

INDO-EUROPEAN UNION CHALLENGES AND PROSPECTS

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ABSTRACT

The focus of this paper is on briefly exploring the somewhat neglected political economy of ties between two key 'Rising Powers,' India and China, with emphasis on the former, and the 'Risen Powers,' exemplified by the European Union (EU). This is set against a backdrop of global governance centred on collective action to tackle major economic and political challenges beyond the capacity of nation states. The analysis unfolds an arid and a "loveless arranged marriage" between India and the EU. Both have been preoccupied with their own region and lack shared goals, apart from the fight against terrorism and piracy. The relationship has been inhibited by mutual misconceptions. India sees the EU as imposing its views without taking into account the former's independent stance on economic and political issues. The EU, while recognizing the bewildering cultural, linguistic, and religious diversity, and democratic values of India, alleges that its major weakness is a lack of political will in its negotiations. The core challenge for both is how to pursue their economic and political interests in a rapidly changing world.

Key Words: European Union, India, China, Rising Powers, Globalization.

INTRODUCTION

The ties between two key 'Rising Powers,' India and China, and the 'Risen Powers,' exemplified by the EU, have to be seen against a backdrop of global governance in an increasingly 'borderless' world. This is centered on collective action to tackle economic and political challenges beyond the capacity of nation states. Though international institutions take the lead they may be supported, or indeed, opposed and thwarted, by nation states, and non state actors-NGO's, civil society movements, and corporate organizations (i.e. firms). Controversy bedevils the capacity of international institutions to adhere to the core values of democracy, transparency, and

accountability, and overcome obstacles. In this realm, both the powers could play a major role in enhancing the prospects of global governance. This requires a fuller grasp of their strategic vision.

THE 'RISING POWERS'-INDIA AND CHINA

India and China are two key 'Rising Powers.' They could reshape the goals and the policies of the world. They account for 40% of the world's population. In fact they are 're-emerging' powers functioning under different 'models' of development-China within a 'centralized' 'state directed' political system, though rapidly incorporating the private sector, and India under a 'mixed' (state and market) driven 'democratic' structure. They wielded significant influence in the 18th and the 19th century controlling 44% of the world's GDP. But this started declining in the 20th century from 16.4% in 1913 to 8.7% in 1950, rising to 12.59% (average between 1985 and 1995) and 16.88% (between 1995 and 2003). Over 2006-11 the compound annual growth rate of China was 10.6 % and that of India's was 8.2 %. Their trade as a % of global GDP rose from 1.1% in 1990 to 3.6% in 2004. They have been 'opening up'-trade as a % of domestic GDP is about 40% in China and about 30% in India. Their Foreign Direct Investment, though currently 'modest,' is also expected to rise in the future. It is forecast that China will be the second largest economy in the world by 2016 and India the third largest by 2035. Indeed, it is felt that by 2025-30 there will be a resurgence of their power with control of over 40% of the world's GDP. This has been recently reinforced by the OECD. However, both nations have to cope with significant levels of poverty including low per capita income. Revamping the strategic links of India and China with other nations and powerful blocks, such as those representing states in Europe, is essential to enable them to pursue their goals.

THE 'RISEN POWER'-THE EU

The EU is a key 'Risen Power' embodying nation states in Europe. The origins, ambitions, and economic obstacles facing the EU underpin its strategic vision. The origins of the EU show that it is an economic and political entity and confederation of 27 member states located primarily in Europe. This can be traced to the European Coal and Steel Community (ESCS) and the European Economic Community (EEC) formed by six countries in 1951 and 1958 respectively. India-EU Relations 159 years the EU has grown in size and power by the accession of new member states and addition of policy areas to its remit. The Maastricht Treaty established the European Union under its name in 1993. The latest amendment to the constitutional basis of the EU, the Treaty of Lisbon, came into force in 2009. The EU operates through a system of supranational independent institutions and intergovernmental negotiated decisions by the member states. Important institutions of the EU encompass the European Commission, the Council of the European Union, the Court of Justice of the European Union, and the European Central Bank. The European Parliament is elected every five years by EU citizens. The

EU has developed a single market through a standardized system of laws which apply to all member states. Within the Schengen Area, which includes 22 EU and 4 non-EU states, passport controls have been abolished. Its policies aim to ensure the free movement of people, goods, services, and capital, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development. A monetary union, the Eurozone, was established in 1999, composed of 17 member states. Through the Common Foreign and Security Policy, the EU has established a limited role in external relations and defence. Permanent diplomatic missions have been created around the world and it is represented at the United Nations, the WTO, the G 8, and the G 20. The ambitions of the EU encompass its desire to influence international affairs. This requires evolving coherent policies for a changing multi polar world and persuading other major actors to inculcate multilateral global understanding. This has to be seen in the context of a transition from a US dominated post 1945 liberal world order to a new 21st century order in which the 'Rising Powers' exert major influence. In its urge to bolster its influence the EU may impose domestic constraints on other actors through various forms of economic and political domination or even formal annexations. Such efforts have been effective in its immediate vicinity where it has much political and economic influence and shares similar values. However, in a global context, where participants may not accept European norms, and where EU's powers are limited, tensions may surface. This impinges on Europe's ethical values and arouses questions on sustaining and developing its environmental, labour or food security conditions without pressurizing global competitors to adhere to them. This arouses questions on the extent to which the EU is a kind of state and can act accordingly in international affairs. Major economic challenges have confronted the EU in recent years. ie from 2011 onwards-mounting debts, falling growth rates, and unemployment. These have to be overcome if it is to pursue its goals. The key problem it faces-coined as the "Eurozone Crisis"-stems from the heavy debts of its members such as Greece. This has led to intense controversy over measures to curb the debts-boost growth or reduce fiscal deficits by slashing public expenditure including social welfare. As a result, intense anxiety and uncertainty prevail with social unrest, demonstrations, and strikes surfacing in the Eurozone region. Even large members, such as France, are anxious about such issues. This is set against forecasts of a fall in global growth rates, a rise in debts, and high unemployment in the US. Basically, the EU is in recession. Bailing out debt ridden countries through financial support of the EU and the IMF has become the core of national and European parliamentary debates. This is pertinent as growth forecasts in the Eurozone area have been lowered and high unemployment rates (ie. about 10% and about 25% in countries such as Greece and Spain) undermine socio-economic stability. This may lead to a "lost decade" in Europe. In fact, the Eurozone crisis, along with the debt problems of the US, have re-kindled fears of a "second recession" ie. after the "Great Recession" of 2008. This may lead to lower growth and unemployment. This has revived debates on policies on boosting expenditure to stimulate growth versus austerity

measures. The aim is to create long term investment, consumption, and employment. Protests throughout Europe symbolize the call for equitable solutions. An era of social and political unrest awaits the region. Essentially, in the face of uncertainties, the EU has to restructure its strategic ties with other major nations including India and China.

INDIA AND THE EU

India and EU ties reveal faith in the former's democratic and political record. A notion of 'a loveless arranged marriage' prevails. There is despondency over their future relationship. The EU recognizes the bewildering cultural, linguistic, and religious diversity of India based on democratic values. However, it views India's greatest weakness as a lack of political will in its negotiations with the EU. Both have been preoccupied with their own region and lack shared goals apart from the fight against terrorism and piracy. They need to satisfy each other's needs. Pursuing their mutual interest in stimulating trade and investment flows calls for lifting of trade barriers and paving the way for structural change. This rests on an India-EU Free Trade Agreement (since 2007)-the Bilateral Trade and Investment Agreement (BTIA) - to maximize the potential of both to enhance trade negotiations. Alongside, India's strong bilateral exchange with individual EU members, including UK, France, Germany, Italy and Portugal, could weaken or bolster overall India-EU ties. These have emerged due to European institutions lacking cohesion on strategic questions. Since the Maastricht Treaty created the EU in 1992 Europe claims to have a 'common foreign policy.' In practice it lacks a 'single' foreign policy. The ties reveal an economic imbalance. The EU is India's largest trading partner accounting for 20% of Indian trade. However, India accounts for only 1.8% of EU's trade and attracts only 0.3% of European Foreign Trade Investment. The EU, moreover, still provides India's largest source of FDI, technology and development aid. Trade, however, between the two has more than doubled from 25.6 billion euros in 2000 to 55.6 billion euros in 2007. This continues to grow. India wants its nationals to be allowed to work more easily in the EU and also to sell more services, such as IT and Back Office Processing (BOP). It also desires fewer barriers to its exports in sectors such as textiles, chemicals, leather and food stuffs. The EU, in turn, wants India to lower tariffs and allow its companies to invest more freely in sectors such as telecoms, legal services, and insurance. A fuller debate on the BTIA is essential. Potentially, the legally binding agreement is of major significance. It would cover about 1.7 billion people- almost 20 percent of the world population. Alas, despite several rounds of negotiations, the finalisation of this agreement has been delayed due to differences between India and the EU. This has centred on constraints over negotiations in relation to services liberalisation under different modes on both sides and India's reluctance to accept substantial tariff reduction on cars, wines and spirits. Inability to finalize the agreement before the official India-EU Summit in New Delhi on 10th February 2012 led to an ambiguous statement after the

Summit. The EU's pressure on India to accept higher levels of commitments in several sectors has to be discussed. This covers the minimum level of services liberalisation commitments from India "necessary" for the EU to make promises in relation to mode 1 (cross-border service supply) and mode 4 (movement of natural persons). Basically, India wants significant relaxation on the movement of its professionals under mode 4 within the 27-bloc while the EU is seeking greater market access in banking services (mode 3– commercial presence), insurance (mode 1 and 3) retail trade (mode 1 and 3), and telecommunications (mode 1 and 3) in India. In this respect, as information technology (IT) and IT enabled Services (ITeS) are of critical importance to India, the EU's emphasis on linking the services package to the tariff negotiations has led to anxieties over negotiations. The relations between India and the EU have centred on economics. But there is scope of evolving exchange on the political front. This has been enhanced by the global ambitions of the EU and India's mounting hold on regional and world affairs. Thus, on the strategic front there have been efforts to evolve consultation on a range of issues-human rights within the UN framework, strengthen cooperation in world peacekeeping mission, fight terrorism, non-proliferation of arms, and promote cooperation in developing civil nuclear power. From the EU's view a number of factors have reinforced the urgency of bolstering the relationship. This has been driven by India's rising economic power and nuclear status and its growing influence in international institutions (eg. the WTO). In this respect, three key concerns require fuller exposition-India's nuclear tests, India-Pakistan ties, and terrorism. This is underscored by the EU wanting India to share more responsibility over global economic and political matters. Such concerns are intertwined with the triangular ties between India, the EU and the US. In this respect, the EU and India could become important players in evolving multilateral solutions. On the cultural front the Indian elite's perception of the EU may have been influenced by the 'Anglo-Saxon media.' This may have inhibited a clear grasp of the intricacies of the institutional functioning of European integration and the workings of the EU. The Indian stance on EU's foreign policy is complicated by differences between the two sides on key issues. This may stem from being at different stages of development and pursuing separate geopolitical goals. It is debatable, for instance, whether the EU foreign policy instrument of 'soft power' is compatible with the thinking of the Indian elite which places a high value on the utility of realpolitik, military capabilities, and the balance of power. However, the common ground over strategic issues offers hope of improving understanding-maritime security, terrorism, and weak states. Simply, India and the EU have to go beyond arid economics to politics and culture to deepen their ties. A number of issues, as mentioned earlier, could strengthen this goal, based on a shared belief in the importance of maintaining international peace and security. India shares a linguistic and cultural affinity with the West in general, and Europe in particular, which goes back some 500 years. It could also draw on its impressive record of democracy and its key role in the Non Aligned Movement. Its caution over assuming global responsibilities may stem primarily from its preoccupation with domestic interests. This calls for

re-balancing its internal and external priorities. The EU, in turn, has to rework its mode of engaging with India taking into account the latter's structural, economic and political priorities. Both have to incorporate more stakeholders-law makers and civil society. This could be supported through incorporation of business leaders into the dialogue and shoring up funding for joint initiatives. Frank exchange and monitoring of the major concerns is essential to make the relationship more dynamic.

CHINA AND THE EU

The ties between India and the EU are inseparable from those between China and the EU. From the EU's view the relationships are competitive and complementary. The China-EU exchange on the economics front has certainly been stronger than that between India and the EU. The latter's trade with China, as a % of the former's global trade, is only surpassed by the US, accounting, for instance, in 2011, for 13.3%. However, EU's trade with China reveals a large deficit. But, unlike in the US, there has been limited political debate in the EU on the lopsided trade ties with China. The latter faces relatively unrestricted access to EU's single market at marginal tariff rates and fewer hurdles for its investment. European companies, however, suffer from major obstacles to their operations in China-a lack of regulations and transparency, arbitrary decision making (especially at the local government level), ownership restrictions, severe market distortions caused by subsidies to Chinese state owned company, insufficient protection of intellectual property rights, and forced technology transfer or absence of a reliable legal recourse and exchange rate policy. These may have been worsened by undervaluation and non convertibility of the Yuan which give Chinese exporters an unfair competitive advantage. The obstacles over trade and investment have been aggravated by controversies over human rights issues, failure of lifting arms embargo, and rising dependence on China to buy European debts. China has the finance which the Eurozone requires to cope with its mounting debts. However, the short and long term costs and benefits of 'China buying up Europe,' by purchasing Europe's debt as a tool of public diplomacy, have aroused intense anxiety. The EU-China exchange, therefore, calls for exploring the intricate interplay of their respective goals and strategies.

CONCLUSION

India-EU ties have to be re-thought in a wider comparative, China-EU, and global context. This requires grappling with the limits and the virtues of both the relationships. These have been informed by separate and often conflicting visions of the EU and the Asian powers of structural transformation and strategic measures. This impinges on (a) the scope of stimulating India-EU exchange to meet mutual long term goals of inducing economic growth, based on democratic values, with India balancing China's military ambitions in Asia and (b) evolving a more flexible China-EU exchange without compromising Europe's stress on human rights, democracy,

or market values. Thus, the choice of strategies poses pragmatic and ideological challenges. These should encapsulate the economic, the political, and the developmental, and especially curbing extensive poverty in India and China. Essentially, the dialogue between the two nations and the EU has to be imaginatively reworked in an historical and futuristic frame. This could bolster their interlocked strategic interests and the prospects of global governance.

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