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# The EU-India Relations: A Partnership Still in the Making

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# Abstract

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The bilateral relationship between the EU and India has evolved through times with major challenges. The relationship has been established in almost all aspects of bilateral cooperation through various policy documents, bilateral summits and working groups. This paper's analysis seeks to explain how the relations have progressed over time and how successful they have been. It looks into multidimensional aspects of the relationship including cooperation at the bilateral level, in multilateral fora, and within FTA agreements. Furthermore, in an interpretative analysis the paper explains the factors that impact on the convergence or divergence of the bilateral European-Indian relationship.

**Keywords:** India, EU, strategic partnership, multilateralism, trade, engagement

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## 1 Introduction

The European Union (EU) and India are two important actors in international politics who are trying to shape the dynamics of international relations in contemporary times. Formally, the two have entered into a strategic partnership with a roadmap and a Joint Action Plan (JAP). However, the partnership does neither seem to have achieved its potential nor moving forward in a strategic way. Strategic partnerships have become a key instrument of foreign policy in a multipolar world setting both as process and format of conducting foreign relations. But in this case the bilateral engagement has not been so successful to pick up the desired momentum to achieve its potential of EU's engagement strategy with rising powers and India's quest for a greater role in global politics by alliance with the EU. This working paper will demonstrate the evolution of the relationship, since inception of their diplomatic relations until current times where free trade negotiations have been stagnated and annual summits only resumed in 2016 after a break of four years. Based on the literature review and responses of interviewees of elite circles, it draws some preliminary conclusions as to what actually holds the partnership from strengthening and achieving mutual aspirations.

The EU as a union provokes a certain level of curiosity as a global player, yet its external outreach is not very competent when it comes to engaging with countries like India, who hold their own ambition of being a global power (Kavalski, 2016, p. 193-94). While the partnership is formally labeled as strategic there are not many things worthwhile of strategic engagement. In practice the EU and India are aloof to one another with attentive focus on other international partners as China for the EU and the US for India. When it comes to international policy making, India is more of a reactionary state and there is a policy paralysis within when it comes to dealing with EU because of its complex structure (Bhagwati, 2017). In practice the EU is predominantly an economic project with complex political and economic interdependence, for India more than economic liberalism, its priority lies in issues of security, which India perceives as a constant threat from its neighboring countries. The four wars since 1947 with Pakistan and China reaffirm the centrality of hard power for India and much of India's energy and capacities in international

affairs is focused on issues of security over other things. As a result India's engagement preferences with the EU are dominated by bilateral engagement with powerful member states of the EU (e.g. Germany, France, UK, and Italy). It would not be inappropriate to say that defense, security, and territorial integrity have received a disproportionate share of attention from policy makers and media in India over any other issues. Unfortunately, these are also the policy fields in which the EU lacks competence and clout. As a result, India is more concerned with its affinity with and relations to individual member states of the EU than with the EU at large. The US, Russia and Israel, in particular, confirm much more to the political and policy preferences in India than the EU does.

## 2 Evolution of the Relationship

The relationship between India and the EU has grown since its inception and expanded significantly in the post-Cold War era where the two players have started to consider themselves as key actors in international relations responsible for shaping the dynamics of multilateralism in the twenty first century. For quite some time now, the EU has been an important partner in consideration for India's foreign policy; this stems from the fact that India was one of the first developing countries to establish diplomatic relations with the European Economic Community (EEC) in 1962. However, during these initial years of bilateral diplomatic relations, Indian policy makers were skeptical and paid less attention to the bilateral engagements as the EEC made only minor attempts to evolve a policy towards developing countries or independent former colonial states.<sup>1</sup> Instead, the EEC was too occupied with its internal issues of enlargement, negotiations and establishment for an effective common and single market (Jain, 2011 : 223). It was clearly understood by the Indian establishment that this new diplomatic relationship would not undermine the growing bilateral engagement and relations of India with individual member states like

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<sup>1</sup> This, however, culminated in the Yaoundé, Lomé and Cotonou agreements with former European colonies from Africa, the Caribbean, and the Pacific but excluding India.

Germany, France, Italy, Netherlands, Belgium and Luxembourg. This principle of stronger engagement with member states was maintained as the EEC expanded from six to the current twenty nine states while transforming itself into the EU from the EEC with unequivocal emphasis on principles of subsidiarity, citizenship of the union and respect of human rights (Abhyankar, 2009:65). It is the post-Cold-War era that the partnership took its momentum from. The end of the Cold War marked a significant change both for the EU and India as both regions have proceeded to important structural changes. The EEC transformed itself through the Maastricht treaty to become a more stable and integrated single market, including a common currency for some of its members. At the same time, the Indian economy progressed towards its first stage of economic liberalization, opening up the economy for increased private and Foreign direct investment (FDI) to enhance global competitiveness. During the Cold War, the Soviet Union had been the most important and trusted partner of India in matters of trade and security. India's international trade and security was highly dependent on the Soviet Union until the latter's break-up. The collapse of Soviet Union led to a considerable decrease in India's international trade and economic output and also undermined the fundamental idea of a state planned economy (Chopra & Bhattacharya, 2002, as cited in Winand, 2015, pp. 141-142). The end of the Cold War meant that both the EU and India no longer viewed their bilateral relationship through the lenses of their respective relationship with the Soviet Union. India became an interesting and progressive country with its economic liberalization, increasing diplomatic relations, rapprochement with the United States of America (USA), and its elevation to a nuclear power since the middle of the 1970s. India rejuvenated its foreign and economic policy by shedding its ideological baggage of closed socialistic economy plus its dependence on Russia. This was also the time when Cold War era agreements between the EU and India were overhauled and political dialogues were upgraded based on multilateral institutional structures that had emerged on both sides by entering into a cooperation agreement in 1994. A wide range of cooperation frameworks were set up with joint working groups on issues such as energy, security, technology, trade finance, and human rights. The European Parliament report of the committee on external economic relations between the EU and India argued that the

existing 1981 agreement for commercial and economic cooperation between the two no longer met the requirements in light of political and economic developments in South Asia and in the European Community. It welcomed the commission's efforts for broadening the agreement and calling upon to work out terms for conclusion of a wide range of cooperation agreements with India (European Parliament, 1994) Along with this came the EU's new Asia strategy. The EU came to realize that Asia was on the rise, providing a huge potential for changing the world balance of economic power and global governance (European Commission, 1994).

With the opportunities and challenges that emerged along with the ongoing geopolitical changes, the EU also reconfigured its Common Foreign and Security Policy (CFSP). Post 9/11, the EU came to realize that its foreign policy needed a newly focused approach on partnerships. Against the backdrop of the Iraq war in 2003, the EU focused on formulating a coherent approach to peace and development by articulating the European Security Strategy (ESS). A partnership with rising powers like India was identified as a way to move forward. Both sides shared similar beliefs and understandings of democracy, rule of law and stable international order, multi-polarity and multiculturalism. Based on such common understanding, the EU pushed to transform its relations with India in 2004 by establishing a Strategic Partnership at the Hague Summit (Bava, 2008, 2010; Sachdeva, 2015; Wagner, 2008). However, this partnership has not achieved its full potential. Taking it to higher levels of cooperation and understanding at the sixth annual summit held in New Delhi in 2005, both parties signed a Joint Action Plan (JAP), which set out a fundamental roadmap for bilateral interactions and cooperation in different sectors. This was further revised and updated in 2008 covering broader aspects of cooperation including trade (Global Partners for Global Challenges: The India-EU Joint Action plan, 2008; The India-EU Strategic Partnership Joint Action Plan, 2005). In 2006, within the framework of the JAP, the EU and India set up an annual security dialogue by forming the Joint Working Groups (JWG) to work together on issues of counter terrorism, cyber security and counter piracy (Country Brief: India-EU Relations, 2015).



### 3 The Strategic Partnership

In 2004 the EU adopted a communiqué which proposed to build an ambitious strategic partnership with India. The communiqué identified the need for a strategic partnership with India based on its growing influence in multilateral fora and in the region. It was mainly based on predictions and calculations of India's economic growth, which showed India as a potentially large player in the global economy in the years ahead. The partnership document produced by the EU Commission showed a series of concrete steps to strengthen the bilateral relationship in five areas:

- improving international co-operation through multilateralism, conflict prevention and reconstruction, non-proliferation of weapons of mass destruction, fight against terrorism, human rights and stability in South Asia,
- strengthening of economic partnership through sectoral dialogues, trade and investment promotion, and management of financial and monetary affairs,
- development cooperation through aiding in achievement of the Millennium Development Goals (MDGs), and reducing economic and social disparity,
- mutual understanding through parliamentary and cultural exchanges,
- improvement of institutional architecture of both regions through different levels of bilateral meetings, summits and working groups.

Today, India has strategic partnerships with all major global powers, but it is only with the EU that a formal statement in the form of a JAP was signed by both parties. The main objective of this strategic partnership was to put an emphasis on effective multilateralism in global governance, which would reassert the role of Europe within the international structure and boost India's ambition of having a greater share in international governance. The partnership was well-designed covering the relevant general principles of strategic partnerships based on sovereign equality with a greater role beyond security, cooperation in international fora, high consultations, adherence to international conventions and treaties, and commitment to promote universal observance (Abhyankar, 2009). The

strategic partnership geared up into action with approval of the JAP in 2005, which contained a joint vision for the upcoming years. The horizons of the JAP were broadened three years later during the ninth summit. The revision identified new areas of cooperation, which were related to promoting peace and comprehensive security, sustainable development, research and technology, and people to people cultural exchanges.

Over the years with the strategic partnership and the JAP there has been progress in some areas with increased exchanges in trade and finance, people to people cooperation, technical cooperation and development assistance. However, this is not sufficient to acknowledge and label the partnership as being strategic in a real sense. The real success of strategic partnership lies in mutual interdependence between each other in issues of trade, finance, technology, alliance in multilateral platforms and acknowledgement as sovereign equals sharing common values and ideals without any imposition on the other. The strategic partnership project managed to raise high hopes of bilateral cooperation by producing a number of declarations and summits. These declarations include a list of ambitious goals and cooperation measures but brought forward only limited tangible results. Constructing an effective multilateralism was one of the core reasons for the establishment of a strategic partnership. Despite many such intentions and talks, there is little evidence of cooperation in multilateral fora such as the UN, WTO, and climate change bodies. The respective positions completely diverge on issues of UN reform, climate change and especially on the WTO to conclude the Doha round of trade negotiations. India upheld its different position by being critical on the EU's role in Libya and in the Syrian conflict. Maintaining its relationship and balance with Russia, India abstained to comment on the Crimea crisis. Both sides failed to establish a closer partnership and joint approaches on strategic issues, such as on Afghanistan and Myanmar, where they are independently involved at high levels. Even on issues of understanding of global governance and institutional architecture, Europe talks about promotion of global human rights and democracy, while India is insisting on democratization of international organizations and national sovereignty on domestic issues (Kugiel, 2015).

The difference in cooperation continues to exist based on the divergent structure and philosophy of both regions, while some major items are still left out or are allocated little importance in the strategic partnership. The latter include:

- India's relation and role beyond South Asia in ASEAN, north, west, central and east Asia,
- Exclusion of deeper defense and military cooperation with acknowledgement of India's role in non-proliferation of nuclear weapons,
- Not much of a focus on mechanisms of cooperation to combat counter terrorism (Abhyankar, 2009, p. 401).

The 1994 cooperation agreement defined the institutional structure and the Lisbon summit of 2000 established meetings at different levels in most areas of cooperation. The current key challenge of the partnership lies in its inability to find a manageable set of issues which demonstrate strategic concern, vision and which could be worked upon (Kavalski, 2016, p. 202). The features of interaction since 2010 have been more diverging than converging and a major flaw of the strategic partnership and the JAP is that they come without binding guidelines which render them easy to use or dump as per convenience. To be an effective partnership, there has to be a much clearer view on implementation and effectiveness.

#### 4 Economic Relations and FTA Negotiations

Both the EU and India are among the world's largest economies, and they are critical players in several key issues including financial markets and trade, security and climate change, poverty alleviation and energy supply. Since the 2010 Lisbon Treaty along with the European integration, the EU has become the world's largest economic block based on purchasing power parity (PPP) with its own currency and diplomatic service. However, the economic structure of the EU has changed in the last three to four decades. While the low-end manufacturing component has gone down, there has been a substantial increase in

knowledge-based economic activities. The EU holds abundant finance capital, IPR and patents. India has resources coupled with manufacturing potential, also aided with a good demographic dividend for now and the future (Memodovic & Lapadre, 2009). This offers a reliable synergy for further strengthening of trade ties. These very complementarities of the markets have, and will keep providing, new opportunities for trade and investment engagement. At this juncture, one may point out that Europe's position as the most important economic area in the world is gradually being challenged by rising economies like India and China that have been growing faster than the EU over the last 20 years (Kappel, 2011).

At 1.25 billion people, India is the second most populous state, and largest democracy in the world. With an annual GDP growth rate in excess of 7% for over a decade it is now in the world's top ten of the largest economies. As such, India is an important trade and investment partner for the EU combining a sizable and growing market with a growth rate that makes it one of the fastest growing economies in the world, arguably the fastest among the big economies. The EU remains one of India's most important trading partners. The EU-28 international trade with India in goods, services and FDI stock in the year 2012 amounted to Euro 155 billion both ways (Eurostat 2013). The EU-India bilateral relations are still dominated by economic and trade issues (Wagner, 2008), however, a deal for deeper economic cooperation has been negotiated over the last ten years without success. Two-way trade in goods between the EU and India reached € 77.3 billion in 2015, that is € 211 million per day.

## EU-India trade in goods (2007-2015)

In billion Euro

Year	Import	Export	Balance	Total trade	% Change
2007	26.2	29.4	3.2	55.6	20.1
2008	29.4	31.5	2.1	60.9	9.5
2009	25.3	27.0	1.7	52.3	-14.1
2010	33.2	34.0	0.9	67.1	28.3
2011	39.9	40.4	0.5	80.3	19.6
2012	37.2	38.4	1.2	75.6	-5.8
2013	36.8	35.8	-1.0	72.6	-4.0
2014	37.0	35.5	-1.5	72.5	-0.1
2015	39.4	37.9	-1.5	77.3	6.6

Source: Eurostat

In the year 2006, as part of the “Global Europe” initiative, the EU initiated talks with large and rapidly growing economies around the world, aiming at increasing competitiveness of companies based in the EU, stronger engagement with emerging markets and minimizing all kinds of trade barriers (European-Commission, 2006). Against this backdrop, both the EU and India have been negotiating a trade agreement since 2007, which is considered as the high point for the Strategic Partnership. The EU and India hope to increase their trade in goods and services, as well as investment through the negotiations for a free trade agreement (better known as Broad-based Trade and Investment Agreement – BTIA). Bilateral trade agreements have been playing a crucial and incremental role in the global political economy, and almost every country currently participates in at least one Preferential Trade Agreements (PTA). For India, the EU could offer vital opportunities in terms of technology sharing and know-how, providing high-level synergies in sectors, where

EU companies are world leaders - this includes infrastructure, transport, telecom and basic industry. This wealth of experience and knowledge means that the EU has much to offer to India in its quest to grow -- from large-scale infrastructure projects to world-class experience in service sectors (that are crucial to modern-day economies), and from cutting-edge Research and Development to regular business partnerships.

A number of studies, looking into the pros and cons of a bilateral FTA, have been conducted and its implications measured. However, the results were mixed at best. With positive results and optimism about the impact of a FTA on the Indian economy, ECORYS 2009, employing CGE modelling and a gravity equation approach, calculated high economic and welfare benefits in sectors of production, wage, trade, health, employment, poverty and environment. India was expected to gain € 4.4 billion in the short run and €17.7 billion in the long run, whereas the EU is only expected to have €4.4 billion short term and € 1.6 billion long-term gains. It calculates an average increase of 10.3% in export value from India to the EU and 0.39% vice versa. The social impact turned positive for India, with better results in poverty reduction, increased wages, real income and employment generation (ECORYS, 2009). On the contrary, some studies showed net effective losses for India, especially considering the developing status of the country. There is a larger risk for sectors of small-scale farming, small and medium enterprises (SME'S) and wage workers in committing to high de-regulation and liberalization for India. Bilateral FTA's with developing countries tend also to diminish flexibility to implement national policies (Polaski, Kumar, Mcdonald, Panda, & Robinson, 2008; Powell, 2008). The CENTAD 2007 report finds that India will have net loss revenue in goods export due to elimination or reduction of tariffs, although gains are expected through service liberalization. India will incur a welfare loss of USD 250 million, and the EU trade with India will grow by 56.8%. However, the exports from India to the EU will only grow by 18.7% (CARIS-CUTS, 2007; Powell, 2008). Achterbosch et al. (2008), employing a computable general equilibrium (CGE) model, calculate that the impact of tariff reductions under a possible EU-India FTA will involve potential losses for India. The findings of their study also show that India has little to gain from concluding an FTA with the EU if it

merely involves tariff reductions in trade. On analyzing the FTA between developing and developed regions, especially in the Indian context, it is argued that the gains from bilateral trade agreements are only little and modest. For India, multilateral liberalization through the WTO results in a better economic and welfare situation than any bilateral trade agreement with the EU, US, or China.

At present, talks have stalled due to diverse interests of different industries, governments and partner countries that are involved. The interest on the Indian side is to enhance its market access for goods (mainly textiles, clothing and pharmaceuticals) and services to the EU markets through elimination of Non-Tariff Barriers (NTB's) in almost all sectors. On the other hand, the EU has a dual motive of achieving its objective of a 'Global Europe' strategy allowing European firms access to rapidly growing but highly protected Indian Markets, especially in sectors of banking/finance, government procurement and automobiles. The EU's views are based on first, the Indian economy, which has grown at an average rate of over 7 per cent per annum and will likely continue to grow. Trade in goods and services between the EU and India will also increase. Second, the purchasing power of the burgeoning middle class makes India an attractive and potentially large market for European firms (Khorana & Perdakis, 2010).

The aim was to conclude the agreement in 2011, but there have been major concerns on both sides prompted by limited information that has emerged from the ongoing negotiations about different aspects of inequality, market access, IPR's, agriculture, and environmental concerns. The trade agreement agenda has raised many concerns of both technical and political nature, attracting continuous attention, criticism, reflections and protests from various sections of stakeholders ranging from industry to civil society. By now twelve formal rounds of negotiations and many technical meetings and discussions have taken place between the European Commission and the Indian government. Discussions have resumed in January 2016 with the purpose of assessing and finding solutions that are mutually acceptable to achieve an ambitious outcome, which would give an important boost to this

trade deal. The idea is to make sufficient progress to get a breakthrough in key outstanding issues before formally resuming negotiations (European Commission, 2016).

To help overcome or escape from the long-term economic malaise, the EU economy requires sustained economic growth. India too requires high growth rates to keep it on the road to economic reform. Since the global financial crisis in 2008, no conventional economic policy tools appear to be available, neither in the EU nor in India, to generate the required growth rates. If fiscal and monetary policy cannot be used to generate the economic growth required, then exogenous factors must be harnessed. One such exogenous factor is the opportunities that could arise from restructuring to take advantage of economies of scale through trade agreements. A preferential FTA between the EU and India, which is able to deliver in terms of ambitious liberalisation, may well have sufficient economies of scale embedded in it to provide the growth required to both shake the EU out of its economic malaise and secure India's further transition. The proposed agreement is thus politically and economically crucial—not only would it create greater confidence in the EU, strengthen its role as a global actor, and revive market confidence in the ailing Eurozone, a successful conclusion will also increase both partners' global competitiveness. Moreover, the combined weight of India and the EU, representing more than a fifth of total world population, could lead to an FTA representing the largest number of people ever assembled, suggesting that the FTA has the potential to set into motion a large and extensive economic change (Khorana, Perdakis, & Kerr, 2015; Sengupta, 2012).

## 5 Preliminary Analysis: What is holding the partnership back?

Although India and the EU share a lot of common values, those shared values have never been able to translate into shared interests. Since 2004-05, the relationship has not received any new dimension or impulse that would be significant enough to create a vibrant and enthusiastic outlook. There has been sluggish implementation of the JAP annual summits since 2000, with a few misses in-between. Since 2016, however, both sides have been coming



up with similar and recurring documents albeit without any significant addition or new substance that could be implemented on a priority basis (Muenchow-Pohl, 2012). Parliamentary exchanges began with the setting up of a South Asia Delegation in the European Parliament. A separate India Delegation was established in September 2009 to reflect upon the strategic partnership. The Indian parliament also set up a 22- member Parliamentary Friendship Group for Relations with the European Parliament in June 2008. However, with diplomatic relations going back to 1963, and being strategic partners for that long, things have not yet met expectations. Above all, this paper tries to outline below some explanations as to why there has been no deepening cooperation between the two regions.

### 5.1 Interplay of Interest Groups

The number of interest groups (both structured organized and non-organized) has increased sharply both in India and in the EU since 1990. Even though economists have been advocating free trade for over two centuries, trade policies between the two regions have always had an element of import and export protection. Within the framework of multilateral and bilateral trade arrangements and negotiations, there is a relationship between interest groups (lobby units) and the government on “protection for sale”. The interest groups want to secure welfare for themselves or the sector they represent and they intend to influence the government to buy and/or to maintain protection.

The government acts as a seller of protection aiming for maximization of aggregated welfare of various groups and stakeholders, thereby taking multi-dimensional interests into consideration (Grossman & Helpman, 2002). Constituencies formulate requests for the government, which the government seeks to satisfy by buying protection for those interests as the government depends on certain constituencies for re-election. This continuous process of formulation and fulfillment changes over a period of time, and the demand formulation becomes very heterogeneous by being highly influenced by export or import industries or market forces to favour more protection or free trade (Bievre & Duer, 2005).

When it comes to the context of EU-India trade negotiations, interest groups play a decisive role in shaping the agreement. Primarily, agricultural issues are a highly contested and important terrain as India is highly dependent on the agrarian economy. Indian politicians seem to have remained very sensitive to agricultural issues, considering e.g. tariff reductions for dairy products (Woulters, Goddeeris, Natens, & Ciortuz, 2013). Although the Indian agricultural lobby groups are not as organized as those in the EU, they have been central to Indian electoral politics along with other NGO's, opposition political parties, and other interest groups. Another strong interest group in the bilateral trade is the pharmaceutical industry and the supply of Indian manufactured generic drugs to the developing world. The recent cancellation of trade talks between the EU and India in August of 2015 must be read against the backdrop of a ban on 700 generic medicines manufactured in India. This case shows how influential and strong certain interest groups are in trade negotiations and deals. Similarly, contrasting opinions are seen in the case of the automobile industries in both the European and Indian industry. While associations in the former are advocating a trade deal by tariff elimination and trade liberalization, the latter strongly opposes the entry of duty free European automobiles and parts, stressing the contrary nature of an FTA to the 'make in India' initiative. Likewise, there are many forces at play pushing for partial or whole exemptions in an FTA.

## 5.2 India's Westphalian and Realist View of State

India has a predominant Westphalian realist view in matters of international relations. This understanding of international relations is not only exercised by India but also by other developing economies in Asia and in the developing world. The major reason why the realist view is dominant in India is due to its geopolitical realities, as it is surrounded by Pakistan and China with whom relations have been constantly hostile, having fought four wars with its neighbours since independence. These relations with Pakistan and China seem to be deteriorating, forcing India to allocate priority to its security and military developments over neoliberal trade deals and postmodern forms of governance cooperation. Though India and

the EU agreed on taking forward the dialogue established in 2004, on disarmament and non-proliferation in strategic partnership India's interaction with the EU is more along the lines of a realist view as it has signed nuclear agreements with the US, France, Australia, Russia and other countries for nuclear technology cooperation and uranium supply even after the year 2004 (Wülbers, 2011). In practice, the EU has been traditionally more of an economic and normative power than a military one. The European peace project launched in the 1950s was based not on military capabilities, but on a complex and growing economic and political interdependence. In India, the experience of the 1999 Kargil War with Pakistan reaffirmed the centrality of hard power in world affairs, and the understanding that the preservation of the bulwarks of sovereignty and the pursuit of narrow national interests are key aspects of any international interaction (Emilian Kavalski, 2015).

The neo-liberalists in India argue that with the end of the Cold War and bipolarity, states are no longer polarized along geopolitical lines. Trade and technology have become the center of international politics and key drivers of international relations. The strongest indicator of external influence has shifted from military capabilities to trade measures and technological competence (Bajpai, 2003). However, India still has a dominant realist view of the world, and this was reaffirmed with India's proximity to the US, especially after 9/11. India has a long history of having to deal with and to fight terrorism. Post 9/11, the US became more sympathetic towards India's war on terrorism, which enhanced the bilateral defense and military cooperation. For India, terrorism, breeding right outside its sovereign boundaries, is its primary concern, inseparable from its conventional security interests. This provides the main focal point of reference for India's political co-operation with other global players. Along these lines India accuses the EU of leniency towards Pakistan and deplores the EU's infatuation with China, thereby relegating a successful trade cooperation with EU to second rank at best (Muenchow-Pohl, 2012, pp. 29-30). As a collective entity the EU has less to offer to India and vice versa in terms of defense and military cooperation, which is considered as more important by the latter. Considering the geopolitical situation, India focuses mainly on

power status and military strength, whereas the EU is on a long established trajectory of strengthening economic, domestic, and global institutions and forms of cooperation.

### 5.3 India's Strong Bilateral Relations with Member States of the EU

In 1993, the European Union was formed—but its member states had conflicting attitudes towards India. As a result, the relationship between the EU and India has vacillated between distrust and misplaced expectations. It did not reach the next level of synergy and cooperation despite India's explicit interest. Over time, it became much easier for India to develop closer ties with individual European countries.

India took little interest in the movement for European unification during the first years of Indian independence. The European Economic Community (EEC), the predecessor to the EU set up in 1957 under the Treaty of Rome, was remote from Indian concerns. There were no statements by the Indian Government or any references to it in debates in the Indian parliament until the United Kingdom expressed its intention to apply for membership to the Common Market in 1961 (Jain, 2011).

India's bilateral relationship with member states of the EU dominates the EU-India relations. The EU- India bilateral trade, including, goods services and FDI stock, figured around 142 billion Euros in 2014 (Eurostat). The largest trade volume is attributed to Germany, Belgium, France, UK and Italy. India's trade with East Asia (including China) had overtaken the EU as largest trading partner. The 28 member block is of lesser significance and only countries like Germany, Belgium, France, UK and Italy account for most of the trade volume, investment and technological transfer. Strong trade relations with individual member states go back to historical reasons. India is a member of the Commonwealth of Nations and owing to its colonial past and legacy it has developed the strongest relations with the UK. Since Maastricht 1992, the EU claims to have a common foreign policy, however, this is not a single foreign policy of the Union. Foreign policy of the EU is more what member states exercise for their own benefit. India also prefers to deal with member states over the Union for crucial

matters. A struggling bilateral relationship with the EU is not due to a lack of efforts on both sides of government but due to the fact that the area of convergence in cooperation is still evolving in the multilateral and bilateral arena. Initially, India had concerns and reservations about foreign policy statements of the EU at the United Nations, as it was just a statement (only a prior discussed paper with member states) and not a foreign policy document of the Union. This view changed with growing multilateral cooperation and agreements (Ram, 2013). However, as the European Union is overlapping the bilateral relationship between its member states and India, the former tends to be perceived as a distant thing which seems far from reality in the immediate future due to the lack of coherence in the EU regarding foreign policy issues. Understanding India and its needs is a very complex issue for the EU and vice versa. The Indian side is using an Anglo-Saxon lens when looking at the EU. It is predominantly the British and the American media that shape perceptions of the EU in India. Small circles in Brussels drive the relationship with India. These circles are the ones with a substantial economic stake in India, comprising three big countries (i.e. the United Kingdom, Germany and France). When there is any push required in bilateral or international negotiations, the consultation is first done with these big three to move things forward (Jain, 2011 : 226). In the same context, one high-level bureaucrat from the EU mission in India opines that India feels the need too to consult with these three member countries of the EU before any consultation with the EU's mission in India. Even though trade agreements do fall in the absolute competence of the EU, a prior bilateral consultation is preferred. These representations of the three countries in India have a direct hotline to the Ministry of External Affairs (MEA) of India, a privilege, which the EU is devoid of.

#### 5.4 Different Governance Mechanisms

India and the EU have a different style of governance. The EU is a political union of 28 sovereign member states where the members have parted with a portion of their sovereign powers handed to a bureaucratic organization for collective governance. India is a federal country with 29 states governed by elected governments and parliaments. When it comes to

dealing with different external and internal matters, there is a different level of autonomy between member states and of the EU and Federal States of India. All matters of foreign policy and foreign trade are exclusively handled by the Indian central government, whereas member states and the Union have a shared opinion in trade and foreign policy in the EU.

The European Commission has exclusive authority to negotiate trade agreements with any country or region. There is a close cooperation between the Commission and the Council during and prior to initiation of trade negotiations with which the parliament has little to do. The European Parliament is institutionally excluded from the agenda setting process, due to which the trade negotiations are largely void of normative concerns. The focus lies only on economic growth overlooking economic development (Leeg, 2014). The parliament is left with the limited role of ratification, which is a new power. From the Indian side the trade negotiations are mainly dealt with by the Central government of India and much of the negotiation process is secretive. However, the opposition has a strong voice as India has a parliamentary form of governance, and the parliament has direct influence in the ongoing negotiations and foreign deals. India also has a complex structure of multiple ministries negotiating one aspect where the two ministries are not necessarily of the same understanding. For instance, the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce negotiates the investment chapters; while the Ministry of Finance negotiates investment agreements.

Furthermore, in this style of governance India is regarded as a 'modern state' with strong emphasis on territorial integrity, sovereignty and exclusive competence of central government to deal with external affairs. In contrast to this, the EU exemplifies a postmodern state, which has a high degree of mutual interdependence and interference in each other's domestic and international affairs. The style of governance and interference is through complex organizations that are over-institutionalized and over-bureaucratized. This creates inherent discomfort for modern India to deal with postmodern Europe (Sidhu, 2015). For an Indian policy maker, the EU is complex to deal with because of its rotating presidency, rigid

regulations and EU bureaucrats carrying duality in approach (one of the country they represent and the other of the pan-EU policies and perspectives). With a complex bureaucracy and a lack of clarity of EU policies vis-a-vis member state policies, India is more comfortable to deal with issues bilaterally (Bhagwati, 2017)<sup>2</sup>. As a result, there is a high preference for dealing with bilateral issues among individual countries from both sides.

### 5.5 Disparity in Economic Development and Trade Volume

The magnitude of economic and technological cooperation is immense between the two, especially in the fields of trade and investment. The trade volumes between the two regions depend on many factors, including economic size, bilateral trade (geography, interests etc), level of infrastructural development, disposable income of individuals and public bodies, political institutions, form of governance, and economic performance of regions. Free trade agreements increase volumes of international trade. A wide range of considerations are taken into account when countries engage in regional or bilateral trade agreements. These considerations are mainly concentrated on security arrangements, access to market, domestic policy reforms and leverage, and influence in multilateral governance (Whalley, 1998). Within all of these the Indian side is of the opinion that “the EU should realize the standard of economic development, labor force requirements, level of Indian living standards and its developing standards before forcing upon India non-tariff, environment, labour and human rights standards” (Jaiswal, 2017)<sup>3</sup>. A mutual non-recognition of each other’s standards has caused large percentages of trade to fall down in recent times though the EU still remains India’s largest trading partner.

When countries are at a higher level of economic development, the overall trade and investment volume between them tends to be higher. The higher the stakes involved in trade

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<sup>2</sup> Jamini Bhagwati was Indian ambassador to the Commission of European Communities and to the Council of the European Union from 2008 to 2012.

<sup>3</sup> Randhir Kumar Jaiswal is the current joint secretary at the European West division in the Ministry of Foreign Affairs, India.

and investment, the higher is the necessity and push to enter into trade arrangements and a strong and effective partnership. The EU and India are two large economies with varied levels of economic development. India ranks among the largest economies not because of a high level of economic development but because of its geographical and demographical size, which provides a large market base. In contrast to its economic weight, India lags behind both in economic and social development with an HDI index of 131 (out of 188 countries) in 2017. Although the Indian economy has recently grown by over 7% per year, most of this growth is contributed to by domestic consumption rather than exports. With the global economic slowdown over recent years, bilateral trade and export has hit its bottom low. The existing levels of foreign trade engagement and the diverse economic development do not create significant interest in stakeholders to push and move towards a conclusion of the trade agreement or deeper economic ties.

## 6 Conclusion and way forward

Despite being proclaimed strategic partners, there has been a gap in continuation of political dialogue between 2012 and 2016. With a slow improvement in relations the dialogue resumed in 2016, however, both sides are yet to come to an understanding on how to take the political and economic relationship forward. In the period between 2012 and 2016 the relationship was upheld by various issues like the crisis over Italian Marines arrested in India, mistrust towards the newly appointed Indian prime minister in some European countries, and differences over trade agreements and disputes over Indian exports of mangoes and pharmaceutical products to the EU. The EU's visibility in India was suffering because major EU member states, like the UK, France and Germany, have maintained substantial bilateral relations with India, even in areas where common European policies are agreed upon. Europe does not present a united front vis-a-vis India. The Indian establishment opines that the six months rotation of the presidency in the EU does alter the agenda way too often, thereby jeopardizing the creation of durable interests and common actions.



After independence India had adopted a policy of Non-Alignment, but the structural implications of the Cold War meant that India's foreign policy had to choose sides, leading to the Indo-Soviet Treaty of Peace, Friendship and Cooperation in 1971. All of this had an impact on relations with the West (Aggarwal & Mukherji, 2008). The balance of payment crisis of 1991 made India transform its inward looking economic policy and also led to a shift in India's foreign policy engagement. Improved relations with Europe started to look more attractive. With the end of Cold War both India and the EU emerged as new actors. The EU's 1994 Asia strategy, which was launched against this backdrop, aimed to enhance trade and investment relations as main vehicles for social and political changes and for a better positioning of Europe in the newly emerging world order. Following the Asia strategy there was profound trade and investment engagement of the EU with East Asia and China, but India did not receive similar attention. While the 2005 Joint Action Plan detailed the strategic partnership and emphasized the political engagement, it is the economic dimension of this partnership, which is the most important component of foreign policy identity for both parties. With a trade agreement the strategic partnership will have more relevance and value added for both sides. The persistent huge differences are mainly due to the fact that both regions are neither equally developed nor expecting similar gains from the expected FTA. However, social, political, technical and economic concerns notwithstanding, the results of this trade deal are going to be beneficial for both regions as this agreement has the potential to unlock developmental and economic requirements on both sides.

Despite the emphasis on shared objectives and common challenges, the EU and India appear to have drawn different conclusions from the experience of the first post-Cold-War decade. They have espoused not only distinct, but also divergent visions for the twenty-first century. It took 30 years for India to upgrade from a 'non-associable' to become a 'strategic partner' of the EU. The challenges ahead are mainly located in the need to re-start the complicated free trade negotiations. Priorities should be set for mutual economic gains over other issues. For this the high level meetings and annual summits must continue and new areas of cooperation need to be continuously explored.

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