



EU-India Economic Diplomacy

Meeting the Next Moment, Together:

EU-India Economic Diplomacy in a 'Multipolar' Asia

Authored by

Pooran Chandra Pandey



Economic diplomacy is a form of 'diplomacy' that uses the full spectrum of economic tools of a state to achieve its national interests. The scope of economic diplomacy can encompass all of the main international economic activities of a state including, but not limited to, policy decisions designed to influence exports, imports, investments, lending, aid, free trade agreements, et al.

Concept is concerned with economic policy issues, e.g. work of delegations at standard setting organizations such as World Trade Organization (WTO). Economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes also called "economic statecraft"

Background and Context Setting

Economic diplomacy is traditionally defined as a decision-making, policy-making process, advocating for sending state's business interests. The concept requires application of technical expertise while analyzing effects of a country's (receiving state) economic situation on its political climate and on the sending state's economic interests. The sending state and receiving state, foreign business leaders, as well as government decision-makers, work together on some of the most cutting-edge issues in foreign policy including but not limited to technology, environment, and health, as well as in the more traditional areas of trade, commerce and finance. Versatility, flexibility, sound judgment and strong business skills are all needed in the execution of economic diplomacy.

State and non-state actors – all government agencies involved in international economic mandates are players in economic diplomacy (though they often do not describe them as such). Further, non-state actors such as non-government organisations (NGOs) engaged in international economic activities are also players in economic diplomacy. Businesses and investors are also actors in the processes of economic diplomacy, especially when contacts between them and governments are initiated or facilitated by diplomats. Scope of definition is especially applicable to practice of economic diplomacy as it is unfolding in emerging economies.

This new approach though involves an analysis of a nation's economy, taking into account not only its officially reported figures but also its gray, or unreported, economic factors. A nation that wants to attract business must be proactive rather than passive seeking out opportunities and learn to bring them home. Tax and other concessions are necessary and costly, in short term; however, creative support of new business opportunities can generate major chances for success. This sort of activity is also a part of economic diplomacy.

EU-India's Relations and Current Trade Status

India-EU relations date to the early 1960s, with India being amongst the first countries to establish diplomatic relations with the European Economic Community. A cooperation agreement signed in 1994 took the bilateral relationship beyond trade



and economic cooperation. At the 5th India-EU Summit at The Hague in 2004, the relationship was upgraded to a 'Strategic Partnership'. The two sides adopted a Joint Action Plan in 2005 (which was reviewed in 2008) that provided for strengthening dialogue and consultation mechanisms in the political and economic spheres, enhancing trade and investment, and bringing peoples and cultures together.

India now is amongst the world's fastest-growing large economies and is an important player in global economic governance. It is also an important trade and investment partner for the European Union (EU), representing a sizable and dynamic market, with an annual gross domestic product (GDP) growth rate of around 6 percent (at a pre-Covid-19 level).

- The EU is India's largest trading partner, accounting for €80 billion worth of trade in goods in 2019 or 11.1 per cent of total Indian trade, on par with the USA and ahead of China (10.7 per cent).
- The EU is the second-largest destination for Indian exports (over 14 per cent of the total) after the USA.
- India is the EU's 9th largest trading partner, accounting for 1.9 per cent of EU total trade in goods in 2019, well behind the USA (15.2 percent), China (13.8 percent) and the UK (12.6 per cent).
- Trade in goods between the EU and India increased by 72 per cent in the last decade.
- Trade in services between the EU and India increased rapidly from €22.3 billion in 2015 to €29.6 billion in 2018.
- The EU's share in foreign investment inflows to India more than doubled from 8 percent to 18 percent in the last decade, making the EU the first foreign investor in India.
- EU foreign direct investment stocks in India amounted to €68 billion in 2018, which is significant but way below EU foreign investment stocks in China (€175 billion) or Brazil (€312 billion).
- Some 6,000 European companies have their presence in India, providing directly 1.7 million jobs and indirectly 5 million jobs in a broad range of sectors.

EU's Ambitious Strategy on India, 2018

The European Commission (EC) and the High Representative of the Union for Foreign Affairs and Security Policy adopted a Joint Communication that sets out the EU's vision for a strategy to strengthen cooperation and the partnership with India.

This Joint Communication replaces the last Commission Communication on India of 2004, recognising that India has emerged as the fastest-growing large economy, acquiring an important geopolitical role. The Communication also aims to strengthen the EU-India Strategic Partnership by focusing on sustainable modernisation and on common responses to global and regional issues. It also seeks to reinforce



effectiveness of the EU's external action in coherence with implementation of the Global Strategy.

The Joint Communication on elements for an EU strategy on India states:

"India is a key player in our interconnected world", said the then High Representative/Vice-President, Federica Mogherini (2014-19). Adding further "We want to further reinforce our political, economic and people-to-people ties with India in order to address together global challenges, to promote together economic growth and to expand together business opportunities. The EU and India are committed to seize opportunities to support and promote effective multilateralism and solutions whenever peace and stability are in danger."

Security through the Rules-based Global Order

As an emerging global power, India plays a key role in the current multipolar world. To maintain the rules-based global order, therefore, it is vital that the EU and India implement effective multilateralism and global economic governance. The EU seeks to consolidate dialogue on multilateral issues, and to coordinate positions with India. Cooperation in the framework of the United Nations (UN), the World Trade Organization (WTO) and the G-20 will be of priority in coming years.

The EU and India also share common values and promote international peace and stability both bi-laterally, collectively and multilaterally to offer the world rules based solutions to socio-economic and political issues, aimed at peace, prosperity and stability both in regions as identified and also internationally. The Block works to engage India to promote common global agendas on human rights and democracy, data protection, gender equality and women's empowerment and the inclusion of young people. Enhancing humanitarian coordination and developing joint actions on food security and disaster relief, would also bring clear added value.

The EU also seeks regular exchanges and coordination with India on major foreign policy issues. Cooperation on security and defence policies will be enhanced in order to address together *inter alia* terrorism, cyber security, hybrid threats and maritime security. Crisis management ties, including military-to-military relations, are underway at advanced levels of decision making between both the sides.

Prosperity through Sustainable Modernisation

The EU is a natural partner in supporting India's sustainable growth. The Block's expertise and technology in sustainable infrastructure development, transport regulatory frameworks, circular economy, environmental protection and in digitalisation is further geared to support India's ongoing transition to a resource efficient economy and increase global connectivity. Enterprises will also benefit from new business and investment opportunities that get generated as a consequence of broad contour of cooperation between the two sides.



The EU and India can do more jointly to tackle global challenges, such as climate change, environment protection, sustainable development, ocean governance, and work together on the effective implementation of the Paris Agreement. The EU will coordinate with India at the multilateral level. The EU has further agreed to continue supporting the International Solar Alliance (ISA), and cooperate to facilitate clean energy transition while implementing the Sustainable Development Goals (SDGs), including through an enhanced cooperation in research and innovation.

The EU through its new strategy of cooperation will continue to work with India towards comprehensive and balanced agreements on trade and investment and support a rules-based global trade regime. The EU will use all available channels and fora to ensure fair market access and predictable investment conditions in order to enhance trade and investment, unlocking potential of the two economies. The EU's blending facilities will further incentivise investment with a sustainable impact.

Talent and innovation include one of the priorities of the EU's action as it will cooperate with India in order to foster the reciprocal mobility of students and researchers, and to consolidate networks of innovators and start-ups. Furthermore, the EU will move towards mutual recognition of qualifications and support exchanges between the respective cultural sectors and engage India on the issues of both legal and irregular migration, by using the existing tools to their full potential.

A More Joined-up and Streamlined Approach towards India

The EU seeks more coordination between its initiatives and those of its Member States towards India and the Block and its Member States will work together to provide a better understanding of the EU in India through strategic communication strategies besides working to make the EU's public diplomacy in the country more effective. The Bloc will also promote a strategic use of its funding instruments. Programmes for Indian diplomats and experts' exchanges and dialogues will be multiplied in order to foster mutual understanding. EU also has been considering the possibility to negotiate with India a Strategic Partnership Agreement, in order to update the 1994 EU-India Cooperation Agreement, going forward.

EU-India Economic Diplomacy during Covid-19

On the Indian-European Union front, optimism is rife. The EU, which is already India's largest trading partner, is in talks to expand India's role in its trade policy, which is currently the EU's 9th largest trading partner. The 15th India EU summit in July, 2020, at peak of Covid-19 pandemic, laid the foundation for a deeper and more strategic cooperation between the EU and India in times to come. Both the EU and India have agreed to deepen cooperation in areas like climate change, maritime security, digital economy, connectivity, research and innovation, water and climate action, and civil nuclear cooperation. The year 2021 also offers various opportunities in strengthening India-Scandinavia ties in the areas of innovation, security, and climate change. The foreign minister's recent meeting with the envoys of the Visegrad group further indicates that India is pursuing wide-ranging bilateralism with all the EU members.



Against the India-EU backdrop, ties are also being actively strengthened between the UK and India. Vaccine collaboration between Serum Institute and AstraZeneca/Oxford University to make a billion vaccines in India is just the beginning of the heightened collaboration, which is expected to benefit its partners both in the UK and the EU in effective roll out of the inoculation program at the industrial scale in a time sensitive manner, given the fast spreading cases of new mutants of the virus.

Engaging in cooperative talks with both the EU and now post-Brexit UK is a welcome step in Indian diplomacy. As UK branches out of the EU over time and tensions spike with China, India will come across as an important strategic partner. India must heed this and at the same time recognize the importance of a trade deal with the EU, which would ensure an all-round strategy, greatly benefitting India in long-run and reduce its trade dependency on China while building up its resilient supply chain with partners in the EU and with the UK. It is widely anticipated that EU and UK would continue to largely stay deeply connected in their bilateral economic relations given their history, deep security, defence and economic bonding of long years, giving each other the opportunity to deepen their renewed economic cooperation while offering other economic opportunities to be explored in equal measure.

EU-India-UK, can also likely form a troika around their economic relations, opportunities and could also become a trade and commerce force, benefitting their counterparts both in Asia and also in Africa on a more stable footing that can only grow, deepen and strengthen contributing to global stability, peace, prosperity over time while developing a template for other players in global trade and commerce to be able to stitch strategic economic arrangements and partnerships consistent with universal values of democracy, human rights, openness and respect for each other's territorial integrity and sovereignty.

EU-India Summit, July 2020

15th India-EU summit that took place between the Bloc and India also reinforced strategic partnership between the two parties on a number of issues including but not limited to climate, energy, 5G, trade, economic relations and rules based regional and international order including in Asia which is more increasingly seeing heightened political, economic, diplomatic and vaccine diplomacy following Covid-19 that is widely believed to have originated in the Chinese province of Wuhan last year, later spreading around the world impacting on socio-economic and health aspects of people around the world. EU- India relations are deeply embedded into value based constructs of rules, law, human rights, democracy, freedom of navigation, cyber security, data protection, and open and free Indo-Pacific for stability in the region while ensuring balance of power.

India is waking up to the fact that in today's fragmented world, the power of any aspiring global player depends on the number and quality of its bi- and multilateral relationships. In this context, the EU is a useful partner India can rely on.

At the same time, the EU needs a strong partnership with India to meet its leadership objectives of becoming a global actor and tackling climate change.



Reimagining EU-India Relations in Post-Covid Era and Beyond

EU-India relations and their economic diplomacy that has since taken a firm shape and footing with the 15th Summit between the two partners that took place in July, 2020 after a delay of three months due to Covid-19, future of bilateral relations and cooperation seem promising, going forward. Until now, bilateral relations were largely interested in economic terms including trade, commerce, financial services, and mobility, expressing interdependence and interpenetration of our times. What, however, Covid-19 has brought about as a consequence is deeper indivisibility of our existence, redefining globalisation more from perspective of pandemics, poverty, income inequality, jobless growth, climate change and terrorism. The pandemic at global scale has also exposed vulnerabilities around health security, redefining the concept of security with renewed focus on resilient supply chains and additional engines of growth needed to de-risk global economy. The situation also stresses about more transparency, market viability, coalition of willing and universal values of democracy, openness, human rights and trust in multilateralism in pursuit of feasible solutions for humanity and people centric development.

A robust response to Covid-19 challenge is set to dominate the diplomacy in 2021 and beyond with both EU-India setting an example of putting their coordinated response through collaboration and partnership. India, known as pharmacy of world, supplying medicines to more than 150 nations, many as grants, has agreed to manufacture one billion jobs for Covid-19 with commitment to ensuring equity in its supply to countries in Asia, Africa and Europe and around the world.

Climate change is also likely to dominate global diplomacy as majority nations around the world have signed up to the Paris Agreement. Along with climate issues, areas such as renewable energy, transition to clean energy, net carbon pathways, electric mobility, and biodiversity and water issues are going to be key and with EU-India partnership and collaboration, Africa and other nations in Asia and more can definitely benefit from good practices and replication models. India's leadership in International Solar Alliance (ISA) and Coalition for Disaster Resilient Infrastructure (CDRI) initiatives can further be of much benefit to nations around the world. Prospects of comprehensive partnership in climate and environmental areas stand to further gain momentum with US rejoining the Paris Agreement and many member states in the EU joining ISA and CDRI.

The challenge of countering terrorism and radicalization has been a formidable one, and beyond Covid pandemic era, the focus will squarely shift on jointly combating the menace with its counterparts in the EU. India is likely to step up the diplomatic efforts to isolate forces and alliances siding with terror and radicalisation with its new term as a non-permanent member of the UN Security Council, and in forums like FATF and G-20.

Areas around technology and digital domains are also likely to see growing prominence as an outcome of connectivity during the ongoing Covid-19 where most of the professional and personal tasks of people either shifted to or moved on to virtual platforms, with challenges of cyber security, hacking and privacy from certain



quarters and countries. Covid-19 also saw one of the largest repatriation exercise in history, disruption in manufacturing due to abrupt collapse of supply chains and mobility as most of these issues were sorted out and fixed through diplomatic engagements and dialogues, both bilaterally and multilaterally.

As the world returns to pre-Covid times, a safe and resilient transition to future will mean better health, economic revival, digitally driven services and issues around data, privacy and cyber security in their new versions through new engagements at diplomatic levels. Our world post-Covid-19 is more likely going to be multi-polar, pluralistic, and rebalanced and India and EU with their expertise, experience and new found realities can together bring about a just reset to a new and emerging world order with universal values that they both dear and non-negotiable.

Upcoming EU-India Summit, 2021: A Pivotal Moment in Multilateralism

The EU is the second largest export destination for India, after the US, with exports in April-March 2019-20 at \$45 billion accounting for 14.36 per cent of the country's total exports. Imports from the Bloc into India were at par with exports at \$45 billion during the fiscal, accounting for 9.5 per cent of India's total imports.

Aimed at ramping up a comprehensive cooperation, India and Europe are preparing to meet this summer of May for a special summit, both the sides are converging on key outcomes, in a bid to shape a rules based 'multipolar' world through a strategic and comprehensive plans encompassing a large swathe of sectors and specialised areas with a focus on recognition of the region by the EU of a 'multipolar' one with a firm space for a deepened cooperation and partnership between the two partners.

The Indian Prime Minister Narendra Modi is scheduled to hold a summit meeting with all 27 heads of government of European Union in the Portuguese city of Porto on May 08, 2021. The summit will be followed by a bilateral meeting between the Indian Prime Minister and Portuguese Prime Minister, Antonio Costa as well as business roundtable between Indian and European industry on key areas and sectors for further building on existing cooperation with the EU.

On the sidelines of the summit, India and the EU are expected to take forward discussions on the launch of an investment facilitation mechanism, initiation of regulatory cooperation and removal of identified trade barriers for their possible inclusion in the list of deliverables during the Summit. Other issues that Prime Minister Narendra Modi and leaders from the European Union and European Commission are likely to discuss at the India-EU Summit include continuation of the Intellectual Property Rights (IPR) dialogue, collaborating in research and innovation, promoting clean economy, addressing multilateral issues of mutual interest and building resilient value chains, thus covering strategic areas and issues aimed at better facilitation of trade, commerce and investment through instruments of economic diplomacy by both the sides in all its earnest.



Way Forward

Europe and India are now converging on their national and continental priorities primarily around 5 broad issues; green transition, digital transition, social transition, resilience and openness, in reaffirmation of a 'multipolar' world. It is also likely that a comprehensive free trade agreement, a long standing desired outcome between the EU and India, is also likely to see the resumption, suspended since 2014 on differences over market access issues, during the upcoming summit, preparing a long term platform for a futuristic 'economic diplomacy' framework in pursuit of strategic and comprehensive engagement between the two sides.

Europe as evident through its strategy, focus and cooperation architecture with India now believes there should be a 'multipolar' Asia (basing its recognition and reaffirmation of a multipolar world) because India's role in Asia is just as important as the relationship between Europe and Asia.

This reckoning in bilateral relations comes at a time when Asia is experiencing reset of ties in leading regional capitals and those in the EU for forging comprehensive strategic ties for mutual benefit with coalitions of the willing and liberal democracies in pursuit of future peace and stability based on mutual respect for universal values, set to define a renewed focus of development cooperation and partnership between the EU and India, post Covid era and beyond.

References

Economic Diplomacy: A Review, *Strategy & Macroeconomic Policy eJournal*. Social Science Research Network (SSRN). Accessed, 7 February, 2021.

Moons, Selwyn and Van Bergeijk, Peter A. G., *Economic Diplomacy and Economic Security*, New Frontiers for Economic Diplomacy, pp. 37-54, Carla Guapo Costa, ed., Instituto Superior de Ciências Sociais e Políticas, 2009. <https://ssrn.com/abstract=1436584>

R. Saner, L. Yiu, *International Economic Diplomacy: Mutations in Post-modern Times*, Discussion Papers in Diplomacy, Netherlands Institute of International Relations "Clingendael", s.10. https://web.archive.org/web/20060518052150/http://www.transcend.org/t_database/pdfarticles/318.pdf

Ministry of External Affairs, Indian Government, *India-EU Relations*, July, 2013, https://www.mea.gov.in/Portal/ForeignRelation/India-EU_Relations.pdf

European Commission, *Countries and Regions/ India*, February, 2021, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>

Stefania Benaglia, *EU-India Relations Set for a New Era*, July, 2020, <https://www.ceps.eu/eu-india-relations-set-for-a-new-era/>



Joint Statement, 15th EU-India Summit, July 15, 2020, European Council, <https://www.consilium.europa.eu/en/press/press-releases/2020/07/15/joint-statement-15th-eu-india-summit-15-july-2020/>

Panda, Jagannath, *India's 'multipolar Asia' and China*, East Asia Forum, August, 2019, <https://www.eastasiaforum.org/2019/08/27/indias-multipolar-asia-and-china/>

Sen Amiti, *Focus Areas for India-EU Leaders' Summit in May*, the Hindu Business Line, February, 2021, <https://www.thehindubusinessline.com/economy/focus-areas-for-india-eu-leaders-summit-in-may/article33781984.ece>

EU-India Summit 2021, Accessed, 30 March, 2021, Website, <https://www.2021portugal.eu/en/events/eu-india-summit/>

About Author

Pooran Chandra Pandey



Pooran Chandra Pandey specializes in geopolitics, international affairs, economic diplomacy, private sector and development cooperation. Contributor to international encyclopedia by Springer Nature, Europe, he holds academic, advisory and writing assignments at the UTS, Sydney, Climate Scorecard, US, Nkafu Policy Institute, Cameroon, Middle East Institute, Asia Program, Washington and New Zealand Center for Global Studies, New Zealand. He also sits on boards on UN, business corporations and non-profits, nationally and internationally.

Previously, he served as a Founding CEO of a Berlin based global think tank- DOC Research Institute (2016-2018) and helmed United Nations (2011-2016) and Times of India (2007-2011). Author of 5 books and many research papers in refereed journals, internationally, Pooran holds an M. Phil degree in International Studies from Jawaharlal Nehru University, New Delhi, and trained in Russia, China, Sweden, Germany, US, UK and Japan.

He is also a Chevening Scholar at the London School of Economics and Political Science, London.