

India-European Union (EU) Trade Relations: Recent Trends and Future Forecast

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Abstract

Since its inception European Union had a prominent place in World economy and has been a major impactful partner for India in terms of trade and investments. As a trading block European Union is India's largest trading partner. Hence the health of India's economy depends largely on its trade relation with the European Union. This study focus on the trade relations between India and EU in recent times; the share of European Union in the overall mercantile trade of India with the world;and looks further into the general direction of trade between the two blocks for the future.

Keywords: International Business, Trade Relations, European Union, Export-Import

¹<https://www.amu.ac.in/dshowfacultydata.jsp?did=23&eid=9955>

Introductory Background

India shares a strong and significant trade relationship with European Union as a trade block since its inception. India was amongst the first countries to establish diplomatic relations with the European Union. The EU-India cooperation agreement signed in 1994 defined and strengthened the bilateral relations between India and European Union.

A Joint action plan was embraced by the two parties in 2005 (reviewed later in 2008) that provided for “strengthening dialogue and consultation mechanisms in the political and economic spheres, enhancing trade and investment, and bringing people and cultures together.”² Both sides have been negotiating on a proposed free trade agreement to further extend their bilateral trade and investment ties. Since the proposal in 2007 many negotiation rounds took place between the two sides for finalizing the FTA. The negotiations are currently held up since 2013.

EU is India’s largest trading partner accounting for 13% of India’s overall trade with the world. Bilateral trade for goods and services between the two sides reached 115 billion Euros in 2017. EU is the largest trading partner for Indian exports, consuming 44,930 million Euros worth of Indian exports in goods in 2017, which was 17.2% of India’s total exports in goods with the world. In terms of India’s imports in goods EU is the second largest partner second only to China. In 2017 Indian imports in goods from EU were a total worth of 39,121 million Euros, that was 10.2% of the total imports of India with the world.³

Review of Literature

Many academicians and economists have commented on the trade relations between India and European nations and contributed to the literature. However not many have analysed the complete European Union as a single trading unit. Abhishek Gaurav and Somesh K. Mathur (2015) calculated the trade costs and trade growth between EU and India using the gravity equation of Anderson & Van Wincoop. They found an inverse relation between the bilateral merchandise trade of European countries with India and the average tariff equivalents of the relative countries. They credited the decrease in bilateral resistance across the countries for fuelling the trade growth between India and EU. Gulshan Sachdeva(2008) points towards the bureaucratic nature of EU’s institutional set up and state it as a hindrance in forging EU-India partnership. He suggests de-bureaucratizing the process to complete the bilateral FTA negotiations quickly in order to strengthen the India-EU ties. Rajendra K. Jain & Shreya Pandey (2018) did a perceptions study on India-EU relations. Their survey shows lack of knowledge in respondents about EU affairs due to inadequate coverage by the press. The respondents showed a positive perception towards EU as a partner for India’s growth and modernisation. Pia Eberhardt & Dharmendra Kumar (2010) states that the EU-India FTA talks are tailored by corporate and their interests. They advice ending joint policy making with big corporate and making the negotiations public.

²https://www.mea.gov.in/Portal/ForeignRelation/India-EU_Relations.pdf

³ Sources: EUROSTAT COMEXT
:IMF

From the above literature we can see that many have commented on the EU-India relations, most are political or perceptual. There are very less studies which are done on EU as a single trade block. This study shall focus on that. The following objectives are formed thereof:

Objectives

- To find out European Union’s position as a trade partner with India
- To analyse India’s trade performance with EU in the recent period
- To find out whether European Union had a desirable effect on India’s trade balance
- To find out the commodities in which India had a competitive advantage in trade with EU
- To see the future direction of trade between India and European Union

Research Methodology

This study is entirely based on the secondary data collected from the official websites of Eurostat, RBI and World Bank. Data collected from these sources was analysed and interpret and the future trend was estimated using the Compound Annual Growth Rate (CAGR) method.

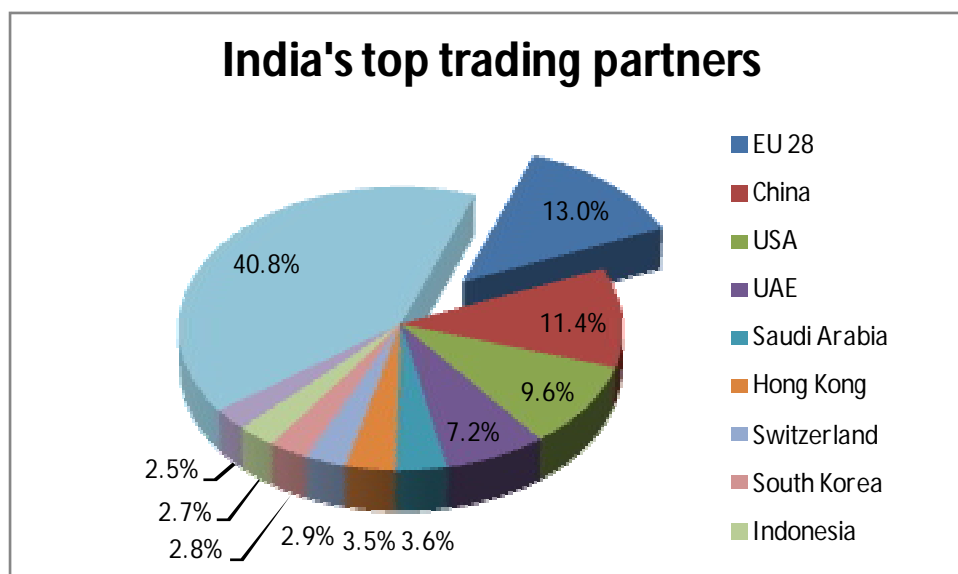


Figure 1: India’s top trading partners in 2017 and their % share in total trade in goods

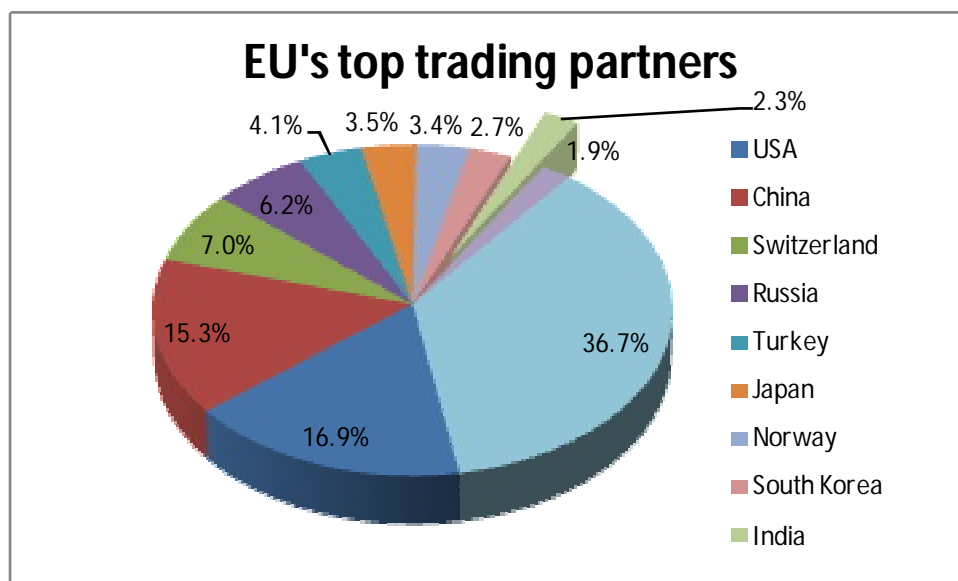


Figure 2: EU’s top trading partners in 2017 and their % share in total trade in goods

India-EU Trade: An Overview

India is EU’s 10th largest consumer of exports, consuming 2.2% of EU’s total exports with the world, while it is 9th largest exporter to EU, making up 2.4% of EU’s International imports. Manufactured goods account for most of the trade among the two sides. Machinery and equipment, chemicals, fuels and petroleum products, pearls & precious stones, Textiles and clothing are among the categories covering the largest share of trade between the two blocks.

Period	Exports	% Growth	Imports	% Growth	Balance	Total trade
2007	26,666		29,181		-2515	55,847
2008	29,632	11.1	31,356	7.5	-1,724	60,988
2009	25,503	-13.9	27,499	-12.3	-1,996	53,003
2010	33,464	31.2	34,985	27.2	-1,521	68,448
2011	39,927	19.3	40,648	16.2	-721	80,575
2012	37,528	-6.0	38,595	-5.1	-1,067	76,123
2013	36,842	-1.8	35,959	-6.8	884	72,801
2014	37,170	0.9	35,655	-0.8	1,515	72,825
2015	39,492	6.2	38,125	6.9	1,366	77,617
2016	39,339	-0.4	37,780	-0.9	1,559	77,119
2017	44,184	12.3	41,723	10.4	2,461	85,907

Table 1:India's trade in goods with EU 2007-17 (values in million Euros)⁴

⁴Source: Eurostat- <http://ec.europa.eu/eurostat>



Figure 3: India-EU trade in goods 2007-2017 (values in million Euros)

The total trade between the two blocks have grown by more than 54% in the last 10 years. India’s performance with EU is a big catalyst in its recent economic growth. India reached the trade surplus with EU in the year 2013 and have been in a trade surplus since then. This is a big achievement for India as it has almost always been in a trade deficit with EU historically. The 54% increase in the total trade between the two sides in the period of 2007-2017, looks substantial but it is not in the accordance with India’s total trade growth. India’s total trade with the world increased by 128% during this period. Thus, India’s trade growth rate with the rest of the world has been more than double than that with EU.

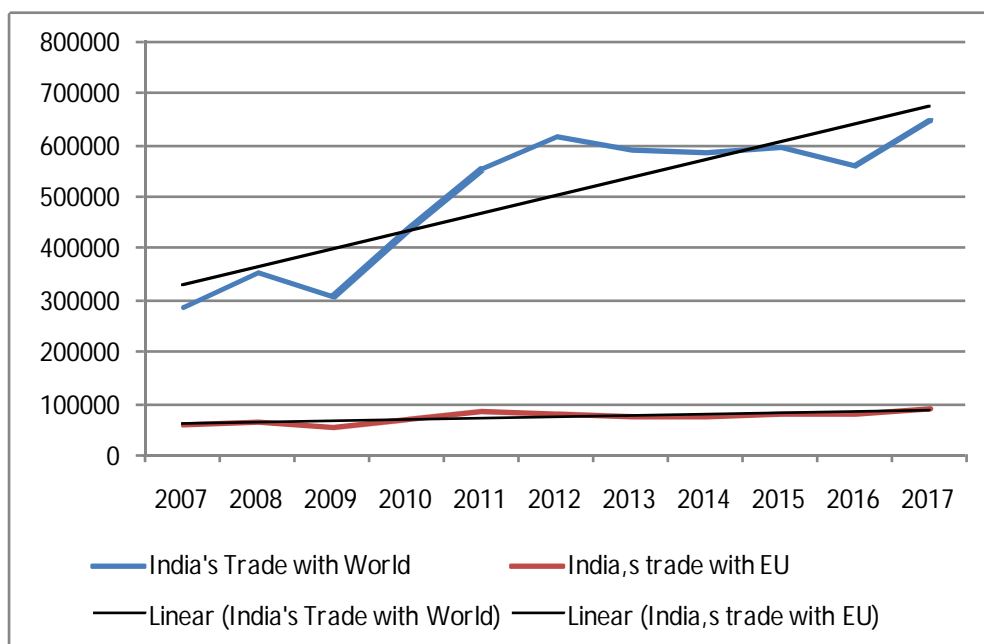


Figure 4: India’s trade with EU and the World and the linear trend over past decade

Projection of India-EU trade

The future forecast of India’s exports and imports has been done by taking into account the compound average annual growth rate for the past years data. This is the formula used for projecting the future trade:

$$T_{pn}=T_{n-1}+(T_{n-1}*X\%)$$

Where T_{pn} =Trade projection for n^{th} year

T_{n-1} =Trade in n-1 year

X% =Compound annual growth rate for a time period

The CAGR for exports in this period is calculated using the following formula:

$$\text{If } E_1=E_0\{1+(r/100)\}^t \text{ then } r=\{(E_1/E_0)^{1/t}-1\}*100$$

Where r=compound annual rate of growth, E_1 =Estimated value of exports at the end of the period, E_0 =Estimated value of exports at the beginning of the period, t=no. of years

The time under consideration for the calculation of CAGR is the period of 10 years from 2007 to 2017. The CAGR for the exports in this period is calculated to be 5.2%. Using this value we have projected the value of exports between India and EU for the next five years i.e. 2018-2022.

e.g. calculating the value of exports for year 2018 using this method of calculation:

$$T_{2018}=44184+(44184*5.2\%)=46482 \text{ million Euros.}$$

Similarly we have predicted the exports values up to 2022 using this method.

Year	2018	2019	2020	2021	2022
Projected Exports*	46,482	48,899	51,441	54,116	56,930

Table 2: Projected exports of India with EU for next five years (*approx value in million Euros)

The same method is used for predicting the imports for the next five years. The CAGR for the imports from the year 2007 to 2017 is calculated to be 3.6%. The predicted values up to 2022 are as follows:

Year	2018	2019	2020	2021	2022
Projected Imports*	43,225	44,781	46,393	48,063	49,794

Table 3: Projected imports of India with EU for next five years (*approx value in million Euros)

According to our analysis the trend of India’s trade with EU for the next five years shall look something like this:

Year	Exports	Imports	Total trade*
2018	46,482	43,225	89,707
2019	48,899	44,781	93,680
2020	51,441	46,393	97,834
2021	54,116	48,063	1,02,179
2022	56,930	49,794	1,06,724

Table 4: Projected trade between India and EU for next five years (*approx value in million Euros)

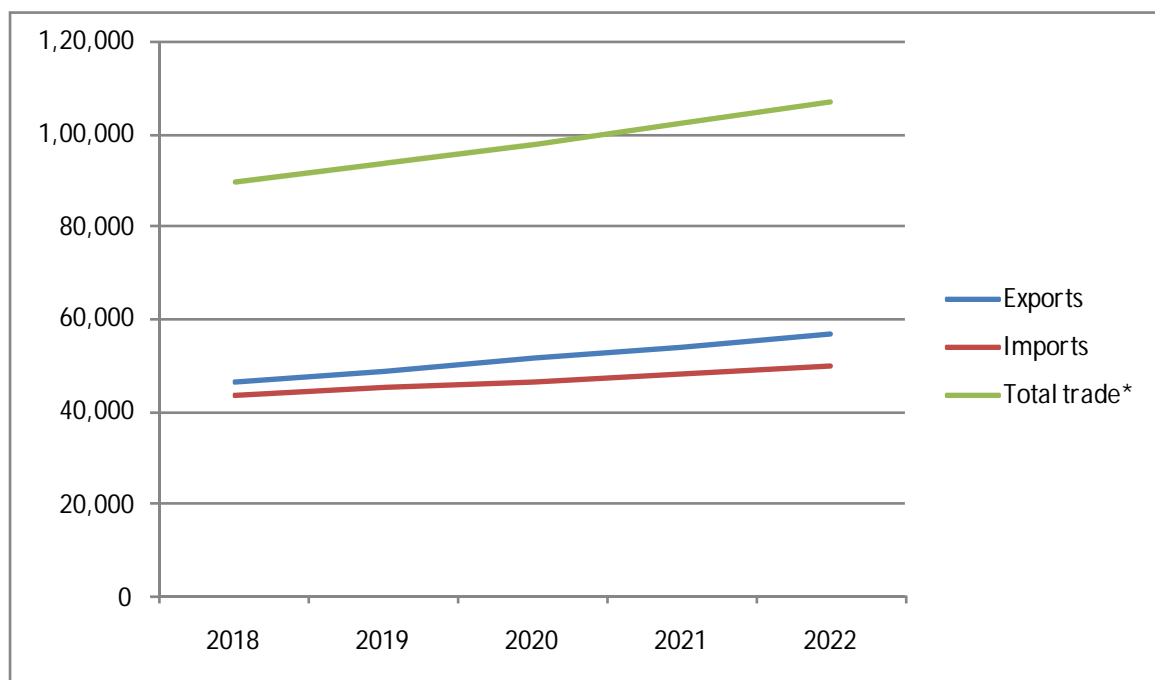


Figure 5: Trend of trade between India and EU for next five years (Forecast)

According to the CAGR method of forecasting, we have the following predictions for the trade between India and EU

1. The trade will continue to grow between the two blocks for next five years and will grow upto 24% by the year 2022
2. The total trade between the two sides will cross the 1,00,000 million Euro mark by the year 2021 and can reach up to 1,06,724 million Euros by the year 2022
3. India will better on its trade surplus with EU for the next five years
4. Both exports and imports will continue to grow and will not see a drop or negative growth anytime for next five years

Conclusion and Suggestions

Studies have established EU as the biggest trading partner of India. India's trade with EU has grown substantially in recent times. Achieving trade surplus with EU has helped a lot in enhancement of India's trade balance. We have seen that India has a competitive advantage in bilateral trade with EU in commodities like agricultural products, textiles and gems and precious stones. Hence, all objectives of the studies shows a positive result.

The quantum of trade between India and EU has increased significantly in the recent years. The past data shows an overall positive trend in both exports and imports. The best performance has been in the years 2010, 2011 and 2017; with maximum trade growth seen in 2010 of 29% overall. The years 2009, 2012, 2013 and 2016 observed a negative growth. The worst been year 2009 which saw a negative growth of 13%. The economic recession observed in European markets at that time might have been a factor for this.

Though the growth of India's trade with EU in the past decade is significant, it has been disproportionate to India's overall trade growth. EU remains the largest trading partner for India but its share in India's total trade with the world has declined over the past years. India has potential to further increase the trade by capitalizing on EU markets.

India had remained in a trade deficit with EU until recent years. It achieved a surplus in the total trade with EU in the year 2013 and has shown a surplus for five years straight since then. Having a trade surplus with a huge economic block like EU is great for Indian economy. By capitalizing on trade surplus with EU further, India can improve on its fiscal deficit.

The best performing sectors for India had been agricultural products, textiles, leather products, chemicals and gems & precious stones. The exports in these sectors have helped India in achieving trade surplus with EU. India should prioritize these items for further penetration into EU markets. Especially textiles & clothing and pharmaceuticals have a growing consumer base in EU countries and India can tap into these markets.

India and EU can further boost the bilateral trade by addressing and easing the trade barriers (tariff and non-tariff) between them. A free trade agreement might really benefit both the sides in this regard. Looking at the volume of the trade between the two parties and their mutual interests an FTA is need of the hour. It will help easing the flow of goods and services between the two sides, and will improve the overall trading environment. Both parties should resume the talks and negotiations for the currently stalled Bilateral trade and investment agreement (BTIA) and remove the stumbling blocks in the agreement for mutual benefits.

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