Abstract

This policy brief analyses the services chapters in the proposed Free Trade Agreement (FTA) between the EU and India. Using the OECD STRI indices, it estimates the preference margins and simulates the impact on services trade. The FTA is predicted to substantially increase services trade between EU and India, with the largest change in financial services. India’s exports increase the most.

Methodology

The OECD Services Trade Restrictiveness Indices (STRI) suite includes a database with detailed information on applied trade restrictive policies and regulations in 22 services sectors and 50 countries, including most EU countries as well as India. The STRI database covers Most Favoured Nation (MFN) policies. In addition, it includes a separate database on intra-European Economic Area (EEA) measures, i.e. trade restrictions that apply to trade within the EEA. The STRI policy simulator allows users to change policy measures and calculate counterfactual indices based on the changes made.

Introduction

India and the European Union (EU) entered negotiations on a Free Trade Agreement (FTA) in 2007. Negotiations grinded to a halt in 2014 but relaunched in June 2022 together with separate negotiations on investment protection and geographical indicators. Furthermore, India and the EU launched the EU-India Trade and Technology Council to deepen cooperation on strategic issues related to the nexus of trade, technology and security. Against the backdrop of a turbulent global economy, a comprehensive agreement between these two giants is potentially important both for the parties and the rest of the world.

Based on the draft FTA text that the EU has published, this Brief presents estimates of the preference margins for three of the sectors for which there are specific provisions in the proposed draft, and projections of changes in services trade patterns should the proposal come to bear.

Provisions on movement of people (mode 4) warrants special mentioning. This mode is of particular interest to India, while the proposed agreement limits coverage to experts and high-skilled workers with a duration of stay of two years and even less for certain categories. Some EU countries’ applied regime is significantly more liberal than this, a feature that introduces ‘water’ in the FTA.
India faces different trade restrictions in different EU countries, both before and after the agreement. Thus, the EU does not have common external trade barriers in the services sectors. Furthermore, some relevant domestic regulatory measures are not covered by the proposed agreement. Several of these are also not harmonised within the EU.

Preference Margins

Counterfactual indices for computer services are presented together with MFN and intra-EEA restrictions (Figure 1).

![Figure 1: Preference margins-computer services](image1)

Source: Kyvik Nordås, 2023

We note that the FTA would introduce a small preference margin on average, lowering the average bilateral India-EU restriction by about 4 basis points (from 0.20 to 0.16). However, there are substantial variations across the EU, with the largest preference margins in Slovenia, Greece, Hungary and Belgium. We also notice that the barriers that remain after the FTA is similar in EU and India. In fact, India will be more open to EU imports than most EU countries would be towards India in computer services, after the implementation of the agreement.

However, for all other sectors, India ranks as the most restrictive country, both before and after the implementation of the FTA (Figures 2 and 3).

![Figure 2: Preference margins-financial services](image2)

Source: Kyvik Nordås, 2023

Sector-specific measures that have been changed in the counterfactual preferential indices are discriminatory criteria to obtain a license, commercial or local presence requirements for cross-border supply, restrictions on branches, nationality requirement for board members and restrictions on cross-border mergers and acquisitions to mention the most common. The major market access barrier removed in India is a foreign equity limit of 49%, which can be raised to 74% with government approval.

![Figure 3: Preference margins, telecommunications](image3)

Source: Kyvik Nordås, 2023
In telecommunications the main contribution to the margin is the lifting of some barriers to movement of people in some EU countries as well as lifting commercial presence or local presence requirement for cross-border supply. Non-discrimination in universal services and transparency related to license agreements would need to be introduced in a few EU countries. Sector-specific regulation in India that would need to change are nationality requirement for boards of directors in telecoms companies, number portability also for fixed lines and stronger autonomy for the telecoms regulator.

The impact of the FTA on trade is estimated using the general equilibrium gravity framework as developed by Anderson et al. (2018).

**Estimated effects on services trade flows**

Here results for communications services (EBOPS SI), and financial services (EBOPS SF and SG) are presented. The former is one of India’s most important services exporting sectors, while the latter is the sector with the highest preference margin in the proposed FTA. India’s global exports are predicted to increase by about 3.5% and 5.5% in the two sectors respectively while EU Members’ exports would increase by between 0.1% and 1.5% depending on the country and sector. The simulations suggest, however, a substantial redirection of services trade flows (Table 1).

<table>
<thead>
<tr>
<th></th>
<th>From EU to India</th>
<th>From India to EU</th>
<th>Total services exports, EU</th>
<th>Total services exports, India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication services</td>
<td>97</td>
<td>10</td>
<td>0.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Financial services</td>
<td>180</td>
<td>20</td>
<td>0.5</td>
<td>5.5</td>
</tr>
</tbody>
</table>

**Table 1: Preference margins-computer**

Source: Kyvik Nordås, 2023

EU’s exports to India would increase much more than India’s exports to EU for two reasons. First, EU’s exports to India would increase from a relatively small base, while EU is already one of India’s largest trading partners. Second, India’s trade barriers are much higher in most sectors at the outset, and improvements in market access would be larger for EU’s exports to India. Yet, the gains in absolute terms are larger for India.

**Concluding Remarks**

Most FTAs at best bind existing levels of openness. The proposed EU-India FTA, in contrast, would lower services trade costs, most significantly for EU exports to India in financial services. If all EU Members implement the provisions proposed also in areas of domestic regulation, which the simulations assume, Indian exporters would also face significantly lower trade barriers in the EU. Furthermore, services suppliers and their customers in both parties would benefit from more competition and a broader variety of services, which also stimulate exports.

The EU-India FTA would be good news in turbulent times. EU and India are both committed to the global trading system, and both are concerned with making the digital and green transition work for all. As noted by the secretary general of the World Trade Organisation, the future of trade is services, digital and green. Although there is ample room for improvement, particularly in market access through mode 4, this agreement could contribute to a green, digital services economy governed by democratic principles and international trade rules.
References

- World Trade Organization, General Council (2022). DG Okonjo-Iweala: Let WTO be an institution people can trust to deliver in difficult times.

All the opinions expressed in this publication are the sole view of the author, and do not represent the position of the Trans European Policy Studies Association (TEPSA) or of its Members.

Coordinators: Eva Ribera and Larisa Spahic (TEPSA).