



## Executive Summary

The increasingly intense relations between Europe and India are one of the most significant – and yet largely undervalued – developments on today’s international scene. Never before had the relations between the EU and India been as warm as today, and the same observation applies to several European

countries. These countries, however, belong to three different categories:

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

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

### What economic potential?

When trying to assess economic relations between Europe and India, the word “potential” keeps coming back. If, in recent years, the EU has indeed become India’s first or second trade partner, the country only represented less than 2.5% of EU trade in 2020 and ranked only 9<sup>th</sup> or 10<sup>th</sup>, trailing well behind China (16.1% of EU trade), the USA (15.2%) and the 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 USD 19 billion in 2016-17 to about USD 21.5 billion in 2019-20. But the volume of trade between Germany and China is, at USD 182 billion, 8 times more important than 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. The EU and India officially decided to launch negotiations for a Bilateral Trade and

Investment Treaty in 2006. 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, intellectual property regime (in the pharmaceutical sector especially), child and bonded labor, data security and transparency laws, access to the European services market and visas for Indian professionals.

The resumption of trade negotiations has been decided at the 2021 EU-India Summit but these issues have not disappeared overnight. 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 India’s withdrawal from the Regional Comprehensive Economic Partnership (RCEP) and Brexit. Trade talks may be even more complicated this time because of India’s growing protectionism and uncertainties regarding the protection of personal data.

### Is post-Covid India still an attractive, emerging market for Europe?

European companies – including German firms selling consumer goods – express their skepticism vis-à-vis 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. Whether this last trend 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, remains to be seen. This view should be given serious consideration by the Indian government when conducting trade and investment diplomacy with Europe and when conducting outreach to European companies.

### An 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 plea of religious minorities, the condition of Kashmiris, freedom of expression (with special references to the media) and the situation of NGOs in India. The parliament was divided, but the

only MEPs who did not vote in favor 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)”, a 2019 law denying access to Indian citizenship to Muslim refugees from three neighboring 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 their governments will no longer be in a position to ignore human rights issues in case of further deterioration.

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

The reference to like-mindedness also applies in official discourses to the new priority that climate change represents for the EU and India. During the COP21 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 (INDCs), under which it pledged to improve the emissions intensity of its GDP by 33-35% below 2005 levels by 2030. India’s objectives remain the same today. The strategy to achieve the first two relies primarily on the development of renewable energy. At the COP26, Prime Minister Modi announced that India has set the target of net zero carbon emissions by 2070. India also updated its Intended Nationally Determined Contributions 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 tons, among others.

However, coal remains very important and continues to be promoted by the government. In 2019, more than 77% of the electricity generated were 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 to fossil fuel remain more substantial than those in favor of renewable energies. Prior to COP26, interviewed experts were already somewhat skeptical about India’s ecological commitment: New Delhi rejected the G7 objective on net-zero emissions by 2050 in a July 2021 G20 meeting, and missed a key preparatory meeting for the COP26 in London. These doubts were only furthered following COP26, where the centrality of coal and unwillingness to take further environmental action at the expense of the Indian economy was 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, at the expense of the environment if necessary. As a result, going forward, environment and carbon emissions will not be an area of smooth cooperation between the EU and India.

### **Joining hands with India for geopolitical and security reasons**

Economic relations and like-mindedness are thus weaker drivers for the future deepening of EU-India relations than commonly accepted. 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. This unique – and under-studied – relation reflects 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 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 kilometers large.

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 reached a turning point lately. In 2021, the 19<sup>th</sup> edition of Varuna naval exercises included for the first time the French aircraft carrier Charles de Gaulle. France is the only non-neighboring 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 with which security issues matter, 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 skepticism vis-à-vis the capability of the Indian state and the traditional German interest in cooperation and development, rather than security-oriented strategies. As a result, the *Policy guidelines for the Indo-Pacific region* released by the German government in 2020 – avoiding the word “strategy” in its title –, while it factors in the rise of China as a new, major variable, focuses more on all forms of non-security collaborations and single out the ASEAN as the main partner in the region.

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

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## RECOMMENDATIONS

Their shared apprehension vis-à-vis China is the main driving force of the rapprochement between Europe and India, rather than economic factors and the so-called “like-mindedness”. This common concern may – to some extent – help trade talks and obliterate human rights issues, but in each domain, including the security-related one, specific recommendations can be made for a deeper and more sustainable Europe-India rapprochement.

### RECOMMENDATION #1

The EU should meet India’s expectations regarding visas for professionals by opting for a policy of talent-driven migration. India, for its part, could defuse European apprehensions regarding its multifaceted forms of protectionism by revising tariffs on key commodities.

### RECOMMENDATION #2

The EU and India could play a major role on the global digital scene if New Delhi passed a Personal Data Protection Bill similar to the European General Data Protection Regulation.

### RECOMMENDATION #3

To reduce the communication gaps on political and societal values, people-to-people relations should be promoted with a priority placed on more intense student exchanges and cooperation between civil society organizations. NGOs with a presence in both Europe and India, such as Amnesty International, could be invited by the EU and the Indian governments to initiate a dialogue with other representatives of civil society in Europe and India. These interactions could be part of the EU-India Bilateral Human Rights Dialogue or could take place separately.

### RECOMMENDATION #4

The common concern regarding climate change that Europe and India are articulating should find expression in joint efforts going beyond transfers of technology or financial aid: environmentalists of both sides could be invited to increase societies’ awareness of challenges as well as solutions. Here again, civil society organizations have a role to play.

### RECOMMENDATION #5

Different forms of partnership need to be explored by the EU and India in order to neutralize rivalries and explore complementarities. While India may become a strategic partner of the EU to balance China, it may also help the EU to diversify its sourcing and contribute to alternative forms of diplomacy. For instance, in the pharmaceutical industry, not only could India and Europe cooperate to reduce their dependence on China in the supply chain, they should also emulate the Quad and introduce a similar division of labor where India would produce the vaccines European countries could distribute throughout the Global South.

### RECOMMENDATION #6

If the EU is the best format to address supply chain issues, conduct trade negotiations and engage in vaccine diplomacy, European countries have their own space to cultivate deeper engagement with India in various formats. They may engage countries with which India cultivates good relations in its region like the other members of Quad and the UK, with which most of Europe has affinities. A “Quad+” format where EU countries would be represented could signal to India the convergence of some of its key partners.