Balalatha's CSB IAS ACADEMY

The Road Map to Mussoorie...

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INDIA-EUROPEAN UNION

SYLLABUS:

GS 2 > International Relations

REFERENCE NEWS:

At the **16th India–EU Summit** held in New Delhi, India and the **European Union** reaffirmed and expanded their strategic partnership, with a key focus on **collaboration in the peaceful uses of nuclear energy**.

Under the **India–Euratom Agreement** (signed in July 2020), both sides committed to strengthening cooperation in:

- Nuclear science and technology research
- Advanced materials for detectors
- Radiation safety and nuclear security
- Non-power applications of atomic energy, including **radio-pharmaceuticals**
- Enhanced collaboration in the **International Thermonuclear Experimental Reactor (ITER)** programme

The joint statement also highlighted **deepening cooperation under Horizon Europe**, the EU's flagship research and innovation funding programme. Priority sectors include:

- Energy and water
- Agri-food systems
- Health and biotechnology
- Semiconductors
- Advanced materials

Collaboration will be pursued through **co-funding mechanisms and coordinated research calls**, strengthening India–EU scientific and technological linkages. On the trade front, discussions addressed the **Carbon Border Adjustment Mechanism (CBAM),** a key concern for India. The EU assured:

- A forward-looking **Most-Favoured Nation (MFN)**–type assurance
- Flexibilities extended to third countries, where applicable
- Enhanced technical cooperation on carbon pricing and recognition of verifiers
- Financial and targeted support to help Indian industries reduce emissions and meet emerging carbon standards

Overall, the summit marked a step forward in aligning **clean energy cooperation, advanced research, and climate-linked trade concerns** within the broader India–EU strategic partnership.

RELEVANCE OF INDIA- EU DEAL:

- **Economic and Trade Relevance**
    - India–EU combined market size: **USD 24 trillion (₹2091.6 lakh crore)**
    - Bilateral merchandise trade (2024–25): **USD 136.5 billion**
    - Services trade: **USD 83.1 billion**
    - EU grants **preferential access to 97% of tariff lines**, covering **99.5% of India's exports**
    - The FTA delivers **unprecedented market access** for Indian exports while preserving policy space for sensitive sectors.
    - Labour-intensive sectors (textiles, leather, footwear, marine, gems & jewellery) face **immediate tariff elimination** from rates as high as **26%**.
    - This directly supports **employment generation**, MSMEs, and export-led growth.
    - Indian textile exports gain zero-duty access to an EU import market worth **USD 263.5 billion**, strengthening India's role in global value chains.
- **Strategic Relevance for India's Growth Vision (India@2047)**
    - The FTA is described as a **"modern, rules-based trade partnership".** Designed to ensure **predictability, stability, and long-term investment planning.**
    - Enables Indian businesses to integrate into **European value chains.**
    - Reduces uncertainty amid global trade fragmentation and protectionism.
    - Aligns with India's ambition to become a **global manufacturing and services hub.**
    - Product-Specific Rules (PSRs) allow flexibility in sourcing inputs while encouraging **Make in India**, especially in machinery and aerospace sectors.
- **Employment and MSME Relevance**
    - Key labour-intensive exports worth **USD 33 billion** gain zero-duty access
    - MSMEs supported through self-certification of origin, simplified compliance and dedicated quotas (shrimp, aluminium downstream products)
    - MSMEs form the backbone of India's employment. EU access allows Indian MSMEs to move from **low-margin exports to value-added production**
    - Leather and footwear exports move from tariffs of up to **17% to zero**, improving competitiveness in a **USD 100 billion EU import market**.
- **Agricultural and Rural Relevance**
    - Preferential access for tea, coffee, spices, grapes, gherkins, dried onion and processed foods. Sensitive sectors (dairy, cereals, poultry) **safeguarded**
    - Enhances **farmers' realised incomes.**
    - Strengthens rural livelihoods and women's participation. Enables India to capture **higher value segments** in EU agri-markets
    - Marine exports gain access to an EU market worth **USD 53.6 billion**, boosting coastal livelihoods in Andhra Pradesh, Gujarat, Kerala, and beyond.
- **Services, Talent, and Knowledge Economy Relevance**
    - EU commitments across **144 services sub-sectors**
    - Covers IT/ITeS, professional services, education, R&D

- Assured regime for intra-corporate transferees, contractual service suppliers and independent professionals. Framework for **Social Security Agreements** within 5 years
- Services are India's **fastest-growing export segment.** Enhances mobility of Indian professionals. Positions India as a **global talent hub**
- Indian professionals gain assured access in **37 sub-sectors**, while independent professionals benefit in **17 high-skill areas**, including R&D and higher education.

- **Innovation, Technology, and IPR Relevance**
  - TRIPS-compliant IPR regime. Recognition of **Traditional Knowledge Digital Library (TKDL)**
  - Cooperation on technology transfer, digital libraries and advanced manufacturing
- **Regulatory and Standards Relevance (SPS & TBT)**
  - Enhanced cooperation on Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT), recognition of conformity assessment and digitisation of compliance processes
- **Geopolitical and Strategic Relevance**
  - EU is India's largest trading partner bloc.
  - Shared commitment to **rules-based global order, supply-chain resilience** and sustainable development

EUROPEAN UNION

The **European Union** is a **supranational political and economic union** of European countries formed to promote **peace, economic integration, political cooperation, and collective prosperity** among its members.

- **Established:** 1993 (Maastricht Treaty)
- **Headquarters:** Brussels, Belgium
- **Population:** ~450 million
- **Currency:** Euro (used by 20 members – the Eurozone)

Core Objectives

- Maintain **peace and stability** in Europe
- Create a **single market** with free movement of goods, services, capital, people
- Coordinate policies on **trade, climate change, agriculture, competition, and digital regulation**
- Strengthen Europe's global influence through **collective diplomacy and trade**

Key Features of the EU

- **Single Market:** No customs duties within EU; common external trade policy
- **Common Trade Policy:** EU negotiates trade agreements as a bloc
- **Common Policies:** Agriculture (CAP), Competition Law, Climate policy (Green Deal)
- **Supranational Institutions:** Decisions are binding on member states in many areas

Main Institutions

- **European Commission** – Executive arm
- **European Council** – Heads of State/Government
- **Council of the EU** – Law-making with Parliament
- **European Parliament** – Directly elected legislature
- **Court of Justice of the EU** – Interprets EU law

Who Are the Members of the European Union? (27 Countries)

- **Western & Northern Europe:** Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Sweden
- **Southern Europe:** Cyprus, Greece, Italy, Malta, Portugal, Spain
- **Central & Eastern Europe:** Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia

- **Open Borders:** The **Schengen Area** allows free movement for most EU members, excluding Cyprus and Ireland. **Four non-EU countries (Iceland, Norway, Switzerland, and Liechtenstein)** are also part of Schengen.
- **United Kingdom exited the EU in 2020 (Brexit).**

Eurozone Members (Using the Euro)

- 20 of the 27 EU countries use the **Euro (€)**, including Germany, France, Italy, Spain, and others. Countries like **Poland, Hungary, and Sweden** retain their national currencies.

CHALLENGES IN INDIA–EU DEAL:

- **Carbon Border Adjustment Mechanism (CBAM) and Climate Conditionalities:** The EU's **Carbon Border Adjustment Mechanism (CBAM)** imposes additional costs on carbon-intensive imports such as iron and steel, aluminium, cement, fertilisers.
  - Indian steel and aluminium exports face **implicit carbon tariffs**, despite India's **lower per-capita emissions** and development constraints. CBAM raises costs for Indian exporters and acts as a **non-tariff trade barrier**
- **Regulatory and Standards Barrier (SPS, TBT, ESG):** The EU maintains **stringent regulatory standards** on Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT), Environmental, Social, and Governance (ESG) norms
  - Indian agri-products and MSME exports often face **rejections or delays** due to compliance gaps. Compliance costs are disproportionately high for **small exporters**.
- **Asymmetry in Trade and Market Expectations:** The EU seeks deep commitments on government procurement, labour and environmental standards and digital trade and data protection. India seeks **policy space** for development and industrialisation.
- **Mobility and Services Market Access Constraints:** India's comparative advantage lies in **services and skilled manpower**, but EU immigration regimes remain **fragmented and restrictive.**
  - Despite FTA commitments, actual mobility depends on **national regulations of 27 EU member states**. Social security portability remains limited. Indian IT professionals face visa uncertainty despite EU demand for skilled labour.
- **Divergence on Global Governance and Strategic Autonomy:** India follows a policy of **strategic autonomy.** The EU increasingly aligns with **normative geopolitics**, especially on Russia–Ukraine conflict, US sanctions regimes, human rights conditionalities.
  - EU expectations of political alignment often clash with India's independent foreign policy. India resists issue-linkage between trade and political positions.
- **Slow Decision-Making on the EU Side:** The EU's consensus-based structure involves European Commission, European Parliament, 27 Member States. Trade and investment decisions require **multi-layered approvals**, slowing implementation. India prefers **executive-driven, faster decision-making**.
- **Competition with EU's Internal Industrial Policy:** EU's Green Deal and industrial subsidies support European firms. Risk of **trade diversion** and reduced competitiveness of Indian exports.

India–EU relations face multiple challenges arising from **geopolitical divergence, economic frictions, and structural constraints**.

Geopolitically,

- EU seeks a comprehensive partnership encompassing trade, security, and human rights, while India prioritises **strategic autonomy** and avoids formal alliances.
- India's neutral stance on the **Russia–Ukraine conflict** contrasts with the EU's sanctions-driven approach, creating trust deficits and complicating policy coordination.
- Similarly, India views **China** as a strategic and security challenge, whereas the EU continues extensive trade with China despite concerns over human rights and economic practices, limiting convergence in the Indo-Pacific.

On the economic front,

- **India–EU FTA negotiations**, initiated in 2007, were delayed due to disagreements over **intellectual property rights**, labour standards, and environmental regulations.
- The EU's push for stringent norms, including the **Carbon Border Adjustment Mechanism (CBAM)**, poses adjustment challenges for Indian industries, particularly MSMEs and carbon-intensive sectors.

In defence and security,

- India's reliance on **Russian defence systems** constrains deeper military-technology cooperation with Europe. While bilateral projects exist (e.g., submarines with France, C-295 aircraft with Spain), India–EU defence ties lag behind those with the US or Russia due to limited strategic dialogue and restrictive EU knowledge-sharing norms.

In technology and innovation,

- Differences in priorities—India's focus on affordability versus Europe's emphasis on sustainability and advanced manufacturing—along with the absence of a coordinated response to **China's technological dominance**, hinder deeper collaboration.

Institutional fragmentation within the EU, with divergent member-state approaches toward India, complicates the formulation of a unified and effective EU policy, slowing strategic convergence.

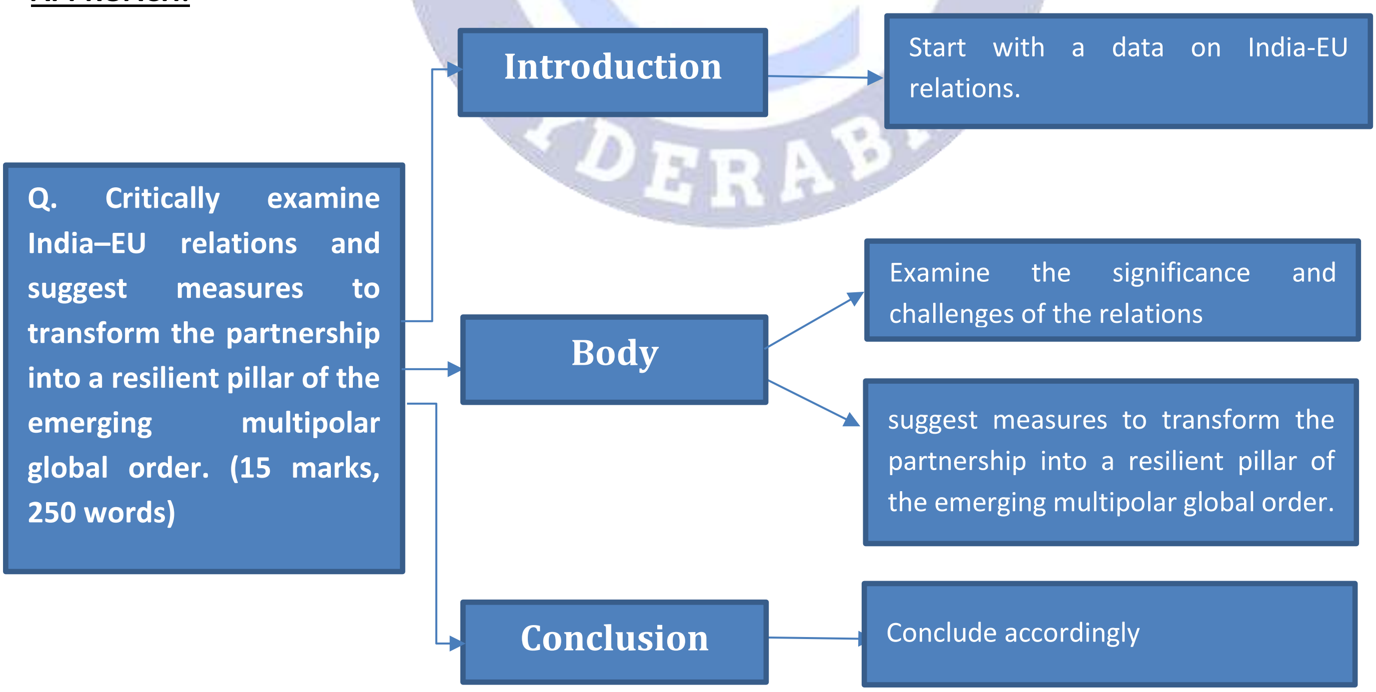
WAY FORWARD:

- **Operationalise the FTA with Flexibility and Capacity Support**: Ensure time-bound implementation of the India–EU Free Trade Agreement with **transition periods, safeguard clauses, and technical assistance** for Indian MSMEs to meet EU regulatory and standards requirements.
- **Build a Fair Climate–Trade Framework**: Address concerns around **CBAM** through recognition of India's carbon pricing efforts, technology transfer, and climate finance, in line with the principle of **Common But Differentiated Responsibilities (CBDR)**
- **Deepen Services and Mobility Cooperation**: Simplify visa regimes, expand mutual recognition of qualifications, and fast-track **Social Security Agreements** to fully unlock India's strengths in IT, professional services, and skilled manpower.
- **Strengthen Regulatory Cooperation**: Enhance cooperation on **SPS, TBT, and digital standards** through joint platforms, early-warning mechanisms, and equivalence recognition to reduce non-tariff barriers for Indian exporters.
- **Promote Technology and Innovation Partnerships**: Expand collaboration under **Horizon Europe**, focusing on clean energy, semiconductors, AI, biotech, and advanced materials, with co-funding and joint R&D to build resilient supply chains.
- **Enhance Strategic and Geopolitical Coordination**: Institutionalise regular dialogue on global governance, Indo-Pacific security, and multilateral reforms, respecting India's **strategic autonomy** while strengthening convergence on a rules-based global order.

PRACTICE QUESTION:

Q. Critically examine India–EU relations and suggest measures to transform the partnership into a resilient pillar of the emerging multipolar global order. (15 marks, 250 words)

APPROACH:



MODEL ANSWER:

The EU is **India's largest trading partner bloc**, with **bilateral merchandise trade of about USD 136.5 billion** and **services trade of USD 83 billion in 2024–25**, covering a combined market of **USD 24 trillion** and nearly **2 billion people**.

Significance of India–EU Relations

- **Economic and Trade Significance**: The India–EU FTA grants **preferential access to 97% of tariff lines**, covering **99.5% of India's exports**, boosting labour-intensive sectors such as textiles, leather, marine products, and gems & jewellery—key drivers of employment and MSME growth.
- **Anchor for India's Growth and Supply-Chain Integration**: The EU provides a stable, rules-based market enabling Indian firms to integrate into **European and global value chains**, reducing dependence on volatile markets amid global trade fragmentation.
- **Services, Talent, and Knowledge Economy Linkages**: EU commitments across **144 services sub-sectors** strengthen India's comparative advantage in IT, professional services, education, and R&D, enhancing skilled mobility and positioning India as a **global talent hub**.
- **Technology, Innovation, and Clean Energy Cooperation**: Collaboration under **Horizon Europe**, nuclear research (Euratom, ITER), semiconductors, advanced materials, and biotech supports India's transition to a **knowledge- and innovation-driven economy**.
- **Agriculture and Rural Livelihoods**: Preferential access for tea, coffee, spices, marine products, and processed foods strengthens **farmers' incomes**, coastal livelihoods, and women's participation, while safeguarding sensitive sectors like dairy and cereals.
- **Geopolitical and Normative Relevance**: Shared commitment to a **rules-based international order**, sustainable development, and supply-chain resilience enhances India's strategic options in a multipolar world.

Challenges in India–EU Relations

- **Geopolitical Divergence and Strategic Autonomy**: India's policy of strategic autonomy contrasts with the EU's expectation of political alignment, particularly on the **Russia–Ukraine conflict**, creating trust deficits.
- **Divergent Approaches to China**: India views China as a strategic and security threat, while the EU continues extensive trade engagement despite concerns over human rights and economic practices, limiting Indo-Pacific convergence.
- **Climate–Trade Frictions (CBAM)**: The EU's **Carbon Border Adjustment Mechanism** acts as a non-tariff barrier for Indian steel, aluminium, and cement exports, raising equity concerns given India's lower per-capita emissions.
- **Regulatory and Standards Barriers**: Stringent EU norms on **SPS, TBT, ESG, labour, and data protection** impose high compliance costs on Indian exporters, especially MSMEs.
- **Services and Mobility Constraints**: Fragmented immigration regimes across 27 EU member states and limited social-security portability restrict the full realisation of services trade gains.
- **Defence and Technology Gaps**: India's dependence on Russian defence systems and the EU's cautious approach to sensitive technology transfer limit deeper security and strategic cooperation.

Measures to transform the partnership into a resilient pillar of the emerging multipolar global order:

- **Institutionalise Strategic Dialogue Respecting Strategic Autonomy:** Establish a **regular India–EU Strategic and Security Dialogue** covering geopolitics, Indo-Pacific security, and global governance, while explicitly recognising **India's strategic autonomy**. Avoid issue-linkage between trade and political alignment to build long-term trust.

- Build a Fair Climate–Trade Compact: Recalibrate climate-linked trade measures like **CBAM** by recognising India's lower per-capita emissions, supporting **technology transfer, green finance, and capacity building.**
- **Fully Operationalise the FTA as a Developmental Partnership:** Implement the India–EU FTA with transition periods and safeguard clauses, technical assistance for MSMEs. This ensures the FTA supports **inclusive growth, employment generation, and supply-chain resilience**, not merely trade volumes.
- **Deepen Technology and Innovation Co-Creation:** Shift from buyer–seller models to **joint innovation ecosystems** by expanding co-funded R&D under Horizon Europe. Collaborating on semiconductors, AI, clean energy, biotech, and advanced materials
- **Unlock Services, Talent, and Human Capital Mobility:** Strengthen the knowledge partnership through mutual recognition of qualifications, faster Social Security Agreements. Predictable mobility regimes for professionals, researchers, and students
This aligns Europe's ageing workforce needs with India's demographic dividend.
- **Strengthen Defence and Security Cooperation Gradually:** Promote pragmatic defence collaboration through joint manufacturing and maintenance (MRO), maritime security and cyber resilience cooperation

- **Coordinate Positions in Multilateral Institutions:** Align approaches in WTO reform, Climate negotiations, supply-chain resilience and development finance A coordinated India–EU voice can shape **rules for a fairer multipolar order**.

India–EU relations combine scale, stability, and strategic depth, yet remain constrained by geopolitical divergence and regulatory asymmetries. Addressing these challenges through mutual flexibility and trust can transform the partnership into a **durable pillar of India's economic transformation and the emerging multipolar global order**.