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# VIF Expert Groups Reports



Edited by Naval Jagota



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## Editor's Note

Vivekananda International Foundation organized six experts group through webinar on events and topics affecting India's interests worldwide in the month of July 2021. The expert groups provide layers of understanding and contextualized the present discourse from the past for the future. The diversity of the expertise of each of the members of the expert groups brought rich flavor and knowledge on the topic through their varied professional backgrounds (military, diplomacy and academia). This issue contains reports of the West Asia, China, Pakistan, Europe, US and Indo-Pacific experts' group discussions.

In the West Asia Group the discussion was focused on India-Oman relations. The topics touched upon was centered on contemporary developments in Oman in the domestic scenario, its foreign policy and India's bilateral relations with Oman.

In the China group the virtual discussion was on China-Taiwan relations and its regional effect. The discussion was centred on the emphasis of Taiwan on its identity over the last 5 years as well as in the choice of political leaders with a more nationalistic appeal, the departure from or reducing significance of the 1992 consensus between Taiwan and China. The increase in the PRC's military

activity in the straits using the PLAN and PLAAF was also touched upon.

The Pakistan expert group discussed the upsurge in terror incidents, Pakistan's relationship with China, the Jammu drone attack, POK elections and the Taliban resurgence in Afghanistan.

The US expert group held discussions to understand the current dynamic in US-Russia relations, which saw in attendance distinguished participants including Mr Andrew Weiss. The areas of interest were the Biden-Putin summit that took place in June this year, which has shown that some limited engagement is possible between the US and Russia but the roadmap is not clear at the moment. The China factor also becomes inevitably crucial while analysing the US-Russia relations given the fact that a direct consequence of the US-Russia isolation has been the warming Russia-China ties.

In the European study group the discussion focused on the European industry's perspectives and concerns regarding the FTA between India and the EU. The basic questions that were addressed during the meeting included: First, the FTA negotiations were stalled after about 16 rounds of negotiations. As India and the EU begin the process again, what are the lessons to move forward? What are the concerns of the European industry? Second, what are the expectations of the European Industry and does it have any suggestions for policymakers to move forward in a dynamic manner? Third, what all does it have to offer and how would this be reciprocated? What would be the advantages for India?

In the Indo Pacific expert group the discussions were focussed on geo-economics and the impact of the same on geo strategic linkages evolving in the region. The areas of talk were on State Owned

Multinational Enterprises (SOMNE) and India's trade policies and negotiations.

The coordinators and researchers associated with these Expert Groups have put unfaltering efforts to coordinate the meetings and collate the notes for the reports in this issue.

**Naval Jagota**

**New Delhi**

**August 2021**

# Contents

India-Oman Relations.....	7
<i>- Compiled by HIRAK JYOTI DAS</i>	
China-Taiwan relations and its regional effect.....	13
<i>- Compiled by Gp Capt Naval Jagota</i>	
Pakistan - Upsurge in terror incidents and its relationship in the neighbourhood.....	17
<i>- Compiled by Aakriti Vinayak</i>	
U.S.-Russia Relations.....	21
<i>- Compiled by Dr. Himani Pant</i>	
The future of India-EU economic relationship: BTIA/FTA and expectations from the European industry.....	26
<i>- Compiled by Dr. Himani Pant</i>	
Geo-economics and the impact on geo strategic linkages in the region.....	32
<i>- Compiled by Amruta Karambelkar</i>	

# India-Oman Relations

Compiled by Hirak Jyoti Das

*The West Asia Experts Group Meeting was virtually held on 5 July 2021 by the Vivekananda International Foundation, the discussion was focussed on “India-Oman Relations”. The key speaker in the session was the Indian Ambassador to Oman, Amb. Munu Mahawar, members attending and contributing were Amb. Anil Trigunayat (Coordinator); Dr. Arvind Gupta, Director, VIF; Lt. Gen. Ravi Sawhney (Retd); Amb. Anil Wadhwa; Amb. Sanjay Singh; Prof. Sujit Dutta and Prof. Kingshuk Chatterjee.*

## Contemporary Developments in Oman

In the Persian Gulf region, Oman has a long history of existence as a nation-state. In the 18<sup>th</sup> and 19<sup>th</sup> century, it was a formidable maritime power extending up to East Africa, Iran and present day Pakistan. Due to loss of traditional sources of revenue, it had to heavily rely on the United Kingdom (UK) leading to its de-facto political control. In the 20<sup>th</sup> century, the discovery of oil and prudent policies propelled the state to carry out measures for socio-economic development. Sultan Qaboos after coming to power in 1970 played an instrumental role in transforming it into a modern and prosperous state. The Omani economy is heavily dependent of oil and gas contributing up to 70 percent in state revenues. Oil reserves

on comparative scale are fairly modest generating 1 million barrel per day. However, the government expects a better revenue generation as the oil prices rise pursuant to OPEC+ discussions.

The transfer of power after Sultan Qaboos' death has been smooth. The eldest son of the erstwhile monarch, Sultan Haitham Bin Tarik Al Said has assumed the throne in January 2020 under difficult economic and political juncture in Oman. Due to Qaboos' ill health, key policy decisions were getting postponed affecting the quality of governance.

Economically, the state is struggling to reduce the budget deficit. It has heavily borrowed from international financial institutions. The credit ratings of the state in the recent period have been downgraded. The economic ramification of COVID-19 has reduced oil prices further contributing to the financial woes. The pandemic has curtailed other sources of revenue such as tourism, aviation etc.

The government in response introduced new taxes and cut down expenditure affecting the quality of social welfare benefits and economic programmes. It has led to rising unemployment, inflation and increase in poverty. Currently, the state is relying on borrowing to meet its debt obligations which is currently at US\$ 20 billion for 2021-2022.

Under the new Sultan, the state has introduced medium term fiscal plan which seeks to produce a balanced budget in 2024. The credit holdings currently have been stabilised. Moreover, in order to avoid in-fighting within the royal family, a new law has been introduced to regulate the rules of succession. Sultan Haitham despite constraints has managed to reorganise the government and its economic policies.

The initial response of the Omani government during the COVID-19 crisis was well organised. However, the situation has currently deteriorated



and number of deaths has risen. The vaccine procurement efforts have been slow. The situation is expected to improve in the near future due to increase in number of vaccine shipments.

Besides the health crisis, unemployment has been a major policy challenge for the government. The government has to provide 35,000 new jobs annually. Omanis in recent years have become vocal in questioning the government about its inability in providing employment and generating new jobs. In May 2021, there has been number of demonstrations in several cities to address the subject of unemployment and economic upliftment. The large scale mobilisation of youth on organisational basis may deter viability of private businesses and affect foreign investment. The government is seeking to strike a balance between meeting the employment aspirations of the growing population and creating conducive business environment. We may expect greater Omanisation of the work force.

### **Oman's Foreign Policy**

The foreign policy of Oman was primarily determined by security imperatives. Currently, the economic motivations have emerged as the key driver of foreign policy. In this context, foreign countries that could help to overcome its economic challenges will also be viewed as preferred partners.

In terms of foreign policy, the new Sultan has promised continuity i.e.

- Positive neutrality
- Non-interference in affairs of other states.
- Promoting resolution of disputes and conflicts.

Oman's special relations with US and UK are likely to continue. During President Donald Trump's administration, the regional role of Oman was

somewhat marginalised. Oman was pressurised to normalise relations with Israel. The government however realised that the public mood was not in favour of normalisation. The Gulf state has welcomed the power transition in the US.

It was the only Gulf Cooperation Council (GCC) state that opposed military intervention in Yemen. The US under Joe Biden has invited Oman to play a more pro-active role in Yemen.

Yemen is currently a key foreign policy priority for Oman and it favours negotiated settlement which may consolidate Sultan Haitham's position domestically and regionally. It has hosted officials from both Houthi leadership and Abdrabbuh Mansour Hadi government.

Sultan Haitham is likely to visit Saudi Arabia for his first foreign visit. Oman also hopes for the early resumption of the JCPOA which will allow it to conduct its substantive economic relations with Iran. Moreover, Oman has welcomed the Al-Ula Declaration between Qatar and Saudi Arabia. It must however be noted that Oman benefitted from the 2017 blockade by hosting several regional and international businesses which were diverted from Qatar.

Oman is keen to intensify relations with China that could bring sizeable investments. It has supported Belt and Road Initiative (BRI) which may transform the state into a logistics hub. China also buys 80% of Omani oil exports. China has bought 49% share in the only major government company which has been privatised, i.e. the Electricity Transmission Company. It is also the dominant player in the telecom sector. However, Oman's expectations of large scale Chinese investments in Duqm Industrial Park have not materialised.

Besides China, Oman is looking towards India, Turkey and GCC states for large scale investments.

## **India's Bilateral Relations with Oman**

Sultan Qaboos Bin Said has been credited as the architect of India-Oman relations. Indian government has acknowledged his contribution and conferred Gandhi Peace Prize posthumously in 2021. The key pillars of India-Oman engagement are

- Diaspora
- Economic engagement
- Defence cooperation including Maritime Security

The strategic cooperation between India and Oman has remained firmly on track and there have been frequent diplomatic and military exchanges. Oman was the first Gulf state to engage in joint military exercises with India. The frequency of visits by Indian naval vessels has increased and Omani ports have been highly prompt to provide logistics support. India and Oman are exploring opportunities in space cooperation.

Prime Minister Narendra Modi visited Oman in February 2018 and External Affairs Minister S. Jaishankar visited the country in December 2019. The Indian Prime Minister maintains regular communication with the Omani Sultan. Both states recently organised Joint Commission meeting. Omani authorities greatly appreciated prompt supply of vaccines by India.

Oman is a suitable destination for Indian companies due to its low utility cost, strategic location, and availability of land and free trade arrangements with the US. Covid-19 has however slowed the level of engagement. The economic engagement has also been affected by the state's 'Omanisation' policy which entails preferential treatment to Omani workers and businesses.

Oman at the same time has realised that the bulk of the economic growth would be centred in Asia. It is therefore hoping to attract large scale investment by Indian companies. Indian firm, Acme announced investment of US\$ 2.5 billion in green ammonia plant. Oman has large deposits of limestone and gypsum which could meet India's requirements.

Oman essentially is seeking to attract investment that could generate jobs and benefit the economy. However due to the Gulf State's weak economic standing, its capacity to invest in other countries has depreciated. Both states have developed joint investment fund to tap into opportunities.

The size of Indian diaspora has shrunk from 850,000 in 2017 to 600,000 in 2021. The bulk of the reduction has taken place in the blue collar worker category due to economic slowdown. The policy of Omanisation and rising anti-expat sentiments has also affected white collar workers. India has effectively utilised its good offices to express concerns about the well-being of the diaspora.

# China-Taiwan relations and its regional effect

Compiled by Gp Capt Naval Jagota

*The Vivekananda International Foundation (VIF) organized a virtual discussion on China-Taiwan relations and its regional effect. The discussion was moderated by Shri Ashok Kantha. The attendees were Dr. Arvind Gupta Director VIF, Dr. Srikanth Kondapalli, Mr. Jayadeva Ranade, Dr. Sanjeev and Gp Capt Naval Jagota.*

## Introduction

There has been a marked shift in the manner in which Taiwan identity has grown stronger over the last 5 years. This shift is reflected in its citizens choosing political leaders with a more nationalistic appeal as well as departure or reducing significance of the 1992 consensus between Taiwan and China. The Chinese over the last couple of years have increased their military activity in the straits using the PLAN and PLAAF. The PRC government of furthering the model of one country and two systems based on its actions in Hong Kong has further created questions on the efficacy of the Chinese methods. On the investment side there is a perceptible decline in FDI of Taiwanese companies in China, with one estimate being of a 68% drop in the first quarter of 2021. However from the PRC perspective the political speech on the 100<sup>th</sup> year of the CPC by

President Xi placed emphasis on the integration of Taiwan.

## **Understanding**

The Chinese position on Taiwan has historically had a base line of articulating its integration over the years through political speeches as well as the 10 defence white papers that the Chinese have published. The sharpness of the language has varied with the Taiwanese political party in power, it has been milder with the KMT and much sharper with DPP. The Taiwanese discourse takes its lead from the Japanese occupation in the late 19<sup>th</sup> Century as well as the silence of the 1945 San Francisco agreement to further its independence stand.

The Chinese have over the decades have utilized all the measures at its disposal to coerce the Taiwanese to integrate such as economic, trade, political and military. The Taiwanese however have not bowed to any such measures. The six military methods to threaten which the Chinese have propagated over the last two and half decades is the threat of an SRBM preemptive strikes, aim for the paralysis of the Taiwanese C4ISR, Amphibious strikes, air strikes, sea blockade and using of airborne forces. The Chinese have articulated the three NOs of (No Taiwan Independence, No foreign independence and No Military sales). These though have not been effective with sales of American weapons taking place as well as visit of high ranking American officials to Taiwan across presidents (Trump and Biden).

The Taiwanese themselves have a robust intelligence and defence system such as missiles which is also very sophisticated. It is estimated that with the current inflow of American weapons and indigenous weapon systems the Taiwanese may be able to hold off the Chinese for as long as 3 months in case of military engagement.

## **Trade**

The Chinese have used the three small and big links to integrate the Taiwanese economy with it through, sea, communication, air and post and telegraphy. The cross strait trade between the countries annually is approx. 200 billion dollars with the Taiwanese having about 280 billion dollars investment in China. Tourism which was negligible in the late 1980 is approximately 3-4 million people mainly from China. Trade therefore is one of the biggest attraction for the Chinese to incentivize integration of the Taiwanese with it.

## **International Response**

The Americans through the three communiqués and the US-Taiwan relations act does provide insight into the thought process of the Americans in respect of a military reaction by it in response to Chinese invasion of Taiwan. The limiting factors of which attributed by some analysts is the cost of such an intervention on the US. There is a consistency in which the successive US administrations recently have followed a policy challenging the Chinese aggressiveness. The methods have been arms sales, visits by high level delegations, and providing vaccines.

The EU response has been to seek for a peaceful resolution of outstanding issues, however individual elements within the EU (Lithuania) are towing a more aggressive line against China while Japan has been vocal in expressing its concerns on the aggressive behavior of China towards Taiwan and the grave repercussions it will have on it in case of a Chinese invasion of Taiwan. The Japanese are providing visa on arrival to the Taiwanese under certain categories as well as undertaking military exercises with the US in the SCS with an eye on the probability of occurrence of a Chinese invasion.

## **India**

In the case of India, which has tried to be accommodative of Taiwan's concerns in the past despite China's aggressive stance on dealing with Taiwan. On the side of Taiwan the DPP (Democratic Progressive Party) of Taiwan has voiced support for the Free Tibet movement. There is a need to have an agreement with Taiwan on some of India's concerns with respect POK and Aksai Chin which at present Taiwan stand is coincident with PRC. India also needs to further enhance its interaction with Taiwan in terms of economic and technical cooperation, ship building, underground hanger and berthing capabilities as well as chip development. In addition India can propose to make Taiwan as a hub for HADR response in the region so as to increase the interest of stakeholders of various countries in the region.

Within the country there is a need to have greater number of Taiwan study centers besides the few already present as an adjunct of the Chinese study centers. The need to study the country as part of area studies as well as through the prism of discipline departments. In this regard think tanks in India also need take step forward. In terms of the drawing military and political lessons of the jostling between China and Taiwan for the India context, there is a need to study these actions in detail and anticipate the actions.



## **Pakistan - Upsurge in terror incidents and its relationship in the neighbourhood**

Compiled by Aakriti Vinayak

*A meeting of the Pakistan Study Group (PSG) was held via video conferencing on 22<sup>nd</sup> July 2021. The agenda's main items were: Pakistan- Upsurge in terror incidents, Pakistan China relations, Jammu Drone Attack, POK Elections, Afghanistan- Continued Taliban resurgence, capture of several districts, Pakistan- Afghanistan relations. The Meeting was attended by the following: Shri Arvind Gupta, Amb Satish Chandra, Ms Shalini Chawla, Shri Rana Banerjee, Shri CD Sahay, Amb Gautam Mukhopadhyaya, Shri Sushant Sareen, Amb DP Srivastava, Amb Amar Sinha, Amb. G Parthasarathy, Lt Gen Ravi Sawhney(Retd), Lt Gen Ranbir Singh (Retd), Shri Tilak Devasher, and Gp. Capt. Naval Jagota.*

### **Pakistan-Upsurge in terror incidents**

A significant upsurge in terrorist incidents has been reported from different parts of Pakistan. The Tehreek-i-Taliban (TTP) is reportedly involved in these attacks. The recent increase in the number of attacks and attempts to intimidate local population and mergers with various factions suggest that TTP is reviving itself and consolidating its power. Some of the reasons of escalation in terror incidents by TTP include the backing it is getting from Afghan Taliban. The Afghan Taliban is gaining

a strong foothold in Afghanistan post the peace agreement and the US troop withdrawal, which may enable the TTP to redeploy its resources in Pakistan. The new factions in TTP are also aligning with Afghan Taliban. Pakistan should be particularly concerned over the deteriorating security situation in Afghanistan, as it will have a spillover effect on the country.

### **China- Pakistan relations**

Recently on 14<sup>th</sup> July thirteen people, including nine Chinese nationals, were killed when a bus taking workers to the 4,300-MW Dasu hydropower project was hit by a blast in Upper Kohistan area of Pakistan's Khyber-Pakhtunkhwa province. Pakistan foreign office initially responded by calling the incident as an accident caused by mechanical failure. However, later Pakistan's information minister Fawad Chaudhry stated, "the traces of explosives had been found in the vehicle and terrorism couldn't be ruled out in the incident". The incident triggered a strong response from China, as its initial reaction was to cancel the 10<sup>th</sup> Joint Coordination Committee meeting under the China Pakistan Economic Corridor (CPEC). It subsequently also suspended the work on the Dasu hydropower project. The attack certainly has brought some tensions in China-Pakistan relations, however this will not have a major impact on the China Pakistan deep strategic nexus.

### **Jammu Drone Attack**

On 27<sup>th</sup> June 2021, two drones carrying explosives crashed into Jammu Air Force Station. No doubt, the attack was sponsored by Pakistan. The attack follows the pattern of past where any serious initiative by India towards normalization of the situation in Jammu and Kashmir is followed by an attack by Pakistan. However, the use of drone by terrorists marks a significant shift in the nature of the threat and counter measures. The attack was symbolic in nature. The Jammu drone attack's timing is pertinent as

it comes as a response to the bomb blast outside the house of the UN-designated international terrorist, Hafiz Saeed. The attack has raised some serious concerns in India. A comprehensive approach to deal with such future drone attacks is needed. We need to improve our capacities to counter drone technology.

## **POK Elections**

POK's eleventh general elections are scheduled on July 25, 2021. There has been hectic campaigning by Pakistan Muslim league-Nawaz (PMLN) and Pakistan's People's party (PPP). However the trend over the years has been that invariably the ruling party in Islamabad wins the election. It will be interesting to note the implications of the elections if Prime minister Imran Khan's Pakistan Tehreek-e-Insaf (PTI) wins.

## **Afghanistan**

The complete withdrawal of U.S. troops from Afghanistan before September 11 is turning out to be a complex affair. These are uncertain times as Taliban is gaining a strong foothold in Afghanistan. There is upsurge of violence in Afghanistan with half the districts and numerous border custom points under the control of Taliban. Peace process remains stalled, as even after two high level meetings there has been no agreement on ceasefire.

Though recently the Taliban offensive has weakened as Afghan National Security forces are consolidating their positions to protect key population centres. They are bravely fighting and putting a strong resistance against Taliban. However the future of Afghanistan hangs in balance, as there remain myriad uncertainties and complexities.

Regional powers like Pakistan, Iran, China and Russia have political and economic stakes in the ongoing conflict in Afghanistan. Pakistan seeks to maximise its influence, security and economic interests in Afghanistan. Pakistan- Afghanistan ties remain strained and hit a new low when the daughter of the Afghan envoy was kidnapped and injured in Pakistan. Authorities in Islamabad have denied that the incident even took place, which has further irked Kabul. In a setback for bilateral ties, Afghanistan has withdrawn its diplomats from Islamabad in response to the kidnapping. However, no matter what happens Pakistan will not ditch its support for Taliban. The reality is that Islamabad has assisted the Afghan Taliban for three decades to seize power and attack India's efforts to support and empower Afghan people. India, which has established itself as a reliable partner of Afghanistan in improving infrastructure in the country should ramp up its efforts by providing financial and moral support to the Afghan government. In fact, India and the international community should make to efforts to expose Pakistan-Taliban nexus.

# U.S.-Russia Relations

Compiled by Dr. Himani Pant

*To understand the current dynamic in US-Russia relations, the Vivekananda International Foundation organised an interaction on August 28. The opening remarks were presented by the VIF director, Dr. Arvind Gupta. The discussion was moderated by Amb. Arun K Singh and saw in attendance distinguished participants including Mr. Andrew Weiss, Amb. Satish Chandra, Dr. Rudra Chaudhuri, Lt Gen Ravi Sawhney (Retd), Lt Gen Anil Ahuja (Retd), Vice Admiral Satish Soni (Retd), Prof. KP Vijayalakshmi, Dr. Harinder Sekhon and Gp. Capt. Naval Jagota.*

## Introduction

The Biden-Putin summit that took place in June this year has shown that some limited engagement is possible between the US and Russia but the roadmap is not clear at the moment. Some thaw is evident in the way the arms control discussions have taken place between the two countries.

The China factor becomes inevitably crucial while analysing the US-Russia relations given the fact that a direct consequence of the US-Russia solution has been the warming Russia-China ties. Although short of an

alliance, the Sino-Russian partnership has strengthened noticeably since 2014. This development in turn is detrimental for US strategic interests globally. In light of the current developments, the following observations were made by the participants.

- Despite the internal debate on Biden's outreach to Putin for an in-person meeting, the US President took a practical decision to work on a more stable and predictable relationship with Russia. This outreach carries special relevance for the US given that it has mostly been caught off guard with Russia's foreign policy decisions, especially in the last 7-8 years. This could be seen as a step towards creating a certain degree of predictability and leverage over Russian behaviour at a time when the major focus of the Biden administration is focussed inwards.
- The energy industry, specifically the LNG exporting industry as well as different constituencies have objected to Biden's stance on Russia and specifically the Nord Stream 2 project. The US-Germany dynamic has an important role to play in this context. While there is an acknowledgement of the economic and security implications of the project, the US also values its relationship with Germany which is a major stakeholder in the project.
- Despite initial ambiguity, President Biden has continued with the China policy undertaken under the Trump administration. However, there is a significant departure with respect to how he treats his traditional allies. Unlike the Trump administration, Biden has consciously made an effort to demonstrate the importance his administration accords to its allies. For instance, Biden met his European allies before meeting President Putin in Geneva in June.

- A normalisation of relations with Russia is important for the Biden administration to focus exclusively on the domestic affairs and its China policy. There's an important midterm election coming up in November and given the political polarisation within the country, the Biden team has several challenges to overcome in the next few months.
- The internal challenges include maintaining the integrity of elections. A related aspect is to avoid the misuse of cyber such as leaked calls, etc. to damage the reputation of people participating in the political process.
- In terms of foreign policy, the China factor holds most relevance for the US. Over the years, all aspects of the relationship have become increasingly securitised. Endeavours of the past which were seen as strengths in terms of fostering inter dependence such as economic and technological ties, human capital, etc. now carry security implications. This has created a sharp divide in the relationship.
- Given the warming ties between Russia and China, there is a fear that Russia may provide certain advance military or nuclear technology to China. This would have long term strategic consequences in terms of Chinese military power and modernisation.
- A major point of contention between the US and Russia is the situation in Ukraine. The West-Russia relations have worsened substantially since 2014 due to Russia's actions in Ukraine. In these years it has been observed that the American frustration with Ukraine has also increased. However, the fresh escalation of tension at the Ukraine border in March-April this year has

brought fresh attention to the conflict. It is clear that the US is not equipped to deal with the military situation in the Donbas region. The US policy towards Ukraine, would therefore, continue to push for domestic reforms, anti-corruption efforts, etc.

- The situation in Ukraine is one of the implications of Russia's objections and responses to NATO expansion in its Western periphery. While the Russian concerns are seen as legitimate, Moscow is perceived to have acted impulsively with respect to Ukraine and has created its own security dilemma. The argument in this respect is that the NATO was thoroughly under resourced and the US and European commitment to national security Investment was also limited, but Russian actions in turn prompted the organisation to refurbish itself.
- Finally, at a time when the US withdrawal from Afghanistan is nearing completion, the Russian influence in Eurasia merits closer examination. Given its geographical proximity to Afghanistan and the underequipped military capacity of the neighbouring central Asian region, Russia would inevitably have a role to play in defining the security situation of the region. While an intelligence cooperation between the two is feasible, a roadmap for the same is not clear.

## **Conclusion**

From an Indian perspective, the US needs to do engage more diplomatic channels to wean Russia away from China in order to maintain the global balance of power. At present, US foreign policy preoccupation lies in China which is crucial. However, it needs to have a semblance of stability in its ties with Russia. Notwithstanding its limited military and economic capacities when compared to the US, Russia remains a major power and



the revival of its great power ambitions pose challenges for the US. Given the strategically crucial role that Russia plays in Eurasia, the Arctic, and the Middle East and even in the Indo-Pacific as well as its improved ties with the ASEAN and other Asian countries, the US needs to engage more with Russia. Measures such as economic sanctions have found to have been ineffective in dealing with Russia, therefore a more realistic assessment of the policy is needed.

# The future of India-EU economic relationship: BTIA/ FTA and expectations from the European industry

Compiled by Dr. Himani Pant

*To understand on the prospects of the India-EU FTA and the views of the European industry, the Vivekananda International foundation organisation a virtual discussion on 29 July 2021. The opening remarks were made by Dr. Arvind Gupta and the discussion was moderated by Amb. Anil Wadhwa. The industry perspectives were shared by Mr. Serhat Ünaldi, Mr. Raman Sidhu, Mr. Indranil Mukherjee and Ms. Pavithra Anand and Mr. Vinod Pandey. The participants in the meeting included Dr. Rudra Chaudhary, Prof. K.P. Vijayalakshmi, Mr. Sanjay Chadha, Mr. Pranav Kumar, Lt. Gen. Ravi K Sawhney (Retd) and Gp. Capt. Naval Jagota.*

## Introduction

The India-EU leaders' summit in May this year has opened avenues to resume FTA negotiations after a gap of eight years. Both sides have agreed to resume negotiations on a balanced, ambitious, comprehensive and mutually beneficial FTA. The resumption of talks on an agreement is a positive development given that the EU is India's largest trading partner with about 11 percent of its total trade, amounting to about €80 billion. The EU is India's top foreign investor as well as the second largest destination for Indian exports. The FTA carries scope to take this pre-

existing strong economic relationship to new heights. It opens a new window of opportunity for several European and Indian manufacturers and exporters who participate in trade with the EU.

The discussion focused on the European industry's perspectives and concerns regarding the FTA between India and the EU. The basic questions that were addressed during the meeting included: First, the FTA negotiations were stalled after about 16 rounds of negotiations. As India and the EU begin the process again, what are the lessons to move forward? What are the concerns of the European industry? Second, what are the expectations of the European Industry and does it have any suggestions for policymakers to move forward in a dynamic manner? Third, what all does it have to offer and how would this be reciprocated? What would be the advantages for India?

**The following observations were made during the discussion.**

### **Industry Concerns**

- The resumption of FTA negotiations is crucial for both the EU and India from a geopolitical as well as an economic standpoint. However, there are also several challenges. The main hindrances to successful negotiations include the following- First, the environment unleashed by Covid-19 has led to overuse of the existing resources and capacities. This does not make for a good starting point for an FTA as it would require more resources. Second, the strong commitment of the European Union to sustainability and human rights could complicate negotiations as well. There is a general sense of FTA fatigue in Europe as it has not been able to finalise macro deals such as the TTP.

- As the debate about diversification of European (especially German) companies in other regions Asia Pacific gain pace, there is no definitive answer with respect to the framework of these initiatives, particularly with India. According to a European perspective, there are mixed signals despite the presence of a political will on both sides. This sentiment stems from India's cancellation of bilateral investment treaties (BITs) with European countries.
- There are concerns about India's product linked incentives (PLI) scheme as it does not take into account investments made by manufacturers prior to the launch of the scheme. As a consequence, a foreign manufacturer already present in India is required to make fresh FDI. Moreover, the eligibility criteria of the scheme entails a high threshold for domestic sales, which is seen as favouring the larger corporations at the expense of European SMEs investments in India.
- High Import duties is another concern for this industry. High charges on import of food and beverages, alcoholic drinks etc. is seen as a major hindrance to the investment coming into India. Moreover, absence of a cold chain infrastructure is also a cause for deterioration of quality of products over a period of time.
- The pace of investments is slowed down by the time-consuming process of seeking approvals from the Centre and the State separately.
- Covid-19 has been catalytic in highlighting the importance of healthcare devices such as ventilators, oximeters etc. In the last two decades, even as India has emerged as a pharmaceutical giant, it continues to import over 70 percent of its medical equipment

from abroad. Unpredictably around policymaking hinders European companies in making their manufacturing decisions. According to this perspective, the Make in India should not be limited to manufacturing but be broadened to include Make for India and Make from India.

- Make for India is crucial to reduce reliance on import of medical devices as it leaves scope for local adaption of some equipment. This necessitates further promotion of research and development in the country. Made from India, in turn, refers to using India as a base not just for the Indian market, but also for the global market. However, a consistent rise in tariff and non-tariff barriers makes it difficult to base for operations.
- Another concern relates to labelling norms, especially for single brand retailers which are governed by the Legal Metrology Act in India. The Act requires all products to be sold in India to have a label with certain described declarations only and in a very specific format, font placement, etc. The requirement for each product to have a specific size label and the declarations becomes a cause for concern because of the global supply chain that a single brand retailers have where products are imported from. The addition of a label in India adds on to the production cost. This is further aggravated by the fact that the State and Central governments have different interpretations on the law, adding to delays and increased costs. Finally, the act makes the company directors criminally liable for any violation.
- The BIS mandatory certification on certain products was identified as yet another cause of concern. The BIS certification is an elaborate, time consuming and complex process which requires an onsite audit. This has been further complicated by the travel

restrictions in the aftermath of the Covid-19 pandemic.

- One major issue faced by the automobile industry in India relates to high taxation. The taxation on Premium cars is significant: about 28 percent base rate and an additional cess in the range of 3-22 percent. A related issue on the trade front relates to the imposition of high custom duties with a slab of 60 percent and 100 percent on Completely Built UP (CBU) cars. The high duty of about 15-20 percent on components is another concern in this regard.

### **Suggestions/Way Forward**

- One possible solution is that the EU could be more flexible and find modular solutions. For example, the, EU could rely more on flexible, transition period or a gradual entry into force of individual modules in order to make it easier for its negotiation partners to come to a table and to agree to the terms.
- Smaller work packages is an important thing that both sides need to embark upon. The FTA is a comprehensive agreement that may long.
- The future of health care is going to be driven by new and emerging technologies such as artificial intelligence, machine learning, digitalisation, etc. A lot of work in this domain is already happening in India which is evident from the rising number of start-ups. However, there is a lack of a commercial ground. Incentives such as R&D investments, tax incentives etc. could give a necessary commercial push to Indian start-ups in exploring the European market as well.

- The industry opines that the criminal liability for a violation of the Legal metrology Act must be scrapped and should be replaced with fines or penalties instead. Simplification of the BIS process and virtual inspections could help in this regard.
- A uniform rate of 28 percent for the automotive industry is desirable in the long term. A transition phase of 3-5 years with a clear framework could be adopted in this regard.

## **Conclusion**

Given the industry's concerns, India needs to work towards improving its implementation process to achieve its stated goals of enhancing ease of doing business, single window clearances etc. R&D, environment sustainability, among others, are very important priorities for India but require more time and resources. A certain understanding between the administration and the industry is crucial to arrive at a middle ground in defining certain rules and regulations. Finally, it is important to note that 'Atmanirbharta' is not intended to isolate India from the world. On the contrary, while building local expertise, it also seeks to integrate with the world. Towards this end, India would certainly like to adopt best practices, in order to be part of the global value chain. This requires a realistic assessment of rules and regulations and a predictable, stable, and easy to understand, easy to implement environment for investors/industry.

### **Geo-economics and the impact on geo strategic linkages in the region**

Compiled by Amruta Karambelkar

*The VIF Experts Group on the Indo-Pacific met virtually on 30<sup>th</sup> July 2021. The discussions were focussed on geo-economics and the impact of the same on geo strategic linkages evolving in the region. The meeting was moderated by Vice Adm Anil Chopra (Retd), and the key attendees and contributors were Dr Arvind Gupta, Mr Rajiv Kher, Mr Akshay Mathur, Mr Anil Devli, Amb Anil Trigunyat, Amb Anil Wadhwa, Amb Skand Tayal, Lt Gen Ravi Sawhney (Retd), GpCapt Naval Jagota, and Cdr Shashank Sharma.*

#### **State Owned Multinational Enterprises (SOMNE)**

SOMNEs are government backed enterprises having cross border financing and businesses. These enterprises exert a major influence over the global economy and the global financial system. As per 2018 figures, SOMNEs assets worldwide exceeded USD 45 trillion, and accounted for roughly 50% of the global GDP. Although many countries including Germany, France, Norway, Brazil, Malaysia, India etc have these enterprises, it is the use of Chinese SOMNEs for strategic purposes globally that has brought the world's attention to the need for regulating them and bringing them to a level playing field. Regulating SOMNEs would entail the following:-



- Enforcing transparency and ownership of business accounts.
- Mapping cross- border financial linkages.
- Constantly refining mechanisms for their financial stability.

A global framework for regulating SOMNEs would necessitate regulations in respect of the following:-

- Definition of SOMNEs.
- Disclosure standards.
- Monitoring SOMNEs.

*Defining SOMNEs.* International bodies like the Trans Pacific Partnership (TPP), IMF and the World Bank have defined State owned enterprises (SOE), but definition specifically for *State owned multinational enterprises*, which are the bone of contention here, does not exist. There is a need to clearly define SOMNEs in order to bring them under the ambit of the proposed global regulatory framework by including the following attributes in the definition:-

- Share of revenue earned from foreign operations i.e. international operations.
- Share of assets and liabilities attributed to foreign entities i.e. international investors.

*Disclosure Standards.* The existing disclosure regulations focus purely on corporate governance of the SOEs i.e. corruption, internal audits etc and their financial stability. The latter regulations were an offshoot of the transatlantic financial crisis of 2008, and aimed at providing oversight on financial stability of financial institutions/ banks focusing on their financial stability, capital reserves etc. These regulations do not look into

the overseas investments and assets of the SOEs. There is a need for the SOEs to additionally disclose the following: -

- Cross-border operations, e.g., disclosure on foreign currency denominated financing that SOEs give to private or public firms.
- Full disclosure on all credit. The lenders also need to disclose credits provided by them as currently only borrowers are required to disclose the details.

Another grey area in the current disclosure regulations of the World Bank is that banks that are debtors are designated as public banks, and creditors are categorised as private banks. Chinese state owned banks taking advantage of this loophole, identify themselves as private entities and become exempt from making any disclosures.

*Monitoring SOMNEs.* The third means of regulating SOEs is by monitoring. The existing methods of monitoring disclosures are all post-facto. A mechanism needs to be put in place for monitoring transactions as they take place in real time – to red flag transactions that are investments or loans to a foreign country. It should be made mandatory for SOEs to put markers in their financial transactions using techniques like legal entity identifier that will automatically highlight investments and loans by SOEs in foreign countries.

New initiatives like the TPP and RCEP are placing considerable emphasis on regulation of SOEs. These and forums like QUAD and Supply Chain Resilience Initiative (SCRI), must be exploited for enhancing transparency among SOEs and thereby levelling the playing field. Since countries like India and other Western nations already have an adequately transparent system which sufficient information already made available in the public domain, such a concept would not have any adverse effect on own SOEs, but would assist in obtaining greater transparency on working of Chinese

SOEs.

India needs to overcome its apprehensions over any detrimental effect and loss of control over its own SOEs/public sector enterprises and announce a concrete stance on the matter, as non-commitment could undermine its standing in the international community. Such apprehensions should be disabused internally through discussions with all stakeholders. India should play a greater role in generating discussion among likeminded countries on this issue. Such discussions would generate traction for the process of bringing greater disclosure, and transparency among SOEs, particularly those of China.

### **India's Trade Policies and Negotiations**

There is a need for India to synchronise its political/ strategic stance with a corresponding economic perspective. Instances of disconnect between the two include India's decision to not join RCEP, and inconclusive negotiations on Trade agreements with EU and the USA. In addition, the Indian establishment has not been able to mainstream important developments in WTO and in the global economic arena. There is a need to develop a domestic thought process and policy positions which are in consonance with the stated political stance. Lack of understanding of the intrinsic processes associated with the issue under consideration is largely responsible for policy inertia. There have been occasions where this has led to ambivalence in decision making, hesitancy in making commitments in multilateral forums like the WTO, failed negotiations and compromise of interests of domestic stakeholders.

A case in point is policy decisions in respect of *digital economy*. In order to progress negotiations on digital economy with the UK, EU and USA, India first needs to formulate laws and policies in regard to data flow, data localisation and data privacy.

India has also not entered into negotiations on international e-commerce, firstly due to lack of internal understanding of inherent processes involved in e-commerce, and secondly due to absence of necessary data policies as brought out above. Although India is against free flow of data, in the absence of a suitable policy, the data is flowing freely. The top five or six international e-commerce companies are able to monetize this data while Indian start-ups, and the lower and middle rung companies are not in a position to access this data and productize it. The domestic companies need support in the form of India's own privacy and security related governance architecture. Another impediment is that the draft e-commerce policy, which includes a framework of data related policies, is being steered by the Ministry of Information Technology, which is not a political ministry, and would require infusion of political, economic and geopolitical inputs before it can become suitable policy. Similarly, a policy/ law in respect of data privacy is also awaited.

India also needs to take a strategic decision with regard to the *Special and Differential Treatment Provisions* of WTO. US and EU are clearly against these provisions as they are being exploited by China to the detriment of others. They argue that China does not deserve such provisions as it is on the path to becoming the largest economy very rapidly. India, on the other hand, is showing solidarity with less developed economies in a way that ends up siding with China.

Environment protection and sustainable development is another area which highlights the gap in political and economic perspectives. While India has distinguished itself through its efforts and commitments on climate change, there is no corresponding trade and industrial policy addressing sustainable development. These may become a thorn in future trade agreements with US and other western countries, as these would invariably include aspects of sustainable development.

Therefore, for India to achieve its regional ambitions or assume a global role in institutions like the WTO, its political positions must be buttressed with corresponding economic positions.

*Trade Agreements:* India actively pursues FTA with advanced economies, whilst simultaneously also incorporating barriers in the agreements to protect its domestic economy. However, FTAs are not pursued with less developed economies, particularly those on the southern borders of China, which could yield strategic benefits. Unlike China's BRI model of investment, India could pursue investment-led trade with these countries by investing in sectors which generate maximum employment for the local population, thereby generating opportunities for two-way trade for mutual benefit, besides integrating these countries with India's economy as well as with regional trade in ASEAN.

*International Negotiations:* India needs to improve its negotiating processes in bodies like the WTO. Often, there are inadequate consultations by government representatives with the non-governmental domestic stakeholder communities. The negotiating delegation could comprise of two committees; the governmental representation for actual negotiations, and a stakeholders group that would interact with similar groups from other countries, establishing relations with them and briefing our negotiating committee prior to the formal negotiations. The wariness of the government representatives to interact with the private industry for the fear of accusations can be overcome by independent bodies like the CII constituting/selecting these groups for assisting in negotiations.

## **About the VIVEKANANDA INTERNATIONAL FOUNDATION**

The Vivekananda International Foundation is an independent non-partisan institution that conducts research and analysis on domestic and international issues, and offers a platform for dialogue and conflict resolution. Some of India's leading practitioners from the fields of security, military, diplomacy, government, academia and media have come together to generate ideas and stimulate action on national security issues.

The defining feature of VIF lies in its provision of core institutional support which enables the organisation to be flexible in its approach and proactive in changing circumstances, with a long-term focus on India's strategic, developmental and civilisational interests. The VIF aims to channelise fresh insights and decades of experience harnessed from its faculty into fostering actionable ideas for the nation's stakeholders.

Since its inception, VIF has pursued quality research and scholarship and made efforts to highlight issues in governance, and strengthen national security. This is being actualised through numerous activities like seminars, round tables, interactive dialogues, Vimarsh (public discourse), conferences and briefings. The publications of VIF form lasting deliverables of VIF's aspiration to impact on the prevailing discourse on issues concerning India's national interest.



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