

INDIA-EAEU FREE TRADE AGREEMENT – INTERNATIONAL RELATION

India and Eurasian Economic Union sign Terms of Reference to launch FTA negotiations. India and the Eurasian Economic Union (EAEU) have launched negotiations for a Free Trade Agreement. This move is driven by India's need to correct its massive trade deficit with Russia and diversify export markets amid rising US tariff threats.

Launch of India-EAEU Free Trade Agreement Negotiations

In a significant diplomatic and economic development, India and the Eurasian Economic Union (EAEU) have formally signed the Terms of Reference (ToR) in Moscow. This act officially launches the negotiation process for a comprehensive Free Trade Agreement (FTA) aimed at strengthening economic ties between India and the EAEU member states.

About the Eurasian Economic Union (EAEU)

Nature and Legal Status – The EAEU is an international organization dedicated to regional economic integration. It possesses an "international legal personality," which grants it the authority to enter into legally binding treaties and agreements as a unified bloc.

Core Objectives – The primary goals of the union are multifaceted and aimed at collective growth:

1. To enhance and deepen cooperation among its member states.
2. To boost the global competitiveness of their economies.
3. To support the stable and sustainable development of its members.

Functional Mechanism – The Four Freedoms: The EAEU operates on the principle of ensuring the free movement of goods, services, capital, and labor across the borders of its member nations. It also works to implement coordinated and unified policies in key sectors to create a seamless economic space.

Member States – The EAEU currently comprises five member states:

1. Armenia
2. Belarus
3. Kazakhstan
4. Kyrgyz Republic
5. Russia

Open Membership Policy – The union's membership is open to any state that shares its foundational goals and principles, contingent upon the unanimous agreement of all existing member states.

Potential Benefits of the FTA for India

Expanded Market Access – The proposed FTA is expected to significantly expand market access for Indian exporters by reducing or eliminating tariffs and non-tariff barriers, opening up a large and integrated consumer market.

Economic Diversification – This agreement supports India's strategic goal of diversifying its trade relationships, helping businesses expand into new sectors and geographies beyond their traditional markets.

Enhanced Competitiveness – The FTA would bolster the competitiveness of Indian industries against those from non-market economies operating within the EAEU region.

Major Boost for MSMEs – Micro, Small, and Medium Enterprises (MSMEs) are poised to be significant beneficiaries, as the FTA would provide them with a more accessible pathway to enter the Eurasian market.

Challenges and the Strategic Context

Growing Trade Imbalance with Russia –

India-Russia trade has surged since Russia's invasion of Ukraine in 2022, but this growth has been heavily skewed. Russia's share of India's total oil imports has skyrocketed from under 2% to 35–40%. In contrast, India's exports to Russia have only seen a modest increase, leading to a massive trade deficit for India that now exceeds \$60 billion.

Payment Mechanism Issues

To address this trade deficit, India is revisiting the rupee-ruble trade mechanism. However, earlier attempts to establish this system failed. This is in contrast to the Russia-China trade, which has successfully transitioned to using domestic currencies, highlighting a potential but challenging path forward.

External Pressure from US Tariffs

Indian exporters are facing the threat of steep tariffs from the United States, creating an urgent need to find and develop alternative markets. Russia is seen as a key alternative destination for major Indian industries like textiles and pharmaceuticals. Currently, India's main exports to Russia are engineering goods, electronics, and pharmaceuticals. Reports have warned that potential US tariffs could rise as high as 50%, which would severely damage Indian exports and underscores the strategic importance of diversifying trade partners like the EAEU.

Source: <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2158480>

