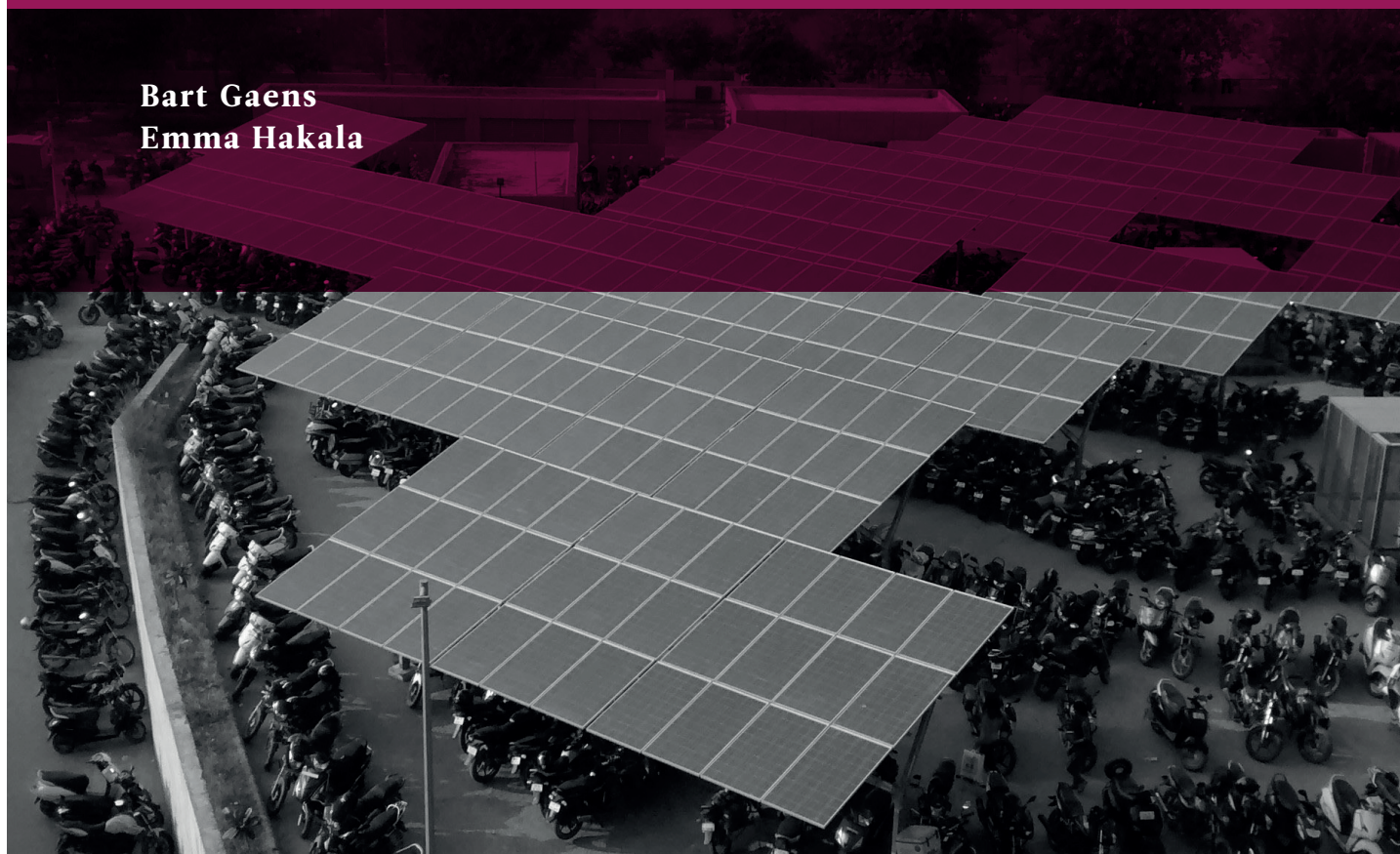


## RECALIBRATING EU-INDIA RELATIONS

A SHIFT AWAY FROM A TRADE-BASED PARTNERSHIP?

**Bart Gaens**  
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# RECALIBRATING EU-INDIA RELATIONS

## A SHIFT AWAY FROM A TRADE-BASED PARTNERSHIP?

- India's increasing global importance is uncontested, and it is clear that the significance of India-EU relations extends far beyond potential trade benefits. Both parties have an interest in stepping up as leading actors in the fight against climate change, as partners in sustainable connectivity, and in countering unconventional security threats.
- Intensified cooperation in these new fields marks a broader shift from a trade-based relationship towards one driven by mutual geopolitical interest.
- As the precedent of the trade negotiations suggests, cooperation in these fields may run into obstacles at a more detailed level, or because of underlying differences or the prioritization of trade and investment relations with China.
- For Finland, stalling trade negotiations may continue to create disincentives for local export companies and investors. Nevertheless, the focus on sectors such as climate change and connectivity is complementary to Finnish core interests such as energy, infrastructure and high-tech, crucial fields for climate mitigation, transportation, and digitalization.



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## A SHIFT AWAY FROM A TRADE-BASED PARTNERSHIP?

### INTRODUCTION: AN UNDERPERFORMING STRATEGIC PARTNERSHIP

In July 2020, Indian Prime Minister Narendra Modi called for an action-oriented agenda for the India-European Union partnership. Indeed, action has been sorely lacking in the bilateral relationship for some years. The EU and India have had a so-called Strategic Partnership in place since 2004, but it has been punching below its weight. Negotiations for a Bilateral Trade and Investment Agreement (BTIA) that started in 2007 have stalled since 2013, and political relations overall have been marked by “benign neglect”. When the annual summits came to a halt in 2012, it was a clear symptom of this malaise in bilateral relations.

After resuming the summits in 2016, hopes rose that change might be on the horizon. The 14<sup>th</sup> India-EU summit took place in New Delhi in October 2017. In November 2018, the EU published “Elements for an EU Strategy on India”, a strategy paper which clearly showed renewed political will on the part of the EU. The paper implied that the EU and India now view each other more as equal partners, and also hinted at new recognition on the EU’s side that the partnership is vital to its own interests. Even after this, however, the trade talks have shown little sign of progress, and the onset of the Covid-19 crisis seemed to put the relations on hold in spring 2020. In light of this, the most recent 15<sup>th</sup> India-EU summit, held by video conference on 15 July 2020, made a visible effort to attest to the rekindled mutual interest, most notably by adopting a “Roadmap to 2025” policy document.

But how tangible is the progress that has been made? This Briefing Paper examines the current state of EU-India relations in light of past expectations and new avenues for cooperation. In particular, it argues that the latest developments are increasingly shifting the relationship away from one based on trade towards other fields of shared geopolitical interest. Yet even with new points of convergence, challenges remain in view of India’s increasingly central role in regional and global affairs.

### INDIA AS A TRADE PARTNER

The EU has long been aware of India’s potential as an emerging power. The European Commission’s Asia strategy of 1994 emphasized poverty alleviation, economic cooperation and the integration of India as an emerging market-oriented economy into the world trading system. It hence regarded India primarily from a development perspective. Its successor document, the 2001 Strategy Paper, on the other hand, focussed on India as an emerging regional power with which the EU needed to strengthen its bilateral political, economic, and social cooperation, as well as its collaboration on global issues. New Delhi was also mentioned as an important partner in the fight against climate change. The year 2004, then, saw the start of the EU-India strategic partnership, even though in the years that followed this remained primarily a rhetorical recognition of India’s ascendancy as an emerging great power.<sup>1</sup>

The strategic partnership resulted in the commencement of negotiations for a Bilateral Trade and Investment Agreement, in view of the steady growth in trade relations and as a signifier that trade and investment were seen as the bedrock of bilateral relations. Major obstacles stood in the way, however, resulting in the negotiations coming to a halt in 2013. Some of the main objectives for the EU, such as a strong intellectual property regime or social and environmental clauses have proved unacceptable to India to date. The EU has been similarly reluctant with regard to India’s long-term condition to facilitate trade in services, especially by granting more visas for skilled workers.<sup>2</sup> Just as importantly, while India has seen the EU’s farm and dairy subsidies as an obstacle, the EU has found India’s refusal to lower import tariffs on cars and car parts highly problematic. For the EU, India’s trade regime remains restrictive, including technical barriers to trade and deviations from international standards and agreements. Yet further controversies may lie ahead,

1 Allen, D. (2013), The EU and India: Strategic partners but not a strategic partnership, in E. Kirchner, T. Christiansen, and K. Jorgensen, (eds). *The Palgrave Handbook of EU-Asia Relations*, London: Palgrave Macmillan UK, 571-586.

2 Khorana, S. (2019), Is Brexit an opportunity to revive the EU-India trade deal? *The Conversation*, 26 March, <https://theconversation.com/is-brexit-an-opportunity-to-revive-the-eu-india-trade-deal-113780>.

such as the border adjustment tax on CO2 emissions envisioned by the EU as a measure to mitigate climate change, which would potentially create an obstacle for Indian steel exports.

India's potential as a trade and investment partner has therefore remained unfulfilled, even if bilateral relations between New Delhi and individual EU member states such as Germany, for example, have been quite strong in recent years. The EU is India's largest trading partner, accounting for 11.1% of all of India's trade, placing the EU ahead of China and on a par with the US. On the other hand, India was only the EU's tenth largest trading partner in 2019. Bilateral trade in goods comprised close to 80 billion euro in 2019, with a roughly equal share for imports and exports. However, even though trade in goods has increased by 72% in the last decade, this only makes up 1.9% of all extra-EU trade, a percentage that has not changed much compared to ten years ago. EU FDI stocks in India amounted to 68 billion euro in 2018, which pales in comparison to investment stocks in China (175 billion).<sup>3</sup> Imports from India to the EU grew by 5.8% on average between 2015 and 2019, whereas exports averaged a growth rate of 3.9%.<sup>4</sup> With an FTA in place, the EU would mainly benefit from easier access to the fast-growing Indian market, whereas India would achieve substantial economic growth.<sup>5</sup>

The most recent summit has not done away with key obstacles, and an agreement on free trade remains a distant pipe dream. The BTIA was notably absent from the 2016 Agenda for Action 2020, as it is from the Roadmap towards 2025, and trade relations continue to be described in terms of "untapped potential".

## EU-INDIA RELATIONS: A REBOOT?

Other recent developments are more promising, however. A recalibrated partnership is seemingly shifting the emphasis away from comprehensive trade and investment towards new and more focussed areas of cooperation.

The first important observation is that increased attention is being given to issue-based cooperation,

which is essentially at the heart of any well-performing "strategic partnership". The latest summit resulted in a new political dialogue at ministerial level on trade issues. This seems to mark a shift towards an ambition to strive for "sector-based trade agreements with India rather than an ambitious free trade agreement (FTA)".<sup>6</sup> Public health is another such issue, including sharing of capacities and experiences in the fight against the Covid-19 pandemic. The Civil-Nuclear agreement between Euratom and India, aiming to promote cooperation in R&D on the peaceful uses of nuclear energy, is a third example.

Second, a promising area of collaboration is climate change. In addition to a lengthy section on climate and energy in the Roadmap, the July 2020 summit issued a closely related Joint Statement on resource efficiency and the circular economy, following an EU-India Clean Energy and Climate Partnership launched as early as 2016. Both parties have an interest in emphasizing their role as global climate leaders and as frontrunners in the field of sustainable energy, which could also give them an upper hand in the increasingly important geopolitics of global energy transition. Prime Minister Modi has made climate change an important topic in his foreign policy and, in international contexts, has outspokenly called for its enhanced mitigation.<sup>7</sup> India has also launched the International Solar Alliance (ISA), which mobilizes resources for solar energy while also providing a platform for its role as a responsible global actor.<sup>8</sup>

The EU, on the other hand, unveiled the European Green Deal in 2019 as an action plan paving the way to a sustainable and decarbonized economy. The plan includes external policy as an important area of implementation, with the EU supporting and promoting climate action around the world. The partnership with India can be seen as an indication of the global dimension of the Green Deal while also underlining the relevance of the EU's own climate policy as a potential inspiration for climate mitigation elsewhere in the world.<sup>9</sup> It thus also helps to thwart claims by Europe-

3 All figures from: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>.

4 European Commission (2020), *Factsheet: European Union Trade with India*. Brussels: European Commission, Directorate-General for Trade, May 8. [https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/details\\_india\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_india_en.pdf).

5 European Parliament (2013), *The Long Road towards an EU-India Free Trade Agreement*, Brussels: European Parliament: Directorate-General for External Policies of the Union, October. <https://www.europarl.europa.eu/document/activities/cont/201310/20131023ATT73262/20131023ATT73262EN.pdf>.

6 Aspengren, H.C. and Nordenstam, A. (2019), *The Partnership Shift: Analysing the European Union's Strategic Engagement with India*, Swedish Institute of International Affairs, September. <https://www.ui.se/globalassets/ui.se-eng/publications/ui-publications/2019/ui-paper-no.-9-2019.pdf>.

7 Hakala, E. (2018), India and the geoeconomics of climate change: Global responsibility as strategic interest, *FIIA Working Paper*, Helsinki: Finnish Institute of International Affairs. <https://www.fia.fi/en/publication/india-and-the-geoeconomics-of-climate-change>.

8 Saran, S. (2018), Powering India's growth story, *Business Standard*, 16 March.

9 Barichella, A. (2017), How Europe can and should become the guardian of the Paris Agreement on climate change, *Policy paper*, European Issue No. 450, Fondation Robert Schuman. <https://www.robert-schuman.eu/en/doc/questions-d-europe/qe-450-en.pdf>.



EU-India summit was held by video conference on 15 July 2020. It made a visible effort by adopting a “Roadmap to 2025” policy document, but did not away with key obstacles, and an agreement on free trade remains a distant pipe dream. Photo: EU/EC-Audiovisual Service/Etienne Ansotte

an populist parties<sup>10</sup> that the EU’s action on climate change is futile unless emerging global powers cut their emissions. At the same time, cooperation on climate action offers the possibility of mutual benefits through trade and investments, particularly highlighted with regard to resource efficiency and the circular economy.

Third, sustainable connectivity is increasingly seen as a priority area. As emphasized in the EU’s connectivity strategy, connectivity has to be economically, fiscally, environmentally and socially sustainable in the long term; it needs to be comprehensive, covering transport links, digital networks, energy flows, and people-to-people networks; and it needs to be rules-based and transparent. India shares these values and has a similar interest in balancing China’s connectivity efforts throughout the Indo-Pacific, offering scope for cooperation. In line with the EU’s own connectivity strategy of 2018, the latest summit agreed on principles of sustainable connectivity, including the G20 voluntary Principles for Quality Infrastructure Investment (QII), and at least agreed to explore ways to improve connectivity between the EU and India, and consequent connectivity with third countries, including in the Indo-Pacific region. The Roadmap provides the example of the upcoming planned investments by the

European Investment Bank of €550 million in the Pune and Bhopal Metro Rail Projects.

In line with Europe’s connectivity plan, this emphasizes the key role of the private sector and the importance of incentivizing sustainable private financing. Furthermore, the digital transition, data protection, 5G, and AI are key areas for an upgraded dialogue and cooperation, especially in light of the increased competition with China in these fields and certainly after the onset of the Covid-19 pandemic. Both Brussels and New Delhi have converging interests in setting global ICT standards and in data protection legislation, for example.

Fourth, recent shifts in global politics have increased commonalities between the EU and India in terms of security. Their joint priorities have grown in light of increased challenges to the (liberal) rules-based order and, regionally, an increasingly assertive China. This was visible in India’s strong support for the Franco-German Alliance for Multilateralism, for example. There are also more synergies as a result of India’s declared intent to become a “leading power” and to be more engaged regionally, upping its game in the Indo-Pacific region. The EU has also expressed its ambitions to be more involved in Asia in terms of connectivity as well as security. Internationally, India has been a key player in promoting a patchwork of institutions, each with their own focus and function. At the bilateral level, India has signed strategic

<sup>10</sup> Schaller, S. and Carius, A. (2019), *Convenient truths. Mapping climate agendas of right-wing populist parties in Europe*, Adelphi, Berlin. <https://www.adelphi.de/en/in-focus/right-wing-populism-and-climate-policy-europe>.

partnership agreements with over two dozen countries over the past two decades. At the trilateral level, India has a strategic triangle with the US and Japan (the JAI), but also with Russia and China through the RIC. At the quadrilateral level, there is the Quad, together with the US, Australia and Japan, but India is also a key member of BRICS as well as the Shanghai Cooperation Organization (SCO).

India's active presence in the regional security network surely attests to its increasingly important role as an emerging power in the region, and also illustrates its shift from non-alignment to so-called "strategic autonomy" and "multi-alignment". The fact that numerous countries now tend to refer more to the Indo-Pacific rather than the Asia-Pacific is partly a signifier of India's strategic importance today, which will only grow in the years to come. Furthermore, the recent and ongoing conflict with China over both countries' Himalayan border in the region of Ladakh has arguably placed India more firmly in the camp of Western democracies. The military build-up in the region has intensified in past months, and confrontations continue to flare up. This has led to increased speculation that India is eager to strategically align itself more with Western powers, in the first place with the US, but also with the EU. It has, for example, resulted in postulations that India would allow Australia's participation in the annual Malabar naval exercise, a trilateral drill between the US, India and Japan, for the first time since 2007. In the field of trade, Australia, Japan and India are seeking to beef up supply chain resilience in the Indo-Pacific. Summits and new agreements with Australia in June and Japan in September 2020 seem to confirm this realignment.

It is clear that the EU is not a military actor, and nor is it regarded as such by India. Even so, military-to-military cooperation and joint exercises offer an important new vista. This is key in view of the need to preserve the open sea lanes in the Indo-Pacific and to maintain a rules-based maritime order, along with maritime security including maritime surveillance and the fight against piracy. EU cooperation with Asian countries in Operation Atalanta, the counter-piracy operation in the Western Indian Ocean, has been a positive experience in this respect. The EU and India can help to promote regional maritime multilateralism, for example through cooperation with India's new Information Fusion Centre for the Indian Ocean Region (IFC-IOR), which aims to build cooperation with regional nations in the monitoring of maritime

traffic, not least to keep track of China's increased activity in the region. Here, it is clear that France, as a country with its own stake in the Indian Ocean, can take a leading role in promoting EU-India maritime cooperation.

## REMAINING CHALLENGES

Some challenges are expected to remain, however. India has primarily viewed the EU as an economic actor without much strategic or security-related importance. If economic relations are not working, other aspects of cooperation are not likely to gain attention either. India has not had a clearly defined strategy for the EU, and until recently the EU was all but absent from the website of the Indian Ministry of External Affairs. It was only with the appearance of the more EU-minded Foreign Minister Subrahmanyam Jaisankar that a brief on the EU appeared on the ministry's website. Institutional challenges present a further obstacle to closer cooperation. On the one hand, the EU is not always able to speak with a single voice in the global arena, as there are tensions among the member states as well as between them and Brussels. On the other hand, India's engagement is administratively hindered by an understaffed and overstretched Ministry of External Affairs. Furthermore, cooperation on reform of the UN system will remain a challenge. The fact that the EU's latest policy documents do not address support for India's permanent membership of the UN Security Council, for example, has already been criticized, even if the latest joint statement does refer to India's non-permanent seat for 2021-2022.

Relations with China could also impinge on implementing the proposed actions. For the EU, China remains a crucial trade partner, the EU's second most important one, and economic engagement is only growing. Reluctance to irk Beijing is, therefore, likely to continue, in spite of mounting criticism that the EU is exercising self-censorship vis-à-vis China. In the India-China spat, for example, the EU is unlikely to be willing to jeopardize relations with Beijing by siding with New Delhi.

Lastly, the latest policy documents divulge rhetoric on being the two largest democracies in the world, and emphasize a joint dedication to multilateralism, a rules-based order, and shared values. This is likely at least partly the result of the current weakness of the US in upholding the international order. Such

values, however, are not easily compatible with nationalist and populist tendencies. This problem may also increasingly rise in India. Although Modi's brand of nationalism has so far not precluded increasing international engagement, his government may continue to reinforce these tendencies in its internal politics and cause controversies between India's global and domestic actions. This development may increasingly put pressure on the EU to condemn potential human rights violations and, failing that, raise questions about its commitment to promoting a global rules-based order.

Some Members of the European Parliament have already called for the India-EU Strategic Partnership to be made conditional upon improvements in India's human rights record.<sup>11</sup> However, the EU has been notably reluctant to criticize India for its actions in Kashmir, such as the Citizenship Amendment Act (CAA) of 2019. New Delhi revoked the special constitutional status of the state of Jammu and Kashmir, which led to European Parliament motions for a resolution criticizing alleged human rights abuses and the discriminatory and divisive nature of the Act. The vote on the resolution was delayed, revealing intra-EU rifts between institutions as well as Member States with regard to views on sovereignty or the separation of domestic and foreign affairs. This issue goes to the core of the EU's foreign policy, causing friction between normative goals, on the one hand, and security or trade interests on the other. EU-India relations could thus become one stepping stone for this balancing act in practice.

## CONCLUSIONS AND OUTLOOK

India's global importance is uncontested. In recent years, New Delhi has increasingly strengthened its position as an aid donor as well as a military and nuclear power. According to its policy approach, the so-called New Delhi Consensus, India must maintain its economic growth, assume a leadership position with regard to the global development agenda, promote equitable global governance and advance a social contract domestically between state, industry and civil society.<sup>12</sup> The country's population, currently at 1.35

billion, is expected to surpass China's in the coming decades, and its GDP, even in a post-Covid-19 era, is still projected to grow by 8% in 2021-2022.

It is clear, therefore, that the significance of India-EU relations extends far beyond potential trade benefits. Both parties have an interest in stepping up as leading actors in the fight against climate change, while also promoting global cooperation on the issue. Jointly advancing sustainable connectivity in regions such as Africa and Central Asia is vital to promote so-called Quality Infrastructure Investment as well as to counter the Chinese model. Meanwhile, the partnership may contribute to the need to better counter unconventional security threats, underlined especially by the global impacts of the Covid-19 pandemic. Furthermore, the EU can cooperate more with India in terms of security as New Delhi seems to be more eager to enact a policy of multi-alignment and to counter China's assertive territorial and maritime policies.

Indeed, intensified cooperation in these new fields may help to maintain the momentum of EU-India relations in spite of the lack of progress in the trade negotiations. If this tendency continues, it will mark a broader shift from a trade-based relationship towards one driven by mutual geopolitical interest. However, as the precedent of the trade negotiations suggests, cooperation in other fields may also run into obstacles once it advances to a more detailed level, or as underlying differences become more apparent. The continued importance of trade and investment relations with China may also put the brakes on the EU-India partnership advancing further. In addition, the Covid-19 situation is likely to have still-unknown long-term implications for global supply chains and other interdependencies. Efforts to diversify trade from China, for instance, could lend a new urgency to the EU-India trade negotiations.

Individual EU member countries may also be wise to keep an eye on the way India-EU relations evolve. For Finland, the current attention given to cooperation on sectors such as climate change and connectivity may turn out to be beneficial. Focus areas in India for the Team Finland network have been energy, infrastructure and high-tech – in other words, fields that are crucial for climate mitigation, transportation, digitalization and other key areas of cooperation. Yet, at the same time, stalling trade negotiations may continue to pose obstacles and create disincentives for Finnish export companies and investors. /

11 Sawhney, A. (2020), *India-EU summit 2020 – Defining the future of the strategic partnership*, ORF 18 April. <https://www.orfonline.org/expert-speak/india-eu-summit-2020-defining-the-future-of-the-strategic-partnership-64817/>; [https://www.europarl.europa.eu/doceo/document/CRE-9-2020-01-29-ITM-023\\_EN.html](https://www.europarl.europa.eu/doceo/document/CRE-9-2020-01-29-ITM-023_EN.html).

12 Saran, S. (2018), *As a rising global power, what is India's vision for the world?*, World Economic Forum 14 August. <https://www.weforum.org/agenda/2018/08/what-is-indias-vision-for-the-world-modi/>.