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Brussels must reach out

In face of economic challenges, EU needs to be open to India's concerns on trade

IN AN INCREASINGLY uncertain world, with countries looking inwards and raising trade barriers, the European Union is focusing on boosting its competitiveness. And Mario Draghi's recent report on the issue provides the blueprint.

The EU's growth over the past two years has been anything but enviable. The region finds itself at a crossroads as its ambition to decarbonise while confronting Russia has compelled it to adopt a stance not necessarily aligned with enhancing competitiveness. The shutting down of Nordstream caused a spike in energy prices, taking a toll on the cost of living. Even though the US has managed to make inroads into the EU gas market, fewer long-term contracts raise questions of stability of gas supplies.

The region's hard stance on the environment led to the introduction of the carbon border adjustment mechanism (CBAM). This de facto tax on the import of products such as steel, cement and aluminium disadvantages countries like India. European officials are cognisant that such a measure is perceived as protectionist, especially

when German industries like steel and automobile are demanding more policy attention at home. While the EU has introduced changes to CBAM, there is a slim chance of renegotiating the terms. The simplification of compliance with sustainability reporting and CBAM reporting for SMEs within the EU raises concerns of whether internal prosperity is paramount for the region.

As per the Draghi report, the EU has already lost ground, with 30 per cent of its unicorns moving to the US between 2008 and 2021 and only four of the top 50 tech companies based in the EU. At the same time, it struggles to hold relevance in export markets where it competes with China. The EU is also bitter with China's approach to joint ventures that often resulted in technology transfers on unequal terms. The Belt and Road Initiative (BRI) has expanded China's reach. The EU, therefore, finds itself in a situation where it seeks reliable external partners while trying to simplify regulations without deregulating. The global gateway programme, though less than a third of the BRI's budget, and free trade agreements (FTAs),

are means to engage globally. However, bureaucratic processes of Brussels stand between the status quo and reforms within the region.

India is among the countries that the EU is seeking deeper economic ties. The ongoing negotiations of the India-EU FTA have been extensive, and the adapting agenda reflects India's strength to negotiate. There are many issues of divergence within the FTA — sections pertaining to state-owned enterprises, for example, was a concern in terms of scope and dispute settlement. Investment continues to be a point of divergence. The discussions on the energy and raw material section, which included provisions on energy infrastructure and technical and non-technical barriers to trade for renewable energy, were put aside after the 11th round. On the other hand, the EU has consistently brought up the issue of quality control orders, which act as a barrier to market access and are to be addressed.

Despite the impression that India is a tough negotiator, the EU is optimistic that the remaining issues will be ironed out

and a deal will be signed by the year end. If this is to benefit India, the EU must open up to allow its demand to absorb Indian exports. At present, it accounts for 18 per cent of India's exports, with Germany a major market. But forecasts of weak domestic demand and a slight uptick in bankruptcies suggest that immediate gains from the FTA may be subdued. The EU will also seek to lift its own economies through demand of large markets like India. The benefits from greater trade would arise where similarity in exports is lower, which seems to be the case when compared with China. There are also significant opportunities for investments into India.

As the trade war between the US and China intensifies, other countries are beginning to look for options. India and the EU could forge a more equal partnership based on better contextual understanding. It is to be seen if the 27 members of the Union are united in their approach to boosting competitiveness and strengthening external relations.

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