



2 / 2024

Free trade agreement with India: a milestone for Swiss foreign trade

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Executive summary

The EFTA free trade agreement with India is Europe's first with the emerging country. The Swiss economy supports this agreement. It gives our export nation better market access to an economy with an annual growth potential of 6 to 9 per cent. Import duties will fall significantly in the coming years. The protection of intellectual property has also been improved. However, further steps will be needed in the future.

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Positions of economiessuisse

The EFTA free trade agreement with India is a milestone for Swiss foreign trade policy:

- Switzerland as an export nation will gain better market access for goods and services.
- The protection of intellectual property is improved.
- Both sides want to work together in the area of climate protection.
- Switzerland gets the opportunity to share in the economic potential of the world's most populous country.
- The free trade agreement currently gives Swiss companies an important competitive advantage over their competitors from the EU and UK.

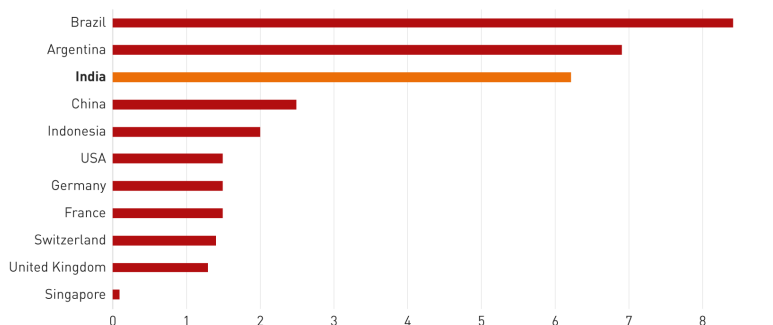
The three most important points of the free trade agreement with India

1. Customs facilitations

India has high import tariffs by international standards (weighted average of 6.2 per cent on all imported goods in 2020, see below). The core of a free trade agreement lies in tariff reductions. According to estimates, the free trade agreement with India will result in the complete or partial elimination of tariffs for 95.3 per cent of Swiss exports of industrial products. Tariff dismantling periods of 0 to 10 years are envisaged from the entry into force of the agreement – depending on the product. The rules of origin – a prerequisite for utilizing the customs benefits – have also been simplified. Certain industrial goods will not receive any customs relief. Agricultural goods are not affected.

Applied tariff rate, weighted average, all products

► 2020, in %



Source : World bank
www.economiesuisse.ch

2. Improvements to intellectual property

The protection of intellectual property – in particular patents and trademark rights – is of central importance for the innovation-based Swiss export industry. Improvements have been negotiated with India in this area. However, further improvements should be sought in the future.

3. Investment promotion

Ambitious targets are being set for foreign direct investment. India expects direct investment from EFTA companies totaling USD 100 billion and the creation of 1 million jobs over the next 15 years.

India – a sleeping giant has awoken

→ India has a large and young population

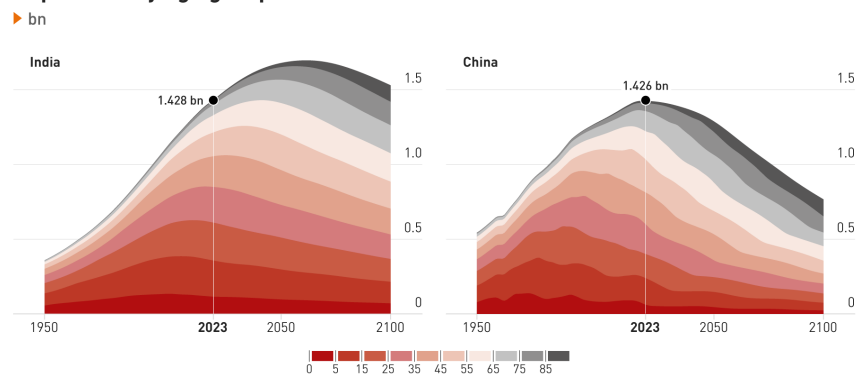
India's demographic dividend

As of April 2023, India has overtaken China as the world's most populous country with 1.428 billion inhabitants. This growth trend is set to continue for India in the coming decades: Its population will continue to rise – expected to reach around 1.7 billion inhabitants in 2064.

By way of comparison, China's population has currently peaked for the time being and is expected to fall drastically in the coming decades.

India's population is not only very large, but also very young: more than half of Indians are under the age of 30. This demographic dividend can be the basis for future economic growth. However, it is also a major challenge. India must reduce poverty before its population grows old.

Population by age group



Source: The Economist, UN
www.economiesuisse.ch

India's economic outlook

Economic growth of between six and nine per cent is expected for India in the coming years. In addition to the demographic dividend (see above), there are two other reasons for this optimistic outlook: Firstly, India will invest massively in its own infrastructure in the coming years. Secondly, India wants to position itself as an attractive industrial location in the face of global competition.

→ India has great ambitions in industrial production and is benefiting from the reorganization of many companies' supply chains.

India as a manufacturing location

- India has been pursuing the «Make in India» under Prime Minister Narendra Modi for nine years. The aim of this initiative is to facilitate investment, promote innovation and expertise and expand the manufacturing industry. The aim is to overtake its great rival China, particularly in industrial production.
- For geopolitical and strategic reasons, many companies want to reduce their dependence on China («China +1 strategy»). Accordingly, they are looking for an

alternative production location in Asia, from which not only the Southeast Asian countries but also India is benefiting greatly.

India – the world's largest democracy

- Switzerland has a great interest in maintaining and strengthening its relations with the world's largest democracy. Shared democratic values are important in times of increasing authoritarianism worldwide.

EFTA-India free trade agreement: How does the Swiss economy benefit?

→ After 16 years of negotiations, the FTA with India is a milestone for Switzerland as an export nation.

On 10 March 2024, the EFTA states (Switzerland, Iceland, Liechtenstein and Norway) signed a free trade agreement (hereinafter: FTA) with India in Delhi (officially: Trade and Economic Partnership Agreement, TEPA).

The EFTA-India Free Trade Agreement at a glance

- The FTA is comprehensive in terms of sectors. It contains provisions on trade in industrial goods, agricultural products, technical barriers to trade, sanitary and phytosanitary measures (SPS), rules of origin, trade facilitation, trade in services, the protection of intellectual property, dispute settlement and trade and sustainable development.
- The investment chapter is a special feature of the FTA. Companies from EFTA states are to expand their investments in India.
- The FTA establishes an institutionalized dialogue (Joint Committee) to solve future problems.
- Switzerland is expected to ratify the FTA by 2025 at the latest. To this end, the agreement must first be approved by the Swiss parliament. In the absence of an optional referendum and taking into account the processes in India, the FTA is expected to enter into force in autumn 2025.

The four most important successes for the Swiss economy

1. As an exporting nation, Switzerland thrives on access to large markets. India is currently still a relatively small trading partner for Switzerland. However, as the world's most populous country with ambitious growth targets, India is a strategic economic partner for Switzerland with huge potential.
2. In addition to broad market access, the FTA also improves the legal framework, legal certainty and predictability for Swiss companies.
3. In view of potentially escalating tensions between the USA and China, the FTA with India is a basis for further diversifying Switzerland's economic relations with its trading partners.
4. EFTA is the first European partner with which India has concluded an FTA – even before the EU or UK. The FTA therefore currently provides Swiss companies with an important competitive advantage over their competitors.

→ For 95.3 per cent of Swiss industrial exports to India, customs duties will be fully or partially lifted immediately or with transitional periods.

Trade in goods

India previously levied very high tariffs on imported products. With the FTA, India will abolish or partially remove customs duties on 95.3 percent of imports of Swiss industrial products (excluding gold) immediately or with transitional periods.

- For 84.6 per cent of Swiss exports, all customs duties will be abolished once the tariff dismantling periods (between 0 and 10 years) have expired.
- 10.1 per cent of Swiss exports receive partial concessions (most of these correspond to a 50 per cent reduction in customs duties with transitional periods of up to 10 years).
- SECO estimates that Swiss companies will be able to save up to around CHF 167 million per year once the tariff dismantling periods expire. Another estimate (Prof. Ziltener, 2024) even assumes potential savings of over CHF 210 million per year.
- Switzerland has already unilaterally abolished its tariffs on industrial goods as of 1 January 2024, which is why they played no role in the negotiations with India.

Product category	Indian concessions on Swiss imports (according to Indian import statistics)
Chemical products (HS Chapter 29)	<ul style="list-style-type: none">• 73.8 per cent duty-free• 26.2 per cent with partial concessions
Pharmaceutical products (HS Chapter 30)	<ul style="list-style-type: none">• 98.4 per cent duty-free• 1.6 per cent with partial concessions
Textiles (HS chapters 50-63)	<ul style="list-style-type: none">• 91.6 per cent duty-free• 4.4 per cent with partial concessions• 4.0 per cent are excluded
Machines (HS Chapter 84)	<ul style="list-style-type: none">• 99.9 per cent duty-free
Electrical machines (HS Chapter 85)	<ul style="list-style-type: none">• 87.6 per cent duty-free• 0.1 per cent with partial concessions• 12.4 per cent are excluded
Optical instruments (incl. medical devices) (HS Chapter 90)	<ul style="list-style-type: none">• 66.5 per cent duty-free• 33.5 per cent with partial concessions
Watches (HS Chapter 91)	<ul style="list-style-type: none">• 100 per cent duty free
Agricultural products	<ul style="list-style-type: none">• Duty-free for selected products (e.g. chocolate, coffee capsules) (with transitional periods)• Duty-free for various fruits and vegetables (after transition period)• Staggered tariff reductions for wine over ten years

Source: SECO/TEPA Appendix 2.C.3

The Weidmann Group in India

One of the many Swiss companies that will benefit from the FTA is the Weidmann Group – a leading global provider of technical products and services for electrical and medical technology. Based in Rapperswil, the company produces insulation

components in India with a license partner and uses materials from Switzerland.

Franziska Tschudi Sauber, President of the Board of Directors of the Weidmann Group: «Thanks to the free trade agreement, we will only have to pay much lower import duties or even none at all. This will make us more competitive and better equipped to face our competitors from China and Turkey on the Indian market.»

Services

Under the FTA, India grants the EFTA states significantly more concessions than provided for in the General Agreement on Trade in Services (GATS).

- Swiss financial service providers benefit from clear and transparent deadlines for the approval of licenses. In addition, the share of foreign capital in the insurance sector will be permitted to be up to 49 per cent and increased from 51 to 74 per cent for banks.
- India undertakes to authorize machine installation and maintenance personnel for a stay of up to 3 months per year.

Protection of intellectual property

The FTA safeguards the core idea of protecting intellectual property and basically corresponds to the level of protection of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Nevertheless, further improvements will be needed here in the future.

- The FTA contains guarantees that patent-protected Swiss exports will not be discriminated against in favor of locally produced products («working the patent»). This principle is already legally binding under the TRIPS Agreement but has repeatedly led to problems in India. This long-standing legal uncertainty has now been eliminated by the FTA.
- In the area of test data protection for pharmaceuticals, the level of ambition of the FTA is in accordance with the TRIPS Agreement. It does not restrict access to medicines in India. Nevertheless, further progress will be needed in this area in the future. The protection of test data must be sufficiently high to prevent unfair competition.
- Substantial improvements were also achieved in the protection of Swissness and geographical indications (e.g. the designation for cheese). These are key for many Swiss industries, such as the watchmaking and food industries.

The Indian population's access to generic medicines

In the FTA negotiations, Switzerland has campaigned for a solution that considers both the promotion of innovative medicines and ensures access to medicines for the Indian population.

- The FTA confirms the TRIPS regulation on compulsory licenses.
- The FTA contains simplifications in relation to patent granting procedures. This is also in the interests of Indian generics producers.

→ The companies of the EFTA states are committing to significantly more investment in India in the medium term.

Foreign direct investments

In order to further reduce poverty, India urgently needs to create jobs. In view of the low demand in the domestic market, the country wants to focus on exports in the coming years. This will require more foreign direct investment in order to reach the product standards of major markets such as the USA and Europe more quickly. Switzerland, which is one of the world's 12 largest direct investors, is an interesting partner here.

- As part of the FTA, the EFTA states undertake to promote their investments in India. The target in this regard is USD 100 billion in investments and the creation of 1 million jobs over the next 15 years.
- India, for its part, is committed to creating and maintaining a favorable investment climate.
- The FTA provides for a three-stage, multi-year consultation procedure (Joint Committee, Sub-committee, Ministerial level), which can be invoked by India if the target has not been reached after 15 years.

Direct investments and sustainability

The EFTA states and India have agreed on a legally binding chapter on trade and sustainable development as part of the FTA. This applies to all aspects of the FTA, including the area of investment.

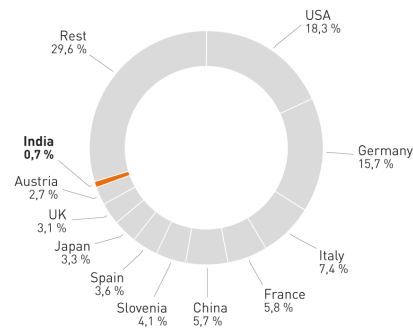
- The parties reaffirm their commitments to implement the international conventions on labor, environment and climate protection that they have ratified.
- It has also been agreed to set up a Joint Committee where topics such as human and labor rights can be discussed with India.

Bilateral trade between Switzerland and India

Potential in trade with India not yet fully utilized

Share of Swiss goods exports by destination country

► 2022, excluding gold



Source : Swisssimpex
www.economiesuisse.ch

- In a global comparison, India is currently still a relatively small destination for Swiss goods exports (global share of 0.7 per cent in 2022). Our most important export markets are the European domestic market, followed by the USA and China.
- However, economic growth in India is expected to increase demand for Swiss products and services in the future.

Subdued growth trend in bilateral trade in goods with India to date

Bilateral trade in goods between Switzerland and India

► CHF million, excluding gold



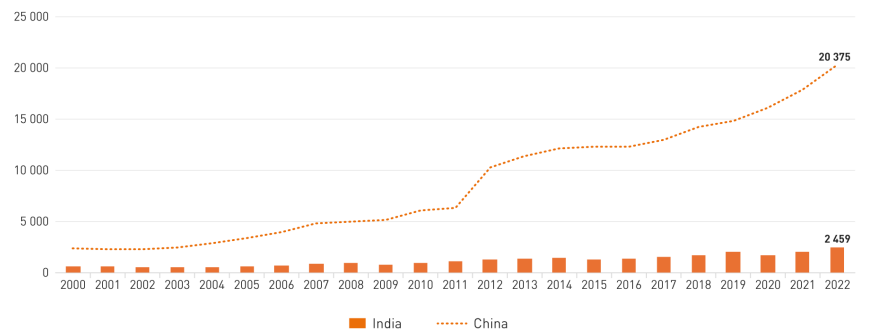
Source : SwissImpex
www.economiesuisse.ch

- Although at a relatively low level, the bilateral trade volume (excluding gold) between India and Switzerland has grown continuously over the last twenty years. In recent years, however, this growth has mainly been in favor of Indian goods imports into Switzerland.

Swiss exports and imports with India still significantly lower than with China

Swiss goods imports from India and China

► CHF million, excluding gold



Source : SwissImpex
www.economiesuisse.ch

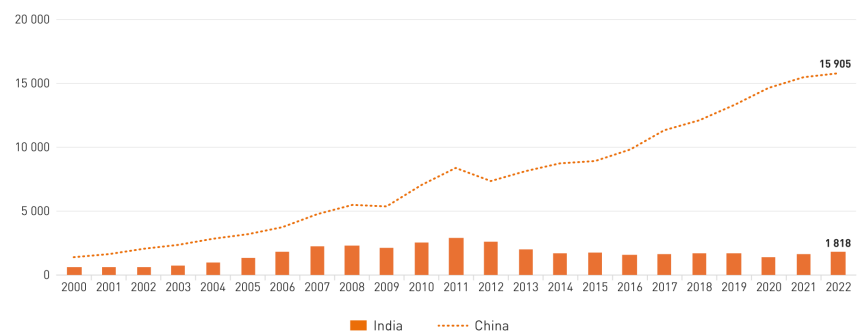
- In 2022, gold accounted for 87 per cent of Swiss exports to India. Trade in gold is volatile, as it is heavily dependent on the global economic situation. This peculiarity distorts the interpretation of foreign trade figures.
- Switzerland's most important exports to India in 2022 were machinery (21.9 per cent), pharmaceutical products (14.6 per cent), precision instruments (12 per cent) and chemical products (11.1 per cent).

- The most important imports from India in 2022 were chemical products (32.9 percent), clothing (11.5 percent), precious metals and gemstones (11.1 percent) and aluminum (8.8 percent).
- India and China currently have roughly the same population. Nevertheless, the volume of trade (imports + exports) between Switzerland and China currently exceeds that with India by a factor of more than eight (China: CHF 36.29 billion, trading partner #5 / India: CHF 4.28 billion, trading partner #20, 2022).

Source: SECO

Swiss goods exports to India and China

▶ CHF million, excluding gold

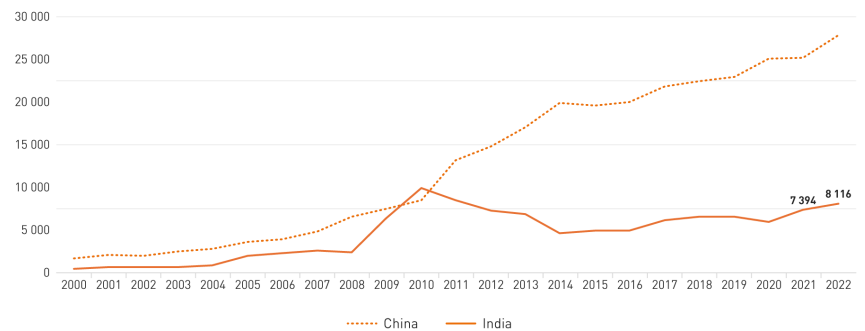


Source : SwissImpex
www.economiesuisse.ch

Swiss direct investment in India

Swiss direct investment in India (stock)

► CHF million



Source : Swiss National Bank
www.economiesuisse.ch

- According to the International Monetary Fund (IMF), Switzerland ranked seventh among the most important foreign direct investors in India in 2021 with a capital stock totaling USD 35 billion.
- The above estimate of the Swiss National Bank's (SNB) capital stock in 2021 – around CHF 7.4 billion – is around five times lower. The large discrepancy can be explained by the fact that some Swiss investments flow to India via third countries.
- According to the SNB, Swiss capital transactions to India totaled an average of CHF 1.3 billion per year between 2017 and 2022.
- According to a survey by the Swiss embassy in Delhi, over 330 Swiss companies are currently active in India through joint ventures or branches. These contribute directly to the creation of around 166'000 jobs in India.
- A comparison with China also shows the growth potential.

Source: SECO/SNB

India's FTA negotiations with the EU and UK

While the EFTA states were able to sign the FTA with India, India's free trade negotiations with the EU and the United Kingdom (UK) are still ongoing. An overview of the current status of these two negotiations can be found below:

→ The India-EU negotiations have stalled. It is unlikely that they will be finalized soon.

FTA India-EU

- On 17 June 2022, the EU resumed negotiations with India on an FTA and initiated separate negotiations on an investment protection agreement and an agreement on geographical indications.
- The FTA negotiations are currently at a standstill. It is unlikely that they will be finalized before the elections in India in April/May.
- Problem areas include the opening of the food market (the EU wants a reduction in import duties on dairy and other agricultural products), industrial tariffs (especially on vehicles) and the level of protection for intellectual property in India.
- India is also vehemently opposed to the EU's Carbon Border Adjustment Mechanism (EU-CBAM). Since 1 October 2023, the EU has been implementing administrative measures for the import of certain high-emission raw materials and products from third countries. A levy is to be imposed on these products at a later date.

→ The India-UK negotiations are in the final stages – but there is resistance from the British business community, among others.

FTA India-UK

- The negotiations are in the final phase. The two parties entered the 14th round of negotiations in February 2024. It remains to be seen whether the agreement will be finalized.
- Business circles have reported that British companies are not satisfied with the results so far and are calling for the negotiations to be suspended. For them, the Indian offers in the areas of intellectual property and financial services in particular are inadequate.
- Other points of contention include the following:
 - India is making high demands in the area of the free movement of persons, which the British government is unlikely to fulfil.
 - India wants to reclaim social security payments totaling tens of millions of pounds for its employees in the UK.
 - India is asking the UK for bilateral consultations if it introduces a measure similar to the EU's Carbon Border Adjustment Mechanism (see above).
