Delhi Policy Group
Advancing India's Rise as a Leading Power

POLICY BRIEF

EU Commissioners to Visit India Amidst Global Trade Policy Churn

Author

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Delhi Policy Group
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Cover Photographs:

President of the European Commission, Ursula von der Leyen, announced the EU Commissioners' visit to India, at the Annual Meeting of World Economic Forum in Davos, Switzerland, on January 21, 2025. Source: X/@vonderleyen

India's Minister for Commerce and Industry, Piyush Goyal, held talks with thenew EU Commissioner for Trade and Economic Security, Maros Sefcovic, in Brussels, on January 18-19, 2025. Source: X/@PiyushGoyal

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Introduction

The College of 27 Commissioners of the newly constituted EU Commission will be making a rare collective visit to India later this month, clearly indicative of a renewed focus being given by Europe to India. The EU Commission President Ursula von der Leyen, in announcing this in her Davos speech last month,[2] said that together with Prime Minister Modi "we want to upgrade the strategic partnership with the largest country and democracy in the world".

There is much that these two large economies, one that is emerging and the other an industrialised major trading power, can accomplish together in areas ranging from trade and investment to technology, innovation and regulatory cooperation. But these are also extraordinary times when global trade policy is facing a challenging churn spurred by the new Trump Administration's unilateral tariff measures and threats under the guise of reciprocity, fairness and economic security. No less upsetting to the world trading order has been the creeping dominance which is continuing to be actively pursued by the other trading major, China, with questionable policies and practices that get rationalised under its own unique economic system and characteristics.

This brief explores the possibilities for greater cooperation between Europe and India at this point of increasing geopolitical contestation. Both for the EU and for India there is also much at stake in the maintenance of a rule-based multilateral trading system, even as it is admittedly far from perfect. But rather than a complete collapse, or a move towards an ill-defined reciprocity or might-based system, it may be far better to steadily work for reform from within. And both the EU and India can contribute more on this if they first of all are able to quickly negotiate and conclude a mutually beneficial FTA. The underlying compromises such a deal may involve could themselves bring about a better mutual understanding about what can be done multilaterally.

[1] The contents of this brief are an updated and revised form of the remarks made by the author during the session on 'International Trade in an era of contested geopolitics' during the IIC-Bruegel annual seminar held in IIC, New Delhi from February 4-5, 2025.

[2] https://ec.europa.eu/commission/presscorner/detail/en/speech_25_285

Rising geopolitical contestation

Geopolitical contestation and the consequent search for economic security have begun to drill holes through the global trading system which are steadily getting bigger.

The three major players in international trade, the EU, the United States and China, account for close to 40% of world merchandise exports or imports. And they are acting very differently on trade and industrial policy fronts. Compliance with WTO rules is gradually getting ignored. Their approaches towards forging new FTAs also differ. This is sending confusing and conflicting messages to the rest of the world, including developing countries.

The Trump 2.0 tariff threats

The US appeared uneasy even under the Biden administration with the current trading system, which it ironically created and led along with Europe. This was manifest in its ambiguity on reviving the dispute settlement system of the WTO. We are now seeing a further backslide, as the Mckinley era of high tariffs is being fondly recalled. Resort to tariffs as a leveraging tool for all issues is no longer just a threat, as already seen in the form of announcements on Canada, China and Mexico and on steel and aluminium. Reciprocity is getting redefined with no reference to existing WTO rules. The 'Fair and Reciprocal plan' unilaterally announced by President Trump on February 13, 2025 effectively launches a new tariff negotiation round which translates to an expectation that every country has to have a similar tariff and tax structure as the US, failing which remedies to bring about reciprocal trade relations will be imposed.

The spate of executive orders on day one itself has shown that President Trump will walk his campaign talk and have an aggressive America First approach. Domestically, there has been a clear focus in the US for the last several years on boosting American manufacturing, ensuring its primacy in advanced technologies, and staying ahead of competition with China. Even as the Trump 1.0 and Biden administrations showed very different approaches in pushing this agenda, Trump 2.0 seems intent on pushing this further using high tariffs as necessary. Flaunting tariff coercion for achieving non-economic gains is yet another dimension.

The only aspect showing a ray of openness in the US agenda is towards entering into new trade or sectoral agreements on which the USTR has been asked to make recommendations. Already with India, during PM Modi's visit to

Washington earlier this month[3], it has been agreed that both the US and India will negotiate the first tranche of a mutually beneficial multi-sectoral Bilateral Trade Agreement by the fall of 2025.

Trump 2.0 has also reverted to climate change denial and there will be further building of its fossil fuel sector. Will it also replace Biden's flagship industrial policy approaches for semiconductors etc., with high tariffs and a lightly regulated investment framework as earlier proclaimed? We have to wait and see, even as recent statements make clear this may be the preferred approach.

The EU approach

The EU prefers working within the existing WTO rules even as it has turned heavy on regulation. It has reinforced its anti-subsidy framework and framed rules for both unfair international procurement and economic coercion by third countries. It has begun implementing its carbon border adjustment mechanism that will impose duties on its imports of steel, aluminium, etc., unless their production processes complied with the EU's green norms. These deviate from the principle of common but differentiated responsibilities which developing countries consider as a bedrock of climate change agreements. The EU's initiative on deforestation is also significantly increasing exporter obligations.

The EU is also implementing its own industrial policy initiatives and embarking on more. Economic security is increasingly getting embedded in its policies and actions. Indeed, the new trade Commissioner's designation is "Commissioner for Trade and Economic Security".

The EU Competitiveness Compass launched[4] on January 29, 2025 following the Draghi report[5] on "The future of European competitiveness" presented in September last year, builds on all the three transformative imperatives identified in that report which included a) Closing the innovation gap; b) A joint road map for decarbonisation and competitiveness; and c) Reducing excessive dependencies and increasing security. Stating that Europe must fix its weaknesses to regain competitiveness, EU Commission President Von der Layen has described the Competitiveness Compass as transforming the excellent recommendations of the Draghi report into a roadmap.

[3] https://www.mea.gov.in/bilateral-documents.htm?dtl/39066
[4] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_339
[5] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

Moreover, already party to the largest number of FTAs globally involving 76 countries so far, the EU is pushing further, having recently finalised deals with MERCOSUR and Mexico. But demands on sustainability provisions in the EU's FTAs have been steadily escalating in terms of coverage, depth and rigour of enforcement.

Both the EU and the US have taken initiatives towards reducing dependence on strategic imports through de-risking, but in their own ways. Plurilateral initiatives such as the Indo-Pacific Economic Framework (IPEF), the Minerals Security Initiative or even the India-Middle East- Europe corridor initiatives are all in initial stages. Whether they will be pursued or set aside under Trump 2.0 remains to be seen. Selective sanctions and high technology export controls certainly will remain in the Trump 2.0 toolkit.

The China challenge

China's emergence as a trading major with its own economic system and characteristics, unlike the US and the EU with strong market economy traditions, has led to many friction points. China preaches lofty principles but simply does what it wants, including resort to coercion. It talks about a multipolar world, inclusive globalisation etc., but its actions betray a single-minded pursuit of economic primacy and dominance. The trading world is searching for solutions.

Already accounting for 35% of the world's manufacturing output, China's strategy to create overcapacities and pushing cheap exports is hurting manufacturing and employment in many other countries. A substantial role for state-owned enterprises, the veiled hand of government or party apparatus in market decisions, a strong industrial policy with targeted subsidisation coupled with champion building, form key elements. The high levels of state directed subsidies and their opaqueness have also been referred to by the WTO Secretariat recently in China's trade policy review report[6]. A joint report by the US and Norway last month on critical minerals[7] also well documents China's non-market policies and practices. Tellingly, the report concludes that absent action by market oriented countries, supply of critical minerals is likely to remain concentrated or become further concentrated.

[6] See pages 68-73 of the WTO Secretariat report accessible at https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S458R1.pdf&Open=True

[7] https://www.commerce.gov/sites/default/files/2025-01/US_Norway_Critical_Minerals_NMPP.pdf

We also do not see China vacating lower-end labour-intensive manufacturing in any significant manner. Lack of initiatives to enhance its own domestic demand, and the persistence of low consumption and high savings rates are other aspects, even as we have to see what impact some of China's recent initiatives may have on this.

Creating a more China-centric order with initiatives like the BRI that better serves its interests is China's key focus. And even as questions abound about China's WTO compliance, it is seeking to forge more FTAs. Already party to 20, it has applied to join CPTPP. It has also taken the lead in reviving the idea of an FTAAP at the last APEC summit. Recently, it also upgraded the FTA with Peru and is currently negotiating a 3.0 version of the FTA with ASEAN.

After observing derisking moves by the US, the EU and others gathering pace, China is also pursuing a twin-track approach. Track one is targeted retaliations. Examples include its export restrictions on gallium, germanium etc., or launching trade defense actions against brandy and cheese from the EU, or limiting export of some manufacturing equipment and restraining its skilled personnel from travel to India. The other track is stepping up its charm offensives with Australia, ASEAN and Latin American countries and even some European nations by offering BRI projects, investments and market access for some agricultural products.

But all this is not resulting in any reduction in Chinese exports to these countries - quite the contrary. While China espouses inter-dependence, it pushes for skewed dependence as a deliberate policy choice.

Some export-focused economies like Vietnam, Malaysia or Mexico have seized on the so-called China+1 opportunities, but it is not clear what their shelf life will be, particularly if de-risking initiatives by the G-7 countries get onto the next level of origin and circumvention vetting. Of course, for countries like India, trade diversion to its own market by these export focused economies remains a threat as and when Western markets may get closed for goods with significant Chinese content.

India's large trade imbalance with China

India also has the problem of a skewed trade imbalance with China. Imports from China are over six times India's exports, and its markets are far from open for finished Indian goods, as opposed to raw materials or intermediates.

The month of April 2020 was also a time of grim awakening. India was faced with the COVID-19 related import vulnerabilities as well as the PLA troop build-up across its northern borders that resulted in the Galwan clash.

India realised that over dependence and concentration, particularly in some critical products, needed derisking. What has evolved since then is broadly a four-pronged framework that includes:

a) Keeping out risk-ridden investments, technologies and apps;
b) Strengthening indigenous capacity and competitiveness, particularly in areas of high import dependence, including through industrial policy initiatives in select sectors under the Production Linked Incentive schemes (PLI) and moves on critical minerals and semiconductors. More recently, the Indian government has also launched a National Critical Minerals Mission[8];
c) Forging supply chain collaborations and cooperation in critical and emerging technologies with friendly partners; and
d) Entering into FTAs with select partners.

All this is work in progress, and much will depend on what can be secured from partners like the EU in terms of investment and technology. Indeed, the European Union and India could be vital partners both bilaterally and in working towards a reformed global trading framework.

India-EU trade and economic relations and FTA importance

Bilaterally, the EU is India's largest goods trading partner. The EU's investment stock in India is also high. But trade numbers with the US and China are catching up. Already, on services trade, the US surpasses the EU. An FTA between India and the EU can significantly revive momentum. It could also be among the largest FTAs for both sides. Its importance at this stage of geopolitical and geoeconomic contestation cannot be overstated.

Economic complementarities between the EU and India are significant. Both will gain from a level playing field vis-a-vis third countries in each other's markets. EU presently is disadvantaged in view of India's FTAs with the Republic of Korea, Japan, ASEAN, Australia and with EFTA countries, the last of which is under ratification. India, with a much reduced GSP access, and the EU's long FTA portfolio, faces a severe handicap in the EU market.

[8] https://www.pmindia.gov.in/en/news_updates/cabinet-approves-national-critical-mineral-mission-to-build-a-resilient-value-chain-for-critical-mineral-resources-vital-to-green-technologies-with-an-outlay-of-rs-34300-crore-over-seven-years/?comment=disable

News reports from the FTA negotiation front have been sobering even after nine rounds. In this regard, it is welcome that India's Commerce Minister Piyush Goyal and the new EU Commissioner Maros Sefcovic, met in January 2025 in Brussels, and appear to have given some fresh political directions to the negotiating teams[9].

This brief is not intended to go into details of this negotiation, but to make some suggestions on the regulatory aspects based on studies of some of India's earlier FTAs. In making these, the author is also encouraged by the indication given by the EU's top foreign policy and security official Kaja Kallas that the EU's approach in talks with India will now see a greater emphasis on pragmatism, transactionalism and mutual benefit[10].

- The draft proposals by the EU include several WTO plus and extra disciplines which will be the first ever for India. India's FTA with the UAE has public procurement and digital trade chapters. India's own domestic policies are also evolving in areas like labour laws, as it moves forward in terms of accepting higher levels of commitments in its FTAs. But that said, how much more, and how quickly they should get implemented, are aspects that need careful consideration.

- Some of the proposals, as seen from the EU website[11], such as for example in the chapters on sustainable agriculture systems, and what it may mean for some of the input subsidies to farmers, or in the chapter on energy and raw materials and what it may mean for ensuring domestic availability of these inputs for production, could raise concerns. Affordable access to medicines is another important "must have" for India. It needs recognition that with its large population, India would legitimately be concerned about foreclosing its development policy options.

- A better understanding of each other's industrial policies would also be important, such as for example the impact that EU's Foreign Subsidy regulations may have on products exported from India's PLI beneficiary companies.

- Moreover, just as the EU considers its agriculture subsidies as not an issue for FTA negotiations, there has to be space for India's food and farmer security concerns.

[9] https://pib.gov.in/PressReleasePage.aspx?PRID=2094362
[10] https://www.thehindu.com/news/international/eu-to-adopt-a-more-pragmatic-approach-in-talks-with-india-and-others-eu-top-diplomat/article69176259.ece
[11] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement/documents_en

- It is also important that the concessions each side receives on the market access pillar do not get diminished under the regulatory pillar. For example, a glide path and technical assistance on CBAM could help. India's recent Economic Survey for 2024-25 has noted that both CBAM and EU Deforestation Regulation are trade protection measures garbed in the language of climate and environment. That being the understanding on the Indian side, if a solution is not found to this serious issue, there could well be possible retaliations once these measures become fully operational. This could directly put at risk the existing US$ 11 bn of bilateral trade in metals - steel and aluminium - even as the indirect risks, such as from derivative products, could be greater.

- In the recent EU-Mercosur agreement, the parties to the agreement have tried to deal with some of these issues through a 'rebalancing mechanism' in the agreement. For CBAM, it is very doubtful if this will provide relief for India since the EU's regulations and rules in these areas would have been fully adopted before the date of finalisation of the India-EU FTA. In any case, resolving this matter bilaterally rather than relying on a future adjudicatory procedure will be preferable.

- Some creativity can help in the early conclusion of the FTA. In the EFTA deal, a legal commitment of US$ 100 bn in investment over 15 years was a highlight. With Australia, the side deal that Indian IT companies in Australia will not be taxed on their extra territorial revenues was a help. Some initiatives in respect of data secure status in respect of the IT sector could be considered.

- Another approach may be to make the FTA commitments progressive in character. In the first phase, there could be a substantial deal even if not a comprehensive one that can by itself qualify as an FTA under the WTO rules. At the second stage, more difficult issues could be tackled with added mutual trust and the augmented trade momentum gathered from the implementation of the first phase. This was the approach followed with Australia and it seems to have helped.

A mutually beneficial FTA deal can propel greater collaboration on WTO reform

Striking a balanced and mutually beneficial deal between the EU and India in the FTA context can generate a better understanding of what can be done multilaterally, particularly considering that India and the EU have not been on the same page in several WTO-related negotiations earlier.

Detailed below are only a few such issues even as getting them done will require a lot of collaborative effort:

1. With the "Washington consensus" more or less forgotten and several trade majors now adopting industrial policies, a key element underpinning any revised WTO framework may be a broad understanding of how should trade and industrial policies intersect and get disciplined. The recent report by former Italian PM Mario Draghi, submitted in the EU context, talks of certain principles here. There could be others. And should they be restricted to the so-called new areas like clean energy and electric vehicles, and strategic ones like steel and aluminium, which may be favoured by the developed countries, or should they be broader? India's PLI schemes have a wider coverage.

2. Another aspect that could be addressed is what kind of deterrence can be put in place against the very creation of market distorting overcapacities. Current WTO trade remedies are inadequate to deal with this unique phenomenon practiced by a very large economy. Some at the receiving end have cited economic security as the reason for protectionist actions they have taken. Suitably expanding the trade remedy toolkit to adequately deal with it may be necessary.

3. The world trading system has also been greatly undermined by non-market economic policies and practices by certain economies. GATT had a practice of annual trade agreements with certain centrally planned economies. While it may be impossible to revert to this practice, it needs recognition that the US-China Phase-1 deal which carried commitments from China to make a certain minimum level of annual purchases from the US was one form of it. Interestingly, expanding further on this is being talked about in the wake of fresh US tariffs on China.

4. Finally, what is also becoming clear is that it may be premature to address the impasse over the dispute settlement mechanism unless the rules such a mechanism has to adjudicate are themselves redefined.

Conclusion

In the present global context of rising geopolitical contestation and heightening trade policy tensions, all countries, including India, are trying to deal with the impact of the unilateral tariffs and other measures being announced by the Trump 2.0 administration against trading partners. For each of the affected economies, it is going to be an urgent and challenging task to craft a workable solution that is economically not too disruptive.

With China, attention is needed both at national levels and in the form of cooperation among like-minded countries, on how to de-risk and diversify away from vulnerable dependencies, particularly in critical areas.

Amidst all this, the visit of the College of EU Commissioners to India later this month presents a timely opportunity for the new Commission to better understand India holistically and cross-sectorally, and the efforts India is making towards accelerated economic development and meeting the current global challenges. If the EU and India can rapidly forge a mutually beneficial and robust FTA, this will also enable both to cooperate on derisking and diversifying their economies, and to work towards multilateral trade reform as well as lowering global trade tensions.

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