

It takes two to tango: Building on Open Economy Politics to Understand the Stalled EU-India Trade Negotiations

Introduction

At their spring 2021 virtual summit in Porto, the European Union (EU) and India renewed their pledge to deepen their economic partnership and revive their trade negotiations. This objective was met with some scepticism¹. In an op-ed prior to the summit, the prime ministers of India and Portugal recognised that the realisation of ambitious objectives in EU-India relations had long been a challenge². The EU-India FTA (EUIFTA) negotiations, launched in 2007, have been languishing. Despite sixteen FTA negotiation rounds, there was little progress and in 2013 the negotiations were paused³. The reasons behind this blockage were complex and varied. In this paper we build on an established conceptual framework – Open Economy Politics (OEP)⁴ – to explore the factors which explain the failure to conclude the EUIFTA. In doing so, we provide a theoretical basis for what Owen and Walter call ‘2nd Generation’ OEP analysis⁵, by 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 the EUIFTA, 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 its profile⁶ while multilateral cooperation in the World Trade Organisation (WTO) has been undermined by US intransigence⁷. These conflicts have also highlighted the fact that trade agreements are complex, take time and require hard political compromises. The Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU took almost eight years to finalise, while the EU-Mercosur FTA negotiations took over twenty and the agreement is still not ratified. Some trade agreements are never concluded, despite extensive negotiations.

¹ Oliver and Lau, 2021; Fleming and Brunsden, 2021

² Modi and Costa, 2021

³ Leeg, 2014

⁴ Developed by Lake 2009 and Oatley 2017

⁵ Owen and Walter, 2017

⁶ Curran and Eckhardt, 2021

⁷ Hopewell, 2021

Trade policy literature traditionally focusses on explaining successful trade negotiations, highlighting the potential gains for different trade partners⁸. What is 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 given increased public scrutiny of trade policy.

This paper takes a longitudinal perspective and draws on in-depth, multiple interviews undertaken over five years with key stakeholders involved in the FTA negotiation process. It builds on the OEP trinity of interests, institutional constraints and international interactions to analyse the EUFTA negotiations. By drawing on our case experience, we extend the framework by adding two additional factors - power and ideas. The strength of this paper is the application of our adapted OEP framework to the EUFTA talks. We use this analytical framework to understand how diverging domestic interests, institutional constraints and the prioritisation of other international partnerships contributed to the loss of momentum within the talks. However, we also highlight from our case analysis how power and ideas are also important to outcomes. Our case study evidence thus significantly advances traditional theorising on OEP.

Firstly, negotiations have been impacted 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 interests⁹. Secondly, in terms of ideational 'values and norms' the EU's trade agreements increasingly address normative aspects, such as labour, human rights and sustainability concerns¹⁰, issues that 'Rising Powers' are very reluctant to address within trade agreements¹¹. 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 to explore the motivations and processes of trade negotiations, to properly explain outcomes, 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 version of the

⁸ e.g. Baier and Bergstrand, 2004; Baldwin and Jaimovich, 2012; Siles-Brügge, 2011; Baier et.al. 2014

⁹ Nadvi 2014; Narlikar 2010, 2013; Palit, 2021; Stephen and Parížek, 2019

¹⁰ Harrison et al, 2019

¹¹ Palit, 2021; Stephen and Parížek, 2019

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framework will provide a fruitful basis for researchers undertaking 2nd generation OEP analysis of future bilateral and multilateral trade negotiations.

Methodologically, this paper leverages 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 allows 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 – senior Commerce Ministry officials, business associations, academics and think tanks. The interviews provided detailed insights on perceptions of the respective partners in the EUFTA negotiations process enabling us to identify the key difficulties over the negotiating timeframe.

The paper is structured as follows: we outline our approach, discussing the basis of the 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 leveraging our data to investigate the key elements of the classic OEP approach - interests, institutions and international interactions – and the two factors that emerge from our research as impacting on the negotiations: power and ideas/norms. We conclude with the main findings and propose directions for further research.

Open Economy Politics Approach

The Open Economy Politics framework highlights the importance of understanding the role of domestic interests, political institutions

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and international interactions in shaping trade policy¹². Within the field of international political economy (IPE), OEP is now widely used to analyse a range of areas of regulation and governance¹³, including a recent analysis of Brexit¹⁴. Our interest in the OEP approach is motivated in particular by Lake's critique¹⁵ and Oatley's identification of the importance of OEP factors to trade policy¹⁶.

The OEP framework focusses firstly on interests in the economy, although the heterogeneity of firms within industries and their differential integration into the global economy makes definition of such interests increasingly complicated¹⁷. The OEP framework assumes that interests interact with domestic political institutions, through lobbying and other means of interest representation, resulting in policy outcomes. Finally, these policy outcomes interact at the international level through inter-state bargaining, framed by international institutions, such as the WTO.

In leveraging the OEP framework we also aim to enhance it by emphasising 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 the following manner. In relation to the former point¹⁸. Firstly, while researchers tend to explore each level in isolation¹⁸, we argue that one dimension cannot explain the outcome of negotiations. Domestic interests interact with national institutional constraints, which define the terms of international engagement and limits potential outcomes. Thus, the three levels must be integrated to fully understand the process. Secondly¹⁹In terms of novel additions, in line with Lake, we argue that the interaction between the different levels is not linear, but multidirectional¹⁹, such that interests are impacted by actual or potential international interactions and institutions are partly a reflection of interests in the domestic political economy. Finally, our analysis of the literature highlights that the FTA negotiating process is strongly impacted 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 better understand the outcome of trade negotiations and thus propose a new, more extensive and integrated framework, which we then use to explain the EU-FTA case.

¹² Lake 2009; Oatley 2017

¹³ Mattli and Woods 2009; Kahler and Lake 2003

¹⁴ Owen and Walter 2017

¹⁵ Lake, 2009

¹⁶ Oatley, 2017

¹⁷ Oatley, 2017

¹⁸ Oatley, 2017

¹⁹ Lake, 2009

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 International Political Economy (IPE) exploring how individual interests can be derived from the distributional consequences of trade policy change²⁰. The rise in protectionism across the developed world, has reignited analyses of such consequences, with some researchers reporting linkages between the negative effects of trade and voting behaviour in the US and UK²¹. However, research has failed to find robust interactions between direct economic impacts of trade and voter attitudes, which seem to be more impacted by ethno-centric views of ‘otherness’²². Indeed, it has been suggested that the interests of organised actors, such as firms and trade unions ~~are~~[may be](#) more relevant than those of individuals²³.

Purely ‘economic’ interests like market size and growth rates have been shown to explain many FTAs²⁴. The standard economic impact assessments which are widely used to garner support for EU FTAs, are based on such analyses²⁵. However, European civil society considers ‘interests’ to be far wider, including human rights, environmental and social protection²⁶. There are thus clear linkages between interest mobilisation by civil society and domestic institutions.

In terms of these *institutions*, there is a robust support for links between democracy²⁷, political distance²⁸ and FTA formation. Growing attention has also been paid to the role of domestic political constituencies, especially ‘veto players’, who have a strong impact on both the chances of trade negotiations succeeding²⁹ and the characteristics of agreements, i.e. depth, transition periods, escape clauses and dispute settlement provisions³⁰. 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 highlight that FTAs can be leveraged by domestic constituencies to secure reforms perceived as favourable to growth and competitiveness³¹.

²⁰ see Oatley, 2017 for a review

²¹ Autor et al. 2017; Colantone and Stanig, 2018

²² Mansfield and Mutz, 2013; Owen and Walter 2017

²³ Oatley, (2017: 6)

²⁴ Baier and Bergstrand, 2004; Baldwin and Jaimovich, 2012

²⁵ Siles-Brügge, 2011

²⁶ Dür and Mateo, 2014; Farrand, 2015

²⁷ Mansfield et al, 2008

²⁸ Baldwin and Jaimovich, 2012

²⁹ Mansfield et al. 2008

³⁰ Allee and Elsig, 2017

³¹ Aggarwal and Lee, 2011

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’³². In the case of the EU, overcoming discrimination due to existing FTAs was an important motivation behind trade negotiations with South Korea³³, Mexico and Chile³⁴. International interactions can also have negative effects, in that parallel negotiations on alternative partnerships may distract government attention.

In addition, to these classic issues, two factors emerge from our analysis of the literature, and our case material, that impact on trade negotiations, but which 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.

The impact of *power* on inter-state relations has been very widely studied in international relations³⁵. In the context of trade negotiations, the relative power of the protagonists is intricately linked to the 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’³⁶ and a key reason why Rising Powers have become increasingly attractive FTA partners³⁷. In addition, FTA negotiations are inevitably impacted by the power of different institutions at domestic level, with players with ‘veto power’ strongly influencing negotiations.

However, it is at the level of interactions between the negotiating partners that the notion of relative power is most relevant³⁸. While for developing countries, market access is a primary motivation for trade agreements, their limited power fuels concerns 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 (ACP) states, which have been criticised as ‘heavy-handed’³⁹.

However, as Rising Powers have grown, so has their influence on international governance. For example, research on policy change at the International Monetary Fund (IMF), has underlined how their insistence resulted in indulgent policy positions on managing capital

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³² Baldwin and Jaimovich, 2012

³³ Siles-Brügge, 2011

³⁴ Dür, 2007

³⁵ Nye, 2011; Keohane and Nye, 2011

³⁶ Damro, 2012; McGuire and Lindeque, 2010

³⁷ Stephen and Parizek, 2019

³⁸ Lake, 2009; Oatley, 2017

³⁹ Hopewell, 2021 : 7

flows⁴⁰. 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 not just to changes in power, but also in ideas.

The importance of *ideas* to the evolution of trade policy has been highlighted in explaining Asian integration⁴¹, increasing protectionism⁴² and Brexit. Analysis of the latter, in particular, has found that ideas (and identity politics) may result in voters supporting policies which are counter to their economic interests⁴³. In this paper we focus not on the micro level impact of ideas, but how they filter into governments' policy preferences.

A key idea impacting on governments' 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, i.e. coverage, scope and depth, has changed. Recent FTAs cover increasingly 'deep' issues, like regulatory regimes and labour standards, not usually addressed at the multilateral level⁴⁴. Non-trade issues, especially environmental clauses⁴⁵ and binding labour provisions⁴⁶ are particularly prevalent in North-South (N-S) FTAs, partly to address concerns about unfair competition and reduce public opposition⁴⁷. 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 criticised for potential unequal distribution of gains⁴⁸, tariff revenue losses⁴⁹ and the imposition of policy change on relatively less powerful developing countries⁵⁰. Rising Powers, especially India, have consistently resisted the inclusion of non-trade issues, particularly labour and human rights, in trade agreements⁵¹.

Revised OEP framework

Drawing on the above literature, Figure 1 proposes a revised OEP framework to explain trade negotiating outcomes. Firstly, following Lake,⁵² it highlights the extensive interactions between the different levels and the need to account for power, including power shifts, in the framework.

⁴⁰ Gallagher, 2015

⁴¹ Aggarwal and Lee, 2011

⁴² Mansfield and Mutz, 2013

⁴³ Owen and Walter, 2017

⁴⁴ Fiorentino, Verdeja and Toqueboeuf, 2007; Raess and Sari, 2018

⁴⁵ Rana and Saucier, 2013

⁴⁶ Raess and Sari, 2018

⁴⁷ Bastiaens and Postnikov, 2020

⁴⁸ Blecker, 1996

⁴⁹ Busse and Grossman, 2007

⁵⁰ Hopewell, 2021

⁵¹ Palit, 2021; Stephen and Parizek, 2019

⁵² Lake 2009: 232

Secondly, it incorporates the effect of clashing (and changing) ideas and norms highlighted by Owen and Walter⁵³. ~~In the remainder of this paper we validate draws on the utility of this revised framework by using it to explore~~ in the remainder of this paper we validate the utility of this revised framework by using it to explore the stalled negotiations between the EU and India and illuminate the chances of a future agreement.

Add 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’, although he acknowledged: ‘We won’t achieve the gains we need if we aren’t willing to deal with the tough questions’⁵⁴. Some observers were sceptical even in these 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...’⁵⁵. The extensive negotiations which took place prior 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 to be 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)’⁵⁶. Although, in the absence of progress, the EU launched a new strategy for India⁵⁷, a new dynamism was injected into discussions with the launch of a High Level Dialogue on Trade and Investment in February 2021⁵⁸. These exchanges at Ministerial level seem to have facilitated the decision at the May’s joint summit held in May 2021 to relaunch talks.

The EUIFTA is an interesting case study with no parallel compared with 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 behind these negotiations cannot be compared to talks with a developed country, like Japan or Canada, or a small developing country, like Colombia. The difficulties in negotiating the kind

⁵³ Owen and Walter 2017

⁵⁴ Mandelson, 2007

⁵⁵ Sally, 2007

⁵⁶ European Council, 2017

⁵⁷ CEC and HRUFASP, 2018

⁵⁸ CEC, 2021

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.

In order to put EU-India negotiations into perspective, Table 1 provides background data on the key economic indicators in the period leading up to the negotiations (2004-6), in the 2011-13 period, as the talks floundered and more recently, as efforts to restart talks intensified. Clearly GDP growth rates were higher in India throughout the period, while the population increased rapidly. Although India’s GDP and GDP/capita have remained well below that of the EU-28, their positive trajectory make it attractive to EU companies seeking new markets.

Table 1 - Key indicators EU and India (3 year averages)												
	GDP (Current \$US)			GDP growth			GDP/Capita (Current \$US)			Population		
	2004-6	2011-13	2017-19	2004-6	2011-13	2017-19	2004-6	2011-13	2017-19	2004-6	2011-13	2017-19
India	0,82 tr	1,84tr	2,74tr	8%	5,70%	5,80%	716	1451	2029	1147m	1265m	1352m
EU	12 tr	15,22tr	15,55tr	2,60%	0,34%	2,15%	27556	34481	34576	435m	441m	447m

Source – World Bank

In trade terms, as underlined by Modi and Costa⁵⁹, the EU has consistently been a key market for Indian firms. As Figure 2 indicates, the post-Brexit EU27 has had a small trade deficit with India throughout the last decade, although it has tended to grow recently and stood at over \$7bn in 2020.

Add Figure 2 here

Exploring Interests, Institutions and International Interactions

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

Interests

Lake defines interests as: ‘...how an individual or group is affected by a particular policy’⁶⁰. Such interests are fairly easy to impute from standard economic studies. In the EU-India negotiations, differences in the starting position of the two meant that tariff reductions by India would have been more significant than the EU, resulting in disproportionate trade impacts. The difference in tariff profiles was particularly large in non-agricultural goods⁶¹, which explains Indian industries’ defensive stance.

Several studies exploring the economic impacts of the EU-India negotiations identified winners and losers and thus the key actors likely to mobilise to support their interests⁶². In goods trade, an increase in EU’s manufactured goods exports to India of nearly \$8bn was forecast from the FTA. In vehicles, where average tariffs in India were 41%, a \$1.8bn increase was forecast. Indian textiles and clothing were exports expected to grow by \$3.6bn⁶³.

⁵⁹ Modi and Costa, 2021

⁶⁰ Lake, 2009:226

⁶¹ Decreux and Mitaritonna, 2007

⁶² Decreux and Mitaritonna, 2007; Khorana and Garcia 2013; Khorana and Asthana 2014

⁶³ Decreux and Mitaritonna, (2007)

The Government of India's study forecast net losses from goods trade liberalisation, primarily as a result of the loss of tariff revenues, although net gains were expected from the liberalisation of services, which make up over half of GDP⁶⁴. Others forecast potential welfare losses for India⁶⁵. In spite of increases of Indian exports (5.5%) and imports (3.4%) and positive employment effects for approximately 2.3 million unskilled labourers, one study forecast welfare losses of S\$250 million⁶⁶.

Our interview findings found that offensive and defensive interests conform largely to expectations from these studies. One EU interviewee acknowledged that in goods, an open EU market meant: *'...we have very little negotiating chips on our board'*⁶⁷. On the Indian side, potential gains by certain businesses were perceived to be too meagre to compensate losses⁶⁸.

The interests of several sectors were problematic. Business informants indicated that India's automobiles industry actively lobbied against liberalisation⁶⁹. In pharmaceuticals, both partners have large and politically powerful industries, with quite different interests. While the EU sought to strengthen the Indian IPR regime, India argued that this would restrict its pharmaceutical sector to sales of generic drugs⁷⁰. The COVID pandemic has only served to strengthen India's resolve to push for greater IPR flexibilities⁷¹.

Political interest mobilisation in India mirrored the ambiguous impacts of economic studies, reflecting the long-standing absence of a domestic constituency supporting trade liberalisation⁷². A European Parliament delegation visited India in Autumn 2013. Members expressed disappointment with perceptions on the EUFTA. Tata (a key player in autos and other sectors) was *'definitely not enthusiastic'*⁷³. EU firms which had already invested heavily in India were also disinclined to support it.

On the EU side, trade negotiators considered that some key European sectors which stood to gain, like wine and spirits, cars and financial services, would lobby MEPs⁷⁴. Indeed, an impressive 15 trade associations, including food and drink, services and retailers, issued a supportive joint statement before the 2013 EU-India ministerial meeting⁷⁵. Nevertheless, an EU

⁶⁴ Government of India, 2007

⁶⁵ CARIS-CUTS, 2007.

⁶⁶ Polaski et al. (2008).

⁶⁷ Author interview, European Commission, November 2014

⁶⁸ Author interview, New Delhi July 2014

⁶⁹ Author interview, New Delhi, July 2014

⁷⁰ Frennhoff Larsén, 2017

⁷¹ Olivier and Lau, 2021

⁷² Palit, 2021

⁷³ Author interview, European Parliament, November 2013

⁷⁴ Author interview, Brussels, November 2013

⁷⁵ CEFIC et al. 2013

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'*⁷⁶.

Interviews confirmed that India prioritised services liberalisation, where it perceived its interests to be better served. Mode 1 and 4 (cross border service provision and the movement of skilled service professionals, respectively) were Indian priorities⁷⁷. Mode 4 is controversial for the EU because of confusion between such temporary movement and immigration and concerns about lower Indian labour standards⁷⁸. These concerns only increased over the period of negotiations, with the economic recession in Europe⁷⁹. In addition, the EU had limited negotiating capacity, since short-term visa provision is a Member State competence⁸⁰.

On foreign direct investment (FDI), the EU sought liberalisation in retail, telecom and insurance. There was strong domestic opposition in India which the Ministry of Commerce (MoC) confirmed hampered talks⁸¹. In addition, public procurement liberalisation caused difficulties⁸². The EU indicated that *'it cannot envisage a deal that does not include market commitments on procurement'*⁸³, an objective supported by EU industry⁸⁴. There was strong resistance in India, shared across the political spectrum and civil society⁸⁵. Although India initially rejected including public procurement in talks⁸⁶, MoC officials revealed that a 'watered down' version of a procurement chapter was included⁸⁷.

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 to effectively convince the key actors of the merits of liberalisation⁸⁸. The businesses interviewed suggested that creating a comparable dynamic in India was challenging, especially given that existing FTAs with developed countries had had limited trade creating effects⁸⁹.

Institutions

⁷⁶ Author interview, November 2014

⁷⁷ Author interview, New Delhi, July 2014

⁷⁸ Wouters et al., 2014

⁷⁹ Frennhoff Larsén, 2017

⁸⁰ Author interviews, European Commission and Parliament, November 2013 and 2014

⁸¹ Author interview, New Delhi, July 2014

⁸² Author interview with MoC, New Delhi, July 2014

⁸³ CEC, 2007.

⁸⁴ CEFIC et al. 2013

⁸⁵ Khorana and Asthana 2014.

⁸⁶ Oneindia News, 2007

⁸⁷ Author interview, New Delhi, July 2014

⁸⁸ Siles-Brügge, 2011

⁸⁹ Author interview, 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.ⁱ The EP has used its powers to reject a negotiated agreement – the Anti-Counterfeiting Trade Agreement (ACTA)⁹⁰. This came as a shock in Brussels and was referred to by several interviewees as a crystallising event for the EP's new powers⁹¹. The EP insists that adequate assurances must be secured from negotiating partners on labour, 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 rights⁹². Even in the relatively uncontroversial EU-Korea FTA, the EP delayed ratification and '*...flexed its political muscles...*'⁹³.

The EP has [been](#) vocal on its [proprietiesobjectives](#) for the EUIFTA, issuing two early opinions, as well as a [more](#) recent [onepinion](#) on the proposed relaunch. All underline the need for a substantial sustainable development chapter⁹⁴. Labour rights objectives are '*...a minimum, compliance with the ILO's eight core conventions and four priority conventions...*'⁹⁵. This was not easy to negotiate, given India's historic antipathy towards international agreements on labour standards⁹⁶ and unease about linking such issues to trade⁹⁷. Although questions have been raised about the capacity of the EP to impose its normative agenda⁹⁸, all EU interviewees concurred that the EUIFTA without a sustainable development (SD) chapter was inconceivable.

A Commission official indicated: '*Politically, it is not possible not to have it [the SD chapter]...*'⁹⁹. 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 India¹⁰⁰. Thus, the interaction between interests and institutions was two-way, such that knowledge of the institutional constraints impacted on the extent to which it was feasible to prioritise certain interests.

⁹⁰ EP, 2012a; Farrand, 2015

⁹¹ Author interviews, European Commission and EP, November 2013

⁹² EP, 2012b

⁹³ Siles-Brügge, 2011: 646

⁹⁴ EP, 2009, 2011, 2021

⁹⁵ EP, 2011: para 30

⁹⁶ Rodgers, 2011

⁹⁷ Palit, 2021

⁹⁸ Leeg, 2014

⁹⁹ Author interview, November 2013

¹⁰⁰ Author interviews, European Commission and EP, November 2013

The EP also leveraged 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 agreements¹⁰¹. However, the Parliament objected strongly, underlining that ‘...human rights and democracy clauses constitute an essential element of the FTA’ and highlighting concerns on the persecution of religious minorities and human rights activists in India¹⁰², such that human rights could not be excluded from the deal¹⁰³.

Another aspect of increased complexity in the EU trade policy institutional structure was that the EU has acquired new powers to coordinate investment policy within trade negotiations. This potentially added 38 new veto players to the negotiating process (28 national parliaments and 10 regional assemblies which had responsibility for investment)¹⁰⁴, complicating negotiations¹⁰⁵. Indeed, the EU-Canada Comprehensive Economic and Trade Agreement (CETA) was initially rejected by Belgium’s Walloon assembly over concerns about investor protection¹⁰⁶. 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 blockage¹⁰⁷.

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, 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.*’ However, the launch of the ‘Make in India’ campaign subsequently prioritised local job creation over market opening, with little indication of a shift in India’s defensive narrative on trade¹⁰⁸. 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 best¹⁰⁹.

International Interactions

¹⁰¹ Quoted in Johnson, 2007

¹⁰² EP, 2009

¹⁰³ Leeg 2014; Frennhoff Larsén, 2017

¹⁰⁴ von der Burchard and Oliver, 2016

¹⁰⁵ Mansfield et al. 2008

¹⁰⁶ von der Burchard and Oliver, 2016

¹⁰⁷ Modi and Costa, 2021

¹⁰⁸ Narlikar, 2021

¹⁰⁹ Narlikar, 2021; Palit, 2021

EUIFTA negotiations did not occur in a vacuum. Firstly, as members of the WTO they are bound by its rules that FTAs must liberalise ‘substantially all trade’. Although there is scope to exclude sensitive sectors, partners cannot shelter large parts of the economy from liberalisation¹¹⁰. Secondly, there is strong path dependency in terms of nature and coverage of FTAs, which impinges on negotiations¹¹¹. India has historically favoured shallow FTAs with few non-trade aspects¹¹². Indian trade officials expressed concern that including public procurement and sustainable development in the EUIFTA would require similar ‘concessions’ in negotiations with other partners¹¹³. On the EU side, informants considered that ~~recent~~ its recent FTAs set high standard for labour and human rights. Accepting lower commitments from India could undermine their trade policy agenda¹¹⁴.

In terms of the ‘domino’ effect, the wider context of each partner’s trade policy impacted on negotiating interests. Despite India’s high 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 Generalised System of Preferences (GSP) – reduced India’s EU market access compared to competitors, like Pakistan and Bangladesh¹¹⁵.

Another key factor that influenced the EUIFTA talks was that several ‘Super Regional Trade Agreements (RTAs)’ were being negotiated simultaneously. The EU was discussing TTIP with the USA¹¹⁶. In Asia, Trans-Pacific Partnership (TTP) talks excluded India, but included many neighbours. After the Trump administration pulled out of TPP the remaining 11 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.

~~However, t~~he CPTPP includes extensive binding labour and environment chapters¹¹⁷. Given India’s consistent opposition to linking trade with non-trade issues, 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

¹¹⁰ Grossman and Helpman, 1993

¹¹¹ Davis, 2009

¹¹² Weerakoon, 2010

¹¹³ Author interview, New Delhi, July 2014

¹¹⁴ Author interviews, European Commission, November 2013 and December 2018

¹¹⁵ Author interview, European Commission, November 2013

¹¹⁶ VanGrasstek, 2016

¹¹⁷ MFAT, nd

Asia-Pacific economies including importantly, China, as well as some members of CPTPP, like Japan and Australia¹¹⁸. The development of a competing trade bloc with a focus on ‘traditional’ trade issues and regional supply chains in its geographical vicinity, was considered by interviewees to be a greater priority for India than the EUIFTA¹¹⁹. 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.*’¹²⁰.

India finally pulled out as RCEP was signed in 2019¹²¹. The Indian Foreign Minister explained that their withdrawal was linked to failure to address several of India’s ‘key concerns’. Given the likely ‘fairly immediate negative consequences’ on their economy, they decided signing was not in their interests¹²². 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 prioritise India.

India’s decision to pull out of RCEP may create an opportunity for deeper cooperation with the EU¹²³. In parallel the EU’s relations with China have deteriorated in the last 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 to 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 key to the success or failure of the talks.

The 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 self-reliance, especially but not only, in medical goods¹²⁴. 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, India-EU economic relations will be defined, not just by trade negotiations, but by the wider objective of securing reliable supply chains¹²⁵.

Overall, our findings indicate that international interactions are closely linked to domestic institutions, as well as the interests of capital and labour which impact on priorities

¹¹⁸ Panda, 2014

¹¹⁹ Author interview, New Delhi, July 2014

¹²⁰ Author interview, European Commission, May 2016

¹²¹ Narlikar, 2021; Palit, 2021

¹²² Subrahmanyam, 2020

¹²³ Fleming and Brunsden, 2021

¹²⁴ Curran and Eckhardt, 2021

¹²⁵ Dutta, 2021

At each stage of the process, we find that actors anticipate the impacts of later interactions, while these interactions themselves feed back to interest mobilisation. For example, the EP's insistence on a strong SD chapter complicated the chances of agreement and undermined the case for industry to mobilise. Given that both sides had other competing partnerships, which seemed more likely to be ratified, industry 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 impact on trade negotiations, but do not fit easily within the OEP framework. Firstly, the relative power of the two protagonists and other actors at various levels of the framework; secondly, the importance of ideas/norms underlying (and enforcing) their negotiating positions.

Power in the EU-India negotiations

The global context impacts on the political economy of negotiations, particularly the EU's ability to leverage market access¹²⁶. Historically, its status as the most important global market has been central to its negotiating power¹²⁷ and ability to export its norms¹²⁸. The 2012 exclusion of India from much of their GSP scheme could be interpreted as the EU leveraging market power for concessions¹²⁹.

However, as indicated in Table 1, the EU has seen lower growth rates than India and this undoubtedly impacted on 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.’*¹³⁰. 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.’*¹³¹. 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’*¹³². The recent rapprochement between the two indicates that India's priorities may have shifted¹³³.

¹²⁶ McGuire and Lindeque, 2010

¹²⁷ Damro, 2012

¹²⁸ Manners, 2002

¹²⁹ CEC, 2018

¹³⁰ Author interview, European Commission, December 2018

¹³¹ Author interview, EP, November 2013

¹³² Author interview, European Commission, May 2016

¹³³ Modi and Costa, 2021

There was a clear awareness in the Commission that India was different to 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’*¹³⁴. 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...’*¹³⁵.

The ongoing difficulties in negotiations also reflect wider conflicts in global governance, as Rising Powers, like India, play a growing role in rulemaking within global institutions¹³⁶. These powers have increasingly used their growing economic weight to protect their interests, which may be very different to the established major world powers. This makes agreements at international level, on issues as diverse as climate change and labour standards, increasingly arduous¹³⁷.

The impact of ideas and norms on EU-India 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.’*¹³⁸. The EU chose potential FTA partners with market potential and existing trade barriers. Thus, India emerged as *‘...of direct interest.’*¹³⁹. Over the intervening years, EU trade priorities have changed, partly in reaction to the growing power of the EP¹⁴⁰. In 2014, the EU explicitly linked trade policy to European values, pledging: *‘...trade policy will... not only project our interests, but also our values.’*¹⁴¹.

These values include linking trade to strong protection of labour rights, something which India has long resisted in international fora¹⁴². Its sensitivity on labour standards reflects sovereignty concerns about foreign efforts to ‘dictate’ India’s policies¹⁴³. Indian business interests feared that the EU’s agenda was protectionist and would have adverse effects,

¹³⁴ Author interview, European Commission, November 2013

¹³⁵ Author interview, EP, 2013

¹³⁶ Narlikar, 2010

¹³⁷ Destradi and Jakobeit, 2015

¹³⁸ CEC, 2006: 2

¹³⁹ CEC, 2006:11

¹⁴⁰ Frennhoff Larsén, 2017

¹⁴¹ CEC, 2014: 4

¹⁴² Rodgers, 2011:50

¹⁴³ Gupwell and Gupta 2009; Rodgers, 2011; Author interview, New Delhi, July 2014

especially for the labour-intensive clothing and carpet industries¹⁴⁴. [In this context, EU ideas on ‘values’ were clearly seen to interact with Indian \(competitive\) interests.](#) Interestingly, Indian NGOs, civil society and trade unions, also expressed concerns about the likely adverse social effects of the FTA¹⁴⁵.

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’*¹⁴⁶. Trade Unions were resigned to a sub-optimal outcome: *‘India will sign up to something, which will be better than nothing...’*¹⁴⁷.

Findings indicate that shifts in the ideational focus of EU trade policy impacted on the negotiations, with increased EP power making the inclusion of non-trade issues vital¹⁴⁸. 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.”*¹⁴⁹. 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]’*¹⁵⁰. 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’*¹⁵¹. Overall, informants underlined that building consensus on FTAs was increasingly challenging, even in uncontroversial contexts like the EU-Japan FTA¹⁵². The most recent European Parliament report on India proposes a new, stronger mandate for any relaunched negotiations, to ensure *‘ambitious provisions on an enforceable Trade and Sustainable Development Chapter...’*¹⁵³.

Difficulties in ongoing FTA talks also mirror broader difficulties in India’s relations with the West and in international negotiating forums, not least the WTO¹⁵⁴. These conflictual relations are not just about power, but 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

¹⁴⁴ Author interview, New Delhi, July 2014

¹⁴⁵ Gupwell and Gupta 2009: 86

¹⁴⁶ Author interview, November 2013

¹⁴⁷ Author interview, November 2013

¹⁴⁸ Frennhoff Larsén, 2017

¹⁴⁹ Author interview, July 2014

¹⁵⁰ Author interview, December, 2018

¹⁵¹ Author interview, December 2018

¹⁵² Author interviews, December 2018

¹⁵³ EP, 2021

¹⁵⁴ Narlikar, 2013; 2021; Destradi and Jakobeit, 2015

the ‘Global South’¹⁵⁵. Resisting the imposition of ideas and norms in the EUIFTA is coherent with this perceived leadership role, especially given the criticism of N-S FTAs which has emerged from the development community¹⁵⁶.

Finally, one ‘idea’ which has been increasingly leveraged in common statements between the EU and India is their common democratic principles. Prior research indicates that democracy favours FTAs¹⁵⁷. Shared democracy is mentioned four times in the recent joint op-ed¹⁵⁸ and six times in the joint summit statement. Whether the 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 EUIFTA.

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 which explain both blockages and agreement. This paper [aims to contribute to future research by proposing a more extensive and integrated](#) OEP framework to [support future analysis of](#) actual and potential trade negotiations and shed light on both their likely success and potential sources of difficulty. It incorporates [both a more multi-directional view of interactions and](#) two novel factors which have been highlighted as increasingly important to negotiating outcomes – *power* and *ideas*.

We [validate the use-effectiveness of](#) this [revised](#) framework, [using it](#) to explore the factors behind the blockage of the EUIFTA negotiations and the chances of future agreement. We illustrate how the difficulties which have emerged can indeed be traced across the three vectors underlined by Lake¹⁵⁹ and Oatley¹⁶⁰. However, ~~they~~ [negotiations were](#) ~~are~~ also impacted 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 source of difficulties in negotiations and the linkages between them.

¹⁵⁵ Narlikar, 2013; 2021

¹⁵⁶ Blecker, 1996; Busse and Grossman, 2007; Hopewell, 2021

¹⁵⁷ Mansfield et al, 2008

¹⁵⁸ Modi and Costa, 2021

¹⁵⁹ Lake, 2009

¹⁶⁰ Oatley, 2017

The complexity of negotiations makes it difficult to explain success or failure based on one dimension¹⁶¹. 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 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 paper provides a more in-depth and robust explanation for the EUIFTA negotiation blockage than would be possible using a unidimensional approach, while our qualitative approach enables us to explore the linkages 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, like climate change, where interests and institutions clash¹⁶².

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 meant that the organisation already faced an existential crisis even before the pandemic¹⁶³. In parallel, high profile bilateral negotiations between the US and both the EU and China have incorporated 'managed trade' that is clearly contrary to WTO rules¹⁶⁴. Increased global trade restrictions due to COVID only serve to further undermine these rules¹⁶⁵.

If global trade liberalisation 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, due to clashing visions between rising and established powers of the linkages between trade and other issues, like labour, human rights or intellectual property rights¹⁶⁶. The retreat of multilateralism is likely to cause major changes in global trade governance. The revised framework presented here aims to help analysts and policy makers to better understand these processes.

¹⁶¹ Oatley, 2017

¹⁶² Rajmani, 2012

¹⁶³ Hopewell, 2021

¹⁶⁴ Chowdhry and Felbermayr, 2020

¹⁶⁵ Curran and Eckhardt 2021

¹⁶⁶ Destradi and Jakobeit, 2015; Bastiaens and Postnikov, 2020

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Responses to reviewers - Manuscript ID IA-Jul-2021-0331

Thank you for the opportunity to revise our paper. Below you will find full details of the changes we made to respond to reviewer concerns. We hope that the revised version will be acceptable to the reviewing team,

Best Regards

The Authors

Reviewers' Comments to Author:**Reviewer: 1**

Comments to the Author

Excellent paper on an under-researched topic. Offers new empirical analysis. Nice application of OEP framework, potentially could be pushed/ questioned in future work and thereby develop theoretical contribution too. But there is enough of importance and novelty in this paper, even in its current shape, to merit publication in International Affairs.

Response - Thank you for your supportive and encouraging comments. In the new version we have added some further potential avenues for future research building on our work.

Reviewer: 2

Comments to the Author

The paper develops and extends an open economy politics approach to EU-India FTA negotiations. The paper has many strengths. It draws on new primary evidence in the form of interviews with participants in the process. The paper applies the OEP perspective and convincingly makes the case for the addition of power and ideas as important explanatory factors. Finally, the paper is well written and clearly organized. I recommend that the authors be offered the opportunity to revise and resubmit.

Response - Thank you for the supportive and encouraging comments

The primary revision I would like to see concerns the relationship between theory and case. On page 7, the paper states the "paper draws on this framework to explore the stalled negotiations between the EU and India." This is fine, but it seems that the author could and arguably should also reverse the emphasis and thus use the case to explore the relevance and need to the novel additions to the OEP framework. This is a significant difference in emphasis, I think, as the latter is really about using a case to develop theory (kind of a Harry Eckstein exercise) rather than using an accepted theory to explain a case. I stress that I am not suggesting the latter in place of the former, but for a clearer articulation of the iterative nature of the exercise--using a case to build theory while also using the case to illuminate gaps in the existing framework. I don't think this revision would require a significant rewrite, but would instead require a sentence here and a sentence there that points to the evaluation and theory building utility of the case more explicitly than is done now.

Response – Thank you for these comments. We understand your concerns and have tried to be clearer in the new version about the iterative nature of the work – from theoretical evolution to the case and back again. We hope the new version presents the evolution of our work more successfully.

I also wonder if the author does not take full advantage of the opportunity to provide a slightly

more comprehensive and informative overview of the FTA and negotiations. This would be largely descriptive in nature but could take advantage of the interview data.

Response – While we are mindful of the word count, we have added a short overview of the history of the negotiations and how we got to where we are. We hope this is informative.

Smaller comments

Page 3: I am uncertain that this section should start with a description of method and evidence.

Response - On reflection we have decided to move the short methodology section to the introduction and simply start with a short overview of OEP.

Page 4, last sentence of paragraph following the "explaining free trade" subhead: probably more accurate to say "firms and trade unions MAY BE more relevant".

Response – Indeed. We have revised accordingly.

Page 11: 2nd paragraph following Institutions subhead--The first sentence is missing a word.

Response – thank you for your careful reading. We have added the edit here and in a couple of other places where we had missed typos.

Pages 16-17: I am not fully convinced that the issue at play here, labor rights, is in fact an ideational change rather than a material interest. This is central ambiguity of the issue, right? Some clarification would be helpful.

Response. Indeed. This is a far point. We have added a short sentence on (new) page 18 underlining the interactions between interests and competitive concerns (material interests).

ⁱ See Horng (2012) for a comprehensive analysis of the EU context for trade policy making.