The alarmingly uneven deal of the India-EU FTA

By Javier Delgado Rivera at Bilaterals.org

For over four years now, India has been negotiating a Free Trade Agreement (FTA) with the European Union (EU) - the largest trade and investment deal the country has ever embarked on. As much as New Delhi expects to lure the European market and investments closer to India, the actual consequences for the country's economy could be dire: the open up of public procurement, the deregulation of the banking, automobile, retail and mining industries plus the adverse impact the deal will have in small-scale farmers make of this FTA a counter-productive undertaking.

Europe is India's major trading partner and biggest –real- source of foreign direct investment (FDI), what gives a flavour of the weight that Brussels carries in the Indian economy. In addition, the EU's gross domestic product is about ten times larger than India's. In paper, this asymmetry should present equal opportunities as challenges: a remarkable increase in Indian exports to the enormous European market combined with bigger FDI inflows from the continent, whereas European corporations step up or expand their businesses in India. However, a closer look at the course of the India-EU FTA negotiations reveals a different picture.

Recognizing the significance of exports to keep up with the country's economic growth, the EU grants India with a preferential import rate, bringing down average EU tariffs on Indian imports to a mere two per cent. With India's average duties on European products at a much higher 17 per cent, the FTA large removal of trade tariffs will have a greater negative impact on the Indian side. "Preference erosion is a key factor in determining the real economic value -and cost- of a deal with the EU," points out Shefali Sharma, from the American Institute for Agriculture and Trade Policy.

The upcoming India-EU FTA will also deal with non-tariff barriers (NTB) to trade - a complex set of regulations on imports and investments that in the case of India, protects the country's market from the might of global corporations. For instance, this FTA is expected to remove a number of limitations on European investments and liberalise the room for manoeuvre of EU firms if national rules are regarded as unfair or discriminatory. An illustrative case is the capacity that European tobacco companies may acquire to sue Indian states if measures to protect public health, such as overbearing tobacco warnings, are perceived as interfering with the multinationals' investment.

Another long-held fear is the effect that opening up India's public procurement to European firms may have. Given the size, bargaining power and expertise of EU business when it comes to working in emerging markets, it is plausible that several national players lose their bids in favour of newly-arrived European contesters. As a result, policies initially designed to boost domestic production and consumption as well as to foster Indian small and medium enterprises may well end up weakened. In developing countries, FTAs are infamous for the repercussions they frequently have in public services. Hence, the access of EU firms into the Indian health sector, energy and water supply industries should be carefully monitored.

Nevertheless, Indian officials should be applauded for having negotiated their way to limit the liberalisation of the country's public procurement to a state level, leaving federal-planned development and infrastructure schemes out of the scope of European firms.

This FTA is likely to bring out a banking deregulation bound to strike large numbers of Indians that, in the last years, have become increasingly dependent on cheap loans to find their way out of poverty. If the Indian financial system is liberalised so that European financial institutions are removed from current restrictions to operate in the country, they will take a greater portion of the Indian banking pie. This will not make good news for poor Indians, given that "unlike their domestic counterparts, foreign banks are not required to open offices in rural areas, provide agricultural loans or to lend to people below the poverty line." Certainly, it would add up to the pressures faced by domestic banks in more profitable urban operations, displacing resources to better compete in those *threatened* areas.

If New Delhi proves unable to keep the automobile sector away from the FTA, it may easily turn out to be the worse damaged industry of the whole agreement. Because of the high duties that fully-assembled cars have to pay if directly imported into the Indian market, today most EU carmakers partially manufacture their cars in India. If this trade deal removes those levies altogether along with other existing NTBs, EU automakers will have no incentive to put together their vehicles in India, and would rather ship them in from somewhere else. The price of these automobiles will then go down, undermining the competitiveness of local carmakers. Most European cars sold in India are luxury vehicles, so in order to prevent a major blow to the Indian automobile industry, it is hoped that "the abolition of tariffs [will presumably only apply] on high-end, luxury cars, while small and medium car makers retain a degree of protection," said Pallavi Aiyar, Brussels correspondent for the Business Standard.

Along with the car industry, duties for European alcoholic beverages are proving to be one of the FTA's trickiest items to work out. India's flourishing, vast middle class makes a very attractive market for European spirits and wine multinationals. With a current tariff of more than 70 per cent, lowering duties for EU alcoholic beverages will considerably toughen competition on the business. In fact, neither the automobile industry nor the spirits and wine markets form part of any of India's FTAs.

Distressing the Indian countryside

The possible FTA-triggered influx of cheap, heavily subsidised European agricultural products right into the Indian market should worry Indian farmers. Brussels allocates near 40 per cent of its entire budget to endow EU farmers, creating a large surplus of low-priced fruits and vegetables ready to export. It seems inevitable that, if tariffs are reduced or completely lifted, dumping will displace large chunks of Indian agricultural products from the country's markets, hardening the lives of many small scale and subsistence farmers.
On the top of this, if the India-EU FTA ends up fully protecting the intellectual property rights of European agribusiness, these very farmers may see the price of seeds, the bloodstream of their livelihood, substantially going up. As Shefali

Sharm says, "the EU advocates for a system of plant variety protection that favours plant breeder's over farmers rights to seeds."

Indian negotiators should prevent this trade pact from distressing the living conditions of millions of rural dwellers in India- just like members of the European Parliament (EP) have been doing to protect EU farmers. In a resolution issued in May, the EP called to shield European farming businesses by taking into account "any negative impact on European agriculture, particularly in opening up of markets, GMOs, milk, beef, intellectual property protection and origin labelling."
Moreover, the powerful European agricultural lobby is pressing EU negotiators to not include certain products in the liberalisation bill, fearing that Indian exports will distort the EU market of certain commodities. A good example is the claim made by Cope-Cogeca - the main farmer lobby in Europe- that the EU should not incorporate rice in the FTA "due to the extreme market volatility for this product and erratic behaviour of India in imposing export bans."

The mining industry is another sector prompting European investors to rub their hands. As the FTA liberalises the investment regime, European multinationals will be allowed to ship larger quantities of minerals out of India. A profitable business that will multiply mining concessions and therefore, revenue collecting in mineral-rich but poverty-stricken Indian states. That will augment these Indian states' coffers, though *adivasis* and other marginalised communities may not welcome with such enthusiasm those European companies. "Deregulating investments in natural resources could displace people from their habitat and sources of livelihood. Furthermore, the misuse of raw materials would exacerbate ongoing struggles against land grabbing," told Dharmendra Kumar, director of India FDI Watch, to Bilaterals.

Grey clouds over the retail sector

In order to contain foreign corporations from dominating large sections of India's retail, investments of global multinationals in the country's multi-brand retail are today partially restrained. If, as it has been discussed, the prospective India-EU FTA eliminates such constraints, European giant retailers such a Carrefour, Tesco or Metro Group will size a rather larger part of the Indian retail market, severely hurting the massive, unorganized sector of the Indian economy.
The unattainable standards -not necessarily in quality, but in appearance- of products sold in those supermarket chains may impede local suppliers to work with European outlets. Even if farmers are able to meet the newly-introduced requirements, it is not unusual that, once small-scale producers rely on big buyers to sell their products, wholesale retailers cut down prices, engulfing farmers in a trap that leads to "massive job and livelihood losses," as a letter of leftist members of the EP put it recently.
In the cases where large outlets do not engage in such practice, farmers, small shop owners and street vendors are anyways likely to get hit by the increase of more competitive products on offer at the supermarkets' shelves.

The exposure that this FTA will cause to India's informal sector and small farmers is even recognised in a study carried out by the European Economic and Social Committee, an EU's advisory body. The report claims that the current course of negotiations fails to "assess the likely economic and social risks of the FTA on

Indian society." In a country where, according to the United Nations Development Programme, "more than 90 per cent of the working population is in the informal sector," such type of findings should be taken seriously.

Not all about bad news

One of the main bones of contention to conclude this FTA is the negative of Brussels to relax working and residence permits for skilled Indians. If New Delhi's negotiators are eventually capable to persuade their European counterparts, the agreement will not only loosen up existing requirements for Indians professionals to work in the EU, but could also ease the EU criteria to recognise qualifications. Coupled with the liberalisation of legal services that this pact will bring about, banking, accounting and IT experts may want to keep an eye on the opportunities that this FTA might deliver.

Even if the EU is under fire for its unrestrained defence of corporative interests, Brussels should be credited for trying to safeguard Indians from the worse effects of the European multinationals expansion in the country. The India-EU FTA should "ensure that investors respect core International Labour Organization standards [with an emphasis on child labour], social and environmental governance, and international agreements so as to ensure a balance between economic growth and higher social and environmental standards," stated the EP in a resolution in 2009.

A tough one to swallow

It is far from certain that the great lost of tariff revenues that this FTA will cause to the Government of India –being the EU India's larger trade partner- will be compensated by a theoretical surge of FDI from and exports to the European market. "Undoubtedly, this [trade agreement] will have serious implications for government spending in social sectors," asserted to this author Dharmendra Kumar.
Even though the India-EU FTA is expected to more than double the bilateral trade to EUR 160 bn by 2015, two leading European think tanks estimate that EU exports to India will increase by 56.8 per cent, while India's to the EU will do a mere 18.7 per cent.

Since the outset of these FTA talks, business interests have been driving the negotiations, while areas like sustainable development and poverty reduction have been neglected. It does not imply though that New Delhi cannot strike vital conquests in some of these social areas, as the data exclusivity exclusion in medicines research proves - allowing generics to be produced when it is in the benefit of the public health.

This FTA runs the risk of hurting millions of Indian families who rely on vulnerable jobs to barely make ends meet. The agreement is widely assumed to be concluded at the end of the year, so there is still some room to better protect these livelihoods. Time is running out to make of the India-EU FTA signing something to celebrate instead of something to bemoan.

August 2011