

## THE LONG-DRAWN-OUT FREE TRADE AGREEMENT NEGOTIATIONS BETWEEN THE EUROPEAN UNION AND INDIA: A TWO-LEVEL GAME ANALYSIS

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Research Article

### *Abstract*

*This article examines the arduous free trade agreement negotiations between the European Union and India. The talks, which started in 2006 and were suspended for a while, could not lead to an agreement in more than 15 years. By employing the two-level game theory, developed by Robert Putnam, this article attempts to explore the role of the domestic realm on the extension of the negotiations. Therefore, it investigates the win-sets of the negotiating parties, by focusing on the domestic factors such as interest groups, political structure and political culture in order to determine which of these factors make it difficult to find common ground. On the basis of the said analysis regarding the free trade agreement negotiations between the European Union and India, this article further aims at finding out why trade negotiations pursued by the European Union usually require a long period of time.*

**Keywords:** *European Union, India, Two-Level Game Theory, Free Trade Agreement, Common Commercial Policy.*

### *Avrupa Birlięi'yle Hindistan Arasında Sonuçlanamayan Serbest Ticaret Anlaşması Müzakereleri: İki Seviyeli Oyun Analizi*

### *Öz*

*Bu makale, Avrupa Birlięi'yle Hindistan arasındaki serbest ticaret anlaşması müzakere sürecinin zorluklarını incelemektedir. 2006 yılında başlatılan ve bir dönem kesintiye uğrayan görüşmeler on beş yılı aşkın bir süre zarfında tamamlanamamıştır. Bu makalede, Robert Putnam'ın iki-seviyeli oyun modeli kullanılarak, ulusal alanın müzakere sürecinin uzamasındaki rolü analiz*

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Makalenin Gönderilme Tarihi: 31/01/2022 Kabul Edilme Tarihi: 06/06/2022

edilmektedir. Dolayısıyla, müzakereye taraf aktörlerin taviz alanları (win-set) araştırılmakta, baskı grupları, siyasi yapı, siyasi kültür gibi iç faktörlerden hangilerinin uzlaşmayı zorlaştırdığı incelenmektedir. Avrupa Birliği'yle Hindistan arasındaki serbest ticaret anlaşması müzakere sürecine yönelik bu analiz temelinde, Birliğin ortak ticaret politikası kapsamında yürütmekte olduğu ticaret müzakerelerinin sıklıkla uzun süre gerektirmesinin nedenlerine ilişkin de bulgular elde edilmesi amaçlanmaktadır.

**Anahtar Kelimeler:** Avrupa Birliği, Hindistan, İki-Seviyeli Oyun Modeli, Serbest Ticaret Anlaşması, Ortak Ticaret Politikası.

### Introduction

The Treaty on European Union stipulates that one of the objectives of the European Union (EU) on the international stage is to promote “*the progressive abolition of restrictions on international trade*”, in other terms the free trade.<sup>1</sup> Within this context, the Union has started negotiations for free trade agreements (FTA) with numerous international actors. Although the number of these FTA negotiations has been constantly increasing, their finalization has become a difficult task for the EU. Whereas some negotiations have stalled, some others required years of talks before finally entering into force.<sup>2</sup> The FTA negotiations between the EU and India is an example of the former as several meetings between the European and Indian delegations could not so far yield a concrete outcome.

Given its large and ever-growing market, India has become a major point of interest for the common commercial policy of the EU in recent decades. Indeed, the trade strategy of the EU, entitled “Global Europe: Competing in the World” emphasized the importance of India by indicating that the market potential and levels of protection make India of direct interest to the EU.<sup>3</sup> It was in this context that in April 2007 the Council of the EU authorized the European Commission to launch FTA negotiations

<sup>1</sup> European Union, *Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union*, Official Journal of the European Union, C326/1, Volume 55, 2012, art. 21, para. 2.

<sup>2</sup> For detailed information on the complete list of FTA and other trade negotiations carried out by the EU, see: European Commission, “Overview of FTA and other trade negotiations”, January 2022, [https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](https://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf), (3 January 2022).

<sup>3</sup> Commission of the European Communities, *Global Europe: Competing in the World*, COM (2006) 567 final, 2006, p. 9.

with India. Since then, the trade in goods and services between the EU and India has significantly improved, thus strengthening their economic interdependence. However, this did not help the two parties conclude an FTA. After years of meetings between the delegations, the negotiations were halted in 2013. In the following years, several political leaders such as Angela Merkel and Narendra Modi called for the revitalization of the negotiation process.<sup>4</sup> It was finally in May 2021 that the parties agreed to resume the talks, hence opening a new chapter in this fifteen-year process.

This article aims at understanding the factors that make the FTA negotiations between the EU and India an arduous process. In fact, numerous impact assessment reports on this matter estimate that a comprehensive FTA would contribute to the national income of both India and the EU.<sup>5</sup> At first sight, this implies that the conclusion of the FTA would provide mutual gain. This, however, raises the question as to why the negotiations between the two parties have not yet resulted in the conclusion of an FTA, if that would be a win-win situation. On this basis, this study argues that it is necessary to focus on the domestic factors while examining the FTA negotiations between India and the EU. Therefore, it will employ the two-level game theory formulated by Robert Putnam, given the ability of the said theory to explain the impact of the domestic realm on the outcome of the international negotiations.

With a view to defining its conceptual framework, this article begins by examining the main assumptions of the two-level game theory. It then attempts to unveil the win-set of the EU in light of various domestic factors. In a similar vein, in the third part of this article, the win-set of India during the negotiation process is being explored. In the final analysis, it will be argued that the lack of overlap between the win-sets of the EU and India results firstly from the competing demands of the Indian and the European interest groups, and secondly from the multi-phased ratification process within the EU.

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<sup>4</sup> “Modi, Merkel push for revival of India-EU trade talks”, Reuters, 5 October 2015, <https://www.reuters.com/article/india-germany-eu-trade-modi-merkel-idUKKCN0RZ0WQ20151005>, (26 September 2021).

<sup>5</sup> See: Ecorys, “Trade Sustainability Impact Assessment of the FTA between the European Union and the Republic of India”, Interim Report - Phase 2, 2008, p. 19; Felbermayr et al., “Europe and India: Relaunching a Troubled Trade Relationship”, Ifo Forschungsberichte 80, Institut für Wirtschaftsforschung an der Universität München, 2017, p. 15; European Parliamentary Research Service, “Assessing the potential impact of an EU-India trade agreement”, Cost of Non- Europe Report, 2020, p. 57.

### **I. A Brief Presentation of the Conceptual Framework: The Logic of Two-Level Games**

The two-level game theory, developed by Putnam provides a useful framework to analyze the impact of internal factors on the foreign policy of an international actor. Specifically, it establishes a causal link between the fate of an international negotiation and the constraints of domestic politics on the negotiating parties. As such, it implies that the successful conclusion of an international agreement depends not only on the foreign policy priorities of the two sides but also on various internal factors such as the political systems of the actors as well as the preferences of the interest groups.

In a nutshell, Putnam defines an international negotiation as a “two-level game”. At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups, whereas at the international level, governments aim to maximize their own ability to satisfy domestic groups and to minimize the adverse consequences of foreign developments.<sup>6</sup> In other words, while bargaining between the representatives of the international actors corresponds to the Level I, the discussions within each group of constituents about whether to ratify the agreement constitutes the Level II.<sup>7</sup>

The actors sitting at the negotiating table do not only compete with their counterparts at the international level but also wage a struggle at the domestic level. Under these circumstances, to achieve an agreement, they need to gain approval at both levels. In case a negotiating party fails to take into account the approval at Level II, the agreement reached at Level I might simply remain on paper as it will face serious challenges at the ratification process. Similarly, the actor who puts the desire of the majority of its people on the backburner will lose domestic support and eventually have a weaker position in the political arena, which they would rationally avoid. Therefore, the Level I negotiators are not free of internal constraints.

This close relationship between the said two levels gives rise to the concept of “win-set”. It is defined as the set of all possible Level I agreements that would “win”, in other terms, that would gain the necessary

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<sup>6</sup> Robert Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games”, *International Organization*, 42(3), (1988): 434.

<sup>7</sup> *Ibid.*, p. 436.

majority among the Level II constituents, when voted up or down.<sup>8</sup> It can also be seen as the common denominator between Level I and Level II. The win-set is the determining factor of whether a negotiation can produce an outcome or not. Any successful agreement must fall within the Level II win-sets of each of the parties to the accord, which implies that an agreement is possible only if those win-sets overlap.<sup>9</sup>

Assuming that Level I and Level II are interlinked, as characterized in the formulation of the win-sets, the following question arises: what determines the size of a win-set? Logically, the larger each win-set, the more likely they are to overlap.<sup>10</sup> Therefore, it is of crucial importance to identify the factors that enlarge or reduce the size of a win-set. Putnam argues that the “Level II preferences and coalitions” as well as the “Level II institutions” affect the win-set size of the actors. “Level II preferences and coalitions” essentially refer to the cost of no agreement for various constituents and the politicization of the negotiations, while the ratification procedures and the autonomy of central decision-makers from their Level II constituents are of primary importance regarding the “Level II institutions”.

Within this context, the aforementioned elements need to be taken into account when assessing the course of a negotiation process, as in the case of the FTA negotiations between the EU and India. In fact, it can be argued that despite its political, economic and social importance, the problematic negotiation process between the EU and India has received relatively little attention in the literature. On the basis of a thematic classification, Wessels et al. investigate the contentious issues in the negotiation process, as well as the attitude of the European Commission vis-à-vis these issues.<sup>11</sup> In order to measure the impact of the regional and international developments on the negotiations, Roy and Mathur focus on BREXIT,<sup>12</sup> while Zingel further emphasizes India’s declining share of trade with Europe as a result of its desire to strengthen its relations with the Asian countries.<sup>13</sup> For her part,

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<sup>8</sup> *Ibid.*, p. 437.

<sup>9</sup> *Ibid.*, p. 438.

<sup>10</sup> *Ibid.*

<sup>11</sup> Jan Wouters et al., “Some Critical Issues in the EU–India Free Trade Agreement Negotiations”, *European Law Journal*, 20(6), (2014): 848-869.

<sup>12</sup> Amrita Roy and Somesh Mathur, “Brexit and India–EU Free Trade Agreement”, *Journal of Economic Integration*, 31(4), (2016): 740-773.

<sup>13</sup> Wolfgang-Peter Zingel, “India-EU FTA: Indian Bilateralism vs. South Asian Regionalism?”, in *Regional Cooperation in South Asia: Socio-economic, Spatial, Ecological and Institutional Aspects*, eds. Sumana Bandyopadhyay et al., (Springer, 2017), p. 297.

Larsén values the institutional side of the negotiations by discussing how the European Parliament affects the win-set of the EU in the FTA negotiations.<sup>14</sup> This study, on the other hand, examines the impact of both the “Level II preferences and coalitions” and the “Level II institutions” on the win-sets of both negotiating parties, by following in the footsteps of Putnam. It is believed that such a comprehensive approach is necessary to identify the root causes of the lack of overlap between the win-sets of the EU and India.

## **II. EU-India FTA Negotiations: Win-set of the European Union**

As a matter of fact, it is necessary to examine numerous factors when attempting to unveil the win-set of a negotiating party. This task requires a further step in case one of the negotiating parties is a *sui generis* international actor. Since the EU is not a sovereign nation-state but a supranational organization, the preferences of the member states become an important pillar of the Level II constituents, in addition to the interest groups. Within this context, the cost of no-agreement for the Level II constituents of the EU will be analyzed in the first part of this chapter while in the second part, the role of the complex ratification process within the EU will be evaluated.

### **A. Level II Preferences and Coalitions: Trading Member States and Big Business**

The trade creation is evidently a natural consequence of every trade agreement since it eliminates the barriers to trade. That means, if the EU and India manage to conclude an FTA, it would strengthen their trade relationship. Within this framework, the conclusion of an FTA with its 10th largest trading partner would bring great commercial benefits to the EU, which implies a significant cost of no-agreement and a larger win-set. Indeed, estimates suggest that the conclusion of a FTA would lead to an increase in EU’s exports to India by approximately 52-56%.<sup>15</sup> This increase would occur primarily because of the removal (or major reduction) of India’s tariff rate which has currently an average at 10.2% for all products.<sup>16</sup> In

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<sup>14</sup> Magdalena Frennhoff Larsén, “The Increasing Power of the European Parliament: Negotiating the EU-India Free Trade Agreement”, *International Negotiation*, 22, (2017): 1-26.

<sup>15</sup> European Parliamentary Research Service, 2020, p. 35.

<sup>16</sup> World Bank, “Tariff rate, applied, simple mean, all products (%) - India”, 2019, <https://data.worldbank.org/indicator/TM.TAX.MRCH.SM.AR.ZS?locations=IN>, (30 October 2021).

addition to the reduction of tariffs, there is another element that makes the agreement very attractive for the EU: India has a huge market as well as a growing middle class of 200 million people whose demand for consumption is rising.

On the other hand, it needs to be underlined that not all the constituents at the Level II share the same advantages that an FTA would bring. Among the member states, it is estimated that Belgium and Ireland would benefit the most, as they are beachheads for Indian firms in Europe, whereas Croatia and Portugal would benefit the least, since their exports (textiles, apparel) compete with India's.<sup>17</sup> As for the interest of the big member states, it is clear that the leading exporter of the EU, namely Germany attaches particular importance to the ongoing trade negotiations with India, which enlarges the win-set of the EU. In November 2019, it was the German Chancellor Angela Merkel who declared that there was an urgent need to restart the negotiations.<sup>18</sup> Merkel's call to revitalize the negotiations reflected her desire to secure the Germany's increasing investments in India. With more than 1700 German companies operating in this country, the FTA might help minimize the uncertainty experienced by the German investors after an investment protection agreement between Germany and India ended in 2016.<sup>19</sup>

Besides the member states, the cost of no-agreement differs among other Level II constituents as well. According to Putnam, some constituents may face low costs from no-agreement, and other high costs, thus the former will be more skeptical of Level I agreements than the latter.<sup>20</sup> In terms of the domestic groups, it is especially the large business groups in the EU that promote the conclusion of the FTA with India. For instance, in 2010, the Director of the European Services Forum, Pascal Kerneis, stated that "*the potential in India is absolutely gigantic. We talk about 1.2 billion*

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<sup>17</sup> Felbermayr et al., p. 16.

<sup>18</sup> Die Bundeskanzlerin, "Rede von Bundeskanzlerin Merkel zur 63. Deutsch-Indischen Handelskammer am 02. November 2019 in Neu-Delhi", 2 November 2019, <https://www.bundeskanzlerin.de/bkin-de/aktuelles/rede-von-bundeskanzlerin-merkel-zur-63-deutsch-indischen-handelskammer-am-02-november-2019-in-neu-delhi-1687998>, (11 August 2021).

<sup>19</sup> "Germany's Merkel renews push for FTA with India, pledges green funds", Reuters, 2 November 2019, <https://www.reuters.com/article/us-india-germany/germanys-merkel-renews-push-for-fta-with-india-pledges-green-funds-idUSKBN1XC03X>, (1 September 2021).

<sup>20</sup> Putnam, p. 442.

*inhabitants, all of them potential consumers. We just think that it would be a good idea to have a little part of that cake.*"<sup>21</sup> Similarly, Adrian van den Hoven, former director of Business Europe's international relations department, was convinced that the EU-India FTA was the most important FTA under negotiation.<sup>22</sup>

On a sectoral basis, unrestricted access to the Indian market is relatively more important for some than for the others. For instance, since the beginning of the negotiations, The European Automotive Manufacturers' Association has been asking the European Commission to push for elimination of all trade barriers to India.<sup>23</sup> In a similar vein, the European retail lobby insists on opening up the Indian market, which is relatively well protected because the Indian government imposes restrictions on foreign investments in multi-brand retailing and allows a limited 51% foreign ownership in single-brand retailing.<sup>24</sup> Therefore, the liberalization of retail investment in the FTA is a key interest of the European retailing companies like Carrefour, Asda/Walmart, Ikea and TESCO, as reaffirmed by Andreas Berger, representative of the EU lobby group of retailers, wholesalers and traders: *"India is decisive for us. When we ask our members about their priority countries, India is always mentioned as one of the first. It is one of the most important FTAs for us."*<sup>25</sup>

Consequently, it can be said that while the cost of no-agreement is considerable for the EU as a whole, it is much more significant for some member states and for the big business groups which traditionally lobby for further liberalization, not only in this case but almost in all FTA negotiations.

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<sup>21</sup> Pia Eberhardt and Dharmendra Kumar, "Trade Invaders: How Big Business is driving the EU-India Free Trade Negotiations", *Corporate Europe Observatory*, 2010, p. 9.

<sup>22</sup> *Ibid.*

<sup>23</sup> Sophie Powell, "The EU-India FTA: Initial Observations From A Development Perspective", *Traidcraft*, 2008, p. 12.

<sup>24</sup> Sangeeta Khorana and Nicholas Perdikis, "EU-India Free Trade Agreement: Deal or No Deal?", *South Asia Economic Journal*, 11(2), (2010): 195.

<sup>25</sup> Eberhardt and Kumar, p. 22.



### **B. Level II Institutions: Role of the European Parliament and the Member States in the Ratification Process**

The ratification procedure is undoubtedly an important aspect that needs to be taken into consideration while analyzing the win-set of an international actor. Putnam indicates that if a two-thirds vote is required for ratification, the win-set will be smaller than if only a simple majority is required.<sup>26</sup> In other words, when several criteria need to be fulfilled to ratify a treaty, the win-set of a negotiating party becomes narrower, thereby rendering the conclusion of negotiations more difficult. As for the EU, the ratification procedure has a huge impact on the size of its win-set for two main reasons: First, the ratification requires the approval of the European Parliament. Second, all member states might ratify the agreement at the national level, depending on the scope of the agreement.

On the institutional side, the Treaty on the Functioning of the European Union stipulates that a trade agreement is negotiated by the European Commission. However, after its negotiation and signature by the Commission, the agreement needs to obtain the consent of the European Parliament, in addition to the Council of the EU in order to enter into force. This requirement decreases the size of the win-set of the EU since the Parliament and the Commission might have different priorities in the negotiations. The weight of the human rights clause in trade agreements provides an important example on this matter. With its resolution on human rights and social and environmental standards in international trade agreements, the European Parliament clearly expressed its vision with regard to the aim of bilateral trade agreements: *“The European Parliament calls for the European Union's future trade strategy not to envisage trade as an end in itself, but as a tool for the promotion of European values”*.<sup>27</sup> As indicated in this resolution, the Parliament does not want the European values to be considered as of secondary importance and to be ignored by the Commission for economic purposes.

In fact, even before the above mentioned resolution, the Parliament had adopted another resolution, in which it emphasized the importance of social dimensions of the free trade negotiations between India and the EU: *“The*

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<sup>26</sup> Putnam, p. 448.

<sup>27</sup> European Parliament, “Resolution of 25 November 2010 on human rights and social and environmental standards in international trade agreements”, P7\_TA(2010)0434, Strasbourg, para. 1.

*European Parliament encourages the parties to address the potential disadvantages of the FTA and the ways in which human development and gender equality may be adversely affected by the rapid opening of markets.*"<sup>28</sup> This stance is further reiterated by another resolution in 2011. In this resolution on the state of play in the EU-India Free Trade Agreement negotiations, the European Parliament urged the Commission to include legally binding clauses on human rights, social and environmental standards, with measures in the event of infringement.<sup>29</sup> As it can be seen in these resolutions, the Parliament is putting pressure on the European Commission to include human rights in the FTA while the Treaty on the Functioning of the European Union forces the Commission to take these priorities of the European Parliament into account since the latter is able to bury the draft agreement during the ratification process.

Another important factor regarding the ratification procedure is the nature of an agreement, which varies depending on the competence of the EU. The EU is equipped with different types of competence that can influence the way in which procedures for concluding an agreement unfold.<sup>30</sup> These are namely exclusive competences, shared competences, and concurrent competences.<sup>31</sup> Whenever an international agreement includes shared competences or concurrent competences, then it becomes a mixed agreement.<sup>32</sup> The ratification procedure is relatively easier when an agreement falls within the exclusive competence of the EU. In such cases, it is only the European Parliament and the Council of the EU that assume the responsibility to ratify the text. In other words, the agreement is ratified only

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<sup>28</sup> European Parliament, "Resolution of 26 March 2009 on an EU-India Free Trade Agreement", P6\_TA(2009)0189, Strasbourg, para. 6.

<sup>29</sup> European Parliament, "Resolution of 11 May 2011 on the state of play in the EU-India Free Trade Agreement negotiations", P7\_TA(2011)0224, Strasbourg, para. 29.

<sup>30</sup> European Parliamentary Research Service, "A guide to EU procedures for the conclusion of international trade agreements", Members' Research Service, 2016, p. 5.

<sup>31</sup> The Treaty on the Functioning of the European Union stipulates that "*when the Treaties confer on the Union exclusive competence in a specific area, only the Union may legislate and adopt legally binding acts, the Member States being able to do so themselves only if so empowered by the Union or for the implementation of Union acts. When the Treaties confer on the Union a competence shared with the Member States in a specific area, the Union and the Member States may legislate and adopt legally binding acts in that area. The Member States shall exercise their competence to the extent that the Union has not exercised its competence.*" See: European Union, *Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union*, Official Journal of the European Union, C326/1, Volume 55, 2012, art. 2, para. 1-2

<sup>32</sup> European Parliamentary Research Service, 2016, p. 5.

at the EU-level when the exclusive competences are at stake. However, a mixed agreement must be concluded both by the EU institutions and by all member states. Therefore, it takes much more time and effort to put into force the mixed agreements, as was the case with the EU-Canada Comprehensive Economic and Trade Agreement which faced opposition from Belgium's Walloon Parliament for a while.

Similarly, once signed by the two sides, the FTA between India and the EU might need to be approved both by the EU and by the member states since it might cover a broad range of areas. In fact, it can be argued that the EU has a complicated legal basis on this issue because of some blurred lines in terms of the division of competences. This situation might in some cases lead to debates among various institutions of the EU as to whether a specific trade agreement is mixed or not. According to the Treaty on the Functioning of the European Union, the common commercial policy is among the exclusive competences of the Union. However, the trade agreements of the EU might (and increasingly do) cover such areas as environment, intellectual property rights, social policy or human rights that go beyond trade policy.<sup>33</sup> As a consequence, trade agreements, whose content used to be limited to the common commercial policy, might turn into mixed agreements.

The recent debate over the nature of the FTA between the EU and Singapore is a concrete example of this phenomenon. During the negotiation process with Singapore, the European Commission submitted a request to the Court of Justice of the EU for an opinion to determine whether the EU has exclusive competence enabling it to sign and conclude the envisaged agreement by itself, as argued by the Commission and the Parliament.<sup>34</sup> The Commission was in need of a clarification because at that time the Council was asserting that the EU did not have the authority to conclude the agreement by itself since certain parts of the agreement fell within a competence shared between the EU and the member states.<sup>35</sup> In 2017, the Court decided that it was a mixed agreement as some provisions of the agreement fell within the shared competence.

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<sup>33</sup> Paola Conconi, Cristina Hergehelegiu and Laura Puccio, "EU trade agreements: To mix or not to mix, that is the question", *Journal of World Trade*, 55(2), (2021): 241.

<sup>34</sup> Court of Justice of the European Union, "The free trade agreement with Singapore cannot, in its current form, be concluded by the EU alone", 16 May 2017, Press Release No 52/17, <https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-05/cp170052en.pdf>, (7 October 2021).

<sup>35</sup> *Ibid.*

The said ruling of the Court of Justice of the EU represents an important jurisprudence for the potential EU trade agreements. As such, after the closure of the negotiations, the FTA with India might require the ratification at the EU and national levels, depending on the scope of the agreement. This inevitably limits the size of the win-set of the EU, because the Commission at the negotiation table is aware of the fact that the final text will be evaluated not only by the European Parliament but also by the national parliaments, and if necessary, even by the regional parliaments of the member states. Under these circumstances, the Commission needs to take into account not only diverging national interests but also those of the regional authorities within the member states.

**Table 1:** Factors reducing the size of the win-set of the EU

Factors	Level II Preferences and Coalitions	Level II Institutions
European Parliament as the gatekeeper of the fundamental values		✓
Free trade agreement as a mixed agreement requiring the approval of the national and regional parliaments of the member states		✓

### III. EU-India FTA Negotiations: Win-set of India

In the FTA negotiations, the win-set of India is a function of several variables, as is the case with the EU. Therefore, Level II preferences and coalitions as well as Level II institutions need to be analyzed in order to determine the factors affecting the win-set of this state. Obviously, the Level II constituents of India differ from those of the EU given that India is not composed of sovereign states. However, as a democratic country where the legislative and executive bodies are elected by the people, the public opinion and the interests of various domestic groups restrict the room for maneuver of the Indian government, hence narrowing the win-set of this country.

### **A. Level II Preferences and Coalitions: Between Considerable Cost of No-Agreement for the Indian Economy and Protectionist Pressures**

Since decades, the EU has been among the most important destinations for Indian exports. In 2020, the EU was the third largest trading partner of India while it accounted for €62.8 billion worth of trade in goods with this country.<sup>36</sup> In this context, concluding the FTA would make important contributions to Indian exports to the EU. However, there are some other variables that need to be taken into consideration as they also affect the cost of no-agreement for India.

Firstly, even if India wants to develop its trade relations with the EU, it also has a desire to diversify its trade partners and to decrease its dependence on the European market. This goal led India to introduce the Focus Market Scheme Strategy in 2006, which aimed at improving Indian exports in the market share of African, Latin American, and Asian countries.<sup>37</sup> Secondly, the EU's tariff rate currently averages 1.8% for all products.<sup>38</sup> Since the tariff rate applied by the EU is relatively low, in case of failure to reach an agreement, it would be less difficult for India to cover the commercial loss. Moreover, almost half of India's exports to the member states of the Union already benefit from the EU's Generalized Scheme of Preferences, which diminish the size of the additional gains.<sup>39</sup> On the other hand, whereas tariff income plays only a very minor role for the finances of the EU, it is still important for India as it approximately amounts to \$32 billion and represents 1.8% of Indian GDP.<sup>40</sup> It is estimated that the FTA with the EU would lower this income by about \$7 billion annually.<sup>41</sup>

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<sup>36</sup> European Commission, "Countries and regions - India", 10 September 2021, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>, (14 October 2021).

<sup>37</sup> Gauri Khandekar and Jayshree Sengupta, "EU-India Free Trade: Make or Break", Agora Asia-Europe Policy Brief, *FRIDE*, 2012, p. 3.

<sup>38</sup> World Bank, "Tariff rate, applied, weighted mean, all products (%) - European Union", 2019, <https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS?locations=EU>, (30 October 2021).

<sup>39</sup> European Parliament, "EU-India trade relations: Assessment and perspectives", 6 September 2021, Directorate-General for External Policies, [https://www.europarl.europa.eu/RegData/etudes/IDAN/2021/653646/EXPO\\_IDA\(2021\)653646\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2021/653646/EXPO_IDA(2021)653646_EN.pdf), (22 November 2021).

<sup>40</sup> Felbermayr et al., p. 16.

<sup>41</sup> *Ibid.*

As for the legacy of BREXIT, the cost of no-agreement for India has been considerably transformed due to this event. The United Kingdom has been the most important export destination for India among the EU members. Therefore, an FTA with the EU-27 will offer less benefits for India compared with the situation when the United Kingdom remained as a member of the EU. Indeed, an FTA with the EU-27 yields \$17.30 for the average Indian citizen, which is \$4.70 less than what a deal including the United Kingdom would generate.<sup>42</sup> In other words, the BREXIT lowers the potential gains from an FTA with the EU by nearly 20% for India.<sup>43</sup> Therefore, with the decision of the British people to leave the EU, the cost of no-agreement for India became lower, hence the win-set of this country narrower.

In addition to the analysis on the cost of no-agreement for India “as a whole”, it is necessary to determine which constituents at the Level II are more skeptical for a Level I agreement in India. As is the case with the EU, the Indian big business pushes for the development of closer economic ties with the EU. As formulated by Putnam, small-town barbers are more isolationist than international bankers.<sup>44</sup> In other terms, those with the ability to compete with the effects of the liberalization, usually seek access to greater markets to increase their profits and have less fear of losing their job. On the other hand, like their counterparts in Europe, the “small-town barbers” in India might share more pressing challenges with the conclusion of the FTA.

However, there is a major difference between these two international actors in terms of the degree that the FTA would affect the lives of low-income people. Indeed, the EU-India FTA can be considered as asymmetrical because the EU is a bloc of industrialized countries with a very comprehensive welfare system whereas India’s poor are more vulnerable to deprivation in the case of job losses than are low-income groups in the EU.<sup>45</sup> This leads to a considerable opposition to the FTA negotiations from a variety of groups whose interests will be deeply affected by the terms of the agreement.

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<sup>42</sup> *Ibid.*, p. 72.

<sup>43</sup> *Ibid.*

<sup>44</sup> Putnam, p. 434.

<sup>45</sup> Khandekar and Sengupta, p. 4.

For instance, more than 90% of India's retail sales are still made from small neighborhood shops and street vendors, employing between 30 and 40 million people.<sup>46</sup> These people are strongly opposed to large corporate-style retailers and to liberalizing the sector, which they fear will destroy their livelihoods.<sup>47</sup> In fact, even without the FTA, there is a public discontent over the growing investments by the European retail chains. Hakim Singh Rawat, General Secretary of the Delhi Hawkers Welfare Association commented the following on this issue: "*Carrefour, the world's second largest retailer, is opening their first wholesale outlet in India in a very low-income locality of Delhi with thousands of street vendors around. These superstores are coming here to wipe us out completely.*"<sup>48</sup>

Furthermore, the liberalization of the agricultural sector also poses an economic risk for the small farmers in India. Since approximately 70% of the rural households depend on agriculture for their livelihood, and 82% of farmers are small and marginal, the FTA might have serious impact on the livelihoods of more than half a billion people in the country.<sup>49</sup> That is the reason why farmer unions across the country took to the streets during the negotiation process and also sent letters to the then Prime Minister Shri Manmohan Singh indicating their concerns on trade liberalization.<sup>50</sup> Similarly, in reaction to the intense lobbying from the EU food industry, which called for the elimination of India's dairy tariffs, the Indian Dairy Association claimed that opening up the Indian market would result in "*highly uneven competition on unequal terms, disrupting the lives and livelihoods of small and marginal Indian farmers*".<sup>51</sup> These warnings from the representative bodies of the Indian farmers and dairy industry demonstrate that the Level I negotiator is under constant pressure from the Level II constituents.

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<sup>46</sup> Powell, p. 20.

<sup>47</sup> Eberhardt and Kumar, p. 22.

<sup>48</sup> *Ibid.*

<sup>49</sup> Food and Agriculture Organization of the United Nations, "India at a glance", 2021, <https://www.fao.org/india/fao-in-india/india-at-a-glance/en/>, (22 November 2021).

<sup>50</sup> La Via Campesina, "Farmers, people living with HIV and small traders protest against the EU India Free Trade Agreement", 14 February 2012, <https://viacampesina.org/en/farmers-people-living-with-hiv-and-small-traders-protest-against-the-eu-india-free-trade-agreement/>, (16 August 2021).

<sup>51</sup> Thomas Fritz, *Globalising Hunger: Food Security and the EU's Common Agricultural Policy (CAP)*, (Berlin: FDCL-Verlag, 2011), p. 65.

Public procurement is yet another contentious issue at the Level I negotiations as it has major implications at the domestic level. The EU complains that the Indian government procurement practices are often not transparent, discriminate against foreigners and give preferences to the locals.<sup>52</sup> Therefore, the inclusion of the public procurement is considered by the Commission as one of the *sine qua non* conditions of a deal. On the contrary, the Indian government perceives that negotiating government procurement will undermine its policy to support the medium and small sector in line with its policy for balanced regional development.<sup>53</sup> It is argued that far-reaching tariff elimination and liberalization of government procurement could have negative impact on the most vulnerable and marginalized groups in the Indian society, and hamper rather than foster human development at the national level.<sup>54</sup> As a result, the representatives of the Indian government at the negotiation table refrain from accepting the demands of the EU on this issue. This deep division among the two actors is one of the reasons why the negotiations have turned into a complicated process.

Likewise, part of the difficulty in reaching an agreement on liberalization of the Indian automobile market originates from the lobbying efforts from both Indian and European interest groups. As indicated in the previous chapter, the European Automobile Manufacturers' Association insists on the full elimination of import duties on vehicles and components. This stance is fully embraced by the European officials. The EU Ambassador to India between the years 2015-2019, Tomasz Kozlowski stated that "*for political reasons, no FTA would be approved in the EU Parliament without having car and car parts included*".<sup>55</sup> However, the Indian automobile industry is concerned with possible liberalization in this sector since it is primarily comprised of small scale industrial units that cannot compete with the European automobile industry.<sup>56</sup> Within this

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<sup>52</sup> Khorana and Perdakis, p. 197.

<sup>53</sup> *Ibid.*

<sup>54</sup> Selim Raihan, "European Union-India bilateral free trade agreement: Potential implications for the excluded low-income economies in Asia and Africa", in *Challenges and Opportunities for Trade and Financial Integration in Asia and the Pacific*, ed. Mia Mikic, (New York: United Nations Publication, 2009), p. 83.

<sup>55</sup> "India-EU FTA not possible without India cutting car tariffs: EU Ambassador", Business Standard, 1 March 2019, [https://www.business-standard.com/article/news-ians/india-eu-fta-not-possible-without-india-cutting-car-tariffs-eu-ambassador-119030101264\\_1.html](https://www.business-standard.com/article/news-ians/india-eu-fta-not-possible-without-india-cutting-car-tariffs-eu-ambassador-119030101264_1.html), (9 October 2021).

<sup>56</sup> Saurabh Kumar, "The Political Economy of EU-India FTA", CUTS International, Briefing Paper No.10, 2013, p. 3.



perspective, in a white paper, the Society of Indian Automobile Manufacturers declared that “*the reduction of tariff on completely built units of vehicles and engines under India-EU FTA will be a complete reversal of the policy of high tariffs to force investment, local manufacturing, local value addition and local employment*” and will be “*very detrimental to the Indian automobile industry*”.<sup>57</sup> Therefore, it is clear that the representatives of the Indian government faces competing demands from their European counterparts at the Level I and from their domestic constituents at the Level II, rendering the conclusion of an agreement ever more difficult.

On the other hand, Putnam argues that the politicization of an ongoing negotiation also affects the size of the win-set because it urges various groups, which are unhappy with the state of negotiations, to pressurize their governments to get what they want.<sup>58</sup> This also reduces India’s win-set and explains why it is difficult for the Indian government to accept the demands of the EU regarding the intellectual property rights. Indian generic drug makers which are mainly organized under the umbrella of Indian Pharma Alliance, do not want the Indian government to accept the terms proposed by the EU which go beyond the WTO TRIPS Agreement.<sup>59</sup> The opposition on this issue is not limited to interest groups but includes the masses. Since many believe that the provisions of the FTA would prevent them from accessing cheap generic medicines, several demonstrations have taken place not only in India but also across the world against the demands of the EU.<sup>60</sup> Under these circumstances, it is not an easy task for the Indian government to convince the public that the FTA with the EU would not deeply affect their lives, and receive their full support.

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<sup>57</sup> “FTAs are against Make in India, need to approach EU pact with caution: SIAM”, The Economic Times, 21 June 2019, <https://economictimes.indiatimes.com/news/economy/policy/ftas-are-against-make-in-india-need-to-approach-eu-pact-with-caution-siam/articleshow/69890551.cms?from=mdr>, (23 August 2021).

<sup>58</sup> Putnam, p. 445.

<sup>59</sup> “Indian pharma sector fears India-European Union FTA could imperil local industry”, The Economic Times, 28 March 2013, <https://economictimes.indiatimes.com/news/economy/foreign-trade/indian-pharma-sector-fears-india-european-union-fta-could-imperil-local-industry/articleshow/19229098.cms>, (21 October 2021).

<sup>60</sup> Médecins Sans Frontières, “EU-India free trade deal puts millions of lives at risk”, 9 April 2013, <https://www.msf.org/eu-india-free-trade-deal-puts-millions-lives-risk>, (5 November 2021).

### **B. Level II Institutions: Horizontal and Vertical Power-sharing in India**

The two-level game theory provides that “*the greater the autonomy of central decision-makers from their Level II constituents, the larger their win-set and thus the greater the likelihood of achieving international agreement*”.<sup>61</sup> As is the case with the EU and its member states, India has a democratic system, which makes it difficult for its government to overlook public opinion. In a similar vein, as a federal state, the central decision-makers of India share their authority with local entities through vertical separation of powers. This, however, does not mean that the governments of the federated states play a crucial role in the Indian political life. In fact, due to its overemphasis on the power of the Union Government, the Indian Constitution established a quasi-federal structure.<sup>62</sup> Therefore, the current degree of the vertical power-sharing does not significantly diminish the size of the win-set of India.

As for the ratification process, pursuant to the Indian Constitutional scheme, concluding international treaties is an executive act and it is not placed before the Parliament for discussion and approval.<sup>63</sup> Moreover, the Calcutta High Court decided that the President concludes a treaty in exercise of his executive power and no court of law in India can question its validity.<sup>64</sup> As a consequence, while negotiating with their counterparts at the Level I, the Indian officials are less worried about the priorities of the members of the legislative body. In other words, the ratification procedure makes less pressure on the representatives of India compared to those of the EU, leading to a larger win-set.

On the other hand, the two-level game theory asserts that some ratification practices are not formalized. In reference to the Japanese consensus-based decision making process, Putnam argues that consensus-oriented political cultures constrict the win-set of an actor, unlike

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<sup>61</sup> Putnam, p. 449.

<sup>62</sup> Mukesh Kumar, “Nature of Indian Federalism: An Analysis of Historical Basis and Problems”, *International Journal of Humanities and Social Science Invention*, 7(1), (2018): 44.

<sup>63</sup> Ministry of External Affairs of India, “Guidelines concerning the conclusion of international agreements”, 16 January 2018, <https://www.mea.gov.in/images/SoP-on-Treaty-Making-16012018.pdf>, (16 November 2021).

<sup>64</sup> *Union of India v. Manmull Jain and Ors.*, Calcutta High Court, 11 August 1954, <https://indiankanoon.org/doc/310509/>, (13 December 2021).

majoritarian political cultures.<sup>65</sup> Since the 1990s, the political scene in India has witnessed a shift towards majoritarianism in contrast with the older ideal of political parties getting votes from different communities with a view to obtaining a legitimate political majority.<sup>66</sup> This trend was further enhanced by the uninterrupted rule of India by the Bharatiya Janata Party (BJP) since 2014. The majoritarian politics of this party at the expense of India's Muslim minority community marks a departure from the consensus-oriented political culture.<sup>67</sup> At the same time, this corresponds to the removal of a factor narrowing the win-set of India.

According to the two-level game theory, the internal structure of the political parties is another element that needs to be taken into consideration when examining the impact of the Level II institutions on the win-set of an actor. Putnam underlines that “*strong discipline within the governing party increases the win-set by widening the range of agreements for which the Level I negotiator can expect to receive backing.*”<sup>68</sup> It can be argued that the BJP is to a large extent characterized by a strong party discipline. That is because the members of the party refrain from voicing criticism of the party leadership and tend to follow its political guidelines.<sup>69</sup> On the other hand, the high command culture is also on the rise within the other main political party of India, namely the Indian National Congress.<sup>70</sup> Therefore, the political culture and practices in India demonstrate that the pressure of the Level II institutions on the Level I negotiators is limited, which corresponds to a larger win-set.

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<sup>65</sup> Putnam, p. 449.

<sup>66</sup> Thomas Hansen, “Democracy against the law: Reflections on India's Illiberal Democracy”, in *Majoritarian State: How Hindu Nationalism is Changing India*, eds. Angana Chatterji, Thomas Hansen and Christophe Jaffrelot, (New York: Oxford University Press, 2019), p. 29.

<sup>67</sup> Niranjana Sahoo, “Mounting Majoritarianism and Political Polarization in India”, in *Political Polarization in South and Southeast Asia: Old Divisions, New Dangers*, eds. Thomas Carothers and Andrew O'Donohue, (Carnegie Endowment for International Peace, 2020), p. 9.

<sup>68</sup> Putnam, p. 449.

<sup>69</sup> “How much party discipline is too much?”, *The Hindu*, 14 November 2021, <https://www.thehindu.com/news/national/how-much-party-discipline-is-too-much/article37485103.ece>, (18 November 2021).

<sup>70</sup> “The high command: Triggering new lows for decades”, *Deccan Herald*, 8 August 2021, <https://www.deccanherald.com/specials/sunday-spotlight/the-high-command-triggering-new-lows-for-decades-1017371.html>, (13 November 2021).

**Table 2:** Factors reducing the size of the win-set of India

Factors	Level II Preferences and Coalitions	Level II Institutions
“Small-town barbers” of India: Small farmers, retailers and automotive manufacturers opposing the liberalization of their sectors, required by the big business of the EU	✓	
Politicization of the negotiations: Public concern about access to cheap generic medicines due to the demands of the EU regarding the intellectual property rights.	✓	

### Conclusion

Although the number of the FTAs is increasing across the world, some attempts to eliminate trade barriers do not result in agreement. The FTA negotiation process between India and the EU which dates back to 2007 has so far been one of these unsuccessful attempts. It is also among the long-drawn-out FTA negotiations that have been recently carried out by the EU, aiming at forging closer economic ties with other international actors. On the basis of the two-level game theory, this paper attempted to demonstrate that there were several domestic factors which make the win-sets of the EU and India narrower and have so far prevented an agreement.

On the EU side, the constraints of the Level II institutions, namely the multi-phased ratification process has become a major element shaping the win-set. Given the recent decision of the Court of Justice of the EU on this matter, the Level I negotiator might need to attach more importance to the expectations of every single national parliament within the EU, in addition to heeding the demands of the European Parliament. By comparison, the impact of the Level II institutions on the Level I negotiator is less severe in India than it is in the EU, given the rise of the majoritarian political culture and the party discipline as well as non-complex ratification process in India.

On the other hand, since the negotiations between India and the EU cover a wide range of areas, numerous lobby groups and cooperatives have engaged in this process with the aim of shaping the output of the talks in

accordance with their opposing interests. Therefore, in line with the central assumption of the two-level game theory, while negotiating on the international level, both the European and Indian delegations were subject to intense lobbying from internationalist and isolationist interest groups. Whereas the EU-level internationalist interest groups have been pressuring the EU institutions for greater opening of the Indian market, the Indian isolationist interest groups have been trying to persuade their own government not to accept the demands of the EU. The degree of influence of these actors on the Level-I negotiators may vary. Yet their clash of interest inevitably fueled debates between the Indian and European delegations at the Level I, which has so far prevented an agreement from being reached.

Although this study addresses the lengthy - and so far unsuccessful - negotiation process between India and the EU, it should also be underlined that many of the aforementioned aspects are and will be present in the FTA negotiations that the EU aims to conclude. As the Level I negotiator of the EU, the European Commission has already been under the oversight of the European Parliament, which is entitled to refuse the final text. Yet the ratification process has become ever more demanding pursuant to the ruling of the Court of Justice of the EU. This decision is the inevitable consequence of the broadening of the scope of trade agreements which can no longer be considered as mere trade deals aimed at the reduction of customs duties. The inclusion of various areas such as public procurement, sustainable development and intellectual property protection in the FTAs not only complicates the ratification process within the EU but it might also strengthen the resistance of the isolationist groups within the other negotiating party. Under these circumstances, the conclusion of FTAs has become a more difficult task for the EU and an emerging challenge for its common commercial policy.

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