

# India-EU trade and financial flows

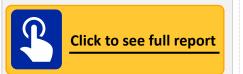
Bilateral agreements to help trade, connectivity; threat of Suez Canal transit and CBAM continues

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### Highlights





The EU is the third largest trading partner for India. However, barring certain agri products, textiles and metals, India's share in the EU's trade is insignificant.

The Gol is working on bilateral agreements to improve trade, investment and connectivity.



ICRA has analysed the trade, financial flows and bilateral tie-ups between India and the European Union (EU). The EU is India's third largest trading partner, and India is dependent on it for imports of more than 75 product categories and it is a major export destination for more than 80 product categories for India. However, India does not account for a major part of the EU's overall trade flows (2% each for imports and exports). The Government of India (GoI) has entered into or is in negotiations with the bloc, for a number of bilateral agreements, to improve trade, investment and connectivity between countries.

In terms of financial flows, the EU contributes significantly to the overall pie of Foreign Direct Investment (FDI) equity inflows and Foreign Portfolio Investors – asset under custody (FPI AUC). However, the remittances from the EU are marginal.

India's corporate presence in the EU and vice versa is significant. Moreover, the threat from disruptions along the Suez Canal transit and Carbon Border Adjustment Mechanism (CBAM) continues.

#### Merchandise trade

- The EU's share in the total Indian merchandise imports stood at 8-10% in past decade. Imports from the EU are significant for India in sectors like agriculture, textiles, pharma, chemicals, and metals, and for select products like cork, beverages/spirits, arms and ammunition, etc. This dependency on the EU has made India vulnerable to supply chain disruptions and price fluctuations.
- The EU's share in India's total merchandise exports rose to 17% in FY2024 from 13% in FY2014. This was because petroleum products, electrical machineries, gas turbines, boilers, iron and steel, forming a major part of exports by value, grew by an average CAGR of ~10% in the last decade.
- Meanwhile, India's share stood at a mere 2% of the EU's total imports and exports. However, Indian trade is significant for the EU for certain agri products, textiles and metals.

## Highlights

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The EU contributes significantly to the overall pie of FDI equity inflows and FPI.

India's corporate presence in the EU and vice versa is prominent.

Disruptions along the Suez Canal transit and CBAM taxes continue to pose threats to India-EU trade.



#### Services trade

- Bilateral trade between India and the EU grew at a CAGR of 11% since 2019, wherein imports increased at a CAGR of 16% and exports rose at a CAGR of 5%.
- Higher imports in 2023 resulted in negative trade balance, after a gap of eight years (2015 saw negative trade balance before 2023).

#### FDI, FPI and remittances

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- The EU's share in FDI equity inflows to India is ~16%. Three EU nations, the Netherlands, Germany and Cyprus, hold ~11% share in the total FDI equity inflow.
- In terms of FPI, three EU countries, Luxemburg (7%), Ireland (6%) and France (3%), generate ~15% of the total (as of June 2024).
- The EU accounts for 4% of remittances to India and ~3% of India's migrant stock.

#### **Bilateral agreements**

 The EU is India's third largest trading partner, and the GoI has entered into or is in negotiations with the EU, for a number of bilateral agreements including Free Trade Agreement (FTA) to improve trade, investment and connectivity between countries.

#### Suez Canal and CBAM

- India is home to 6,000 European companies, providing 1.7 million direct jobs and 5 million indirect jobs across a broad range of sectors. Similarly, a few Indian conglomerates have either acquired European entities or entered joint ventures with them.
- Disruptions along the Suez Canal and CBAM taxes continue to pose threats to India-EU trade.





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