



Robert Schuman



European Union Center/ Jean Monnet Chair

**Failing Friendships:
Fantasy of the Broad-based Bilateral Trade
and Investment Agreement (BTIA)**

Manvi Rajan Seth

UNIVERSITY
OF MIAMI



**Vol. 19, No. 8
Paper Series
August 2019**

Published with the support of the European Commission

The Jean Monnet/ Robert Schuman Paper Series

The Jean Monnet/Robert Schuman Paper Series is produced by the Jean Monnet Chair and the European Union Center of the University of Miami.

These monographic papers analyze ongoing developments within the European Union as well as recent trends which influence the EU's relationship with the rest of the world. Broad themes include, but are not limited to:

- The Lisbon Treaty
- The Euro zone crisis
- Immigration and cultural challenges
- Security threats and responses
- The EU's neighborhood policy
- The EU and Latin America
- The EU as a model and reference in the world
- Relations with the United States
- Consequences of Brexit

These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

European Union Center

University of Miami
1300 Campo Sano Building, 220C
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
Web: www.miami.edu/eucenter

Jean Monnet Chair Staff

Joaquín Roy (Director)
Beverly Barrett (Associate Editor)
Melanie Goergmaier (Assistant Editor)
Maxime Larivé (Research Associate)
María Lorca (Research Associate)

Florida International University
Markus Thiel (Director, FIU)

International Jean Monnet Editorial Advisors:

Philippe de Lombaerde, UNU/CRIS, Brugge, Belgium
Carlos Hakansson, Universidad de Piura, Perú
Kurt Hübner, University of British Columbia, Vancouver
Finn Laursen, University of Southern Denmark
John McCormick, Indiana University, Purdue
Félix Peña, Universidad Nacional de Tres de Febrero, Buenos Aires, Argentina
Beatriz Pérez de las Heras, Universidad de Deusto, Bilbao
Manuel Porto, University of Coimbra, Portugal
Lorena Ruano, CIDE, Mexico
Eric Tremolada, Universidad del Externado de Colombia, Bogotá, Colombia
Roberto Domínguez, Suffolk University, Boston
Francesc Granell, University of Barcelona

**Failing Friendships:
Fantasy of the Broad-based Bilateral Trade and Investment Agreement (BTIA)**

Manvi Rajan Seth¹

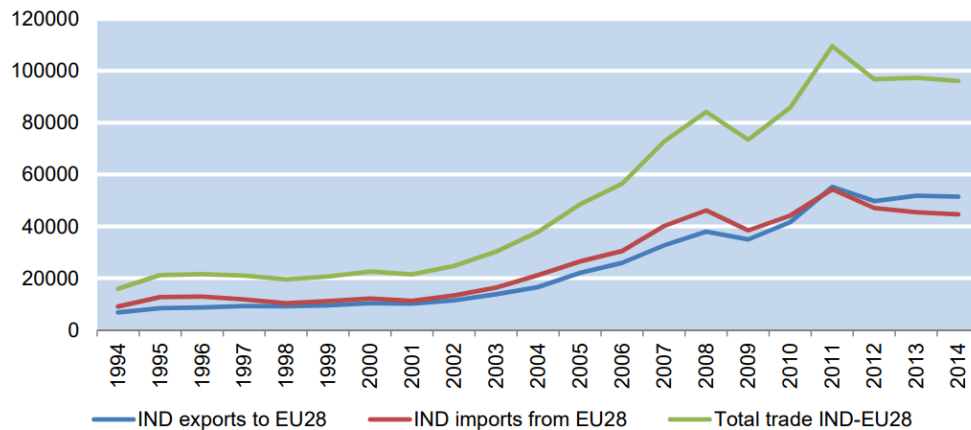
Representing two of the world's largest democratic systems, India and the European Union share a mutual commitment to diversity, multilateralism and a rules-based international order. Since their establishment in the mid-1900s, both entities have developed a comprehensive partnership that engages several sectors of the economy and society. In 1962, India became one of the first countries to recognize the authority of the European Economic Community. In the following decades, both sides intensified their relationship by signing several cooperation agreements focused on commercial and cultural collaboration. However, 2004 marked a momentous occasion for the innate relationship between India and the EU. By adopting a comprehensive road map to create a Strategic Partnership, both regions affirmed their mutual support for respect of human rights, fundamental freedoms and developmental cooperation. The Joint Action Plan of 2005 provided additional mechanisms to strengthen integration of trade and people.

Regardless of their organic relationship throughout history, India and the EU have been unable to make significant progress on several issues. The main cause of concern is the broad-based Bilateral Trade and Investment Agreement (BTIA), whose negotiations started in 2007. The BTIA was expected to create progressive policy reform on a myriad of topics, including trade of goods and services, investment, sanitary and phytosanitary measures, technical barriers to trade, dispute settlement, intellectual property right and sustainable development("India-EU"). Additionally, this ambitious free trade agreement was expected to cut duties on more than 90% of goods traded between India and the EU to spur heightened revenue growth in both regions.

In 2012, a study conducted by the Boston Consulting Group concluded that through European Foreign Direct Investment (FDI) and technology transfer, the BTIA would create over six million jobs and increase revenue by more than \$170 million in India alone (Guin). According to a 2016 study conducted by the Ifo Institute on behalf of the Bertelsmann Foundation, India could increase its GDP by 1.3% annually, which is almost \$28 billion based on its 2015 GDP (Felbermayr et al.) Now, at a time when Indian Prime Minister, Narendra Damodardas Modi is prioritizing large scale projects such as Make in India, Digital India and the Smart Cities Mission, assistance from European countries could help India avoid capital wastage and technical mistakes that occur in the process of learning by doing. Moreover, BTIA presents an incredible opportunity for India to firmly establish itself as a major global power. Through European support, Indian

¹ Manvi Rajan Seth graduated from the University of Miami in May 2019 with a Bachelor's Degree in Mathematics and International Studies. She is interested in analyzing socio-economic dilemmas related to regional integration and globalization with focus on trade and cultural exchange.

companies can obtain a virtual mark of approval on a global scale. For example, by being accredited as a Data Secure Nation, Indian IT companies would benefit from increased market access in developed countries. Moreover, considering that the EU is India’s largest trade partner, accounting for almost 13.5% of India’s total trade in 2015-2016 (“India”), it is clear to see that a closer partnership would be extremely beneficial for India’s GDP.



Source: IMF DoTS.

Figure 1 demonstrates the Trade Volumes between India and the EU from 1994-2014 (in USD mn). Source: IFO Institute.

On the other hand, the EU stands to benefit from preferential access to India’s emerging and dynamic economy. In the last decade, European investment in India rose from 8% to 18%, accounting for almost €76.7 billion in 2017 (“India”). Home to almost 1.3 billion people, India contains an enormous untapped market of a young and rising middle class, which is predicted to increase spending in the near future (Fuller). Apart from the high rate of economic growth, the EU stands to benefit from complementary trade baskets and high market protection. European investors also stand to gain from India’s lucrative renewable energy market (Khandekar). Given the Modi government’s willingness to achieve 175GW renewable energy capacity in the next four years, the EU can provide not only capital but also technical expertise to advance its commitment to addressing climate change. Lastly, an educated Indian workforce would be able to provide low-cost services for an aging European population. By using the BTIA to establish freer movement of professionals, European corporations can avail the cost-cutting advantages of cheaper labor.

In addition to the obvious economic advantages, BTIA carries strategic implications. A free trade agreement increases the possibility of a spillover effect. Both entities can benefit from enhanced exchange on numerous matters relating to transnational terrorism, climate change and energy. In recent years, India has become an increasingly valuable security partner for the European Union (Ziegler and Ney). By using the BTIA to reaffirm their commitment to a lasting

and structured relationship, India and the EU can heighten cooperation in areas such as cybersecurity and security in the Indian Ocean. Additionally, by assisting collaborative partnerships among members of academia, BTIA can enhance people to people relations and cultural exchange.

However, regardless of an initial dedication to deepen their partnership, India and the EU have made marginal progress on the BTIA. More than a decade after it was proposed, negotiations have come to a virtual standstill. Publicly, both sides frequently express intent to revive the free trade agreement. Yet, no real progress has been made since the 15th round of negotiations, which was held in 2013. Several points of contention have hindered India and the EU from taking their friendship a step further.

European negotiators are concerned by India's unwillingness to provide duty and tax concessions on automobiles, spirits and dairy imports. In the past, India has made duty cuts on vehicle components, but continues to maintain 60-100 % duties on assembled vehicles. From a European perspective, the high level of protectionism is a major barrier to liberalized trade. But, for some nationalist factions and Indian car manufacturers such as Tata, providing concessions to European exporters will not only increase competition, but also lower rates of employment and impede the success of Modi's Make in India initiative (Singh and Priya). Another key source of disagreement between both sides concerns intellectual property rights. Currently, India is committed to the World Trade Organization's Trade Related Aspects of Intellectual Property Rights. These laws allow Indian pharmaceutical companies to retain rights to generic formulas and test results for a certain period. But, a successful BTIA would require India to upgrade laws, which would prevent pharmaceutical companies from making incremental changes to renew patents. Therefore, the Indian negotiators fear that this policy change would slow development and supply of generic medicines. Lastly, in the service sector, the EU demands increased liberalization and ease of business related to FDI, legal services and accounting (Singh and Priya). Recently, the Modi administration has made progress on this issue by encouraging FDI. Through constant efforts, India's ranking on the World Bank's Ease of Doing Index has also improved 53 points in just two years.

On the Indian side of negotiations, priority is given to issues related to non-tariff barriers and a new visa regime for skilled professionals. Citing high European standards on agricultural and food products, pharmaceuticals, and intellectual property rights, India places an emphasis on the negotiation of technical and non-tariff barriers to trade over duty cuts. Additionally, India's demand for a data secure nation status under the General Data Protection Regulation (GDPR) remains highly contentious. Europe's strict laws on data protection, which include a long list of compliance requirements, increase cost of operation and hinder Indian IT companies from actively expanding their businesses in the EU. Lastly, one of the most important issues between the two countries revolves around India's desire to obtain a liberalized visa regime for its professional citizens; post-study work visas and work permits act as a major obstacle for skilled Indians looking for employment in EU member states. Given that different countries within the EU have varying laws on permits and visas, future compromise on this issue seems highly unlikely.

Brexit poses an additional challenge to the realization of BTIA. Derivative of history, India has used Britain as a pathway to other European countries. Prime Minister, Theresa May's decision to visit India as one of her first bilateral state trips signifies the weakened Britain's inclination to reciprocate and gain more Indian favors. A bilateral agreement would be more practical for Indian officials, who could easily gain public favor for an India-Britain deal that provides an avenue for a liberalized visa regime. On the other hand, Britain obtains easier access to a growing market of more than a billion people. If the two countries can agree even on a portion of stated demands, the negotiation of BTIA would be further jeopardized; Indian officials would continue to disregard the EU as a decision-making authority.

Overall, the strategic and economic benefits of a successful BTIA are clear. However, over ambitious expectations, little political will and resistance to a new world order have hindered the EU and India from deepening their relationship. India's tendency to deal with EU member states bilaterally in hopes of curtailing long ratification processes of the EU have limited its commitment to negotiate the BTIA. On the other hand, some EU member states continue to treat India with a nonchalant attitude (Stanzel). Traces of colonial domination linger even 70 years after India's independence (Muenchow-Pohl). Looking ahead, it would be more practical for both regions to limit scope of negotiations and to foster sector wise cooperation and liberalization through a new agreement. With the newly elected European Parliament and Indian administration, politicians and policy makers in both regions should prioritize strengthening foreign policy and strategic partnerships. Currently, the EU is a major soft power; its foreign policy places emphasis on the promotion of democratic institutions, human rights and a rules-based international order. However, as a developing country, India is striving to establish itself as a hard power. Increased military spending, a bid to the Nuclear Suppliers Group (NSG) and a nuclear deal with the United States hint at India's commitment to realpolitik. Unless this key difference in the foreign policy objectives and attitudes of both regions is given more consideration, successful negotiation of any free trade agreement will continue to be an uphill task.

Despite being only one of ten countries² to share a Strategic Partnership with the EU, India has been unable to deepen cooperation through BTIA. The distant friendship of both regions has failed to materialize into a stronger relationship. Negotiating a free trade agreement will not only bring economic benefits to both sides but also trigger positive spillover effects in other areas of common interest such as counterterrorism, climate change and human rights. By acknowledging India's growing influence in the world, especially as a regional powerhouse in South Asia, European negotiators need to establish a new approach to interacting with Indian officials. The current EU strategy for India dates back to 2004 and needs to be updated to reflect the rapidly changing geopolitical environment. On the other hand, the Indian government needs to recognize the legitimacy and success of EU's supranational institutions. Given its experience with South

² USA, Canada, Japan, Russia, China, Mexico, South Africa, Brazil and South Korea also share Strategic Partnerships with the EU. More information can be found in Antonio Missiroli's *The EU and the World: Players and Policies Post Lisbon: A Handbook*, pp 156-175.

Asian Association for Regional Cooperation (SAARC) and the recent uncertainty around Brexit, India has continued to use a bilateral approach in Europe. But, the successful negotiation of the ambitious Comprehensive Economic and Trade Agreement (CETA) with Canada stands testament to EU's undeniable success. On another front in the geopolitical landscape, the continuing trade war between the United States and China provides an opportunity for the EU and India to champion a more peaceful world order that supports stable economic growth. To maintain and strengthen their status as major powers in an increasingly multipolar world, the EU and India need to recognize and build on their natural partnership and cooperate in numerous economic and social sectors.

Bibliography:

“EU-India Summit: A New Momentum for the EU- India Strategic Partnership.” *European Union External Action*. March 2016. https://eeas.europa.eu/headquarters/headquarters-homepage/3538/eu-india-summit-new-momentum-eu-india-strategic-partnership_en

Fuller, Ed. “India: Asia’s Next Economic Dynamo?” *Forbes*. September 2015. <https://www.forbes.com/sites/edfuller/2015/09/10/india-asias-next-economic-dynamo/#1b017b79221f>

Felbermayr, Gabriel, et al. “Europe and India Relaunching a Troubled Trade Relationship.” *Ifo Institute on behalf of Bertelsmann Foundation*. September 2016. https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Europe_and_India.pdf

Gopal, Priyamvada. “Theresa May’s India trip reveals much about who will matter in post- Brexit Britain.” *The Guardian*. November 8, 2016. <https://www.theguardian.com/commentisfree/2016/nov/08/theresa-may-india-trip-post-brexit-britain>

Guin, Amit. “India-EU BTIA Negotiations: What is India Asking For?” *Press Information Bureau, Government of India*. September 2016. <http://pib.nic.in/newsite/mbErel.aspx?relid=87453>

“India-EU Broad Based Trade and Investment Agreement (BTIA) negotiations.” *Ministry of Commerce and Industry, Government of India*. https://commerce.gov.in/international_nextDetail_WTO.aspx?LinkID=32&idwto=34

“India.” *European Commission*. April 2018. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>

Kumar, Sunaina. “What India thinks of Europe.” *European Council on Foreign Relations*.

https://www.ecfr.eu/article/commentary_what_india_thinks_of_europe7167

Khandekar, Gauri. "EU-India Relations come Full Circle." *EurActiv*. October 2017.

<https://www.euractiv.com/section/global-europe/opinion/eu-india-relations-come-full-circle/>

Missiroli, Antonio. *The EU and the World: Players and Policies Post Lisbon: A Handbook*.

Paris: European Union Institute for Security Studies, 2016.
https://www.iss.europa.eu/sites/default/files/EUISSFiles/EU_Handbook.pdf

Muenchow-Pohl, Bernd von. "India and Europe in a Multipolar World." *Carnegie Endowment for International Peace*. May 2012.

<https://carnegieendowment.org/2012/05/10/india-and-europe-in-multipolar-world-pub-48038>

Singh, Ritesh Kumar and Prachi Priya. "What's Holding Back the India-EU FTA?" *The Diplomat*.

June 2014. <https://thediplomat.com/2014/06/whats-holding-back-the-india-eu-fta/>

Solana, Javier. "The European Union and India." *The Brookings Institution*. August 2014.

<https://www.brookings.edu/research/the-european-union-and-india/>

Stanzel, Angela. "Understanding India: The Role of the EU." *European Council on Foreign Relations*. August 2015.

https://www.ecfr.eu/article/commentary_understanding_india_the_role_of_the_eu4001

Ziegler, Alexandre and Martin Ney. "Natural Partners." *The Indian Express*. January 2018.

<https://indianexpress.com/article/opinion/columns/india-european-union-ties-brexit-natural-partners-5033912/>