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The European Union-India Connectivity Partnership: Enlarging Choices, Challenging China

Amitendu Palit

Summary

The European Union-India connectivity partnership introduces more choices for infrastructure-deficient countries in the Indo-Pacific and challenges China's dominance in the market for regional connectivity.

The recently announced European Union (EU)-India connectivity partnership is substantial in its scope and ambition. This partnership assumes great significance as the global market for connectivity and infrastructure development becomes hotly contested following the COVID-19 pandemic.

The outbreak of COVID-19 infections has deflected some attention from connectivity and infrastructure developments in the South, Southeast and East Asian region, as well as in the Middle East, Africa and Europe, adversely impacting the progress of many ongoing projects here. China's Belt and Road Initiative (BRI), through its land, maritime and digital segments, has been the primary vehicle for expanding connectivity in these regions.

China is the only major economy in the world that was able to avoid a contraction in its gross domestic product (GDP) growth in 2020. But even then, with a GDP growth of only 2.3 per cent in 2020, its rate of economic expansion has sharply reduced. This has affected its ability to generate resources to finance its BRI projects. With COVID-19 continuing to affect economic recoveries in various countries, and BRI projects facing difficulties, the pace of infrastructure development in Asia, Africa and Europe, has decelerated sharply. Countries depending on the BRI are looking forward to alternative sources of funding connectivity projects. The EU-India initiative can be significant in this regard.

The EU-India connectivity partnership has three prominent components. The first emphasises bilateral connectivity through digital, energy, transport and people-to-people connectivity between India and EU-member states. Second, the partnership also looks to engage in connectivity projects in third countries, specifically Africa, Central Asia and the Indo-Pacific. Finally, it notes the significant role of the private sector in expanding connectivity and the importance of encouraging private investments.

The EU and India's plan to collaborate in third country infrastructure projects introduces a new dimension in the regional connectivity market. The latter, largely monopolised by China for some time as the largest supplier of public goods, can now expand in choices for recipient countries. Many of these countries can also look forward to the prospects of the EU and India offering sustainable connectivity projects and suitable financing on attractive terms.

Sustainability is an important objective of the EU-India connectivity partnership. Third country operations too are expected to have strong focus on managing climate change, use of clean energy and green environment practices. The emphasis should counterbalance a concern often raised over the BRI – its environmental repercussions – principally in terms of China's export of fossil fuel-intensive technologies for several projects in South and Southeast Asia.

The EU-India connectivity partnership is expected to enlarge choices for infrastructure-deficient countries in the Indo-Pacific, Africa and Central Asia, as well as in South Asia, not just on sustainability but also on transparent operational and funding conditionalities. But whether the cost of funding EU-India third country projects would be less than those of the BRI is difficult to conclude right now.

One would expect funding costs to vary from project to project depending upon their specific characteristics. If sustainability parameters were emphasised, then investment requirements of many projects would be higher than usual. If funding for the EU-India third country projects is largely mobilised through private investors, and if many of the latter raise resources from global capital markets to invest in upcoming infrastructure projects, the interest rates on funds for these projects for recipient countries, will not be less than rates at which investors mobilise the initial funds. In this regard, it is important to note that sustainable financing instruments, such as green bonds, come with fairly high interest rates, as sustainable projects take longer time to generate good returns.

For the EU-member states and India, the challenge in positing the partnership as a strong alternative to the BRI depends on the ability of their funding agencies and private investors to mobilise resources. The COVID-19 pandemic is not showing signs of receding. Future bursts of infections would inflict more economic setbacks. These can hurt the abilities of European and Indian businesses to stay engaged in external infrastructure projects.

Nonetheless, the EU-India connectivity partnership can be a game-changer in the regional market for connectivity development. The BRI had offered an alternative template to the traditional Organisation for Economic Co-operation and Development infrastructure funding and had gained popularity for its easier conditionalities. However, it has had several downsides, including environmental impacts and erosion of strategic autonomy for recipients. The EU-India connectivity partnership can offset these downsides and emerge a viable option for supply of regional public goods.

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Dr Amitendu Palit is a Senior Research Fellow and Research Lead (Trade and Economic Policy) at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at isasap@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.