

# Building on open economy politics to understand the stalled EU–India trade negotiations

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At their spring 2021 virtual summit in Porto, the EU and India renewed their pledge to deepen their economic partnership and revive their trade negotiations. This objective was met with some scepticism.<sup>1</sup> In an op-ed prior to the summit, the prime ministers of India and Portugal recognized that the realization of ambitious objectives in EU–India relations had long been a challenge.<sup>2</sup> The EU–India free trade agreement (EUIFTA) negotiations, launched in 2007, had been languishing. Despite 16 FTA negotiation rounds, little progress was made, and in 2013 the negotiations were paused.<sup>3</sup> The reasons behind this blockage were complex and varied. In this paper we build on an established conceptual framework—open economy politics (OEP)—to explore the factors which explain the failure to conclude the EUIFTA.<sup>4</sup> In doing so, we provide a theoretical basis for what Owen and Walter call ‘second generation’ OEP analysis,<sup>5</sup> proposing a revised OEP framework that better reflects the complex political economy of modern trade negotiations. We then test our framework to analyse the context of

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<sup>1</sup> Christian Olivier and Stuart Lau, ‘Europe’s hedge bet: India’, *Politico*, 9 May 2021, <https://www.politico.eu/article/europe-eu-india-trade-negotiations-subrahmanyam-jaishankar/>; Sam Fleming and Jim Brunsden, ‘EU and India agree to relaunch trade talks’, *Financial Times*, 8 May 2021, <https://www.ft.com/content/c3ac26c0-1610-4281-98a0-f37465bd43e7> (Unless otherwise noted at point of citation, all URLs cited in this article were accessible on 24 Sept. 2021).

<sup>2</sup> Narendra Modi and Antonio Costa, ‘Trade and beyond: a new impetus to the EU–India Partnership’, *Politico*, 7 May 2021, <https://www.politico.eu/article/trade-eu-india-partnership-narendra-modi-antonio-costa/{?}>.

<sup>3</sup> Tobias Leeg, ‘Normative power Europe? The European Union in the negotiations on a free trade agreement with India’, *European Foreign Affairs Review* 19: 3, 2014, pp. 335–56.

<sup>4</sup> This framework was developed by David A. Lake, ‘Open economy politics: a critical review’, *Review of International Organisations* 4: 3, Sept 2009, pp. 219–44, and Thomas Oatley, ‘Open economy politics and trade policy’, *Review of International Political Economy* 24: 4, 2017, pp. 699–717.

<sup>5</sup> Erica Owen and Stefanie Walter, ‘Open economy politics and Brexit: insights, puzzles, and ways forward’, *Review of International Political Economy* 24: 2, 2017, pp. 179–202.

the EUFTA, in order to shed light on the potential for a successful conclusion to the negotiations.

Public debate on trade policy has intensified in recent years. The difficulties in the Brexit negotiations, the fractious US–China trade war, and recent trade conflicts over access to COVID-19 medicines and vaccines have all raised the profile of trade policy,<sup>6</sup> while multilateral cooperation in the WTO has been undermined by US intransigence.<sup>7</sup> These conflicts have also highlighted the fact that trade agreements are complex, take time to conclude and require hard political compromises. The Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU took almost eight years to finalize, while the EU–Mercosur FTA negotiations took over twenty years—and the agreement is still not ratified. Some trade agreements are never concluded, despite extensive negotiations.

Trade policy literature traditionally focuses on explaining successful trade negotiations, highlighting the potential gains for different trade partners.<sup>8</sup> Less well understood are cases where trade negotiations have stalled, or even failed. Understanding why certain trade negotiations prove much more difficult than others requires careful investigation of the factors that help or hinder the process. Such improved understanding is especially critical now, given the increased public scrutiny of trade policy.

This article takes a longitudinal perspective and draws on multiple in-depth interviews undertaken over a period of seven years with key stakeholders involved in the FTA negotiation process. We use the OEP trinity of interests, institutional constraints and international interactions to analyse the EUFTA negotiations, and further extend the

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<sup>6</sup> Louise Curran and Jappe Eckhardt, ‘Why COVID-19 will not lead to major restructuring of global value chains’, *Management and Organization Review* 17: 2, 2021, pp. 407–11.

<sup>7</sup> Kirsten Hopewell, ‘When the hegemon goes rogue: leadership amid the US assault on the liberal trading order’, *International Affairs* 97: 4, 2021, pp. 1025–43.

<sup>8</sup> See e.g. Scott L. Baier and Jeffrey H. Bergstrand, ‘Economic determinants of free trade agreements’, *Journal of International Economics* 64: 1, 2004, pp. 29–63; Richard Baldwin and Dany Jaimovich, ‘Are free trade agreements contagious?’, *Journal of International Economics* 88: 1, 2012, pp. 1–16; Gabriel Siles-Brügge, ‘Resisting protectionism after the crisis: strategic economic discourse and the EU–Korea free trade agreement’, *New Political Economy* 16: 5, 2011, pp. 627–53; Scott L. Baier, Jeffrey H. Bergstrand and Ronald Mariutto, ‘Economic determinants of free trade agreements revisited: distinguishing sources of interdependence’, *Review of International Economics* 22: 1, 2014, pp. 31–58.

framework by adding two additional factors: power and ideas. The strength of this article lies in the application of our adapted OEP framework to the EU-FTA talks. We use this analytical framework to understand how diverging domestic interests, institutional constraints and the prioritization of other international partnerships have contributed to the loss of momentum within the talks. However, we also confirm through our case analysis the importance of power and ideas to outcomes. Our case-study evidence thus helps us significantly to advance traditional theorizing on OEP.

First, negotiations have been affected by changes in the relative power of the partners, as emerging economies from the global South, such as China, India, Brazil and South Africa (often referred to ‘rising powers’), exercise growing agency to protect their commercial and political interests.<sup>9</sup> Second, in terms of ideational ‘values and norms’, the EU’s trade agreements increasingly address normative aspects, such as labour, human rights and sustainability concerns,<sup>10</sup> issues that ‘rising powers’ are very reluctant to address within trade agreements.<sup>11</sup> We conclude that these latter difficulties, which have plagued the EU–India negotiations, are substantial and have increased over time. Reviving the discussions will therefore be challenging.

Theoretically, our research confirms that, although the OEP framework provides a useful starting-point from which to explore the motivations and processes of trade negotiations, to explain outcomes properly it is important to examine the interactions between the different levels of the framework, as well as the role of power and ideas. It is hoped that our revised

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<sup>9</sup> Khalid Nadvi, “‘Rising powers’ and labour and environmental standards”, *Oxford Development Studies* 42: 2, 2014, pp. 137–50; Amrita Narlikar, ‘New powers in the club: the challenges of global trade governance’, *International Affairs* 86: 3, 2010, pp. 717–28; Amrita Narlikar, ‘India rising: responsible to whom?’ *International Affairs* 89: 3, 2013, pp. 595–614; Amitendu Palit, ‘Will India’s disengaging trade policy restrict it from playing a greater global role?’, *World Trade Review* 20: 2, 2021, pp. 203–19; Matthew D. Stephen and Michal Parížek, ‘New powers and the distribution of preferences in global trade governance: from deadlock and drift to fragmentation’, *New Political Economy* 24: 6, 2019, pp. 735–58.

<sup>10</sup> James Harrison, Mirela Barbu, Liam Campling et al., ‘Labour standards provisions in EU free trade agreements: reflections on the European Commission’s reform agenda’, *World Trade Review* 18: 4, 2019, pp. 635–57.

<sup>11</sup> Palit, ‘Will India’s disengaging trade policy restrict it?’, Stephen and Parížek, ‘New powers and the distribution of preferences’.

version of the framework will provide a fruitful basis for researchers undertaking second-generation OEP analysis of future bilateral and multilateral trade negotiations.

Methodologically, this article makes use of both primary and secondary sources. We conducted 45 semi-structured interviews in the EU and India over seven years (2013–19) as the negotiations faltered and efforts to revive them failed. This longitudinal approach allowed us to trace the EUFTA negotiations over time. In the EU, we interviewed senior staff from the European Commission, the European Parliament and trade unions, as well as key business groups. In India, the interviews covered a range of actors including senior Ministry of Commerce officials, business associations, academics and think tanks. The interviews provided detailed insights into the perceptions of the partners in the EUFTA negotiation process, enabling us to identify the key difficulties over the negotiating time-frame.

The paper is structured as follows. We begin by outlining our approach, discussing the basis of the classic OEP framework and the reasoning behind our proposed enhancements, before exploring the key findings from the literature on trade negotiations and how these relate to our adapted framework. We then briefly discuss the context in which the EUFTA negotiations progressed, before using our data to investigate the key elements of the classic OEP approach—interests, institutions and international interactions—and the two additional factors that emerge from our research as affecting the negotiations—power and ideas/norms. We conclude with the main findings and propose directions for further research.

### **Open economy politics**

The open economy politics framework highlights the importance of understanding the role played by domestic interests, political institutions and international interactions in shaping trade policy.<sup>12</sup> Within the field of international political economy (IPE), OEP is now widely used to analyse a range of areas of regulation and governance,<sup>13</sup> including Brexit.<sup>14</sup> Our interest in the OEP approach is motivated in particular by Lake's critique and Oatley's identification of the importance of OEP factors to trade policy.<sup>15</sup>

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<sup>12</sup> Lake, 'Open economy politics'; Oatley, 'Open economy politics and trade policy'.

<sup>13</sup> Walter Mattli and Ngaire Woods, eds, *The politics of global regulation* (Princeton: Princeton University Press, 2009); Miles Kahler and David A. Lake, eds, *Governance in a global economy: political authority in transition* (Princeton: Princeton University Press, 2003).

<sup>14</sup> Owen and Walter, 'Open economy politics and Brexit'.

<sup>15</sup> Lake, 'Open economy politics'; Oatley, 'Open economy politics and trade policy'.

The OEP framework focuses first on interests in the economy, although the heterogeneity of firms within industries and their differential integration into the global economy makes the definition of such interests increasingly complicated. The framework assumes that interests interact with domestic political institutions, through lobbying and other means of representation, resulting in policy outcomes. These policy outcomes then interact at the international level through interstate bargaining, framed by international institutions, such as the WTO.

In applying this framework we also aim to enhance it by emphasizing the non-linear nature of interactions and adding two novel elements which have been highlighted in the literature, yet not explicitly integrated into the OEP approach. In relation to the former point, while researchers have tended to explore each level in isolation,<sup>16</sup> we argue that no single dimension can explain the outcome of negotiations. Domestic interests interact with national institutional constraints, which define the terms of international engagement and limit potential outcomes. Thus, the three levels must be integrated if the process is to be fully understood and we argue, in line with Lake, that the interaction between the different levels is not linear but multidirectional.<sup>17</sup> Thus actual or potential international interactions have an impact on interests, and institutions in part reflect interests in the domestic political economy. Finally, our analysis of the literature highlights that the FTA negotiating process is strongly influenced by the distinct balance of power and ideational perspectives of the negotiating actors. We argue that these aspects must be integrated into the framework to gain a better understanding of the outcome of trade negotiations, and we thus propose a new, more extensive and integrated framework, which we then use to explain the EUFTA case.

### **Explaining free trade agreements through OEP**

The existing literature on FTAs sheds light on how interests, institutions and international interactions encourage (or, less often, scupper) trade agreements. In terms of *interests*, there has been extensive work in IPE exploring how individual interests can be derived from the distributional consequences of trade policy change.<sup>18</sup> The rise in protectionism across the developed world has re-ignited investigation of such consequences, with some researchers reporting linkages between the negative effects of trade and voting behaviour in the United

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<sup>16</sup> Oatley, 'Open economy politics and trade policy'.

<sup>17</sup> Lake, 'Open economy politics'.

<sup>18</sup> For a review, see Oatley, 'Open economy politics and trade policy'.

States and United Kingdom.<sup>19</sup> However, research has failed to find robust interactions between direct economic impacts of trade and voter attitudes, the latter appearing to be more strongly influenced by ethnocentric views of ‘otherness’.<sup>20</sup> Indeed, it has been suggested that the interests of organized actors, such as firms and trade unions, may be more relevant than those of individuals.<sup>21</sup>

Purely ‘economic’ interests, such as market size and growth rates, have been shown to explain many FTAs.<sup>22</sup> The standard economic impact assessments that are widely used to build support for EU FTAs are based on such analyses.<sup>23</sup> However, European civil society considers ‘interests’ to range far more widely, and to include human rights and environmental and social protections.<sup>24</sup> There are thus clear links between interest mobilization by civil society and domestic institutions.

In terms of these *institutions*, there is robust support for links between both democracy<sup>25</sup> and low political distance (in terms of the type of regime)<sup>26</sup> and FTA formation. Growing

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<sup>19</sup> David Autor, David Dorn, Gordon Hanson and Kaveh Majlesi, *Importing political polarization? The electoral consequences of rising trade exposure*, NBER working paper no. 22637 (Cambridge, MA: National Bureau of Economic Research, 2017); Italo Colantone and Piero Stanig, ‘Global competition and Brexit’, *American Political Science Review* 112: 2, 2018, pp. 201–18.

<sup>20</sup> Edward D. Mansfield and Diana C. Mutz, ‘US vs. them: mass attitudes toward offshore outsourcing’, *World Politics* 65: 4, 2013, pp. 571–608; Owen and Walter, ‘Open economy politics and Brexit’.

<sup>21</sup> Oatley, ‘Open economy politics and trade policy’, p. 6.

<sup>22</sup> Baier and Bergstrand, ‘Economic determinants of FTAs’; Baldwin and Jaimovich, ‘Are FTAs contagious?’.

<sup>23</sup> Siles-Brügge, ‘Resisting protectionism after the crisis’.

<sup>24</sup> Andreas Dür and Gemma Mateo, ‘Public opinion and interest group influence: how citizen groups derailed the Anti-Counterfeiting Trade Agreement’, *Journal of European Public Policy* 21: 8, 2014, pp. 1199–1217; Benjamin Farrand, ‘Lobbying and lawmaking in the European Union: the development of copyright law and the rejection of the Anti-Counterfeiting Trade Agreement’, *Oxford Journal of Legal Studies* 35: 3, 2015, pp. 487–514.

<sup>25</sup> Edward Mansfield, Helen V. Milner and Jon C. Pevehouse, ‘Democracy, veto players, and the depth of regional integration’, *World Economy* 31: 1, 2008, pp. 67–96.

<sup>26</sup> Baldwin and Jaimovich, ‘Are FTAs contagious?’.

attention has also been paid to the role of domestic political constituencies, especially ‘veto players’, who have a strong impact not only on the chances of trade negotiations succeeding,<sup>27</sup> but also on the characteristics of agreements, such as their depth, transition periods, escape clauses and dispute settlement provisions.<sup>28</sup> However, there is little understanding of how the depth and coverage of agreements interact with the interests of key actors and the behaviour of veto players. Finally, some authors point out that FTAs can be used by domestic constituencies to secure reforms perceived as favourable to growth and competitiveness.<sup>29</sup> In terms of *international interactions*, a key factor positively affecting trade negotiations is the existence of competing, existing or potential trade agreements which create a ‘domino effect’.<sup>30</sup> In the case of the EU, overcoming discrimination arising from existing FTAs was an important motivation behind trade negotiations with South Korea,<sup>31</sup> Mexico and Chile.<sup>32</sup> International interactions can also have negative effects, in that parallel negotiations on alternative partnerships may divide government attention. In addition to these classic issues, two factors emerge from our analysis of the literature, and our case material, that have an impact on trade negotiations, but do not fit easily into the OEP trinity. These factors are *power* and *ideas*. We briefly examine the literature on these two issues before proposing a revised OEP framework which encapsulates these different dimensions and their interactions, providing a more robust basis for OEP analysis.<sup>33</sup> The impact of *power* on interstate relations has been very widely studied in International Relations.<sup>34</sup> In the context of trade negotiations, the relative power of the protagonists is

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<sup>27</sup> Mansfield et al. ‘Democracy, veto players and the depth of regional integration’.

<sup>28</sup> Todd Allee and Manfred Elsig, ‘Veto players and the design of preferential trade agreements’, *Review of International Political Economy* 24: 3, 2017, pp. 538–67.

<sup>29</sup> Vinod Aggarwal and Seungjoo Lee, eds, *Trade policy in the Asia Pacific: the role of ideas, interests and domestic institutions* (New York: Springer, 2011).

<sup>30</sup> Baldwin and Jaimovich, ‘Are FTAs contagious?’.

<sup>31</sup> Siles-Brügge, ‘Resisting protectionism after the crisis’.

<sup>32</sup> Andreas Dür, ‘EU trade policy as protection for exporters: the agreements with Mexico and Chile’, *Journal of Common Market Studies* 45: 4, 2007, pp. 833–55.

<sup>33</sup> Owen and Walter, ‘Open economy politics and Brexit’.

<sup>34</sup> Joseph Nye, *The future of power* (New York: Public Affairs, 2011); Robert Keohane and Joseph Nye, *Power and interdependence: world politics in transition* (Boston: Little, Brown, 1977).

intricately linked to outcomes at each level of the OEP framework. It is taken for granted that the relative size of markets, reflected in the ‘interests’ of each side, is a key factor motivating FTA negotiations. This is the basis of the notion of ‘market power Europe’,<sup>35</sup> and a key reason why rising powers have become increasingly attractive FTA partners.<sup>36</sup> Inevitably, too, the power of different institutions at the domestic level has an impact on FTA negotiations, with players able to exercise ‘veto power’ having a particularly strong influence.

However, it is at the level of interactions between the negotiating partners that the notion of relative power is most relevant. While for developing countries, market access is a primary motivation for trade agreements, their limited power fuels concern that larger actors will impose sub-optimal outcomes. This has been a particular concern in the EU’s negotiations with the relatively small African, Caribbean and Pacific states, which have been criticized as ‘heavy-handed’.<sup>37</sup>

However, as rising powers have grown, so has their influence on international governance. For example, research on policy change at the IMF has emphasized how the insistence of a group of key rising powers, together with other emergent and developing countries, resulted in more permissive policy positions on managing capital flows.<sup>38</sup> A key element in their success was the fact that there were parallel shifts in policy thinking within the Fund, such that changes were related to changes not just in power, but also in ideas.

The importance of *ideas* to the evolution of trade policy has been highlighted in explaining Asian integration,<sup>39</sup> rising protectionism,<sup>40</sup> and Brexit. Analysis of the last of these, in particular, has found that ideas (and identity politics) may result in voters supporting policies which are counter to their economic interests.<sup>41</sup> In this article we focus not on the micro-level impact of ideas, but how they filter into governments’ policy preferences.

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<sup>35</sup> Chad Damro, ‘Market power Europe’, *Journal of European Public Policy* 19: 5, 2012, pp. 682–99; Steven McGuire and Johan Lindeque, ‘The diminishing returns to trade policy in the European Union’, *Journal of Common Market Studies* 48: 5, 2010, pp. 1329–49.

<sup>36</sup> Stephen and Parížek, ‘New powers and the distribution of preferences’.

<sup>37</sup> Hopewell, ‘When the hegemon goes rogue’, p. 7.

<sup>38</sup> Kevin Gallagher, *Ruling capital: emerging markets and the reregulation of cross-border finance* (Ithaca, NY: Cornell University Press, 2015).

<sup>39</sup> Aggarwal and Lee, *Trade policy in the Asia-Pacific*.

<sup>40</sup> Mansfield and Mutz, ‘US vs. them’.

<sup>41</sup> Owen and Walter, ‘Open economy politics and Brexit’.



A key idea affecting a government's position on FTA negotiations is the fundamental question of what a trade agreement should cover. Scholarship suggests that, as FTAs have proliferated, their geographical spread and nature—in respect of coverage, scope and depth—have changed. Recent FTAs cover increasingly 'deep' issues, such as regulatory regimes and labour standards, that are not usually addressed at the multilateral level.<sup>42</sup> Non-trade issues, especially environmental clauses and binding labour provisions,<sup>43</sup> are particularly prevalent in North–South (N–S) FTAs, partly to address concerns about unfair competition and reduce public opposition.<sup>44</sup> Thus, ideas about the issues covered in FTAs emerge in part from domestic interests.

Such ideas about FTA coverage are contested. 'Deep' N–S FTAs have been criticized for potential unequal distribution of gains, tariff revenue losses and the imposition of policy change on relatively less powerful developing countries.<sup>45</sup> Rising powers, especially India, have consistently resisted the inclusion of non-trade issues, particularly labour and human rights, in trade agreements.<sup>46</sup>

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<sup>42</sup> Roberto Fiorentino, Luis Verdeja and Christelle Toqueboeuf, *The changing landscape of regional trade agreements: 2006 update*, discussion paper no. 12 (Geneva: WTO, 2007); Damian Raess, Andreas Dur and Dora Sari, 'Protecting labor rights in preferential trade agreements: the role of trade unions, left governments, and skilled labor', *Review of International Organizations* 13: 2, 2018, pp. 143–62.

<sup>43</sup> Arslan T. Rana and Philippe Saucier, 'Les clauses environnementales dans les accords de libre-échange entre pays développés et pays émergents: analyse des déterminants', *Mondes en Développement*, vol. 162, 2013, pp. 49–66; Raess et al., 'Protecting labor rights'.

<sup>44</sup> Ida Bastiaens and Evgeny Postnikov, 'Social standards in trade agreements and free trade preferences: an empirical investigation', *Review of International Organisations* 15: 4, 2020, pp. 793–816.

<sup>45</sup> See, respectively: Robert Blecker, 'The new economic integration: structuralist models of North–South trade and investment liberalization', *Structural Change and Economic Dynamics* 7: 3, 1996, pp. 321–45; Matthias Busse and Harald Grossman, 'The trade and fiscal impact of EU/ACP economic partnership agreements on West African countries', *Journal of Development Studies* 43: 5, 2007, pp. 787–811; Hopewell, 'When the hegemon goes rogue'.

<sup>46</sup> Palit, 'Will India's disengaging trade policy restrict it': Stephen and Parizek, 'New powers and the distribution of preferences'.

### *Revised OEP framework*

Drawing on the above literature, figure 1 proposes a revised OEP framework to explain trade negotiating outcomes. First, following Lake,<sup>47</sup> it highlights the extensive interactions between the different levels and the need to account for power, including power shifts, in the framework. Second, it incorporates the effect of clashing (and changing) ideas and norms highlighted by Owen and Walter.<sup>48</sup> In the remainder of this article we demonstrate the value of this revised framework by using it to explain the stalled negotiations between the EU and India and to illuminate the chances of a future agreement.

<Insert figure 1 here>

### **Background and context of the EUIFTA**

The EU–India FTA (EUIFTA) negotiations have a long history. They were launched in a climate of optimism in 2007, when the then EU Trade Commissioner, Peter Mandelson, considered a deal with India ‘indispensable’, though he acknowledged: ‘We won’t achieve the gains we need if we aren’t willing to deal with the tough questions.’<sup>49</sup> Some observers were sceptical even in those early days of negotiations: ‘The EU has as little hope of concluding a strong FTA with India. The latter’s existing FTAs are weak and commercially nonsensical. India is still defensive and inflexible in the WTO.’<sup>50</sup> The extensive negotiations which took place up to 2013 were indeed difficult, resulting in the blockage which the two parties now seek to break. Politically, both sides have continued to consider an agreement desirable. This was evident at the 14th EU–India summit in 2017, where leaders ‘noted the ongoing efforts of both sides to re-engage actively towards timely relaunching negotiations for a comprehensive and mutually beneficial India–EU Broad Based Trade and Investment Agreement (BTIA)’.<sup>51</sup>

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<sup>47</sup> Lake, ‘Open economy politics’, p. 232.

<sup>48</sup> Owen and Walter, ‘Open economy politics and Brexit’.

<sup>49</sup> Peter Mandelson, ‘Europe and indispensable India’, speech at the EU–India Business Summit, New Delhi, 29 Nov. 2007.

<sup>50</sup> Razeen Sally, *Looking east: the European Union’s new FTA negotiations in Asia* (Brussels: European Centre for International Political Economy, 2007).

<sup>51</sup> European Council, *India–EU joint statement, 14th India–EU Summit*, Brussels, 6 Oct. 2017, [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_17\\_3743](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_17_3743)

In 2018, in the absence of further progress, the EU launched a new strategy for India;<sup>52</sup> then, in February 2021, a new dynamism was injected into discussions with the launch of a ‘high-level dialogue on trade and investment’.<sup>53</sup> These exchanges at ministerial level seem to have facilitated the decision at the joint summit in May 2021 to relaunch talks.

The EU-India FTA is an interesting case-study, with no parallel among other EU trade agreements. India is an attractive market for EU firms—a ‘rising power’ with high growth rates, a population of nearly 1.4 billion and an expanding middle class. The political economy context for these negotiations cannot be compared to that surrounding talks with a developed country, such as Japan or Canada, or a small developing country, such as Colombia. The difficulties in negotiating the kind of ‘deep’ FTAs that the EU seeks are particularly complex when partners have similar political weights and power, but very different levels of development and regulatory structures. We return to this question of relative power below.

To put the EU-India FTA negotiations into perspective, table 1 provides some background data on the key economic indicators in the period leading up to the negotiations (2004–2006), in the 2011–13 period, as the talks floundered, and more recently (2017–19), as efforts to restart talks intensified. Clearly GDP growth rates were higher in India throughout the period, and its population increased rapidly. Although India’s GDP and GDP per capita have remained well below that of the EU, their positive trajectory make it attractive to EU companies seeking new markets.

<Table 1 near here>

In trade terms, as Modi and Costa emphasized,<sup>54</sup> the EU has consistently been a key market for Indian firms. As figure 2 indicates, the post-Brexit EU-27 has had a small trade deficit with India throughout the last decade, although it has tended to grow recently and stood at over \$7 billion in 2020.

<Figure 2 near here>

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<sup>52</sup> European Commission and High Representative of the Union for Foreign Affairs and Security Policy, *Joint communication to the European Parliament and the Council: elements for an EU strategy on India* (Brussels, Nov. 2018).

<sup>53</sup> European Commission, *EU and India launched the High-Level Dialogue on Trade and Investment* (Brussels, 6 Feb. 2021), <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2242&title=EU-and-India-launched-the-High-Level-Dialogue-on-Trade-and-Investment>.

<sup>54</sup> Modi and Costa, ‘Trade and beyond’.

## Exploring interests, institutions and international interactions

In this section we draw on secondary and interview data to explain how shifts in the classic OEP factors—interests, institutions and international interactions—complicated the chances of successful EUIFTA negotiations, before we incorporate the role of power and ideas in the next section.

### *Interests*

Lake defines interests as ‘how an individual or group is affected by a particular policy’.<sup>55</sup>

Such interests are fairly easy to extrapolate from standard economic studies. In the EUIFTA, differences in the starting position of the two sides meant that tariff reductions by India would have been more significant than those made by the EU, resulting in disproportionate trade impacts. The difference in tariff profiles was particularly large in non-agricultural goods,<sup>56</sup> which explains Indian industries’ defensive stance.

Several studies exploring the economic impacts of the EUIFTA identified winners and losers and thus the key actors likely to mobilize to support their interests.<sup>57</sup> In terms of trade in goods, an increase in the EU’s manufactured goods exports to India of nearly \$8 billion was forecast from the FTA. In vehicles, where average tariffs in India were 41 per cent, a \$1.8 billion increase was forecast. Indian textiles and clothing exports to the EU, meanwhile were expected to grow by \$3.6 billion.<sup>58</sup>

The government of India’s study forecast net losses from goods trade liberalization, primarily as a result of the loss of tariff revenues, although net gains were expected from the

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<sup>55</sup> Lake, ‘Open economy politics’, p. 226.

<sup>56</sup> Yvon Decreux and Cristina Mitaritonna, *Economic impact of a potential free trade agreement (FTA) between the European Union and India*, Centre d’Etudes Prospectives et d’Informations Internationales (CEPII) (Brussels: DG Trade, 2007).

<sup>57</sup> Decreux and Mitaritonna, *Economic impact of a potential free trade agreement*; Sangeeta Khorana and Maria Garcia, ‘European Union–India FTA: one step forward, one back?’, *Journal of Common Market Studies* 51: 4, 2013, pp. 684–700; Sangeeta Khorana and Anand Asthana, ‘EU FTA negotiations with India: the question of liberalization of public procurement’, *Asia Europe Journal* 12: 3, 2014, pp. 251–63.

<sup>58</sup> Ducreux and Mitaritonna, *Economic impact of a potential free trade agreement*.

liberalization of services, which make up over half of the country's GDP.<sup>59</sup> Others forecast that, although an FTA could bring significant benefits for India, the social and political costs would also be substantial.<sup>60</sup> In spite of increases in Indian exports (5.5 per cent) and imports (3.4 per cent), and positive employment effects for approximately 2.3 million unskilled labourers, one study forecast welfare losses of \$250 million.<sup>61</sup>

Our interviews established that offensive and defensive interests conformed largely to expectations from these studies. One EU interviewee acknowledged that in goods, an open EU market meant that 'we have very little negotiating chips on our board'.<sup>62</sup> On the Indian side, potential gains by certain businesses were perceived to be too meagre to compensate for the concomitant losses.<sup>63</sup>

The interests of several sectors were problematic. Business informants indicated that India's automobile industry actively lobbied against liberalization.<sup>64</sup> In pharmaceuticals, both partners have large and politically powerful industries, with quite different interests. While the EU sought to strengthen the Indian Intellectual Property Rights (IPR) regime, India argued that this would restrict its pharmaceutical sector's sales of generic drugs.<sup>65</sup> The COVID-19 pandemic has only served to strengthen India's resolve to push for greater flexibility on IPR.

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<sup>59</sup> Government of India, *Exploring new regionalism—the EU, India and beyond, transcript of the proceedings from the conference organised by CENTAD, 30 October–1 November 2007* (New Delhi: Government of India, 2007).

<sup>60</sup> CARIS-CUTS International, *Qualitative analysis of a potential free trade agreement between the European Union and India*, report for DG Trade by Centre for the Analysis of Regional Integration at Sussex and Consumer Unity and Trust Society (CUTS) International (Brussels: European Commission, 2007).

<sup>61</sup> Sandra Polaski, A. Ganesh Kumar, Scott McDonald, Manoj Panda and Sherman Robinson, *India's trade policy choices* (Washington DC: Carnegie Endowment for International Peace, 2008).

<sup>62</sup> Author interview, European Commission official, Nov. 2014.

<sup>63</sup> Author interview, Confederation of Indian Industries official, New Delhi, July 2014.

<sup>64</sup> Author interview, Automotive Component Manufacturing Association official, New Delhi, July 2014.

<sup>65</sup> Magdalena Frennhoff Larsén, 'The increasing power of the European Parliament: negotiating the EU–India free trade agreement', *International Negotiation* 22: 3, 2017, pp. 473–98.

Mobilization of political interests in India mirrored the ambiguous impacts of economic studies, reflecting the longstanding absence of a domestic constituency supporting trade liberalization. Members of a European Parliament delegation that visited India in autumn 2013 expressed disappointment with perceptions of the EU-India FTA. Tata (a key player in automobiles and other sectors) was ‘definitely not enthusiastic’.<sup>66</sup> EU firms which had already invested heavily in India were also disinclined to support the agreement.

On the EU side, trade negotiators thought that some key European sectors which stood to gain, like wine and spirits, cars and financial services, would lobby MEPs.<sup>67</sup> Indeed, an impressive 15 trade associations, including those representing food and drink, services and retailers, issued a supportive joint statement before the 2013 EU–India ministerial meeting.<sup>68</sup> Nevertheless, an EU Commission official indicated that EU industry was willing to wait, rather than accept a sub-optimal agreement: ‘The message is clear that speed shouldn’t prevail over ambition.’<sup>69</sup>

Our interviews confirmed that India accorded priority to liberalization of services, which it perceived would better serve its interests. Modes 1 and 4 (cross-border service provision and the movement of skilled service professionals, respectively) were Indian priorities.<sup>70</sup> Mode 4 is controversial for the EU, because of confusion between such temporary movement and immigration, and concerns about lower Indian labour standards.<sup>71</sup> These concerns increased over the period of negotiations, with Europe suffering from the economic recession following

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<sup>66</sup> Author interview, European Parliament, Brussels, Nov. 2013.

<sup>67</sup> Author interview, European Commission official, Brussels, Nov. 2013.

<sup>68</sup> European Chemical Industry Council (CEFIC), Cerame-Uni, Cotance et al., *Call for an ambitious engagement with India—towards an ambitious free trade agreement*, joint statement by 15 European business organisations (Brussels, April 2013), <https://www.eurocommerce.eu/policy-areas/international-trade.aspx#PolicyUpdate/5528>

<sup>69</sup> Author interview, European Commission official, Brussels, Nov. 2014.

<sup>70</sup> Author interview, Indian Government representative, New Delhi, July 2014.

<sup>71</sup> Jan Wouters, Idesbald Goddeeris, Bregt Natens and Filip Ciortuz, ‘Some critical issues in the EU–India free trade agreement negotiations’, *European Law Journal* 20: 6, 2014, pp. 848–69.

on from the financial crash of 2008.<sup>72</sup> In addition, the EU had limited negotiating capacity, since member states are responsible for the provision of short-term visas.<sup>73</sup>

On foreign direct investment, the EU sought liberalization in retail, telecommunications and insurance. There was strong domestic opposition to this in India, which the Ministry of Commerce (MoC) confirmed hampered talks.<sup>74</sup> In addition, liberalization of public procurement caused difficulties.<sup>75</sup> The EU indicated that ‘it cannot envisage a deal that does not include market commitments on procurement’,<sup>76</sup> an objective supported by EU industry.<sup>77</sup> Indian resistance to this was also strong, and spread widely across the political spectrum and civil society.<sup>78</sup> Although India initially rejected including public procurement in talks,<sup>79</sup> MoC officials revealed that a ‘watered down’ version of a procurement chapter was included.<sup>80</sup> In any negotiations, the capacity of the state to ‘sell’ an agreement to its constituencies depends on the government’s ability to convince them that it serves the overall national interest. Analysis of the EU–Korea FTA demonstrated that, in the EU, economic discourse continued effectively to convince the key actors of the merits of liberalization.<sup>81</sup> The businesses we interviewed suggested that creating a comparable dynamic in India was challenging, especially given that existing FTAs with developed countries had had limited trade-creating effects.<sup>82</sup>

### *Institutions*

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<sup>72</sup> Frennhoff Larsén, ‘The increasing power of the European Parliament’.

<sup>73</sup> Author interviews, European Commission and European Parliament, Nov. 2013 and Nov 2014.

<sup>74</sup> Author interview, Indian Ministry of Commerce official, New Delhi, July 2014.

<sup>75</sup> Author interview, Indian Ministry of Commerce official, New Delhi, July 2014.

<sup>76</sup> European Commission, ‘EU and India hold bilateral discussions on new trade and investment agreement’, press release, 28 June 2007.

<sup>77</sup> CEFIC et al., *Call for an ambitious engagement with India*.

<sup>78</sup> Khorana and Asthana, ‘EU FTA negotiations with India’.

<sup>79</sup> ‘India, EU row over FTA’ *OneIndia News*, 30 Nov. 2007, <http://www.oneindia.com/2007/11/29/india-eu-row-over-fta-1196361259.html>.

<sup>80</sup> Author interview, Indian Ministry of Commerce official, New Delhi, July 2014.

<sup>81</sup> Siles-Brügge, ‘Resisting protectionism after the crisis’.

<sup>82</sup> Author interview, Confederation on Indian Industries official, New Delhi, July 2014.

*Increasing complexity in EU trade policy-making* Institutional constraints existed on both sides, most particularly for the EU. In 2009 the European Parliament (EP) acquired veto powers over trade agreements.<sup>83</sup> In 2012 they used these powers to reject a negotiated agreement—the Anti-Counterfeiting Trade Agreement (ACTA). This came as a shock in Brussels and was referred to by several interviewees as a crystallizing event for the EP’s new capacities.<sup>84</sup> The EP insists that adequate assurances must be secured from negotiating partners on labour rights, human rights and environmental protection. Specifically, the EP’s consent to FTAs with Colombia and Peru was conditional on commitments on human, environmental and labour rights.<sup>85</sup> Even in the relatively uncontroversial EU–Korea FTA, the EP delayed ratification and ‘flexed its political muscles’.<sup>86</sup>

The EP has been vocal in expressing its objectives for the EU–India FTA, issuing two early opinions, as well as a more recent one on the proposed relaunch. All underline the need for a substantial sustainable development chapter.<sup>87</sup> Labour rights objectives are, at ‘a minimum, compliance with the ILO’s eight core conventions and four priority conventions’.<sup>88</sup> This was not easy to negotiate, given India’s historical antipathy towards international agreements on labour standards,<sup>89</sup> and its unease about linking such issues to trade. Although questions have been raised about the capacity of the EP to impose its normative agenda, all EU interviewees

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<sup>83</sup> For a comprehensive analysis of the EU context for trade policy making, see Der-Chin Horng, ‘Reshaping the EU’s FTA policy in a globalizing economy: the case of the EU–Korea FTA’, *Journal of World Trade* 46: 2, 2012, pp. 301–26.

<sup>84</sup> Author interviews, European Commission and European Parliament officials, Brussels, Nov. 2013.

<sup>85</sup> European Parliament, *EU trade agreement with Colombia and Peru: European Parliament Resolution on the EU trade agreement with Colombia and Peru*, 7\_TA(2012)0249 (Brussels: European Parliament, 13 June 2012).

<sup>86</sup> Siles-Brügge, ‘Resisting protectionism after the crisis’ p. 646.

<sup>87</sup> European Parliament, *European Parliament Resolution on an EU–India free trade agreement*, P6\_TA (2009) 0189 (Brussels, 26 March 2009); *European Parliament Resolution on the state of play in the EU–India free trade agreement negotiations*, P7\_TA (2011) 0024 (Brussels, 11 May 2011); *EU–India relations*, P9\_TA(2021)0163 (Brussels, 29 April 2021).

<sup>88</sup> European Parliament, *European Parliament Resolution on the state of play*, para. 30.

<sup>89</sup> Gerry Rodgers, ‘India, the ILO and the quest for social justice since 1919’, *Economic and Political Weekly* 46: 10, 2011, pp. 45–52



concurred that the EU-India FTA without a chapter on sustainable development (SD) was inconceivable.

Indeed, one Commission official indicated: ‘Politically, it is not possible not to have it [the SD chapter].’<sup>90</sup> Although EU interviewees indicated that the Indian side understood this, they perceived them to be seeking an outcome with little implementation capacity, which would have little chance of getting assent from the EP. Interviewees in Brussels highlighted that the potential for the EP to reject agreements was a key framing factor when seeking consensus with India.<sup>91</sup> Thus, the interaction between interests and institutions was two-way, such that knowledge of the institutional constraints had an impact on the extent to which it was feasible to prioritize certain interests.

The EP also exerted its power in relation to human rights. EU negotiators had initially suggested that an exception should be made from the standard commitment to include human rights clauses in all trade agreements.<sup>92</sup> However, the EP objected strongly, underlining that ‘human rights and democracy clauses constitute an essential element of the FTA’ and highlighting concerns about the persecution of religious minorities and human rights activists in India.<sup>93</sup> They argued that human rights could not be excluded from the deal.<sup>94</sup>

Another aspect which increasing the complexity of the EU trade policy institutional structure was the acquisition of new EU powers to coordinate investment policy within trade negotiations. This potentially added 38 new veto players to the negotiating process (28 national parliaments and ten regional assemblies with responsibility for investment),<sup>95</sup> further complicating negotiations. Indeed, the EU–Canada Comprehensive Economic and Trade

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<sup>90</sup> Author interview, European Commission official, Brussels, Nov. 2013.

<sup>91</sup> Author interviews, European Commission and European Parliament officials, Brussels, Nov. 2013.

<sup>92</sup> Quoted in Jo Johnson, ‘EU–India trade pact stumbles on human rights rider’, *Financial Times*, 5 March 2007.

<sup>93</sup> European Parliament, *European Parliament Resolution on an EU–India free trade agreement*.

<sup>94</sup> Leeg, ‘Normative power Europe’; Frennhoff Larsén, ‘The increasing power of the European Parliament’.

<sup>95</sup> Hans von der Burchard and Chistian Oliver, ‘Walloon revolt against Canada deal torpedoed EU trade policy’, *Politico*, 13 Oct. 2016, <http://www.politico.eu/article/belgian-regional-government-set-to-block-eu-canada-trade-deal/>.

Agreement (CETA) was initially rejected by Belgium's Walloon assembly over concerns about investor protection.<sup>96</sup> The uncertainty created by the blockage of CETA undermined the EU's credibility, further reducing the chances of relaunching the EUFTA. It is now proposed to negotiate investment separately, removing one potential issue of blockage.

*The impact of Modi's premiership in India* On the Indian side, the main institutional evolution was Modi's accession to government in 2014. Although the FTA talks were already suspended by this point, the new government provided the potential for change. One European Commission official commented: 'The new government gives new and other hopes, but you need of course two to tango and for the moment it seems like they have other priorities.'<sup>97</sup> However, the launch of the 'Make in India' campaign subsequently prioritized local job creation over market opening, with little indication of a shift in India's defensive narrative on trade.<sup>98</sup> Extensive domestic initiatives exhausted quite a lot of political capital and further deflected external engagement. Indeed, the Modi government's interest in trade negotiations has been lukewarm at best.<sup>99</sup>

#### *International interactions*

The EUFTA negotiations did not occur in a vacuum. First, as members of the WTO both sides are bound by its rules that FTAs must liberalize 'substantially all trade'. Although there is scope to exclude sensitive sectors, partners cannot shelter large parts of their economy from liberalization.<sup>100</sup> Second, the nature and coverage of FTAs is subject to strong path dependency, which impinges on negotiations.<sup>101</sup> India has historically favoured shallow FTAs

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<sup>96</sup> Von der Burchard and Oliver, 'Walloon revolt against Canada deal'.

<sup>97</sup> Author Interview, European External Action Service official, Brussels, Nov 2014.

<sup>98</sup> Amrita Narlikar, 'India's foreign economic policy under Modi: negotiations and narratives in the WTO and beyond', *International Politics*, publ. online Feb. 2021, <https://doi.org/10.1057/s41311-020-00275-z>.

<sup>99</sup> Narlikar, 'India's foreign economic policy'; Palit, 'Will India's disengaging trade policy restrict it'.

<sup>100</sup> Gene M. Grossman and Elhanan Helpman, *The politics of free trade agreements*, NBER working paper no. 4597 (Washington DC: National Bureau of Economic Research, 1993).

<sup>101</sup> Christina L. Davis, 'Overlapping institutions in trade policy', *Perspectives on Politics* 7: 1, 2009, pp. 25–31.

with few non-trade aspects.<sup>102</sup> Indian trade officials expressed concern that including public procurement and sustainable development in the EUFTA would require similar ‘concessions’ in negotiations with other partners.<sup>103</sup> On the EU side, informants considered that its recent FTAs set high standards for labour and human rights. Accepting lower commitments from India could undermine their trade policy agenda.<sup>104</sup>

In terms of the ‘domino’ effect, the wider context of each partner’s trade policy had an impact on negotiating interests. Despite India’s high Most Favoured Nation (MFN) tariffs, with few FTAs, EU exports face little foreign competition, so the domino effect is not strong for the EU. However, the EU has a growing network of bilateral FTAs with India’s direct competitors. Thus, the domino effect could be a motivation for India, especially after the 2012 reform of the EU’s unilateral preference system—the Generalized System of Preferences (GSP)—reduced India’s EU market access compared to its competitors, such as Pakistan and Bangladesh.<sup>105</sup>

Another key factor that influenced the EUFTA talks was that several ‘super regional trade agreements (RTAs)’ were being negotiated simultaneously. The EU was discussing the Trans-Atlantic Trade and Investment Partnership (TTIP) with the United States. In Asia, the Trans-Pacific Partnership (TPP) talks excluded India, but included many of its neighbours. After the Trump administration pulled out of the TPP, the remaining eleven countries established the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). This large trading bloc within its region creates an incentive for India to seek partners elsewhere.

The CPTPP includes extensive binding labour and environment chapters,<sup>106</sup> and given India’s consistent opposition to linking trade with non-trade issues, its joining such an agreement seems unlikely. A credible alternative bloc for India was the Regional Comprehensive Economic Partnership (RCEP), an agreement being negotiated with 14 other Asia-Pacific

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<sup>102</sup> Dushni Weerakoon, ‘The political economy of trade integration in South Asia: the role of India’, *World Economy* 33: 7, 2010, pp. 916–27.

<sup>103</sup> Author interview, New Delhi, July 2014.

<sup>104</sup> Author interviews, European Commission officials, Nov. 2013 and Dec. 2018.

<sup>105</sup> Author interview, European Commission official, Nov. 2013.

<sup>106</sup> New Zealand Ministry for Foreign Affairs and Trade, *CPTPP vs TPP* (Wellington, n.d.), <https://www.mfat.govt.nz/vn/trade/free-trade-agreements/free-trade-agreements-in-force/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-cptpp/understanding-cptpp/cptpp-vs-tppt/>.

economies including, importantly, China, as well as some members of the CPTPP, such as Japan and Australia.<sup>107</sup> The development of such a competing trade bloc in its geographical vicinity, with a focus on ‘traditional’ trade issues and regional supply chains, was considered by interviewees to be a greater priority for India than the EUFTA.<sup>108</sup> This perception was shared by the EU. One informant noted: ‘India is worried about TTP and so agreeing a counterweight through RCEP is their priority.’<sup>109</sup>

India finally pulled out of RCEP as it was signed in 2019.<sup>110</sup> The Indian foreign minister explained that the withdrawal was linked to failure to address several of India’s ‘key concerns’. Given the likely ‘fairly immediate negative consequences’ for its economy, the government decided signing was not in the country’s interests.<sup>111</sup> He also indicated that India was not the only partner that had been preoccupied with other negotiations, and that the EU had also failed to prioritize India.

India’s decision to pull out of RCEP may create an opportunity for deeper cooperation with the EU.<sup>112</sup> In parallel, the EU’s relations with China have deteriorated in the past year, especially following its decision to impose sanctions for human rights abuses in Xinjiang. Thus the recent context has created a very different dynamic between the EU and India from that prevailing when the talks were paused. Specifically, their competing relationships with China have become less seductive, increasing the attraction of alternative partners. Whether this shift in international interactions is strong enough to counter persistent difficulties in the other aspects of the OEP framework will be a key factor in the success or failure of the talks. The COVID-19 pandemic has also exposed the weaknesses of global supply chains and the risks of overdependence, especially on China. Many countries are seeking to promote greater

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<sup>107</sup> Jagannath P. Panda, ‘Factoring the RCEP and the TPP: China, India and the politics of regional integration’, *Strategic Analysis* 38: 1, 2014, pp. 49–67.

<sup>108</sup> Author interviews, Indian Ministry of Commerce officials, New Delhi, July 2014.

<sup>109</sup> Author interview, European Commission official, Brussels, May 2016.

<sup>110</sup> Narlikar, ‘India’s foreign economic policy’; Palit, ‘Will India’s disengaging trade policy restrict it’.

<sup>111</sup> Jaishankar Subrahmanyam, speech at the webinar ‘Strategic conversation on EU–Indian relations’ (Brussels: Centre for European Policy Studies, 18 Nov, 2020), <https://www.youtube.com/watch?v=FR3dtczOLjQ>.

<sup>112</sup> Fleming and Brunsden, ‘EU and India agree to relaunch trade talks’.

self-reliance, especially but not only in medical goods.<sup>113</sup> Both India and the EU are keen to build more resilient and robust supply chains, and India wants to promote itself as an alternative manufacturing hub. In the post-COVID-19 world, economic relations between India and the EU will be defined not just by trade negotiations, but by the wider objective of securing reliable supply chains.<sup>114</sup>

Overall, our findings indicate that international interactions are closely linked to domestic institutions, as well as to the interests of capital and labour, which have an impact on priorities. At each stage of the process, we find that actors anticipate the impacts of later interactions, while these interactions themselves feed back into the mobilization of interests. For example, the EP's insistence on a strong SD chapter complicated the chances of agreement and undermined the case for industry to mobilize. Given that both sides were negotiating other partnership agreements in parallel, which seemed more likely to be ratified, industry's priorities shifted.

### **Lessons from the adapted OEP framework—integrating ‘power’ and ‘ideas’ in trade negotiations**

As discussed above, our analyses suggest two key factors that have substantial impact on trade negotiations, but do not fit easily within the classic OEP framework. The first is the relative power of the two protagonists and other actors at various levels of the framework; the second is the importance of the ideas and norms underlying (and enforcing) their respective negotiating positions.

#### *Power in the EU-India negotiations*

The global context has an impact on the political economy of negotiations, particularly the EU's ability to use market access as a bargaining chip.<sup>115</sup> Historically, its status as the most important global market has been central to its negotiating power and ability to export its

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<sup>113</sup> Curran and Eckhardt, ‘Why COVID-19 will not lead to major restructuring of global value chains’.

<sup>114</sup> Ankita Dutta, *Unpacking the India–EU economic relationship* (New Delhi: Observer Research Foundation, 26 April 2021), <https://www.orfonline.org/expert-speak/unpacking-india-eu-economic-relationship/>.

<sup>115</sup> McGuire and Lindeque, ‘The diminishing returns’.

norms.<sup>116</sup> The 2012 exclusion of India from much of its GSP scheme could be interpreted as the EU using market power to extract concessions.<sup>117</sup>

However, as indicated in table 1, the EU has seen lower growth rates than India, and this undoubtedly had an impact on the negotiations. The Indian government's position was advantaged by the growing importance of its domestic market: 'They feel they are in a position of strength.'<sup>118</sup> The shrinking of the EU through Brexit only confirmed this perception. Others expressed frustration with a perceived lack of Indian understanding of the EU's importance: 'India wants to be a Great Power and thinks that the EU can't help them.'<sup>119</sup> This sentiment that the EU was not a key priority for India only increased with the change of government, such that informants considered that the EU 'was not on India's radar screen'.<sup>120</sup> The recent rapprochement between the two indicates that India's priorities may have shifted.<sup>121</sup>

There was a clear awareness in the Commission that India was different from smaller developing countries, such as Colombia or Vietnam, and their negotiators were unlikely to react favourably to efforts to force their hand: 'Blackmailing a rising power is not a good strategy.'<sup>122</sup> The euro crisis, which was still very pressing when negotiations were suspended, was considered by informants to have weakened the EU's position. One interviewee indicated that the Indian attitude was: 'How can you try to tell us what to do, when the euro is in crisis?'<sup>123</sup>

The continuing difficulties in the negotiations also reflect wider conflicts in global governance, as rising powers, like India, play a growing role in rule-making within global institutions. These powers have increasingly used their growing economic weight to protect their interests, which may be very different from those of the established major world powers.

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<sup>116</sup> Ian Manners, 'Normative power Europe: a contradiction in terms?' *Journal of Common Market Studies* 40: 2, 2002, pp. 235–58.

<sup>117</sup> European Commission, *Midterm evaluation of the Generalized Scheme of Preferences*, SWD (2018) 430 final (Brussels, 2018).

<sup>118</sup> Author interview, European Commission official, Brussels, Dec. 2018.

<sup>119</sup> Author interview, European Parliament official, Brussels, Nov. 2013.

<sup>120</sup> Author interview, European Commission official, Brussels May 2016.

<sup>121</sup> Modi and Costa, 'Trade and beyond'.

<sup>122</sup> Author interview, European Commission official, Nov. 2013.

<sup>123</sup> Author interview, European Parliament official, Nov. 2013.

This makes agreements at international level, on issues as diverse as climate change and labour standards, increasingly difficult to achieve.<sup>124</sup>

*The impact of ideas and norms on EU-FTA negotiations*

A key evolution in ideational terms over the negotiating period was the increasing importance of non-trade issues, especially sustainable development, to EU trade policy. When negotiations with India were first proposed, the priority was growth and jobs. The EU objective was to ‘build a more comprehensive, integrated and forward-looking external trade policy that makes a stronger contribution to Europe’s competitiveness’.<sup>125</sup> The EU chose potential FTA partners with market potential and existing trade barriers. Thus, India emerged as ‘of direct interest’.<sup>126</sup> Over the subsequent years, EU trade priorities have changed, partly in reaction to the growing power of the EP. In 2014, the EU explicitly linked trade policy to European values, pledging that ‘trade policy will . . . not only project our interests, but also our values’.<sup>127</sup>

These values include linking trade to strong protection of labour rights, something which India has long resisted in international forums.<sup>128</sup> Its sensitivity on labour standards reflects sovereignty concerns about foreign efforts to ‘dictate’ India’s policies.<sup>129</sup> Indian business interests feared that the EU’s agenda was protectionist and would have adverse effects, especially for the labour-intensive clothing and carpet industries.<sup>130</sup> In this context, EU ideas on key ‘values’ were clearly seen to interact with Indian (competitive) interests. Interestingly,

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<sup>124</sup> Sandra Destradi and Cord Jakobeit, ‘Global governance debates and dilemmas: emerging powers’ perspectives and roles in global trade and climate governance’, *Strategic Analysis* 39: 1, 2015, pp. 60–72.

<sup>125</sup> European Commission, *Global Europe: competing in the world* (Brussels, 2006), p. 2.

<sup>126</sup> European Commission, *Global Europe: competing in the world*, p. 11.

<sup>127</sup> European Commission, *Trade for all* (Brussels, 2014), p. 4.

<sup>128</sup> Rodgers, ‘India, the ILO and the quest for social justice’, p. 50

<sup>129</sup> Dick Gupwell and Natalie Gupta, ‘EU FTA negotiations with India, ASEAN and Korea: the question of fair labour standards’, *Asia Europe Journal*, 7:1, 2009, pp. 79–95.; Rodgers, ‘India, the ILO and the quest for social justice’; author interview, New Delhi, July 2014.

<sup>130</sup> Author interviews, Confederation of India Industries and Confederation of Indian Textiles Industries officials, New Delhi, July 2014.

Indian NGOs, civil society and trade unions also expressed concerns about the likely adverse social effects of the FTA.<sup>131</sup>

This clash of ideas on the importance of incorporating ‘values’ into trade agreements was a key difficulty in the negotiations. In initial interviews, most EU respondents felt that the extent to which the agreement would be blocked over this issue depended on whether other aspects could be resolved. An EU trade negotiator remarked: ‘If it’s a good deal it will go through.’<sup>132</sup> Trade unions were resigned to a sub-optimal outcome: ‘India will sign up to something, which will be better than nothing.’<sup>133</sup>

Our findings indicate that shifts in the ideational focus of EU trade policy had an impact on the negotiations, with increased EP power making the inclusion of non-trade issues vital.<sup>134</sup> When negotiations were suspended, the EU delegation in India was firm in its view that ‘in the light of deteriorating labour conditions and given the obligations flowing from EU law, the EU might not give in on this matter’.<sup>135</sup> Most recently, the EU negotiator noted that ‘the discussion on TSD [Trade and Sustainable Development] chapters has moved forward, making it more difficult [to negotiate an FTA with India]’.<sup>136</sup> Business groups reiterated this sentiment: ‘There are a lot of things that have changed [in EU trade policy] and it is impossible to roll back.’<sup>137</sup> Overall, informants underlined that building consensus on FTAs was increasingly challenging, even in uncontroversial contexts such as the EU–Japan FTA.<sup>138</sup> The most recent EP report on India proposes a new, stronger mandate for any relaunched negotiations, to ensure ‘ambitious provisions on an enforceable Trade and Sustainable Development Chapter’.<sup>139</sup>

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<sup>131</sup> Gupwell and Gupta, ‘EU FTA negotiations with India’, p. 86.

<sup>132</sup> Author interview, European Commission Official, Brussels, Nov. 2013.

<sup>133</sup> Author interview, European Trade Union Conference official, Brussels, Nov. 2013.

<sup>134</sup> Frennhoff Larsén, ‘The increasing power of the European Parliament’.

<sup>135</sup> Author interview, Official of the Delegation of the European Union to India, New Delhi, July 2014.

<sup>136</sup> Author interview, European Commission official, Brussels, Dec. 2018.

<sup>137</sup> Author interview, Business Europe official, Brussels, Dec. 2018.

<sup>138</sup> Author interviews, European Commission and Business Europe officials, Brussels, Dec. 2018.

<sup>139</sup> European Parliament, *EU–India relations*.



Difficulties in FTA talks also mirror broader difficulties in India's relations with the West and in international negotiating forums, not least the WTO.<sup>140</sup> These conflictual relations are not just about power, but also about ideas. Narlikar has consistently argued that India's combative stance in the WTO is strongly influenced by its adopted role as *the* representative of the 'global South'. Resisting the imposition of ideas and norms in the EUFTA is coherent with this perceived leadership role, especially given the criticism of N-S FTAs which has emerged from the development community.<sup>141</sup>

Finally, one 'idea' which has figured increasingly in common statements between the EU and India is their common democratic principles. Prior research indicates that democracy favours FTAs. Shared democracy is mentioned four times in the recent joint op-ed,<sup>142</sup> and six times in the joint summit statement. Whether this idea of allying key democracies overrides the competing idea that trade liberalization needs to be framed by binding sustainable development commitments will be key to future progress on the EUFTA.

## **Conclusion**

In an increasingly fractious global economy, it is more important than ever that we understand the complexities of international trade negotiations and the factors that explain blockages as well as those that explain agreement. This article aims to contribute to future research by proposing a more extensive and integrated OEP framework to support analysis of actual and potential trade negotiations and shed light on both their likely success and potential sources of difficulty. We have shown how the theoretical framing around OEP can develop iteratively, learning from, and informing, experience around trade policy negotiations. We have both incorporated a more multidirectional view of interactions and added two novel factors which have been highlighted as increasingly important to negotiating outcomes—*power* and *ideas*. We have validated the effectiveness of this revised framework by using it to explore the factors behind the blockage of the EUFTA negotiations and the chances of future agreement. We illustrate how the difficulties which have emerged can indeed be traced across the three

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<sup>140</sup> Narlikar, 'India rising'; Narlikar, 'India's foreign economic policy'; Destradi and Jakobeit, 'Global governance debates and dilemmas'.

<sup>141</sup> Blecker, 'The new economic integration'; Busse and Grossman, 'The trade and fiscal impact of EU/ACP economic partnership agreements'; Hopewell, 'When the hegemon goes rogue'.

<sup>142</sup> Modi and Costa, 'Trade and beyond'.

vectors identified by Lake and Oatley.<sup>143</sup> However, the negotiations were also affected by overarching issues of power and ideas. In addition, the interactions which we find are not necessarily linear: there are extensive cross-issue interactions. In undertaking this analysis, we highlight how exploring trade negotiations over time, and across the different factors incorporated in our framework, can help to clarify both the sources of difficulties in negotiations and the links between them.

The complexity of negotiations makes it difficult to explain success or failure on the basis of a single dimension. It became clear in interviews for this project that negotiators consider all the different aspects discussed to be interrelated. Domestic interests cannot be divorced from the institutional constraints framing a future agreement, while the capacity to extract concessions, depends not only on interests, but also on potential alternative agreements, perceptions of relative power, and ideas about each partner's role in the world.

By integrating and expanding the different levels of analysis proposed in the OEP framework, this article provides a more in-depth and robust explanation of the EU-FTA negotiation blockage than would be possible using a unidimensional approach, while our qualitative approach enables us to explore the links between levels in detail. Future research could build on our revised OEP framework to explain the outcome of other trade negotiations, as well as those in other areas, such as climate change, where interests and institutions clash.<sup>144</sup>

Another key area for future research will be the emerging conflict on international trade governance. For decades, the key global trade rules were set in the WTO, but the Trump administration's hostility to the organization meant that it faced an existential crisis even before the COVID-19 pandemic. In parallel, high-profile bilateral negotiations between the US and both the EU and China have incorporated agreements on 'managed trade' that are clearly contrary to WTO rules. Increased global trade restrictions as a result of the pandemic only serve to undermine these rules further.

If global trade liberalization increasingly takes place in regional and bilateral contexts, this will change its nature and coverage, as well as how it is governed. Negotiations will also become more difficult, owing to a clash of visions between rising and established powers on the links between trade and other issues, such as labour rights, human rights and intellectual property rights. Will 'liberal' values around labour, human rights and even environmental

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<sup>143</sup> Lake, 'Open economy politics'; Oatley, 'Open economy politics and trade policy'.

<sup>144</sup> Lavanya Rajmani, 'The changing fortunes of differential treatment in the evolution of international environmental law', *International Affairs* 88: 3, 2012, pp. 605–23.

sustainability issues espoused in the West, through organizations like the EU and democratically elected bodies like the EP, become less significant in a world where regional and rising powers shape new trade agreements with different ideational and normative concerns? Will there be an ‘erosion’ of attempts to implement labour standards through bilateral trade agreements? Will organizations such as the EU have to become more ‘flexible’ in terms of how, and with whom, they negotiate SD objectives in trade agreements? In any event, the retreat of multilateralism is likely to cause major changes in global trade governance. One aspect of this shift is that the substantive growth in South–South trade, not just in commodities and intermediates, but also in terms of finished goods, creates a greater need for understanding and investigation of the political economy dynamics framing trade agreements between parties in the global South. The revised framework presented here aims to help analysts and policy-makers to address these questions and better understand these processes, which will certainly shape trade governance in the twenty-first century.