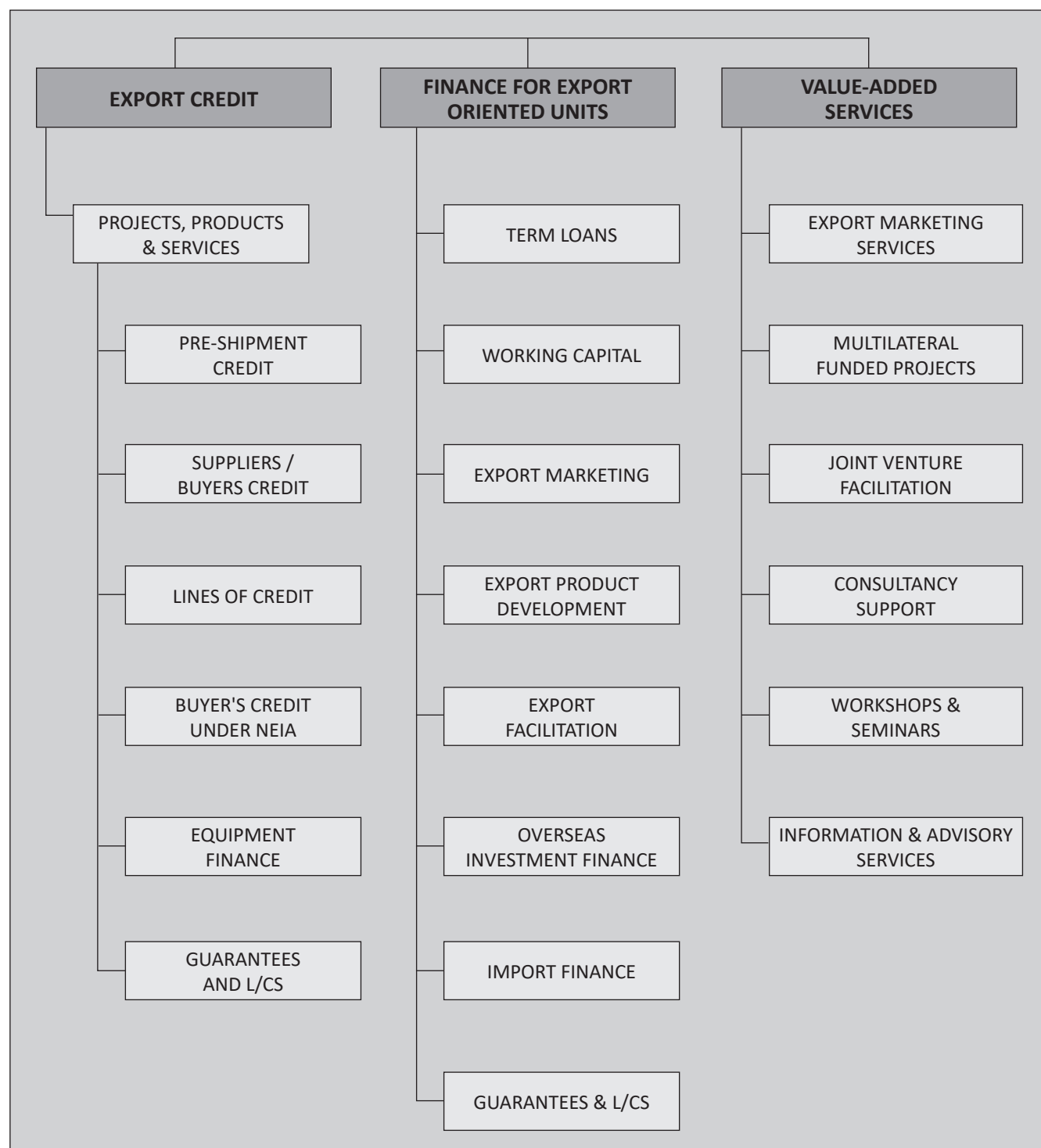
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