



MAINS iMPACT 2025

22-07-2025

INDIA-EUROPEAN FTA- FREE TRADE AGREEMENT

SYLLABUS:

GS 2 > International Relations >> Trade Relations

REFERENCE NEWS:

The Free Trade Agreement between India and the four-nation European bloc EFTA will be implemented from October 1, Commerce and Industry Minister Piyush Goyal said.

The two sides signed the Trade and Economic Partnership Agreement (TEPA) on March 10, 2024. Under the pact, India has received an investment commitment of \$100 billion in 15 years from the grouping while allowing several products, such as Swiss watches, chocolates, and cut and polished diamonds, at lower or zero duties.

European Free Trade Association comprising **Iceland, Liechtenstein, Norway, and Switzerland**. Switzerland is India's **largest trading partner** in this bloc.

Key Features of India-EFTA TEPA

Investment Commitments

- **\$100 billion investment pledge** – \$50B in the first 10 years, another \$50B in the next 5 years.
- Expected to **create 1 million direct jobs** in India.
- First-ever **investment-linked trade deal** for India.

Market Access & Tariff Reductions

- India to offer **82.7% of tariff lines**, covering **95.3% of EFTA exports**, mostly gold (~80%).
- Gradual **duty phase-out** over 10 years on high-quality Swiss goods (watches, chocolates, biscuits, clocks, wines).
- Cheaper machinery imports for Indian producers.

Services Sector Boost

- India offered **105 sub-sectors** (e.g., IT, accounting, health, distribution).
- EFTA offered **commitments in 128+ sub-sectors**, including **legal, audio-visual, R&D, accounting, auditing**.
- Easier **visa norms for Indian professionals** (architects, accountants, nurses) to work in EFTA nations & use them as a **gateway to EU markets**.

Strategic Advantage

- Integrates Indian exporters into **EU supply chains** via Switzerland (40% of Swiss services exports go to EU).
- Links **tariff concessions to investment inflows**—a unique model.

INDIA-EFTA:**Early Engagement (1960s–1990s)**

- **1960:** European Free Trade Association (EFTA) was formed (Iceland, Liechtenstein, Norway, Switzerland).
- Initial engagement between India and individual EFTA members was **limited**, mainly in **bilateral trade with Switzerland**, particularly in **gold and watches**.
- India's **low trade volume** with other EFTA states (Iceland, Liechtenstein, Norway) meant relations were not strategically prioritized.

Initial Trade Dialogue (2000s)

- **2004:** India and EFTA **formally began discussions** on a possible trade agreement.
- **2008:** Negotiations for a **Trade and Economic Partnership Agreement (TEPA)** officially started. Key sticking points included **market access for services, investment guarantees**, and **India's concerns over Swiss agriculture protectionism**.
- Bilateral trade remained **modest**—mainly **Swiss exports of gold & watches**, and Indian **pharmaceuticals, textiles, and IT services**.

Stalled Negotiations (2013–2017)

- Talks slowed after **India's political transition in 2014**, as the government adopted a **cautious trade policy**.
- India raised concerns about **investment protection clauses** and **EU equivalence** in pharmaceuticals.
- India's **walkout from RCEP in 2019** further reflected its hesitancy towards deep FTAs.

Renewed Push (2023–2024)

- **2023:** India revived negotiations with EFTA, aligning with its **new trade diplomacy** (after signing FTAs with UAE & Australia).
- **March 2024:** **India–EFTA TEPA signed**, after **16 years of negotiations**.

SIGNIFICANCE OF EFTA FREE TRADE AGREEMENT:**Strategic Economic Significance**

- **Boost to FDI & Job Creation:** EFTA pledged **\$100 billion investment** over 15 years (**\$50B in first 10 years + \$50B in next 5 years**).
- Expected to create **1 million direct jobs** in India, a first-of-its-kind investment-linked trade deal.

Access to High-Quality Imports

- Swiss products (watches, chocolates, biscuits, clocks, wines) will become **cheaper** due to **tariff phase-out over 10 years**.

- Cheaper **machinery & precision tools** will help Indian manufacturing scale up quality production.

Export Opportunities for Indian Services

- EFTA opened **128+ service sub-sectors** for India (legal, R&D, IT, accounting, audio-visual, health).
- Professionals like **architects, accountants, nurses** get easier visa access, boosting **skilled workforce mobility**.

Integration with European Markets

- **Gateway to EU Supply Chains: 40% of Switzerland's service exports go to the EU**, making it a **springboard for Indian firms** to tap larger European markets.
- Helps Indian pharma, IT, textiles & gems **expand EU reach indirectly**.

Diversification of Trade Partners

- Reduces over-dependence on **UAE, US & ASEAN**, adding **Western developed markets** to India's FTA portfolio.

Strategic & Political Significance

- **First FTA with a Western Developed Bloc:** Builds credibility after FTAs with **UAE & Australia**, showing India's shift from a **protectionist image to a balanced trade approach**.
- Revives India's **global trade diplomacy** post **RCEP withdrawal (2019)**.

Inclusion of Non-Trade Issues

- For the **first time**, India accepted clauses on **labour, environment, gender, and human rights**—a **confidence-building measure** for future EU & UK FTAs.

Consumer & Domestic Industry Benefits

- **Cheaper Consumer Goods** → Wines, chocolates, watches, premium food products become more affordable.
- **Technology Transfer** → High-end **precision engineering, medical tech & renewable energy tech** from EFTA states can support Make in India.

Limited Trade Volume & Asymmetry

- **Low Base Trade:** India-EFTA trade in **2024-25** was only **\$24.4 billion**, heavily skewed towards **gold imports from Switzerland (~80%)**. Trade with **Iceland, Liechtenstein & Norway is negligible**, raising concerns about balanced benefits.
- **Asymmetric Tariff Concessions:** India is opening **82.7% of tariff lines (95.3% of EFTA exports)**, while most Indian goods already have **duty-free access in Switzerland**, offering little new benefit for Indian exports.

Investment Commitments – Uncertain Realization

- **Non-binding Nature:** The **\$100 billion investment pledge** is a best-effort commitment, not a legal guarantee. Achieving **1 million jobs** depends on **investor confidence, ease of doing business, and policy stability** in India.
- **Long Gestation Period:** Full outcomes will be seen only after **15-20 years**, requiring sustained engagement and reforms in India.

Services & Mobility Barriers

- **Limited Market Size:** EFTA nations have a **combined population of ~14 million**, limiting domestic market potential for Indian services. Visa relaxations may face **domestic political constraints** in Europe.
- **Recognition of Indian Qualifications:** Professionals (architects, lawyers, nurses) may face hurdles due to **different accreditation & licensing standards** in EFTA countries.

Sensitive Domestic Industries in India

- **Cheaper Swiss Imports:** **Watches, chocolates, premium food items** at lower tariffs may hurt **small domestic producers**.
- **Gold Import Surge:** Further liberalization could widen India's **current account deficit** due to high-value gold imports.

Non-Trade Issues & Regulatory Hurdles

- **Labour, Environment & Human Rights Clauses:** India agreed *for the first time* to include **non-trade issues**; future disputes on labour/environment standards may create friction.
- **Compliance with Stringent EFTA Rules:** EFTA countries have **high product standards (food safety, pharma regulations)**, making it harder for Indian SMEs to penetrate.

Competing Trade Deals

- **EU & UK FTAs Pending:** If India fails to secure FTAs with the **EU & UK**, the benefits of the EFTA deal may remain limited.
- **Global Protectionism:** Rising protectionist trends in developed countries can **delay or dilute visa mobility** and investments.

WAY FORWARD:**Ensure Realization of Investment Commitments**

- **Create an Investment Monitoring Mechanism:** Set up a **joint India-EFTA Investment Facilitation Cell** to track the **\$100 billion pledge** and ensure timely project implementation.
- **Ease of Doing Business Reforms:** Fast-track clearances, improve **land, labour, and tax policies**, and strengthen **dispute resolution mechanisms** to attract Swiss, Norwegian, and Icelandic investors.

Enhance Services Mobility

- **Mutual Recognition Agreements (MRAs):** Negotiate MRAs for **Indian professional qualifications (IT, architecture, law, nursing)** to reduce barriers to services exports.
- **Skill Development for Niche Sectors:** Align Indian workforce training with **European standards** in **R&D, precision manufacturing, health & finance**.

Diversify Trade Beyond Gold

- **Promote High-Value Exports:** Encourage **pharmaceuticals, IT, textiles, gems & jewelry, renewable energy tech** as alternative exports to EFTA.
- **Support SMEs:** Provide subsidies and training for **Indian SMEs** to meet **stringent Swiss & Norwegian quality standards**.

Leverage EFTA as Gateway to EU

- **Build Supply Chain Links:** Use **Switzerland's EU service connectivity** to integrate Indian firms into **European value chains**.
- **Fast-Track EU & UK FTAs:** Use EFTA success as a **confidence-building measure** to secure **larger FTAs with the EU & UK**.

Manage Domestic Sensitivities

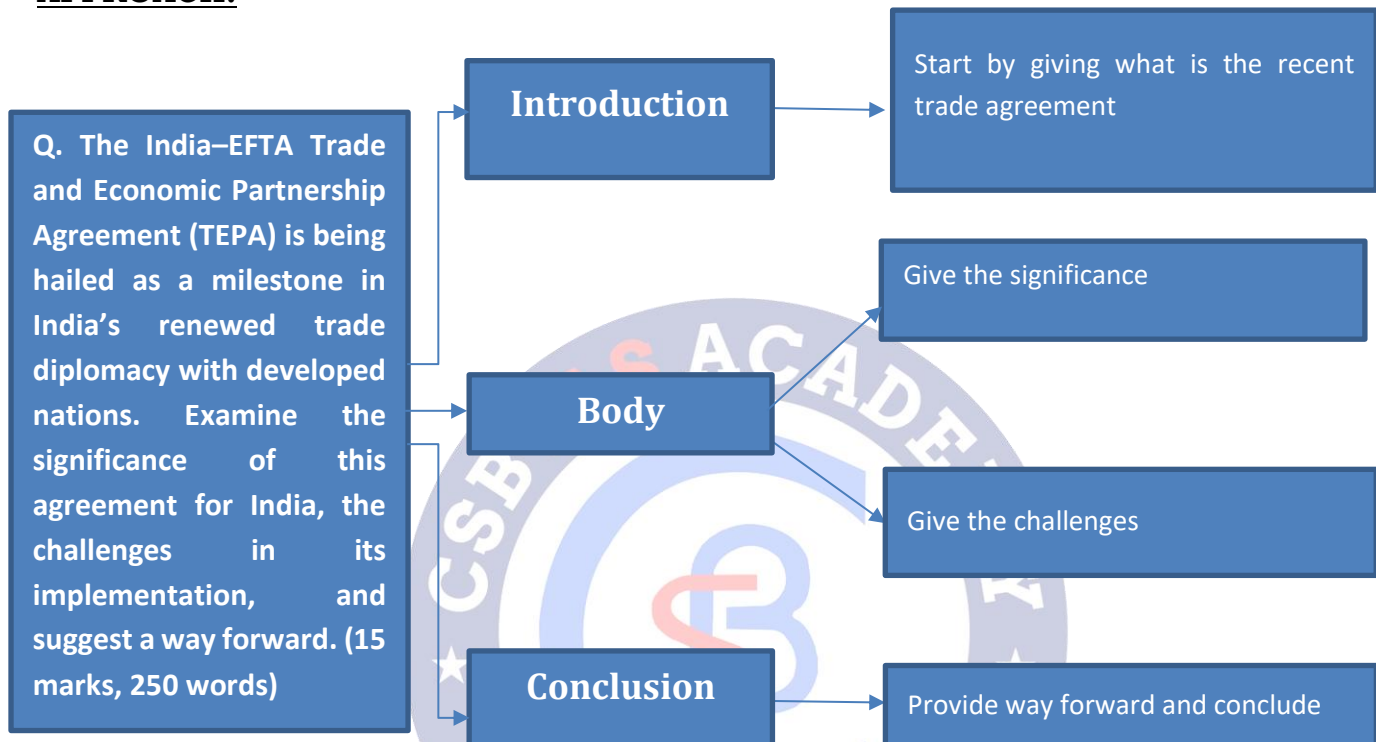
- **Safeguard Vulnerable Sectors:** Implement **gradual tariff reduction** with safeguard clauses for **small producers of food & luxury goods**.
- **Promote Local Value Addition:** Encourage domestic **machinery manufacturing & precision engineering** using imported Swiss technology.

Align on Non-Trade Issues

- **Develop Domestic Frameworks:** Upgrade **labour, environmental & gender policies** to meet **EFTA's high standards**, reducing future compliance disputes.
- **Showcase Sustainability:** Position Indian exports (organic food, renewable tech) as **environment-friendly** to align with EFTA market preferences.

PRACTICE QUESTION:

Q. The India–EFTA Trade and Economic Partnership Agreement (TEPA) is being hailed as a milestone in India’s renewed trade diplomacy with developed nations. Examine the significance of this agreement for India, the challenges in its implementation, and suggest a way forward. (15 marks, 250 words)

APPROACH:**MODEL ANSWER:**

The **India–EFTA TEPA**, signed in March 2024 and effective from **October 1, 2024**, is India’s first free trade agreement with a **Western developed bloc** comprising **Iceland, Liechtenstein, Norway, and Switzerland**. It is unique as it links **tariff concessions to investment commitments**, pledging **\$100 billion FDI** over 15 years to create **1 million jobs**.

Significance for India

- **Boost to FDI & Jobs** – \$100 billion investment commitment over 15 years, a *first-of-its-kind* investment-linked trade deal.
- **High-Quality Imports** – Gradual tariff phase-out on **Swiss watches, chocolates, machinery**, making consumer goods cheaper and improving manufacturing quality.
- **Services Market Access** – Indian IT, legal, healthcare & R&D professionals gain easier **visa norms & recognition** in 128+ service sub-sectors.
- **Gateway to EU Markets** – Switzerland’s integration with EU supply chains enables Indian exporters indirect EU market access.

- **Strategic Diplomacy** – Rebuilds India’s credibility post-**RCEP withdrawal (2019)**, diversifies trade beyond UAE/ASEAN, and aligns with future **EU & UK FTAs**.

Challenges in Implementation

- **Limited Trade Volume** – Current India-EFTA trade is only **\$24.4 billion**, dominated by Swiss gold exports (~80%).
- **Asymmetric Tariff Gains** – Indian goods already enjoy duty-free access in Switzerland, so export benefits are modest.
- **Investment Uncertainty** – The **\$100B pledge is non-binding**; realization depends on India’s **policy stability & ease of doing business**.
- **Services Barriers** – Small EFTA population (~14M) limits market potential; **qualification recognition & visa constraints** may persist.
- **Domestic Sensitivities** – Cheaper Swiss imports could hurt **small Indian producers**, while gold imports may **widen CAD**.
- **Non-trade Issues** – Inclusion of **labour, environment & human rights clauses** may lead to **future disputes**.

Way Forward

- **Investment Monitoring Mechanism** – Track FDI commitments via a **joint facilitation cell**.
- **Mutual Recognition Agreements (MRAs)** – Align Indian professional standards with EFTA norms for seamless services mobility.
- **Diversify Exports Beyond Gold** – Promote **pharma, textiles, IT, renewable tech** to balance trade.
- **Leverage Switzerland as EU Gateway** – Use EFTA success to **fast-track EU & UK FTAs**.
- **Safeguard Domestic Sectors** – Gradual tariff reduction with **protection clauses** for vulnerable industries.

The India-EFTA TEPA is **symbolically significant**, showcasing India’s willingness to engage with **developed economies** after years of protectionist hesitation. While it promises **investment, jobs, and EU integration**, success will depend on **policy reforms, service sector upskilling, and investment facilitation**. If effectively implemented, it can become a **model FTA** for future deals with the **EU & UK**, reinforcing India’s position as a key global trade player.