



Convergence towards regional integration between the EU and India: Trade implications for India and the UK*

Background information

- The driving forces behind free trade agreements (FTAs) are combinations of economic and political factors that motivated the EU to conclude these agreements. The underlying rationale for EU-India FTA is that both on a global and bilateral level India is growing in importance. Trade data suggests that EU-India trade increased and doubled (from €26.8 billion in 2003 to €55 billion in 2006) by almost 16% in 2006 with the annual average growth of 13.6% between 2002 and 2006. India ranks as the 9th most important trading partner of the EU and accounted for 1.8% of EU exports and imports in 2006. In turn, the EU accounted for 21 % and 18 % of India's exports and imports, respectively during 2006-07.
- UK-India trade statistics shows trade in goods¹ and services² registered an average annual growth rate of 20% and 10 % during 2005, respectively. Similarly, the UK was India's 4th largest trading partner in goods, with a total share of 4% in the total Indian exports. In services, total imports from India were £1 billion, which exceeded total exports by the UK to India (£888 million)³.
- In 2007 negotiations for an EU-India trade and investment agreement was launched with the target implementation date as 2010-11. Four negotiating rounds have been held until now. The rationale for the proposed FTA is that it will lead to "deeper integration" in the trade of goods and services. But it is being debated whether the EU - India FTA will truly be a "building block" for both the trading partners. Given that tariffs will be reduced by 90% over the 7-year period between the EU and India and that explicit differences in regulatory regimes across the EU and India have been recognised it is important to identify the barriers (other than tariffs).

* This research project is funded by the British High Commission, New Delhi under the GOF programme.

¹ In 2005, the total value of EU imports from India was €18.9 billion and consisted mainly of textiles/clothing, agricultural products and chemicals. On the other hand, EU's exports to India were €21.1 billion and consisted of mostly machinery and chemical products.

² During 2005, trade in services between the EU and India registered an average annual growth of 10 %, with a marginal surplus in the trade of services for India. In the UK, the Trade and Industry Committee Report (2006) also recognised the importance of trade in services in the Third Report of Session (Volume 1) tabled in the House of Commons.

³ Trade and Industry Committee Report, 2006

- Under the present EU-India trade NTBs manifest themselves in the form of rules of origin restrictions, different national product standards, and “simple” border red tape which may eventually result in barriers to trade. Given that regulatory regimes vary across the EU and India, the importance of identifying and addressing the existing NTBs assumes an important role. The importance of this analysis is substantiated by trade data, which shows that T&C (27.11 %) as well as footwear and leather products (7.14 %) consist of over one-third of the total Indian exports to the UK in 2005 (DGFT, 2006). Identifying the existing NTBs and suggesting modalities to reduce its incidence is, therefore, vital if the benefits of increased trade in goods under the FTA are to be harnessed by the partner countries.

Objectives of the project

- To identify the existing NTBs to trade in the UK and evaluate the effects of the proposed EU-India FTA on bilateral trade with special focus on the goods sector (leather and footwear, textiles and clothing).
- To evaluate how the differences in regulatory regimes and administrative requirements between the EU and India in these sectors impact the potential of Indian exporters to trade with the UK. The analyses cover barriers established by legislation and deriving from practical implementation.
- Make assessment of potential implications of NTB reduction and regulatory coverage by suggesting recommendations to initiate modalities to reduce the incidence of existing NTBs in the leather and footwear (L&F), textiles and clothing (T&C) sector with specific measures to address the supply side constraints that will in turn trigger interactive economic growth process in the primary, secondary and tertiary sectors.

Activities conducted until now

- Postal surveys – 1185 exporters contacted in India and 485 in the UK
- Interviews: 60 exporters and 10 associations in India; 22 (exporters and business councils/trade associations) in the UK.
- In addition, emphasis was placed on the involvement of stakeholders during the entire duration of the interviews and export associations in India, trade associations and business councils in the UK, policy planners in the BERR, the Ministry of Commerce, Textiles and other agencies of the Government of India were consulted.
- Focus group discussions were also conducted with trade experts, practitioners and different stakeholders in New Delhi (for textiles and clothing), Chennai (for leather footwear) and London.

Methodology

- The survey and interviews involved the use of a questionnaire. T&C firms interviewed were located in the textiles hubs of Tirupur, Bangalore, Mumbai, and Delhi. In the South,

the exporters interviewed were located in Tirupur (knitwear cotton); Coimbatore (yarn) Erode (yarn and fabrics); and, Bangalore (basic garments as well as fashion garments), in the West the main exporters were based in Mumbai (made-ups and fashion garments) and in the North it was Delhi, Noida and Gurgaon (fashion garments and basic garments).⁴ For leather the firms were situated in the leather hubs of Chennai, Agra and Kanpur (footwear manufacturing) as well as Delhi and Kolkata (leather accessories).

- A multinomial logit regression (MLR) model⁵ was used to analyse the exporters' and importers' perceptions on NTBs that impede trade between India and UK. The independent variables identified for this study are: export experience and turnover. The dependent variables identified for this study are customs valuation, customs clearance issues; documentation formalities; regulations and standards; environmental issues; labelling & packaging; legal differences; lack of information on foreign markets; and, domestic business barriers like transport costs; corruption and theft; and, inadequate infrastructure.

Modalities for the dissemination of findings

- Provide copies of the completed report to the relevant Ministries in India and the UK.
- Sector-wise dissemination of the findings to appraise exporters/importers involved in focus group discussions about the potential benefits of the proposed FTA; this was held in March and April in India; and, in May in the UK.
- Workshop and media coverage of the project in New Delhi (August 2008).
- Presentation of the final report to the BHC, New Delhi.
- Academic dissemination of the study (at an international trade symposium) is proposed.

Issues to be addressed and discussed by the panel

- How relevant are the following as NTBs?
 - Customs clearance, valuation, and documentation formalities
 - Regulations and standards
 - Testing and certification
 - Labelling & packaging
 - Environmental issues
 - Asymmetry of information about the UK market
 - Are legal differences a barrier?
- Are domestic business barriers like transport costs; corruption and theft; and, inadequate infrastructure a NTB?
- In your opinion can export experience and turnover impact the exporters' ability to overcome these NTBs?

⁴ Most of these products, with the exception of yarn, are important component of India's export basket to UK.

⁵ SPSS (Version 14) software was used to carry out the regressions needed for the analysis