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Agenda 2021: A Blueprint for U.S.-Europe-India Trade and Economic Cooperation

What does a common economic agenda for India and the United States and India and Europe look like in 2021, especially as trade deals and agreements seem stuck? Is there scope for economic cooperation beyond trade—particularly technology cooperation, regulatory alignment, supply-chain diversification, infrastructure connectivity partnerships—that can be achieved or started in a significant way this year? Richard Rossow, Maurice Fermont, and Mihir Sharma suggest how the United States, India, and Europe can navigate these challenges in 2021.

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U.S.-India Trade Ties: Rebuild Trust, Then Plan to Expand

Richard Rossow

As the Biden administration assumes office, there is an urgent need to repair the mounting damage to U.S.-India commercial ties. Unfortunately, with both countries mired in coronavirus-induced slowdowns, political appetite for trade liberalization will be limited. The initial focus must be to stop digging the hole they are in, finalize their modest trade agreement, then start setting the table for something more inspiring. India and the United States have areas of overlapping economic interest that should be the basis for deeper bilateral economic engagement.

Americans have the perception that India has a long, unbroken history of trade protectionism, but this is not true. Since the country's process of economic liberalization began in 1991, the direction of economic reform has been positive, if somewhat choppy. U.S. companies certainly pushed for faster reforms and liberalization, but there were relatively few reversals. Progress on trade, however, has lately seen reverses. Since coming to office in 2014, the government of Prime Minister Narendra Modi has steadily closed India's market to imports. This is in response to very high goods trade deficits, which have hovered in the $140–$190 billion range in recent years. Anti-import steps include increases in customs duties on hundreds of products as well as an expanding list of sectors with import-substitution rules, normally applied to areas of government procurement. India has also expanded price controls, particularly in healthcare products, which is viewed as a type of trade barrier.

The Trump administration aggressively responded to the concerns of U.S. businesses about India's protectionism. Its most significant step was revoking India's trade preferences under the Generalized System of Preferences (GSP) program in March 2019. The United States suspended issuance of new H-1B visas in April 2020, a crucial business tool for India's powerful information technology services (IT) sector. The United States had earlier won a case in October 2019 at the World Trade Organization over India's export-subsidy program. India was also affected by the Trump administration's March 2018 increase in tariffs on steel imports.

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The two nations agreed to try and negotiate a modest trade agreement. This focused on lowering a set of India's trade barriers in exchange for some level of restoration of its GSP trade benefits. However, despite multiple rounds of negotiations, this narrow agreement is yet to be concluded.

The global coronavirus-related slowdown has highlighted some areas of strength—and weakness—in U.S.-India trade relations. Goods trade has fallen from around $8 billion per month to an average of $6.5 billion per month in the 12 months through October 2020. India has fallen two places to the 11th rank among U.S. goods trade partners. Services trade, however, has been much more stable. The Reserve Bank of India's monthly data shows that India's services trade has only fallen by about 4 percent in the last 12 months compared to the prior 12-month period, while its most recent survey of India's IT services trade shows that over 60 percent of IT services exports flow to the United States. There is thus some evidence that services trade has remained stable, and prior studies show that such trade is largely with the United States.

As the Biden administration takes office, commercial relations will be the weakest pillar of the U.S.-India relationship. As both countries look to grow out of their respective coronavirus-triggered economic slowdowns, unilateral or bilateral trade liberalization will initially be difficult. However, there are important targets Indian and U.S. leaders should consider in the near term as they build larger aspirations.

First, both nations must agree to stop consistently taking protectionist steps. Simultaneously, the Biden administration should let the H-1B suspension lapse. Finalizing their modest trade agreement will provide the two countries' leaders an important dose of confidence, apart from the actual benefits from the agreement itself. India should also commit to a data-flow regime that does not impede cross-border data flows.

After these first steps, the two countries can hopefully start to look at something more ambitious later this year or in early 2022. A full free trade agreement may not be feasible. It would involve more dramatic turnarounds in Delhi and Washington than is likely possible, particularly during the pandemic. However, targeted agreements that help expand trade while meeting other objectives may find more support.

Secured data flows: If India's pending data-flow policies are partially due to security concerns with China, the United States and it can consider an agreement to secure data flows.

Climate-change mitigation: Combatting climate change is expected to be an area of complementarity. The two countries can consider a bilateral agreement that provides certain related types of investment protections, trade preferences, and other forms of cooperation such as higher-education research collaborations.

Next-generation manufacturing: India and the United States are concerned about losing manufacturing competitiveness due to global competitors. Some of these competitors enjoy a high degree of assistance from their governments. Important new technology domains—such as electric vehicles, battery storage, autonomous vehicles, and advanced robotics—will drive new manufacturing investments globally. Falling behind in these sectors will trigger increased protectionism in both nations. Together they present massive markets and powerful research capacities.

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While these agreements would be somewhat narrow in scope, they would have massive potential to scale up. And the represented sectors have a strategic value above the potential trade benefits.

The United States and India could also work together in regional and global institutions on commercial matters, particularly those with a strong security overlay. This could be carried out through the quadrilateral security dialogue (Quad), the Indian Ocean Rim Association, or the proposed D10. Or the United States and India can hold consultations on the issues above and consider jointly presenting them to relevant bodies like the Quad or the D10. Even these multilateral efforts could be rooted in a strong bilateral partnership.

Data flows: Like-minded nations can develop a common set of criteria to assess the security of data-flow risks with companies in countries with low levels of transparency, and jointly act if these principles are broken by a developer.

Strategic infrastructure: Competing for developing strategic infrastructure projects in Asia, the United States and India can potentially create platforms and criteria to help unlock private-sector investment. This could build on the new U.S. Blue Dot Network program, denoting projects meeting higher development standards to attract private-sector participation.

Communications equipment: Shared concerns about sourcing 5G equipment and undersea cables could be the starting point for cooperation between like-minded nations to ensure the security of new communications technologies.

Sourcing of critical minerals: All nations that have, or hope to have, emerging technology manufacturing require a range of critical minerals sourced heavily from China. They may find ways to cooperate to diversify supply. Jointly sourcing can quickly drive down costs and make new markets more competitive for sourcing such materials.

Investment review network: The United States and other nations review incoming investments for strategic concerns. Information gathered during these reviews, and the process itself, are valuable tools that could be shared among like-minded nations.

It will be crucial to thoughtfully stagger U.S.-India commercial ties now that the Biden administration has taken office. The last four years were marked by a moderately intense trade war. With their respective coronavirus slowdowns, both countries may find it difficult to look at any major commercial initiatives immediately. They must first pause their fight and find some confidence-building steps such as signing their trade deal. Beyond this, several trade issues have a powerful strategic overlay. They could become the basis for a new era of positive commercial relations between India and the United States, and the utility of cooperation in areas like 5G deployment and investment reviews could be components of deeper multilateral cooperation.

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The EU-India Partnership: Follow-up, Focus, and Free Trade

Maurice Fermont

For almost seven years the EU and India have searched for ways to revive their partnership. After a successful summit in July 2020, progress may finally be on the horizon. The pieces have been there for a long time: shared values, commitment to rules-based multilateralism, and mutual economic opportunities. What has been lacking is a clear understanding of how to put these together to form a coherent picture, and thereby putting ambition into practice. Can the two sides finally see the bigger picture in 2021?

The outcomes of last year's summit present a real window of opportunity. The creation of a High-Level Dialogue on Trade at ministerial level has been a longstanding European ask to achieve greater coordination and inject political guidance into an at times fraught economic relationship. After years of limited enthusiasm, it seems like India has moved the EU up on its priority list. The EU is its largest trading partner (with 11.1 percent of its total trade in 2019, worth around €80 billion) and its top foreign investor (making up 18 percent of inflows that same year).

Still, there are key challenges to overcome in order to develop the strategic partnership in earnest: follow-up, focus, and free trade. There is hope that political guidance from India's government will help circumvent bureaucratic obstacles hindering closer cooperation with the EU. But the key question for this year is whether India will be able to remain focused on the EU in the busy arena of international diplomacy. It will require more than economic potential to make that happen. And this also depends in part on the extent to which the EU can maintain its relevance for India as a valuable partner. The trend here looks positive. Geopolitical developments in recent years have driven member states closer together and enabled the EU to act more strategically in several policy areas, including its India policy. Another challenge is about India's economic openness. The mixed messaging from the country in recent years, such as the launch of the Make in India campaign aimed at attracting greater investment, paired with the sudden cancelation of all its bilateral investment treaties with European partners, has sent protectionist signals and begs the question whether the government is truly committed to creating an enabling business environment for trade and investment.

The outcomes of last year's summit present a real window of opportunity. The creation of a High-Level Dialogue on Trade at ministerial level has been a longstanding European ask to achieve greater coordination and inject political guidance into an at times fraught economic relationship.

Nevertheless, the economic fallout of the coronavirus pandemic perhaps provides a greater impetus to bringing the EU and India together than any policy dialogue could ever have achieved. India's economy has been particularly affected, with the IMF estimating that it has shrunk by just over 10 percent in 2020, more than any other large economy. Trade and investment will likely play an important part in the global economic recovery. Rather than leading to de-globalization, the economic impact of the pandemic has driven European firms toward diversification in their search for greater supply-chain resilience. India wants to benefit from this supply-chain restructuring and attract these firms, creating new opportunities for cooperation with the EU.

Although negotiations on the free trade agreement have stalled since 2013, it remains an important vehicle to enable economic gains. Some commentators argue that the EU should abandon its focus on a comprehensive agreement with India and seek instead partial ones in areas of strategic importance. The two are not mutually exclusive, however. A free trade agreement, while comprehensive, would not cover everything and fcooperation in strategic issue areas like technology or connectivity would likely be facilitated through separate agreements. At the same time, the economic potential of a free trade agreement between the EU and India remains huge, with pre-coronavirus estimates indicating a resulting annual GDP increase for India of 1.3 percent. There is no alternative that can achieve similar results.

Developments within the EU also warrant a fresh look at the opportunity of relaunching negotiations on a free trade agreement. Brexit will alter the EU's interests in these negotiations, with issues like Mode 4 liberalization of services likely no longer a major sticking point. Second, the EU's Trade Policy Review in 2021 will likely lead to aligning trade priorities more with the European Commission's ambition to be more "geopolitical." With negotiations in limbo, it may be tempting to focus on other priorities, but as the EU-Mercosur free trade agreement—which was concluded 20 years after negotiations began—demonstrates, slow progress does not mean the agreement should be forsaken.

Whether or not the negotiations can be relaunched in the short term, concluding and ratifying the agreement would likely take a few years. In the meantime, both sides should deliver more on the EU-India Investment Facilitation Facility that was introduced in 2017 as a mechanism to improve the ease of doing business in India and facilitate greater European investment. This is particularly important at a time when India is trying to win over businesses that are restructuring their global supply chains. While India has improved its position in the World Bank's Ease of Business Index, jumping from 142nd in 2014 to 63rd in 2019, this masks continued difficulty in certain areas. It still ranks 136th in starting a business and 115th in taxation even after the introduction of the Goods and Services Tax, and burdensome licensing requirements are frequently mentioned as top business concerns. By focusing on bringing these areas that are of key importance to business in line with other areas of progress, India would be able to attract greater investment. This is even more important at a time when it has no bilateral investment agreements in place with European countries anymore.

Beyond trade, the EU and India should prioritize connectivity cooperation this year. India's infrastructure needs are enormous, and the EU has recently developed its own strategy on EU-Asia connectivity. In implementing this strategy, public-private partnerships and investment guarantees could facilitate European companies to undertake connectivity projects in India. By partnering with India, the EU would demonstrate its value as a key global actor. This could also help India make progress in its climate and sustainable development goals—one of Europe's top priorities.

Strong cooperation in telecommunications, artificial intelligence, and common standards that abide by the principles of democratic societies would be highly beneficial for the EU and India as well as check actors who seek to undermine these principles.

Finally, it would be a major win for both sides if first steps could be made in data and technology cooperation. This is especially important as the U.S.-China trade conflict increasingly focuses on technology and the use of export controls is forcing firms to choose which markets they want to operate in. Strong cooperation in telecommunications, artificial intelligence, and common standards that abide by the principles of democratic societies would be highly beneficial for the EU and India as well as check actors who seek to undermine these principles.

Geopolitics is driving the EU and India closer together. It has also led to a flurry of proposals for plurilateral cooperation among democracies in the economic and security realm, such as in the proposed D10 or technology alliances. While these proposals are indicative of the stalemate in global governance, they also indicate a degree of energy and urgency among some countries to defend norms and advance economic rulemaking. Although the business community generally supports ideas that strengthen the global market economy, these ideas are currently are not well developed enough to act as effective fora for EU-India cooperation. If the closely aligned members of the Organization for Economic Co-operation and Development, for example, cannot agree on common rules on digital taxation, then how are new structures meant to deliver concrete outcomes? Consensus takes years to build. The EU and India are better off spending this year breathing life into their strategic partnership by doubling down on follow-up, focus, and free trade. This is what the EU-India Summit in May should be all about.

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Paths to Post-Pandemic Partnership

Mihir Swarup Sharma

The coronavirus pandemic has strengthened trends that were already visible in the global economy. Concerns have built up over years over imbalances in world trade; and the post-pandemic geo-economic order will initially be defined by attempts to create more secure, resilient, and sustainable supply chains. The danger is that these attempts will, unless properly coordinated between like-minded powers, lead to a resurgence of economic nationalism and accelerating de-globalization.

The Indo-Pacific is Ground Zero for this realignment of the world economy. It is already facing several disruptive changes, including China's increasingly aggressive foreign policy and weaponization as well as the enactment of the Regional Comprehensive Economic Partnership. The patterns by which goods, services, workers, and capital move across the Indo-Pacific in the coming decade will determine the course of the century.

Yet this realignment also comes at a time when economic relations between India and the European Union and the United States have hit a barrier. Indo-U.S. trade had become a major irritant over the past four years, with India chafing at being bracketed with China as a trade distorter. And the governing establishment in New Delhi has decisively soured on free trade agreements, which means that the one with the EU is unlikely to move forward substantively no matter how hard the EU pushes. The question therefore is what can be done at this crucial time to repair these relationships in a manner that helps direct the Indo-Pacific toward a more stable and inclusive economic trajectory?

There are many ways in which cooperation between India, the EU, and the United States can be deepened over the coming years, through security or collaboration at various multilateral forums. Yet many of these will run into questions of urgency, priority, capacity, enthusiasm—or inclusion.

One answer might be to focus on creating institutions and agreements in those areas where it is still possible to immediately find points of consensus. Investment is one, particularly because the current moment is particularly appropriate. Past crises—the one in 2008–2009 in particular—were also addressed, like the current one, by a gush of liquidity from central banks. This caused vast cross-border investment flows. Shaping these flows of liquidity is essential to determine the structure of the post-pandemic economy—more or less green, more or less integrated, more or less resilient.

Such deals on investment do not need to be comprehensive to work. They do not need to be formal investment agreements that span multiple sectors, like the one the EU signed with China recently. Indeed, a focus on specific instruments, sectors, or even borrowers might not have just a better chance at success but also an outsize impact.

The U.S. Treasury, for example, has had considerable success in creating the capacity for several Indian urban governments to issue municipal bonds. Some of these urban governments are from traditionally under-served areas—for example, when the capital of Uttar Pradesh issued these bonds it made national headlines partly because it was unexpected. This is an example of the sort of area where cooperation is of importance. Replacing a temporary, time-bound program with an institution that will help urban local bodies in India and the rest of the Indo-Pacific access private-sector capital from India and Europe would have the potential of directing capital flows to sustainable infrastructure and also create a potent alternative to China's Belt and Road Initiative.

In Europe, meanwhile, there has been a great deal of action on green bonds and sustainable finance from national governments and the European Commission. The EU has just released a climate taxonomy that attempts to classify economic activities—and, by extension, projects and investment opportunities—on the basis of their environmental impact and contribution. This helps standardize options for sustainable investing and enhances the size of fund flows. The benefits to having a similar set of standards across various countries are great. For India and the EU, movement toward regulatory convergence or at least coherence on questions of classification and rating of green bonds and environmental, social and governance investment flows is something both doable and impactful in 2021.

There are many ways in which cooperation between India, the EU, and the United States can be deepened over the coming years, through security or collaboration at various multilateral forums. Yet many of these will run into questions of urgency, priority, capacity, enthusiasm—or inclusion. The Quad, for example, for all the headlines it receives, remains a bit problematic as something on which to hang the future of the Indo-Pacific given that some in Southeast Asia view it as inherently exclusive.

The reality is that the restructuring of the global economic order after the pandemic will have to be more inclusive. Effective interventions are those that are doable immediately, but also can be scaled up in an inclusive manner. Norms, regulatory approaches, and development-finance institutions have precisely these qualities. A focus on existing or new trade treaties or on comprehensive agreements runs the risk of missing this crucial moment of leverage.

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