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## The Europe-India Balance Sheet

Trade, like-mindedness, and strategic interests

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*Europe is sceptical about realising the economic potential in India because of corruption and trade barriers. Elsewhere, there are growing concerns about human rights violations, while on security it is the China factor that will decide the future path.*

The increasingly close relations between Europe and India are one of the most significant – and yet largely undervalued – developments in today’s international scene. Never before have the relations between the European Union (EU) and India been as warm as today, and this applies as well to the relations with several individual European countries.

This analysis is based on 25 in-depth interviews with European diplomats, corporate sector executives, security specialists and members of think-tanks. It shows that while most Europeans are still hopeful of tapping the potential of economic relations with India, they remain sceptical of trade opportunities and the “like-mindedness” between the two parties. Europe’s interest in India is growing mostly for strategic reasons, and the need to balance China’s weight in Asia and beyond.

The countries with whom India has these close relations belong to three different categories:

- France, Germany, and the United Kingdom (UK) form a league of their own, as demonstrated by the density of official visits.
- Then comes a “second circle” comprising countries whose interest in India is less pronounced.
- Finally, the EU itself represents a third, separate player.

### What economic potential?

When trying to assess economic relations between Europe and India, the word “potential” keeps coming up. If, in recent years, the EU has indeed become India’s first or second trade partner, the country still represented less than 2.5% of EU trade in 2020 and ranked only 9th or 10th, trailing well behind China (16.1% of EU trade), US (15.2%) and UK (12.2%). Similarly, while European foreign direct investment in India more than doubled between 2011-2020, it remains much lower than in China. Germany-India bilateral trade grew from about \$19 billion in 2016-17 to about \$21.5 billion in 2019-20. But the volume of trade between Germany and China is, at \$182 billion, eight times as large as that between Germany and India. Clearly, the EU-India trade and investment potential is so far unfulfilled.

### How to promote trade and investment?

Trade and investment have been the cornerstone of the EU-India Strategic Partnership from its inception in 2004. In 2006, the EU and India officially decided to launch negotiations for a Bilateral Trade and Investment Treaty. These negotiations were suspended in 2013 because of many bones of contention regarding access to the Indian market in the dairy, wine and automotive sectors, the intellectual property regime (especially in the pharmaceutical sector), rules on child and bonded labour, data security and transparency laws, access to the European services market and visas for Indian professionals.

The 2021 EU-India Summit decided to resume trade negotiations but these issues have not disappeared. Despite the unprecedented political will of the European and Indian governments, the EU and India are bracing for complicated negotiations. The stakes are higher for both parties, in the context of Brexit and India’s withdrawal from the Regional Comprehensive Economic Partnership (RCEP). Trade talks may be even more complicated this time because of India’s growing protectionism and uncertainties regarding the protection of personal data.

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European companies – including German firms selling consumer goods – express their doubts about the Indian market, not only because of problems of access due to protectionist measures, but also because of bureaucratic hurdles, corruption, lack of infrastructure and weak consumption. It remains to be seen if this last aspect was only due to the Covid-19 crisis, or whether it has acquired a more structural dimension due to massive joblessness and impoverishment of the middle class. This view should be given serious consideration by the Indian government when conducting trade and investment diplomacy with Europe and when engaging in outreach to European companies.

### **Elusive consensus on the “like-mindedness” question**

Like-mindedness is widely seen as the strongest engine of Europe-India relations. After all, the EU and India share democratic systems and values, and concerns for environmental challenges. There are, however, several irritants that will prevent like-mindedness on those fronts from being a strong driver of deepening Europe-India relations.

#### **The human rights issue**

Members of the European Parliament have had vehement debates about the pleas of religious minorities, the condition of Kashmiris, freedom of expression (with special references to the media) and the situation of NGOs in India. The European Parliament was divided, but the only MEPs who did not vote in favour of the final – unprecedentedly critical – resolution in April 2021 came largely from the far-right Identity and Democracy Group.

The European Parliament, in particular, expressed “deep concern regarding India’s Citizenship Amendment Act (CAA)”, the 2019 law denying access to Indian citizenship to Muslim refugees from three neighbouring countries. It was also disturbed by “the harmful effects of the Foreign Contribution Regulation Act (FCRA) on civil society organisations” as this law prevented Indian NGOs from receiving money from abroad.

EU officials minimize these problems by arguing that India has agreed to resume the Bilateral Human Rights Dialogue, suspended in 2013. However, no tangible result is expected from this dialogue and diplomats from EU countries acknowledge in private that if there is a further deterioration, their governments will no longer be in a position to ignore human rights issues.

#### **Climate diplomacy: Europe-India convergence and divergence**

The reference to like-mindedness also applies in official discourse to the new priority that climate change represents for the EU and India. During COP21 in Paris in 2015, India played a very constructive role along with Europeans and others. Just before the Paris meeting, India presented its intended nationally determined contributions (NDCs), under which it pledged to reduce by 2030 the emissions intensity of its GDP by 33-35% from the level in 2005. India’s objectives remain the same today. The strategy relies primarily on the development of renewable energy. At COP26 in Glasgow, Prime Minister Narendra Modi announced that India had set the target of net zero carbon emissions for 2070. India also updated its NDCs to be met by 2030, including meeting 50% of its energy requirements from non-fossil fuel sources of energy, and reducing carbon emissions by 1 billion tonnes, among others.

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However, coal remains very important for India and continues to be promoted by the government. In 2019, more than 77% of the electricity generated was produced by coal-fired utilities. One year later, the government decided to open 41 coal blocks to the private sector for commercial mining. And subsidies for fossil fuels remain more substantial than those in favour of renewable energies. Prior to COP26, the experts interviewed were already somewhat sceptical about India’s ecological commitment. New Delhi had rejected the G7 objective on achieving net-zero emissions by 2050 in a July 2021 G20 meeting and missed a key preparatory meeting for COP26 in London. These doubts only increased after COP26, where the centrality of coal and unwillingness to take further environmental action at the expense of the Indian economy were highlighted by the watering down of the language in the final communiqué regarding coal, at the hands of India and China.

India does not have a plan to decarbonize its economy, partly because economic growth remains a priority, if necessary, at the expense of the environment. As a result, in going forward, environment and carbon emissions will not be an area of smooth cooperation between the EU and India.

## Geopolitical and security reasons

Economic relations and like-mindedness are thus weaker drivers than commonly accepted for a future deepening of EU-India relations. But there is one domain where Europe and India have strong convergence: geopolitics and security.

### The Franco-Indian pattern

If Germany leads European economic relations with India, France leads on the security and geostrategic front. For 40 years, the Franco-Indian partnership walked on two legs, a military and a nuclear one, as evidenced by arms sales and cooperation in civil nuclear energy. These unique – and under-studied – relations reflect a specific approach of international relations, both countries having always been eager to retain their strategic autonomy. Another reason why France pays so much attention to India is directly related to its presence in the Indian Ocean, where it has overseas territories that are home to 1.1 million French citizens, where thousands of permanent military personnel are positioned and where its exclusive economic zone in the region is 2.7 million square kilometres.

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France’s presence in the Indian Ocean largely explains why, looking at itself as a “sovereign nation of the Indo-Pacific”, it was the first European country to adopt an Indo-Pacific strategy. In 2018, this partnership found expression in a Joint Strategic Vision of India-France Cooperation in the Indian Ocean Region and a Logistic Support agreement. These agreements gave reciprocal access to each other’s military facilities. While France and India have conducted joint manoeuvres in the Indian Ocean (and sometimes beyond) since 1983, these exercises recently reached a turning point. In 2021, the 19th edition of the Varuna naval exercises included the French aircraft carrier Charles de Gaulle for the first time. France is the only non-neighbouring country with which India is conducting Coordinated Patrols (CORPAT), a clear indication of the level of its trust in France. French officials constantly insist on the word “trust” to describe the quality of the Franco-Indian relations.

The increasingly important Franco-Indian cooperation reflects explicit apprehensions vis-à-vis China. France has worked to exert leadership in Europe to perceive India as a strategic partner on security issues, but not all EU member-states share the French perspective.

### The China factor: Europe between “balancing” and “diversifying”

While France conceives its partnership with India as a process of external balancing to respond to rising Chinese power in the Indo-Pacific, Germany thinks of India more in terms of an opportunity to “diversify” from China – an economic partner with which they are, however, eager to retain strong links. This strategy is also due to some doubts about the capability of the Indian state and the traditional German interest in cooperation and development, rather than in security-oriented strategies. As a result, the policy guidelines for the Indo-Pacific region released by the German government in 2020 avoided using the word “strategy” in its title, while it factored in the rise of China as a new, major variable, focused more on all forms of non-security collaborations and singled out ASEAN as the main partner in the region.

The EU strategy for cooperation in the Indo-Pacific released in September 2021, which reflects a strong apprehension of China that can only justify hard power links with Indo-Pacific countries, is similar in many ways. Not only is the “the centrality of ASEAN” in the region is dwelled upon (whereas India is hardly mentioned) but the emphasis is on cooperation, for instance, in terms of connectivity.

## Conclusions

The recent intensification of the Europe-India relations is unprecedented in terms of the high-profile visits, summits, and joint statements. But this rapprochement has as much to do with push as with pull factors. Certainly, the European countries are major trade partners of India and European companies have invested massively in India over the last few years. But Europeans are increasingly sceptical about India’s economic development and the possibility of a substantial free trade agreement.

There is no consensus in Europe so far about the like-mindedness between India and the “Old Continent”. While officials claim that Europe and India have democracy in common, an increasingly large number of European dissenting voices are claiming that human rights are under attack in “the world’s largest democracy”. There are also European voices that are not convinced that India is considering environmental issues as a priority.

Yet, the Europe-India rapprochement is bound to increase because of China. Both sides feel the need to join hands vis-à-vis the rising power of China. They also share some apprehensions about American reliability and want to avoid the creation again of global blocs. However, to make this rapprochement meaningful and sustainable, divisions among Europeans need to be dealt with.

The future of the relationship between Europe and India will to some extent be a function of the Chinese strategy. Will Beijing force those in Europe who would like to invent a third way to choose its camp, or will it try to be more accommodating? If the former scenario prevails, the Indo-Pacific may well be the epicentre of a new kind of cold war in which European countries and India will have to choose their camp. If they do and are on the same side, they will find they have much in common – by default. But if Europe in this context remains non-committal, India may join hands with the more active anti-Chinese powers, like the US, Australia and the UK that recently formed the Australia-UK-US (AUKUS) security alliance.

*This is an edited version of the Executive Summary of the report, [The Europe-India Balance Sheet: Trade, Like-Mindedness and Strategic Interests](#), prepared for the Institut Montaigne, a think-tank based in Paris.*