

INDIA'S TRADE WITH EEC: PROBLEMS AND PROSPECTS
- A SELECT REVIEW OF LITERATURE

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INDIA'S TRADE WITH EEC : PROBLEMS AND PROSPECTS
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CHAPTER I

INTRODUCTION

The Treaty of Rome (March 25th, 1957) that established the European Economic Community marked the beginning of a new movement in Europe towards integration of thoughts and actions among six European Countries (Belgium, France, West Germany, Italy, Luxembourg and the Netherlands). Denmark, Ireland and the U.K. joined the community in 1973, Greece joined in 1981 and Spain and Portugal in 1986 to make the community of twelve. This was the beginning of a new liberal movement with the idea of a large, single market within which there would be freedom of movement of goods and services. In its early years, the EEC had the image of a newly born transnational organisation which was mainly concerned with the development of its member states and of its trade and commerce [Lall and Chopra (1984), p.1].

1.1

Importance of the EEC in World Economy

The EEC was a combination of six different markets into a single market in which all internal tariffs and trade restrictions are abolished and external tariffs and on foreign trade are unified. This means customs duties on goods passing from one EEC country to another had to disappear during the transition period of twelve to fifteen years and the member countries were to charge uniformly the

same import duties on all goods imported from outside the EEC. In short, the Rome Treaty provided for the establishment of a customs union by the development of a single market for the goods of the member states through the elimination of inter-state duties and curbs and through the adoption of a common customs tariff on imports from other countries.

The transition period of the Community was completed by 1968 (two years earlier than stipulated in the treaty of Rome). With its merger with the European Coal and Steel Community (ECSC) and the European Atomic Energy Authority (EURATOM), the EEC emerged as a new international entity with substantial political weight. It has a solid unitarian form in its dealings with other regional groups and nations in the world [Lall and Chopra (1984), pp.1-2].

1.1.1 The Formation of a Common Market

The Community was expected to lead eventually to an economic union in which economic, financial, and social policies of member states could be coordinated and harmonised for the overall advancement of the individual economies in the form of a single economic unit. These six countries were convinced that without forming a common market rapid economic and social progress would not be possible. For this, collective action was a must. It was only through the collective action that they could achieve the ultimate

objective of a closer economic and political union among the European people. This realisation came due to the fact that these nations were small, weak and vulnerable in a world dominated by the superpowers, viz., the United States of America and the Soviet Union.

1.1.2 The Common Market and Developing Countries

The six EEC countries were not self-sufficient and were dependent to a large extent on external trade. Therefore, for their own prosperity they could not remain inward-looking. For their industrial growth, they had to search markets outside Europe, and for the development of these markets, they had to allow imports on a growing scale from the developing countries.

1.2 The Common Market and India

The European movement towards integration had not disturbed India much till the decision of the British Government to seek membership of the European community came on 31st July 1961, as Britain was the largest trading partner of India. There were some serious problems posed before the commonwealth in general like what would happen to the special trade and economic arrangements if Britain joined the EEC? Also what would be the future of the commonwealth if Britain deserted it? Although there were no convincing answers to these questions and doubts and suspicions persisted till the last moment when on 29th January 1963, the Brussels

talks for Britain's entry into the six-member Community failed due to veto by the French Government [Rangnekar (1963), p.101]. It was argued that Britain's entry into the EEC would weaken and ultimately demolish the Commonwealth of nations. But Britain rejected this viewpoint and claimed that no conflict of interests was involved because the Commonwealth movement and the European movement are quite different and Britain would easily reconcile the interests of the two movements. However, during the course of its negotiations for joining the EEC, Britain had tried to persuade the six to grant special concessions to Commonwealth exporters. After hard negotiations, Britain did succeed in extracting certain commitments from the six before the negotiations failed in January 1963 [Rangnekar (1963), p.115].

1.2.1 Initial Impact on India

India lacked interest in the implications of the European integration. It's perception of the emerging European scene was slow. It only made some vague expressions of regret and fears. India continued to rely on British efforts to obtain satisfactory safeguards for commonwealth trade. In this process, India deprived itself of a opportunity to have a direct link with Brussels.

1.2.1.1 Establishment of Contact between India and the EEC

The first step to establish an independent contact with the EEC was made in November 1961, when the Government

of India appointed it's envoy at the EEC headquarters, at Brussels. India failed to follow up this move and the first note to the six on India's case was sent to the EEC only in May 1962, almost a year after Britain's initial moves and four to six months after serious discussions on Indian trade had started. By this time the controversies had become more serious and the six-member Community had assumed a stiff posture towards Commonwealth problems. The six wanted to strike a hard bargain with Britain and so they appeared less-responsive to the Indian case [Rangnekar (1963), p.118].

1.2.1.2 India's Memorandum to the Six

The Community would have shown greater interest in India's problems if India had put it's case independently outside the British negotiations. In it's memorandum to the six member Community, India had asked for continuation of the duty free and quota free trade with Britain, and India wanted preferential arrangements between her and Britain to continue for a large range of primary, semi-processed and some processed products even after British entry into the EEC. Since India did not sit with the six-member community, at the negotiating table, the memorandum became an official record of the country's fears and misgivings and of it's plea for sympathetic treatment [Rangnekar (1963), p.121].

1.2.1.3 The Provisional Agreement and India

The EEC had made up it's mind to assist India in such a way that Britain's bargaining position with the Community was not strengthened. EEC wanted to treat India as an outside country mainly through direct negotiations. But India's case got entangled with the whole charter of Commonwealth demands sponsored by Britain in such a way that it was not found possible to single out India for special treatment. While the Six appeared hard on Britain, they showed sincerity of their intentions regarding India during the negotiations for Britain's possible entry into the EEC. They realised the fact that with Britain's entry into the EEC, it's traditional preferential agreements with the Commonwealth would be terminated, the six agreed to offer special terms to India to enable her to compensate for the unfavourable trade it might experience. The six concluded a provisional agreement with Britain giving some concessions on external tariff. The agreement was provisional in the sense that it had to take effect when Britain joined the EEC. But with the failure of the Brussels negotiations for the British membership, the provisional agreement automatically lapsed. The agreement, was a positive gesture on behalf of the Community, and India could utilise it and negotiate directly with the six to promote it's own trade with Western Europe. The provisional agreement included an element

whereby the Six undertook to negotiate a comprehensive trade agreement with India by the end of 1966 at the latest but earlier if possible to stimulate trade and promote economic relationship with India. The six had wanted to enter into some kind of arrangement with India regardless of the result of British negotiations. The Six were more apprehensive of favouring British industry than of giving concessions to India. They did not want to enter into an agreement which would strengthen the competitive position of the British producers and exporters. So there were restrictive clauses concerning British business in the transitional concessions to India [Rangnekar (1963), pp. 122-124].

1.2.1.4 India's Reaction to the Provisional Agreement

The Indian Government did not make any official statement on the provisional agreement till September 1962 when the then Prime Minister Jawaharlal Nehru came down heavily against the entire form of the provisional agreement and expressed grave fears that the loss of preferences in the British Market without the offer of satisfactory alternative arrangements would greatly damage India's economy. The Brussels negotiations had not fulfilled Indian expectations and India was also responsible for this as it did not try to settle its problems directly with the Six before they got entangled in the maze of controversies

and India's case became only a marginal affair.

1.2.1.5 Some Concessions to India

But by this time the Six had acquired a new and better understanding of the need for sympathetic approaches to the problems of developing countries. The Brussels talks had shown that the Six were slowly, but surely getting conscious of the political and economic potentialities of the Indian development. It is significant that the EEC authorities thought it desirable to re-emphasise their offer of a comprehensive agreement with India after the Brussels talks had failed. "The collapse of the 1961/63 negotiations for Britain's entry did not mark the end of India's relation with the common Market. On the contrary in 1964 the community suspended at zero its tariffs on tea in bulk, a major Indian export, and on certain East Indian spices and skins." [Europe Information (1986), p.2].

1.2.2 The Beginning of Commercial Cooperation between India and the EEC

The attitude of the Indian leaders towards the EEC was one of indifference and suspicion, due to the apprehensions expressed at the prospect of British entry into the EEC. These apprehensions though exaggerated were justified to some extent because in the short-run India stood to lose the advantages enjoyed by it in the British market. On the contrary, the Six member states of the EEC

did not have high stakes in India. However, India's attitude towards the EEC changed with the changes in its external links, and a commercial cooperation agreement (CCA) was concluded between India and the EEC in 1973. It was a five-year commercial agreement which provided for Indo-EEC cooperation in their trade with each other. In 1981, the scope of the 1973 agreement was expanded to include economic cooperation between European and Indian operators. With the opening of the Delegation of the Commission for South Asia at New Delhi, greater importance is attached to the relations between the EEC and India.

1.3 EEC in the World Economy in the '70s

There are two most important developments in the early 1970s. Firstly, West Germany assumed greater influence in the EEC affairs and the expansion of the Community with the entry of three new members. With the British entry the EEC developed a closer relationship with a large number of Commonwealth countries. The United States and the Soviet Union are important in EEC's external relations for economic, political and security reasons. The EEC's relations have also been guided by the increasing demand to import raw materials from developing countries. In this category are two groups of states :

- (1) The oil producing middle-East States, and
- (2) the African, Carribean and Pacific (ACP) group, signatories to the Lome Conventions.

1.3.1 The EEC and Oil Producing Countries

The oil crisis of 1973 demonstrated the precariousness of Community's prosperity when the OPEC countries disrupted the supply of oil to the United States and the Netherlands and announced a fourfold increase in the price of oil. The EEC countries concluded a series of bilateral agreements with the major oil producers to ensure an uninterrupted supply of oil.

1.3.2 EEC's Relations with ACP Countries

The ACP countries have also acquired importance in EEC's external relations. This is because the ^{ACP} States have the advantage of an abundant supply of raw materials like oil and uranium within their territories. The Lome Convention which was originally signed in 1975 with 46 ACP states and was renewed in 1979 with 13 new States joining it, was the most comprehensive general agreement that the EEC has with a bloc of Non-European countries.

1.4 EEC's Share in World Trade

The European Economic Community is World's largest trading unit. In 1973, it's share in the total world trade was 34 per cent which increased to 38 per cent in 1979 [Luigi (1984), p. 21]. The EEC has emerged as the world's largest importer and exporter. Between 1973 and 1979 the total EEC exports rose by 145 per cent. During the same period the total imports rose by 151 per cent. The increase

in extra-community imports was 160 per cent as compared with one of 145 per cent of intra-community imports as can be seen from Table 1.1. In the beginning about half of EEC's external trade was with Western industrial countries and Japan but with the substantial rise in oil prices, the oil exporting developing countries have emerged as the main suppliers of the EEC. In 1983, the EEC imported \$ 118 billion from the developing countries while the United States imported \$ 107 billion and Japan imported \$ 70 billion. This was 22 per cent of total exports by the developing countries for 1983, while for U.S.A. the percentage was 17 per cent and for Japan it was 13 per cent. The extra-EEC trade in 1983 was divided in such a way that 54 per cent of it's exports went to the industrialised market economies, while it imported 53 per cent of it's total imports from these markets. The exports to developing countries were 40 per cent of the total exports of the EEC, and imports from these countries were 38 per cent of EEC's total imports. The developing countries are an important trading partner for the Community, almost as important as the industrialised countries. In 1983, out of it's total imports from developing countries, the Community imported 45 per cent from OPEC, 21 per cent from Asia (24 countries including China and the ASEAN countries), 18 per cent from Latin America and 16 per cent from the ACP countries. Out of it's total exports to developing countries in 1983, EC exported

Table 1.1 : EEC : Total external trade, 1958 and 1973-1979

	(Billion EUA ¹)							
	1958 ²	1973	1974	1975	1976	1977	1978	1979
EXPORTS	34 (100)	71 (100)	231 (100)	240 (100)	293 (100)	333 (100)	360 (100)	419 (100)
Intra-EEC	12 (34)	90 (53)	117 (51)	118 (49)	151 (52)	169 (51)	186 (52)	225 (54)
Extra-EEC	22 (66)	81 (47)	114 (49)	121 (51)	141 (48)	164 (49)	174 (48)	194 (46)
IMPORTS	36 (100)	175 (100)	247 (100)	243 (100)	309 (100)	340 (100)	362 (100)	440 (100)
Intra-EEC	12 (33)	90 (52)	116 (47)	117 (48)	149 (48)	168 (50)	184 (51)	221 (50)
Extra-EEC	24 (67)	84 (48)	131 (53)	125 (52)	160 (52)	172 (50)	178 (49)	218 (50)
Balance of Trade ³	-2	-4	-17	-4	-18	-7	-4	-24

1 The European unit of Account (EUA) is a "basket" unit, based on a certain quantity of each community currency, weighted on the basis of the five-year (1969-73) average of the GNP and intra-EEC trade of each member state. The 1979 conversion rate into U.S. dollars was EUA= \$ 1.37.

2 1958 was the first year of the six-nation EEC. The figures given here are for the enlarged community of 9.

3 - = deficit

Note : Because of rounding, details may not add up to the totals.

Source : Statistical office of the European communities, Monthly External Trade Bulletin, Special Number 1958-79, in India and the EEC (1984), Lall, Ernst & Chopra (Ed.), p.32.

43 per cent to the OPEC, 27 per cent to Asia, 12 per cent to Latin America and 13 per cent to the ACP countries. [Maciotti (1986), pp. 182-183].

1.5 Development of India - EEC Trade

The Indo-EEC cooperation which began formally in 1962, when India established diplomatic relations with the Community in Brussels, the British entry into the EEC in 1973 was an important land mark in the Indo-EEC relations. Table 1.2 shows the development in trade between the EEC and India since 1973, the year in which Britain joined the Community. The statistics in the table highlight the impressive increase in exchange between 1973 and 1985. EC imports from India have increased fourfold, and the EC exports to India increased eight times higher in value than in 1973.

1.5.1 The Joint Declaration of Intent

In 1972, a joint Declaration of intent (JDI) was issued by the EEC jointly with Britain. The Declaration proclaimed the Community's will to strengthen and extend trade relations with India and other developing countries in Asia. The purpose was also to examine with these countries, such problems as may arise in the field of trade with a view to seeking appropriate solutions. The Community's action was limited to the JDI, because trade relations between the EEC and India had developed to the point where both the EC and Britain felt that the existing network of bilateral and

Table 1.2 : Trade between the EEC and India

	(Million ECU)						
	1973	1976	1979	1981	1983	1984	1985
EC-imports	644	1428	1839	1880	2196	2905	2672
EC-exports	688	1140	2009	3363	3823	4630	5560
Balance	+24	-288	+170	+1483	+1627	+1725	+2880

Note P IECU = \$ US 0.90 (February, 1986).

Source : Statistical office of the European Communities
in Europe information 85/86, April 1986, p.6.

other arrangements especially the GSP could be counted on
to safeguard India's exports to the U.K. market.

1.5.2 New Cooperation Agreement

The keystone of Indo-EEC economic relations is the Commercial and Economic Cooperation Agreement. An Indo-EEC Commercial Cooperation Agreement (CCA) was signed on 17th December 1973 and it came into force on 1st April 1974 for a period of five years. A new commercial and Economic Cooperation Agreement was concluded between India and the EEC in 1981. The new CECA has served as the inspiration for the new generation of cooperation agreements replacing the earlier agreements.

1.5.3 Indo-EEC Trade in the '70s

During the 1970s, the volume of India's trade with the

EEC had increased considerably. Between 1974 and 1978, the value of India's exports to the EEC more than doubled. Imports from the Community during the same period registered nearly three fold increase. [Banerji, (1984), p.86]. As trade has increased, India's deficit in trade balance with the EEC has unfortunately also increased. The mounting deficit with the EEC reflects the increased overall deficit in it's external trade since the Government introduced a policy of easing import restrictions. India has repeatedly expressed it's concern to the EEC at this situation and has asked for further access for it's products to the Community market. There is much scope for increasing the exports by India, particularly of engineering goods, chemical products, iron and steel, gems and jewellery. The Community is expected to help India develop it's exports but in return India will have to further improve the quality of it's exports to the EEC in order to make them easier to sell. The trade between India and the EEC has been continuously growing and there is an untapped potential for Indian exports in the EEC market. The EEC is prepared to cooperate with India for further strengthening our economic, commercial and technological relations in due recognition of India as the leader of the developing world.

CHAPTER II

REVIEW OF LITERATURE

2.1 Interdependence Among Nations

Since the end of the second World War, interdependence among nations has been an increasingly dominant fact of economic life. The nations are interdependent due to increasing openness of the countries and this in turn is due to the fact that foreign trade has acquired more relative importance in their national economies. In the post-War World, experiments towards regional economic integration among groups of geographically related countries, have been made. European Economic Community (EEC) is an example where the integration experiment has made substantial progress. The economic interdependence of the industrialised economies is generally appreciated, the interdependence of the developed and developing countries is not yet firmly established (although, it is asserted in many official statements). And there is consequently, a growing feeling, if not fear, that unless the developed countries are convinced that their interests are dependent on the Third World, partly or fully, it is unlikely that they will be prepared to make meaningful "Concessions" to the developing countries in negotiations on the reform of the international system of trade and financial and technological flows [Saxena, (1984),

p.60]. The decade of the 1970s was a particularly remarkable decade. It witnessed the debacle of the Bretton Woods system, the cartelization of the Organisation of Petroleum-Exporting countries (OPEC), The energy crisis, the New International Economic Order (NIEO). It also witnessed the basic recognition of the significance of interdependence and the Third World's emphasis on self-reliance as the only way out. The Third World countries expressed their dissatisfaction with the prevailing system of economic relations.

2.1.1 Indo-EEC Interdependence

The interdependence between India and the EEC is of a generalised nature. EEC is India's largest trading partner accounting roughly for a quarter of India's exports as well as imports. In actual practice however, the community's attitude towards India seems to be hard. This is reflected in growing protectionism, lack of progress in development cooperation and continued preferential approaches to groups of developing countries on the basis of self interest. [Saxena, (1984) pp. 68-69]. The EEC however, considers itself in a unique position to bridge the differences between the North and the South. On political and historical grounds, the Community claims to appreciate better than other developed countries the problems and aspirations of the developing countries. It also acknowledges it's dependence on the developing countries for it's economic advancement. However, scanning Indo-EEC trade and commercial relations in particular,

we may notice at least four negative features in Community's attitude: (1) discrimination in terms and conditions of access, (2) conspicuous narrowness of the legal, administrative and financial frame for the discharge of the Community's commercial responsibilities, (3) reluctance to extend certain elements of the Community's development cooperation policy to the non-associates; and the excessive, restrictive nature of the Community's market development [Saxena, (1984), p.72].

2.1.1.1 The Smallman Team

In order to develop the future areas of commercial cooperation between India and the EEC, on a more systematic and scientific basis, a Joint Project Planning Study of consultants (known as Smallman team) was commissioned in 1977 with the EEC's assistance. The team in its report identified various project areas, pinpointing microsectors for promoting cooperation on the basis of "comparative advantage" and made specific recommendations, including financial and technical assistance. It identified various product areas and also recommended measures for the evolution and diversification of Indo-EEC trade. The Smallman team, in short perceived India and the EEC as two societies of great contrast where the opportunity for the exchange of goods and services to mutual advantage should be much greater than has been perceived.

2.1.2 Indo-EEC Interdependence in Global Perspective

EEC has no global economic policy towards the developing countries but only different layers depending upon political and economic interests. However, in the dynamic framework of global interdependence, one finds that the Indian economy, which has reached a fairly developed stage of advancement, along with the European Community, has untapped possibilities of resolving, or of attempting to resolve, some of the most difficult and pressing problems that are currently facing the International community. Therefore, there is a need for more intensive relationship between India and the EEC, in order to realise the full extent of possibilities of mutual interest and interdependence. The moral, therefore, is not what "One ought to do for the other" but what both together can do for a well-defined common area/enterprise constructively so as to achieve rational global interdependence [Saxena, (1984), p.75].

2.2 The Commercial Cooperation Agreements and Indo-EEC Trade

With a view to establishing trade relations between India and the EEC on the basis of comparative advantage and mutual benefit, the Commercial Cooperation Agreement was concluded in December 1973 and came into effect in April 1974. The CCA expired in March 1979, but had been automatically extended until a new agreement is signed. In

June 1981 a new five year commercial and economic agreement (CECA)^{was} signed which had a wider coverage to include commercial, industrial, technical and scientific cooperation. The new agreement provided for both economic and commercial cooperation between India and the Community and also the grant of most favoured nation treatment in accordance with the GATT principles [Ramanathan, (1984), p.140]. It rightly emphasizes the need for strengthening and diversifying the commercial exchanges between the two parties. Since trade between the two parties is generally through private economic operators, it lays emphasis on the importance of bringing together economic operators of both sides with a view to identifying specific sectors where production and exports could be developed to their mutual advantage. The provision on industrial cooperation lays emphasis on certain important matters such as the need for promoting industrial development through transfer of appropriate technology from the developed industrial nations of Western Europe to India.

2.2.1 Investments in India and the CECA

The question of investments in India was an important point in the negotiations and was one of the reasons for the delay in the finalisation of the agreement. The Community's general approach towards investment protection could not be easily reconciled with India's position on the legal and constitutional safeguards. Foreign invest-

ments in India had to be viewed in the overall perspective of India's development strategies and needs. After considerable explanation and clarifications in regard to these matters, it was finally agreed that both parties would take steps to promote mutually beneficial investment which was consistent with the laws and policies of the two parties.

2.2.2 Cooperation between Financial Institutions

Another important highlight of the agreement was Community's intensified support for India's development programmes. The provision for promoting contact between the financial institutions could also lead to fruitful cooperation between banks and insurance companies in India and Europe.

2.2.3 The Joint Commission

India and the EEC reflected their desire to strengthen the mechanism of Joint Commission. The Joint Commission is an instrument through which the implementation of the agreement is to be monitored and evaluated. It was empowered to study specific problems such as the impact of trade barriers, tariff and non-tariff, the adaptation of the trade pattern and marketing structures so as to fulfil the objectives of the agreement, and the removal of the specific hurdles in the way of the development of commercial and economic cooperation between the Community

and India. It should, therefore, be possible for the Joint Commission to mandate a specific subcommission or an Expert Group to study all the specific issues that come in the way of fulfilment of the objectives of the new agreement and suggest measures to resolve them [Ramanathan, (1984), p.146].

2.2.4 Indian Trade Centre (ITC)

Under the perview of the Joint Commission, Allan Smallman Consultants Ltd. carried out a study on the prospects of trade between India and the EEC. One major recommendation of the Smallman report was to set up an Indian Trade Centre (ITC) in Brussels which is already functioning. The Community has spent over U.S. \$ 5 million for the Indian Trade Centre in Brussels. Since it's inception in 1980, ITC's activities are directed in promoting India's exports to the Community [Lall, (1986), p.190]. The purpose of the centre is to collect, analyse and transmit marketing intelligence and information on consumers' preferences, designs, standards, distribution channels, etc., to Indian exporters. The centre is jointly financed by the EEC and the Government of India. Initially the centre was concentrating on selected sectors such as jute, electronics and leather and leather manufactures. A trade promotion programme has also been finalised in respect of which the Community is expected to provide

financial, technical and other assistance. The programme relates to participation in trade fairs, publication of export promotion literature, market investigation, etc. Although the joint commission provided some sort of arrangement for ensuring follow-up action, it should be institutionalised in a better fashion. This could be done by earmarking officials on both sides and fixing clear cut responsibility so that important aspects such as joint ventures and cooperation in third countries could be taken care of in a better manner than it is now. In this regard, the new agreement between India and the EEC has made some improvements [Sundaram, (1983), p.182]. On the whole, the new agreement aims at consolidating the gains of the old agreement and incorporating some new ideas to foster cooperation in the field of industry, commerce, finances and science and technology.

2.2.5 CECA and North-South Debate

A major agreement such as the CECA cannot totally ignore the present North-South debate on development. The Government of India and the EEC through consultations should initiate thinking on the lines in which the necessary structural adjustments may be brought about. A balanced view on these issues would need to be taken so that the CECA between India and the Community may prove to be meaningful and realistic [Ramanathan, (1984), p.147]. The

effectiveness of these agreements, will be reflected in increased transfer of technology a greater number of joint ventures, agreements on avoidance of double taxation, etc. In this context it could be mentioned that of the 8,600 industrial collaborative agreements since 1957 to 1984, 52 per cent are with enterprises of the EC area, and of the total foreign investment in India cumulated between 1970 and 1984, 22 per cent is by the EC [Maciotti, (1986), p.191].

2.2.6 CECA and Indo-EEC Trade

The trade between India and the Community developed in a reasonably satisfactory manner under the old CCA. It is hoped that the new CECA would provide an impetus to increase the commercial exchanges to the highest possible level, help in reducing the existing imbalances in the trade pattern and also promote cooperation in the fields of industry, and science and technology. Drawing up cooperation agreements tend to become meaningless and a mere declaration of intentions, unless they are backed by a political will. However, through it's cooperation agreement the EEC has been trying to increase trade with India. India's exports to the EEC are mainly concentrated in traditional products. It envisages to diversify and increase it's export to the EEC and to reduce it's persistent balance of trade deficit with that region.

Vigorous efforts are needed from both sides to achieve these objectives.

While India has been actively endeavouring to extend and deepen Indo-EEC cooperation, the Community's interest in the exercise has lacked spontaneity and thrust. This is due particularly to the Community's structural and functional limitations. Also the Community's appreciation of the value of closer and wider relations with India has been neither deep nor wide spread [Lall and Chopra, (1984)].

2.3

Generalised System of Preferences (GSP) and India-EEC Trade

The European Economic Community was among the first to launch, in July 1971, the scheme of Generalised System of Preferences (GSP). The scheme was important because the principle of reciprocity was given up. It was based on two vital elements of non-reciprocity and non-discrimination. Most of the scheme is centred on removing or reducing tariffs on imports from the developing countries of goods falling within the BTN Chapters 25 to 99, mostly manufactured goods. Some schemes also offer tariff concession on a limited number of agricultural commodities and processed agricultural products falling within chapters 1 to 24 of the BTN. Although the EEC scheme does not exclude any products as such, it has placed a number of products such as some types of finished leather, footwear and textiles

on the sensitive list subject to ceilings. If a country exceeds the ceiling, imports are not banned, but allowed on payment of MFN rate of duty. The products are categorised as sensitive, semi-sensitive and non-sensitive products. Normally the ceilings and the maximum country amounts are rigidly applied in the case of sensitive items. The sensitive tariff quota items are allocated among member states on the basis of a standard formula relating to trade, GNP and population. In the field of agricultural products, a selective approach has been adopted and certain specific products have been included for partial tariff reduction. During the operation of the scheme.

2.3.1 Effects of GSP Scheme on India

India was able to obtain some access to the EEC markets. It was due to EEC's free quota upto certain prescribed ceilings for handloom, cotton and silk fabrics and handicraft items. As far as several other items are concerned, the scheme is rather restrictive in nature. The in-built rigidities of the scheme have hindered the fullest exploitation. The scheme was broadly classified into three categories, namely, sensitive items, non-sensitive items, and others. Several items in which India has a potential to export are under the sensitive and the non-sensitive categories. The sensitive items comprise such products as textiles jute and jute manufactures, hand tools, electronic and other engineering products. An emerging developing

country like India has considerable export potential in these very items.

2.3.1.1 Causes of Underutilisation of GSP by India

The GSP scheme has facilitated the export of Indian goods to the Community and contributed to a larger volume of trade. However, India has not been able to take full advantage of the concessional offers available under the scheme. This is partly due to the lack of awareness and understanding of the GSP scheme by Indian exporters, and partly due to certain domestic production constraints. Also quantitative restrictions and quotas, the uncertainty about the continuance of these quotas over long periods the lack of flexibility in quota administration, etc., tend to inhibit long-term investments in production capacities in India also as to be able to fulfil export of these quota items [Ramanathan, (1984), p.142]. Another reason for India not being able to utilise fully the concessional offers under the scheme is the splitting of the quota among the member countries. As per the principle, the inter-country transfer of quotas is not allowed. The EEC should dispense with the splitting of the Community quota to individual member-states. In case the Community wants to retain it, there should be a provision for inter-country transfer of quotas in respect of major exportables, such as textiles, leather manufactures and electronic products. It is also

desirable for India to gear the production and marketing efforts through appropriate arrangements to take advantage of the opportunity in non-sensitive products where the avenues are available in plenty [Bhat, (1984), p.136].

2.3.1.2 Advantages of the GSP to Indian Exports

Reduction or elimination of EEC tariff under the GSP scheme is of considerable interest to India. The significance of the GSP to Indian exports can be ascertained by examining the coverage of the scheme. The total imports into the EEC from India of Agricultural products in 1976 were worth Rs. 4,840 million, out of which imports worth Rs. 3,280 million were duty free, thus leaving dutiable imports worth Rs. 1,560 million, of which only Rs. 360 million worth of imports received GSP treatment. The significant gap between dutiable imports and imports eligible for GSP was due to the fact that bulk items such as coffee and sugar were not eligible for GSP treatment and in respect of unmanufactured FCV tobacco, a large proportion of the imports was made outside the GSP tariff quota. In Industrial products the imports from India in 1976 amounted to Rs. 9,230 million, out of which imports worth Rs. 5,200 million were dutiable. As against this the imports from India which benefited from EEC's GSP amounted to Rs. 1,740 million. In spite of the fact that most industrial products are in the EEC's GSP scheme, it is not surprising that only about 33 per cent

of the dutiable import were actually eligible for GSP treatment. This is so because in a large number of textile, leather and other sensitive items the GSP tariff quotas are very small. The total percentage of imports from India which received GSP benefit as compared with the dutiable imports comes to 31 [Hoda, (1984), p.165].

Improvements in the GSP

Although, during the years 1971 to 1979, the basic structure of the EEC's GSP scheme remained unchanged, but a number of improvements had been made. In the agricultural sector, during this period a number of important products of interest to India have been included in the GSP and in the case of certain other products the tariff has been considerably reduced. Among the new items were unmanufactured fluecured virginia (FCV) tobacco in 1974, castor oil in 1975, shrimps of family Penaeidae and pepper in 1976. Following the Tropical Products Negotiations some fresh fruits and vegetables such as mangoes and okra were made eligible for GSP treatment. At the same time there were substantial tariff cuts. In 1975, the duty on froglegs was brought down from 5 per cent to zero. The duty on shrimps of family Penaeidae was reduced from 7 per cent in 1976 to 6 per cent in 1979. Following the Tropical Products Negotiations the percentage of duty on dehydrated mushroom was brought down from 10 to 8 and on pepper from 6 to 5 in 1977 [Hoda, (1984), p.167].. Between 1971 and 1979 the

framework of the EEC's GSP scheme for industrial products remained unchanged with products divided into sensitive hybrid and semi-sensitive categories. Except for a few minerals in their primary form and some other exceptions such as certain textile primary products and leather not further prepared than tanned, all industrial products are included in the GSP scheme. The products are given duty free treatment subject to overall quotas ceilings, and maximum country amounts. Normally, the ceilings and the maximum country amounts are applied rigidly in the case of sensitive items. In these items they are further subdivided into quotas for the member countries of the EEC. In the case of semi-sensitive products, the global ceilings are sometimes applied and in the case of non-sensitive products these are generally not applied. The differential treatment of various developing countries for the purpose of application of the maximum country amount helped the poorest developing countries such as India because the special restrictions applied to the more advanced developing countries were not extended to them. India has been given exception in respect of 35 per cent of its exports. But in terms of the total quantity of exports eligible for duty free treatment, it has been given the largest share. Thus Indian exports have benefited considerably from the changes made in the EEC's GSP scheme [Hoda, (1984), pp.169-70].

2.3.2.1 GSP Scheme 1981 and Indian Exports

In the 1981 GSP scheme for India, there is no change

qualitatively or structurally to which any significance could be attached from the point of view of India. In the case of number of products there has been a marginal reduction in the GSP duty. In the 1981 scheme the erstwhile groups, i.e., sensitive, semi-sensitive and hybrid products have been clubbed as a single group of sensitive products with as many as 122 tariff lines. In the new list of sensitive products a number of non-sensitive categories of the 1980 scheme have been included and there have been certain deletions of items which were formerly semi-sensitive. In the list of additions there are a number of products, mainly chemicals, in which India has export interest but the volume of export is not large enough for the change to have much adverse significance. In the list of deletions there are four products, viz., synthetic dyestuffs, electrical apparatus for making and breaking circuits, medical instruments, and sports goods, in which India has considerable interest and the liberalisation will benefit its exports [Hoda, (1984), pp. 170-72]. In respect of the former category of non-sensitive products although the structure of the GSP scheme has been changed there will not be much significance of the change for India's exports. However, in respect of a number of semi-sensitive and sensitive products, the change in the structure of the scheme will have significance for India. In respect of one

item, viz., footwear with uppers of leather, India has been placed in the category of competitive countries and a rigid quota has been imposed on imports from India.

Even though, the average level of the MFN tariff for products of interest to India in the EEC is quite low, the GSP scheme still has significance because of the comparatively high level of tariff on a number of products.

2.3.2.2 Need for Further Improvement in GSP

In the past, Indian exports have not derived benefit from the GSP in respect of products where global quotas ceilings have operated. However, wherever there has been unrestricted duty free entry under the GSP, there is considerable evidence to support the view that the preference has been a major contributory factor for the increase in exports. The change-over from the system of global quotas to the system of ceilings for individual beneficiaries in the 1980 scheme for textiles and in the 1981 scheme for non-textile industrial products will be in the interest of the majority of the beneficiary countries.

There is an immediate need for improving the GSP scheme in respect of unmanufactured FCV tobacco by lowering the tariff and increasing the quota. The MFN concessions made by the EEC are welcome but these would tilt the competitive advantage in favour of the developed countries which export higher value tobacco. The admission of Zimbabwe

for the benefits of the Lome Convention will hurt India's export interest in tobacco considerably unless the GSP scheme is improved [Hoda, (1984)].

2.3.3 India as a Beneficiary of GSP

India is one of the main beneficiaries of the EEC GSP, ranking 6th in 1981 and 1982 and 4th in 1983, after Brazil, Romania and Kuwait. India has improved its position. Nevertheless, the utilisation of GSP by India has still room for improvement (the current utilisation ratio is less than 50 per cent of offer) [Macioti (1986), p.188].

Presently about 1800 industries and about 380 agricultural products are covered under the Community's GSP scheme. In 1983, of the total imports from India by EEC, valued at 2,196 million ECU, 38 per cent of products worth 841.6 million ECU entered the Community duty free. From the remainder 46 per cent of Indian exports of goods covered by the GSP scheme entered of the Community under preference. In the agricultural sector, 68 per cent of EC imports from India of eligible products entered under the GSP scheme. Products concerning India included packaged tea, marine products, various spices, and Indian vegetable specialities. In the manufactured goods sector, 34 per cent of Indian exports covered by the scheme benefited from tariff exemptions, mainly leather articles, engineering goods, and chemical products. For textile products, India is by

far and away the main beneficiary. Fiftyfive per cent of Indian textile product exports received preferential treatment. According to the statistics brought out by the Indian Cotton Mills Federation (ICMF) regarding India's utilisation of textile quotas in it's annual report 1984-85, the ICMF has conceded that India's utilisation level was far from satisfactory in respect of made ups. During 1984, in the case of cotton handkerchiefs alone, about one-third of the quota had been utilised. In respect of cotton terry fabrics, two-fifths of the quota had been utilised, while around two-thirds of the quota for cotton hed linen had been used. During 1984 the industry had exported 31,000 tonnes of fabrics to the EC against the quota of nearly 40,700 tonnes. While this represents an improvement in quota utilisation from 42 per cent in 1983 to 76 per cent in 1984, the ICMF stated that in 1985, the utilisation position would be below 50 per cent [Macioti, (1986), p.189]. The Indian Government and the textile industry should take a serious note of this and suitable steps should be taken to boost exports of textiles by fully utilising the quota by the EEC. On the other hand, the GATT decision requires that the grant of tariff preferences by the developed countries to the developing countries should be non-discriminatory. The Community should not allow it's GSP scheme to be used as an instrument of discrimination against India.

2.4 Effects of EEC's Trade Restraints on India

The significance of the EEC market for India increased with the expansion of the Community in 1973 with the U.K. Denmark and Ireland coming into the fold. Although, the two way trade between India and the Community has increased at a modest rate, it is extremely important to analyse the trade restraint policy of the EEC which adversely affects India's trade. The trade restraint policy affecting India's trade in textiles and textile products, basic chemicals and allied products, engineering products and marine products has been analysed.

2.4.1 Effect on Textiles and Textile Products

Import restrictions were imposed on Indian textiles into the Community since 1961 when India signed a short-term 'Textile Agreement' under the auspices of the GATT. These restraints continued during the long-term agreement in textile, between 1962 and 1973. Thereafter, the restraints continued under the Multi-Fibre Agreements (MFA) which covered all textile products. In 1977, unilateral import restrictions were imposed by the EEC countries on all textile imports from the developing countries including India. This was in violation of the MFA agreement. There are provisions for the imposition of unilateral restrictions in the event of failure of mutual negotiations. These relate to restrictive measures on imports from India, in

respect of men's and women's cotton shirts as well as blouses including clothings made of handloom fabrics. In addition, there have also been restrictions on a unilateral basis in relation to quantitative limits on yarn and T-Shirts from India in the U.K. and quota limits on cotton and yarn in France. In fixing the quota limits, the formula devised by the Community is unscientific as it does not take into account the internal demand conditions in the member states [Bhat, (1984), pp.132-33].

2.4.2 Effect on Basic Chemicals and Allied Products

The Community is the largest market for India's chemicals and allied products accounting for over 22 per cent of global exports. The principal items of export to this market are quinine salts, medicaments, bandages, papain, strychnine, alkaloids, sulpha drugs, ephedrine hydrochloride, derivatives of hydroxy-quinolone, indelylemic acid, dyes and dye intermediates, hena leaves and powder, perfumes, processed talc, fatty acids, hydrogenated castor oil, rare earth chloride, bleaching powder, alum chloride, agarbattis, essential oils and senna leaves. The restrictive trade practices of the EEC countries for these products comprise anti-dumping duties and surcharge variable levies on chemicals and chemical compounds. The U.K. and Italy practice a prior import deposit scheme under which the importers are required to deposit a certain

percentage of the C.i.f. value of the product with the import licensing authorities. These measures are a great irritant to the exporters of chemicals and allied products [Bhat, (1984), p.134].

2.4.3 Effect on Engineering Products

The Community was relatively liberal with regards to the imports of engineering goods from the developing countries. However, lately, with the anticipation of recession, some protectionist measures have been imposed on certain product groups such as steel pipes and tubes, industrial fasteners, automotive parts, electronic products and components, transmission and reception apparatus, wrought bars and rods, angles, shapes, and sections of copper and copper wire, wrought plates, sheets and strips of zinc, electronic goods such as generators, motors, transformers and rectifiers, insulators, nuts and bolts, household utensils, bicycle chains, TV sets, radios, cast-iron and pipe fittings. The items face anti-dumping duty and quotas in the Community market [Bhat, (1984), p.134].

2.4.4 Effect on Marine Products

The Community levies duty on the marine products imports to protect the interests of domestic industry and also of the Associate Countries including Spain, Morocco and other selected African Countries. The marine products imported from the Associate Countries are practically

duty-free. For instance, canned sardines, which are imported from Morocco have no duty and the same products imported from India bear a 12 per cent duty even under the GSP. Due to this high duty, it has been found extremely difficult to market Indian canned sardines in the Community. Shrimps and other products in this group also attract more or less the same duty [Bhat, (1984), p.135].

2.5 Sectoral Agreements between India and the EEC

Trade in some products is organised through sectoral agreements like those dealing with textiles, jute, coir and sugar. The Commercial Cooperation Agreement (CCA) 1973 provided for special sectoral agreements between India and the Community on jute, coir and cotton textiles.

2.5.1 The Sectoral Agreements for Some Products

2.5.1.1 Textiles

India is a major supplier of textiles and clothing to the EEC. In 1984 India's share was 4 per cent in the Community's total imports of textiles. India increased her exports in 1984 to the EC by 49 per cent against overall export increases of 32 per cent. In 1980 India exported \$ 497 million worth of textiles to the EEC and \$ 415 million worth of clothing to the EEC. The textile trade that takes place in accordance with the agreement on textile products reached under the GATT MFA and involves a voluntary restraint arrangement for certain categories of products also guarantees

access to the Community market under improved conditions. Besides GSP, India also benefits from import duty quotas which the EC grant annually for handicraft and handloom products. India is the largest single beneficiary of this system among Asian and Latin American countries [Maciotti, (1986), p.187]. The agreement on textile products reached under the GATT MFA III was adopted on 26-9-1982. It has been applied since 1-1-1983 and was to be effective till the end of 1986. Although it involved a voluntary restraint arrangement for certain categories of products, it also guaranteed greater access to the Community market under improved access conditions.

2.5.1.2 Jute

It was feared that when the U.K. joins the EEC Indian suppliers of jute and coir products will be subjected to 40 per cent of the Common External Tariff (CET) rates from January 1, 1974, and by July 1, they will be subjected to the full CET rates, which would in some cases, be higher than the present M.F.N. rates of the UK's tariff [Pandey, (1973), p.149]. In December 1977, India signed two agreements with the EEC - one on coir and the other on jute products. Both these sectoral agreements derived from the existing larger commercial cooperation agreements between India and the EEC, were aimed at according special tariff treatment to the imports of these two commodities from India.

The new jute agreement stipulates that imports of jute products into the EEC will not be made subject to fresh quantitative restrictions, and provides for a phased dismantling overtime of existing quantitative restrictions. Under the new agreement, built in growth provisions are made in the import quotas for various categories of Jute products. The tariffs on jute yarn have been suspended from January 1, 1977. On other categories of jute products the tariff levels were to be reduced by 80 per cent on 1st January 1977, and would be completely eliminated on July 1, 1978, which date was advanced to January 1, 1978. The agreement also provided for a joint cooperation committee to examine ways and means of increasing and diversifying end uses of jute products and for promoting research [RBI Report on Currency and Finance, Vol.I, 1976-77]. The European Indian agreement limiting trade in jute products expired on 31st December 1983. The Community did away with all quota restrictions on imports of jute products since 1984. This provides ample opportunities to the exporters of jute products.

2.5.1.3 Coir

Under the 1977 sectoral agreement for Coir, the imports of coir products into the Community were to be duty free with effect from July 1978. There was provision for no quantitative restrictions also on coir imports into the

Community. The agreement further provided for a joint cooperation committee to explore possibilities of improved production research in and development of new techniques of manufacturing coir and coir products [RBI Report on Currency and Finance, Vol.I, 1976-77]. It was expected that this stagnant cottage industry would revive and the declining trend in Indian coir exports would be arrested. The new agreement between India and EEC provided for gradual increase in quotas with all ceilings to be lifted in 1983. In practice only France continued to impose restrictions. Under the GSP, the Community did away with all tariff and quota restrictions on Indian exports of coir products at the end of 1982 [Macioti, (1986), p.187].

2.5.1.4 Sugar

India signed an agreement with the EEC on supply of sugar also. This replaces the old Commonwealth sugar agreement which expired on 31 December 1974. Under the new agreement, India was to supply 25,000 tonnes of sugar to the EEC every year only at a negotiated price. The agreement came into force in January 1975. India's quota is currently fixed at 10,000 tonnes from 1 July 1983 [Macioti, (1986), p.188]. India also benefits from the import duty free quotas which the EC grants annually for handicrafts and handloom products.

2.6 Problems of India's exports to the EEC

2.6.1 Reasons for Inadequate Performance of Indian Exports

India has not been able to realise the full potential

for exports to the EEC. There are many and varied reasons.

2.6.1.1 Inabilities of Indian Exporters

One important reason is the inability of Indian exporters to conform to European specification and fast-changing market trends. Meeting European quality standards and delivery schedules have also been difficult for many of the small and medium scale exporters from India. It is however clear that quality rather than mere cost effectiveness would be a major factor in increasing the volume of Indian exports to the European markets [Ramanathan, (1984), p.147]. The Indian Exporters will have to adapt themselves to the requirements of consumers in Europe.

2.6.1.2 Lack of adequate export Surpluses

Another problem of India's exports is the lack of adequate export surpluses. Absence of sufficient surpluses is limited not only to traditional exports like sugar, cattle feeds and cashew, but also to non-traditional exports like automobile ancillaries, bicycles and shoes. There has been no dearth of demand for these items. In some instances, the output of these items has not been enough to cater to both internal and international demand. In the case of other items, India has not been able to meet the international demand on the scale required and within the time limit expected. To take but one example, anti-pollution measures and the high cost of oil have made

bicycles popular in Western Europe. India could perhaps sell a few hundred million dollars worth of bicycles, provided it builds up capacity to produce the requisite quantity to European specifications. However, India has not been able to take advantage of this demand for bicycles in Europe, primarily because it cannot supply the required quantity, and to European specifications [Mehta, (1977), India Quarterly, pp.284-285].

2.6.1.3 Protection and Restrictive Trade Practices of the EEC

Another problem is that Indian exports to the Community are also facing problems due to the emergence of certain protectionist tendencies and adoption of restrictive trade practices in areas such as textiles, jute, coir, leather and footwear, tobacco, etc. There have been problems relating to tariffs and quotas in respect of these commodities. Solutions to these problems will have to be found within the wider concept of comparative advantage and effective action to adjust the production mechanism on both sides to the mutual advantage. Meaningful production collaborations and tie-ups between the industries of the two sides on the basis of their respective strengths in technology, skills, and cost-effectiveness, would be the best way to tide over the transitional problems and arrive at a more balanced economic and commercial relationship [Ramanathan, (1984), p.147].

2.6.1.4 Delay in Deliveries

Another factor responsible for India's poor show in its exports to the European Economic Community is the non-fulfilment of contractual obligations within the stipulated time. With rapid technological progress and automation, the production process in Western Europe has become intensely time conscious. A delayed delivery implies loss of production and profit opportunity. (Mehta, (1977), India Quarterly, p.285].

Therefore, it is extremely important for the India's exporting community to fulfil export contracts in time.

2.6.1.5 Lack of Good Quality of Exportables

Lack of uniformly good quality or the discrepancy between the first sample and subsequent consignments is yet another problem of India's exports. The difference in quality standards of different member countries has brought many Indian exporters into disrepute, as quality standards differ from country to country in the EEC in respect of the same products.

India requires to improve its capabilities, if it wishes to bring about a substantial expansion of its exports to the member countries of the EEC.

2.6.1.6 Rigid Standards in the EEC

Very rigid standards are prescribed by the health

administrations of some of the member countries of the Community. Indian tobacco, especially flue-cured virginia variety, is said to have high nicotine, fertiliser and pesticide content, similarly, Europeans complain that India's cattle feed does not conform to standards of acceptability prescribed by their health authorities as it has higher cancer-inducing substances. If the rigidity is relaxed without making any compromise on basic health standards, it might be a good gesture to exporters from India.

2.6.1.7 Violations of MFA by the EEC

The European Economic Community has violated the Multi-Fibre Arrangement in letter and spirit at times. A recent imposition of quota on the exports of handloom garments from India by the Community unilaterally, without any consultation with India [Mehta, India Quarterly, (1977), p.286] is just an example. The Community can easily avoid such violations.

2.6.1.8 Factors Limiting Export of Coir and Coir Products

The EEC has urged India to limit its exports of coir and coir products on the ground that it hurts the employment opportunities in their domestic coir industry [Mehta, (1977), India Quarterly, p.286]. The Community knows well that it is a major market for India's coir and coir manufactures.

All these factors show that while there are inadequacies in India's export efforts, and the policies of the importing

countries of the EEC have also contributed to it's inability to bring about the rapid increase in exports to the Community.

2.7 Suggestions for boosting India's Exports

The scope for increasing India's exports to the Community is indeed very vast. In this regard the following suggestions can be made.

2.7.1 Full Utilisation of the GSP

India has often been complaining along with other developing countries about the ceiling on preferred imports, However, India has not been able to reach the ceilings under the Community GSP, in respect of many items. This shows that there is vast room for improvement in it's trade performance within the Community by utilising the GSP fully.

2.7.2 Need to Encourage Natural and Skill based Products

In the case of many natural products, India has a certain comparative cost advantage based on the richness of it's natural resources. Among these natural products are unmanufactured tobacco, leather, coir, sugar, jute, marine and forestry products and minerals like coal and iron ore are prominent. Then there are skill based items including fashion garments, leather and wooden furniture, engineering and consultancy services, chemical

and allied products, computer software, handicrafts, gems and jewellery, mechanical toys, sports goods, clothing and fruits and vegetables. These items have a high export potential. Ways are to be found to utilise the potential. It is necessary to devise remedies to tackle the deficiencies that retard India's present export performance.

2.7.3 Need to Alter the Composition of Exports

India can achieve a substantial increase in its export earnings by changing suitably its composition of exports. The export package of India must have an increasing proportion of natural and skill-based exports. India should try to capture a higher proportion of the existing market in the EEC for engineering goods, computer software, chemicals and allied products, handicrafts, clothing, leather and leather garments, gems and jewellery, sports goods and mechanical toys, etc.

2.7.4 Creation of Exportable Surpluses

Lack of exportable surpluses is an important reason for India's inability to push up exports to the EEC. In order to create exportable surpluses, India has to make its own efforts and cannot depend much on others. All the available capacity must be utilised and additional capacity must be created. The output of agricultural and agro-based items must be raised by raising productivity per acre through intensive application of modern inputs like

high yielding variety of seeds, fertilisers and pesticides. However, exports of natural as well as skill based items should not be increased at the cost of starving the domestic market. The output must be sufficient to meet the internal as well as the external demand.

2.7.5 Strict Adherence to Delivery Schedule

The problem of delayed deliveries could be tackled in two ways firstly, commitments about the time of delivery must not be made without making sure about the supply capacity. Secondly, a reasonable lead time could usually ensure timely delivery. It should not be excessive.

2.7.6 Need for Conformity between Sample and Consignments

India's export consignments must conform to the sample, as this has been a major complaint of the importers in the EEC. Indian exporters must be self-disciplined in this regard and must maintain the promised standard of quality.

2.7.7 Check on Growth of Exporters

The twin problems of quality and delayed deliveries could be tackled by the Government's efforts towards checking the mushroom growth of exporters. It will therefore, not at all be tragic if the Government of India introduces rigorous screening and permits only reliable exporters in different lines to export to various countries, perhaps through the use of the instrument of

licence [Mehta, (1977), India Quarterly].

2.7.8 The Role of Joint Commission

Indo-EEC joint commission could also play an increasingly important role in promoting trade with the EEC. The joint commission which is a creature of the CCA has performed a catalytic role in pushing up India's trade with the Community [Mehta, (1977), India Quarterly]. No doubt, India's trade with the Community has undergone both a qualitative and quantitative change, but there is no room for complacency because great tasks lie ahead and the tremendous potential for growth of India's exports to the EEC could be tapped still further as the future holds many possibilities for stronger ties between India and the EEC.

CHAPTER III

COMPOSITION OF INDIA'S EXPORTS TO THE EEC

The EEC has been one of the most significant trading partners of India. At the outset, it may be relevant to examine the composition of India's exports to the nine member EEC (After 1st January 1973, the membership of the EEC increased from six to nine). The bulk of India's exports to EEC, i.e., about 70 per cent of the total exports comprised cotton manufactures, tea, leather, silver, bullion, handicrafts, engineering goods, ores and minerals. The remaining 30 per cent of the exports consisted of chemicals and allied products, non-essential vegetable oils, sugar, oil seeds, jute manufactures and coir and coir manufactures and later many items have been added to India's exports to the EEC, but it has not been possible to reduce the trade gap with the community.

3.1 Reasons for Inadequate Export Effort by India

The following reasons might explain the inadequacy of India's matching export effort. Firstly, the performance of the generalised system of preferences (GSP) exports has been deficient. Such exports enjoy a relatively preferred entry into the Community markets. Although, the GSP covers not more than 13.5 per cent of India's total exports to the EEC, the bulk of India's manufactures and semimanufactures

have either received duty-free or reduced duty treatment in the markets of the EEC countries. Though ceilings have been imposed on textiles and footwear but most engineering and chemical and allied products have no quota limits at all. But this did not help to increase the exports to the Community in a significant manner.

3.1.1 Limitations of GSP Scheme

The exports under the GSP have increased but not as much as they should have. This could be attributed to certain limitations of the GSP scheme itself. For example, India has found the distribution of GSP quota for sensitive items in a fixed proportion among member countries of the EEC. Due to the quota system, it's easier for the member countries to limit the imports of sensitive items to their specific quotas. This means the absence of flexibility in the process. There could have been an increase in the exports if unutilised quota by one member country could have been utilised by other member countries requiring these goods.

3.1.2 Tariff and Quantitative Restrictions

Tariff and quantitative restrictions were only partly responsible for India's export performance. Quite a large quantity of India's exports entered the EEC duty-free outside the GSP. Tariffs were certainly high on raw tobacco, cotton textiles, carpets, jute and coir goods.

Later on, progressive reductions were effected. However, quantitative restrictions continued to exist. Tariffs and quantitative restrictions must be finished but since the demand for these traditional items is inelastic it would be wrong to imagine that by reduction or elimination of tariff the exports would increase substantially.

3.2 The Main Cause of Inadequate Export Performance

The real explanation of India's unsatisfactory performance in its exports to EEC seems to be the composition of India's exports. To improve the export performance, it is necessary to suitably change the composition of exports of India.

3.2.1 Inadequate Export of Engineering and Chemical Products

India's share in the EEC's imports of engineering goods and chemical and allied products is not very significant. The exporters of these goods will have to assess the specific requirements of the European markets. Though, to build up a stable market in Europe for engineering and chemical products would be a slow process, but it would help in earning enhanced exchange over a period of time.

3.2.2 Inadequacy of natural and skillbased Exports

India's export package must reflect an increasing proportion of natural and skill based exports. Among the natural products, emphasis must be placed on dynamic

sub-sectors rather than old lines for which the demand continues to decline. For example, in selling tea, packaged tea, tea bags, and instant tea are in greater demand in the EEC (with the exception of U.K.) rather than dust tea. Export of tea in chests in the traditional form will not help. "There are as many markets for tea as the number of countries in the community" [Mehta, (1977), p.288]. Therefore, to increase export earnings from tea, specific requirements of each market will have to be surveyed.

Another example is jute. The demand for sacks and hessians will continue to decline. However, jute fabrics, wall coverings, decorative material constitute an expanding sub-sector and India can exploit this sub-sector with advantage. In skill based exports, where India enjoyed an advantage in terms of cheaper labour cost, the exports may be increased in engineering goods, chemical and allied products, handicrafts, clothings, computer software, gems and jewellery, leather and wooden furniture, sports goods and mechanical toys. In order to achieve enhanced exports the Indian exporters will have to evaluate the specific requirements of European markets.

3.3 Volume of India's Trade with EEC in the 1970s

The volume of India's trade with the EEC had increased substantially during the 1970s. Between 1974 (the first year after EEC's expansion) and 1978, the value of India's

exports to EEC more than doubled increasing from 21 per cent to 26 per cent of total exports. Imports from the Community during the same period increased from \$ 937.6 million to \$ 2622.4 million, registering about three fold increase.

3.3.1 Development of Major Exports to the EEC

The bulk of India's exports to the Community is composed of cotton manufactures, tea, leather, silver bullion, handicrafts, engineering goods and minerals. India also exports such other commodities as chemicals and allied products, non-essential vegetable oils, sugar, oilseeds, jute manufactures, coir and coir manufactures.

India's share of the Community market is still less than 1 per cent of the total. However, Indo-EEC trade has shown an impressive increase. Twenty per cent of India's total exports went to the EEC in 1983-84, compared to 16.5 per cent to the U.S.A., 9.8 per cent to Japan and 15.5 per cent to the Soviet Union. U.K. is still the main market for Indian exports accounting for 32.6 per cent of Indian exports in 1983-84 to the EC [Maciotti, (1986), p.185].

3.3.1.1 Development of Agricultural Exports

India's exports to the EEC represent the basket of agricultural products which are peculiar to Asian exports. Commoditywise more than half of EEC imports from India

consist of manufactured goods like textiles, clothing, carpets, cotton and jute fabrics, worked diamonds, and leather. A large part of the balance consists of agricultural products like tea, raw tobacco, cattle cake, spices, etc., and oil cakes. As shown in the Table 3.1, in 1979, agricultural and food products, accounted for 30 per cent of India's export to the EEC, of which manufactures accounted for 67 per cent, the balance being represented by primary and energy products. India's traditional agricultural exports increased by 105 per cent between 1973 and 1979, exports of several major items such as tea, coffee, oil cakes and unmanufactured tobacco, increased by much less. Table 3.1 shows 1600 per cent increase between 73-79 in the EEC's Shrimps imports from India, being the highest among agricultural and food products as well as other commodities. Next in importance is sugar among agricultural products which has recorded 8.75 per cent rise during 1973-79. Spices occupy the third place in the rate of growth of agricultural imports with tobacco at the fourth place with 95 per cent growth during the same period. The export of tea from India during 1973-79 which recorded a 83 per cent increase in the imports from India, recorded the sixth place in the percentage increase during the period, while during 1973-74 the percentage increase was about 49 per cent, during 1977-78 there was a fall of 55 per cent and then again there was an increase of about

Table 3.1 : EEC : Development of major imports from India, 1973-79

	(Million EUA, SITC Rev 2 for groups)							
	1973	1974	1975	1976	1977	1978	1979	1979/73 (per cent)
TOTAL IMPORTS	655	880	908	1,407	1,641	1,606	1,827	179
A. Agricultural and food products	261	321	302	436	551	386	534	105
of which -								
036 - Shrimps	1	2	1	4	5	9	17	1600
0577 - Edible Nuts	8	7	7	12	12	10	15	88
061 - Sugar	4	5	12	16	9	13	39	875
071 - Coffee	10	9	7	17	22	18	17	70
074.1 - Tea	65	97	111	119	211	93	119	83
075 - Spices	4	5	5	5	8	9	11	175
081.3 - Oilcake	70	30	24	108	122	64	128	83
121 - Tobacco	38	55	54	47	52	71	74	95
292 - Crude Vegetable materials nes	23	34	31	44	40	41	35	52
B. Primary and energy Products	30	96	65	49	43	35	31	3
of which -								
263 - Cotton	1	3	1	10	3	1	6	500
281 - Iron Ore	3	15	26	14	5	7	5	67
C. Manufactures	358	445	527	859	1,023	1,153	1,230	244
of which -								
51 - Organic chemicals	1	4	4	6	4	4	9	800
523 - Other inorg. chemicals neg.	neg.	neg.	neg.	1	1	1	6	1100
611 - Leather	124	95	86	137	124	141	221	78
612 - Leather mfrs.	2	3	3	3	5	7	13	550
651 - Textile yarn	11	17	8	22	25	16	19	73
652 - Cotton fabrics	47	53	21	75	83	62	100	113
653 - Other textile fabrics	12	15	16	19	28	34	35	192
658 - Made-up articles of text. mats.	15	24	22	32	38	44	45	200
659 - Carpets	20	22	28	45	68	88	112	460
667 - Diamonds	42	51	57	99	207	305	200	376
69 - Metal mfrs. nes	10	14	18	27	37	46	57	470
71-75 - Machinery other than electric	9	12	15	17	27	23	23	156
76-77 - Elec.Mach., appliances	5	7	6	13	23	25	15	200
84 - Clothing	31	60	58	148	183	185	245	690
85 - Footwear	3	4	3	5	10	8	9	200
89 - Misc. manufactured articles	8	12	12	15	18	20	27	238

1 Percentage change between 1973 and 1979

neg. = below 500,000 EUA

Source : Statistical Office of the European Communities; in India and the EEC (1984), Lall, Ernst & Chopra (Ed.), pp. 42-43.

27 per cent. In the case of edible nuts there was a slight decline of 12.5 per cent in the growth rate during 1973-74 but in 1975-76 it picked up and again fell in 1977-78, and again picked up during 1978-79 recording a 50 per cent rise. Coffee has registered an percentage increase of 70 per cent between 1973 and 1979. India's exports of coffee have also been fluctuating year by year. Exports of coffee from India which has been declining till 1975, registered a rise of 142 per cent but again between 1977 and 1978 there was a fall of about 18 per cent and further between 1978-79 there was a fall of 5.5 per cent.

Agricultural and food products have shown a percentage increase of 105 per cent while the total imports by EEC have shown an increase of 179 per cent between 1973 and 1979. However, manufactures have shown a larger increase of 244 per cent. It shows the increasing importance of manufactures in relation to agricultural and food products. This also shows how India has diversified it's export basket.

3.3.1.2 Development of Export of Primary Products

As can be seen from the Table 3.1 India's exports of clothing to EEC rose by 32 per cent between 1978 and 1979. The increase in the case of cotton fabrics was 61 per cent. This shows that the cotton fabrics have a higher export potential. However, primary and energy products as a group have shown only a marginal increase of

3 per cent between 1973 and 1979 but export of cotton has registered an increase of 500 per cent between 1973 and 1979. In the case of cotton, there was a sharp increase of 900 per cent but again there was a fall of 700 per cent between 1976 and 1977. But again between 1978 and 1979 there was an increase of 500 per cent. It shows that export of cotton is highly fluctuating. The reason may be the emergence of new competitors for India.

3.3.1.3 Development of Export of Manufactures

Manufactures, which have recorded a higher percentage increase as compared to agricultural and food products, have shown a 244 per cent increase between 1973-79. The growth rate of manufactures has been consistently rising and we do not find any wide fluctuations. This shows that India has performed better in the case of manufactures exports as compared to other commodity groups.

The highest growth rate has been registered by other inorganic chemicals, i.e., 1100 per cent growth rate among the manufactures. Clothing recorded 690 per cent growth rate between 1973 and 1979. This shows that clothing have a potential for increased exports. Leather recorded a 78 per cent increase between 1973 and 1979 while the leather manufactures recorded 550 per cent increase during the same period. Export of leather from India to the EEC which declined in 1974 and again in 1975 again fell in 1977 and

rose in 1978 and further rose by 56 per cent in 1979.

However, value-wise export of leather from India has been much higher than the leather manufacture, but the growth rate of leather manufactures shows a much higher potential for exports. India will have to identify new markets in the EEC and meet the standards and preferences of these markets to boost exports of leather manufactures.

EEC's import of carpets from India has been consistently rising which has recorded an increase of 460 per cent between 1973 and 1979. This is another item with high export potential.

Diamonds are another major item of export from India to the EEC which have recorded a rise of 376 per cent between 1973 and 1979, although there has been a fall of 34 per cent between 1978 and 1979. Footwear export which have been fluctuating year by year from 1973 onwards have shown a 200 per cent increase between 1973 and 1979. The value of footwear exports has not been much and is considered to be a potential export commodity.

3.4

Trends in India's Foreign Trade with the EEC and the World

Table 3.2 shows exports and imports of India with the world and the EEC from 1970-71 to 1986-87. It shows the value-wise trend of exports as well as imports. The Figure 3.1 also shows that value-wise exports have shown a

Table 3.2 : India's Foreign Trade with the EEC and World

(Rs. Crores)

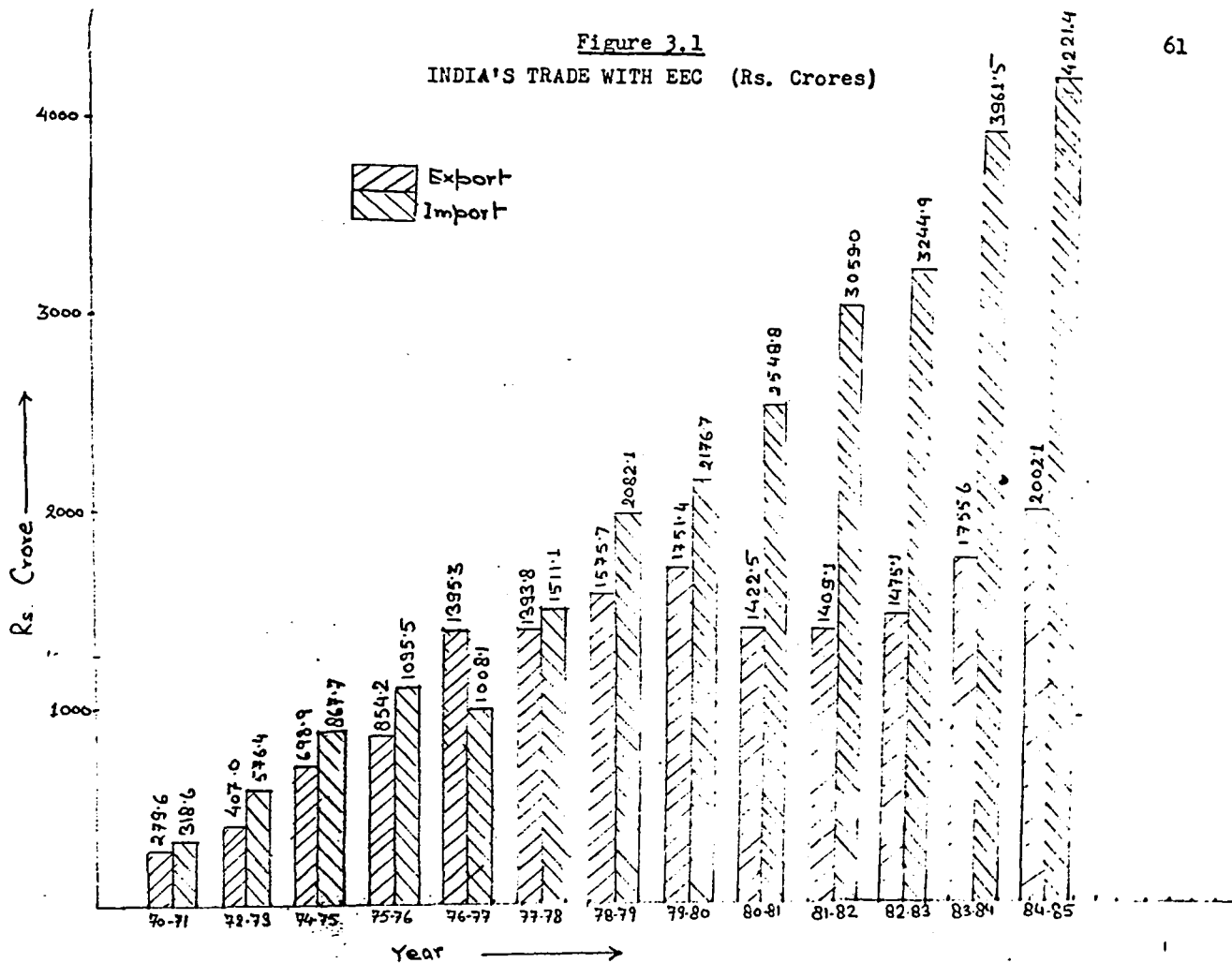
Year	EEC			World		
	Exports	Imports	Surplus/Deficit	Exports	Imports	Surplus/Deficit
1970-71	282.3	320.1	-37.8	1535.16	1634.20	-99.04
1972-73	407.3	575.42	-169.38	1970.80	1867.44	+103.36
1974-75	698.98	867.76	-168.78	3328.80	4518.80	-1190.00
1975-76	854.20	1095.53	-241.33	4036.26	5264.78	-1228.52
1976-77	1395.84	1008.14	+387.16	5142.75	5073.79	+ 68.96
1977-78	1393.84	1511.09	-117.25	5407.86	6020.20	- 612.34
1978-79	1575.72	2082.10	-506.38	5726.26	6814.30	-1088.04
1979-80	1751.41	2176.72	-425.32	6458.77	9142.58	-2683.81
1980-81	1447.4	2638.9	-1191.5	6710.71	12523.91	-5813.81
1981-82	1442.1	3149.3	-1707.2	7796.18	13588.71	-5792.53
1982-83	1470.1	3421.80	-1951.7	8803.4	14292.7	-5489.3
1983-84	1755.6	3961.5	-2205.9	9777.7	15831.5	-6053.8
1984-85	2002.1	4221.4	-2219.3	11743.7	17134.2	-5390.5
1985-86	1928.6	5233.7	-3305.1	10894.6	19657.7	-8763.1
1986-87	2728.7	6541.5	-3805.8	12452.4	20200.7	-7748.3

Source : India Economic Survey, 1980-81, pp.124-125

India Economic Survey, 1988-89, pp. S-76, S-77

Figure 3.1

INDIA'S TRADE WITH EEC (Rs. Crores)



Source : Economic Survey, 1980-81, pp.124-125
 Economic Survey, 1988-89, pp.S.76 - S.77

generally rising trend to the EEC. Although imports have risen at a faster rate during this period and as a result, the Trade balance has been deficit throughout except in 1976-77 with the world. The trade balance has also been surplus with the world in 1972-73.

This was an appreciable development but it's impact was soon lost in 1973-74 because of several international factors which pushed the prices of petroleum products, steel and non-ferrous metals, fertilisers and newsprints, and imports again exceeded exports in this period, though the spurt in the prices of exports helped to boost them up but the impetus given to imports was much sharper. Consequently, Rs. 432.0 crores of deficit in the trade balance appeared again in 1973-74 [Singh, (1985)]. However, the trend in deficit continued as is shown in the Table 3.2 and it reached Rs. 1190 crores in 1974-75.

3.4.1 Trends in India's Exports to the EEC

India's exports to the EEC in 1970-71 were Rs. 282.3 crores as shown in the table but rose to Rs. 407.3 crores and again to Rs. 698.98 crores in 1974-75. This was due to the entry of U.K. into the EEC as U.K. has been our major trading partner. Again, in 1976-77 there was a trade surplus with the EEC and the world. This was because the trade policy was devised mainly to impart dynamism to the country's efforts for expansion and diversification of exports. A significant aspect of the new export drive

related to the stepping up of production for exports. But again during 1977-78 there was a marked slow down in the growth of exports and a sharp growth in imports reversing the trend in the previous year. The result was that the year closed with sizeable trade deficit of Rs. 612.34 crores with the world and Rs. 117.25 crores with the European Economic Community in the place of a modest surplus of Rs. 68.96 crores in the trade balance with the world and Rs. 387.16 crores in the trade balance with the EEC.

In 1978-79 the trade deficit widened with the EEC as well as with the world. This was due to near stagnation in the rate of growth of exports and continued upswing in the rate of growth of imports.

In 1980-81 Table 3.2 shows a fall in the value of exports to the EEC while the value of exports to the world has shown a slight increase. But the sharp increase in imports resulted in a tight balance of trade position for India, with the EEC and the whole world.

3.4.1.1 Constraints affecting Growth of Exports

In fact there were serious constraints at home and abroad which brought about a serious set back in the growth of exports. The main causes were the world-wide high rates of inflation, unemployment and sluggishness in the domestic economies of the major industrial countries,

induced their resorting increasingly to protectionist and restrictive trade practices in the face of their deepening recession which worsened the international trading environment. During the year, due to worsening world trading conditions, the international prices of certain commodities, namely, tea, coffee, and spices which are significant in India's export basket, deteriorated. On the domestic front, the infrastructural constraints like shortage of power, coal and certain basic raw materials, transport bottlenecks and congestion and difficulties at ports, continued to impede production. At the same time, shortages in domestic availabilities of certain commodities like sugar, rosewood, woollen yarn, alloy steel, blooms and slags, bars and wire rods which necessitated the imposition of a ban on export of these products also affected the export volume [Singh, (1985), p.74].

In the same year, 1980-81 imports rose sharply due to increased imports of petroleum and oil products, fertilisers, non-ferrous metals, rough precious and semi-precious stones, vegetable oils, etc. This resulted in a huge trade deficit of Rs. 5813.2 crores (Table 3.2).

In 1981-82 although the world trade deficit of India came down slightly but there was sharp increase in the trade deficit with the EEC. The exports to the EEC slumped from Rs. 1,751 crores in 1979-80 to Rs. 1447.4 crores in 1980-81.

"The decline was contributed by all the major countries in the region. Consequently, EEC's share in India's total exports declined by 5.3 per cent to 21.8 per cent (Economic Survey, 1981-82).

3.4.1.2 Growth of Exports

Exports to EEC showed a marginal increase from Rs. 1442.1 crores in 1981-82 to Rs. 1470.1 crores in 1982-83. Then in 1983-84 exports rose to Rs. 1755.6 crores and to Rs. 2002.1 crores in 1984-85, then in 1985-86 there was a decline but in 1986-87 the exports have risen to Rs. 2735.7 crores. Since the imports have registered a steady growth, the trade deficit has shown a growing trend with the EEC as shown in Table 3.2. The EEC countries increased their imports from India by 22 per cent per annum between 1970-71 and 1979-80. Consequently, their share in India's total exports had gone up from 18.2 per cent in 1970-71 to 26.2 per cent in 1979-80 [Economic Survey, 1980-81]. In 1978-79 exports to the EEC countries rose by 12.8 per cent and consequently the share of these countries increased from 25.7 per cent to 27.4 per cent [Economic Survey, 1978-79]. Belgium, France and West Germany were largely responsible for the increase in exports.

3.4.2 The Trade Balance

Although India has enjoyed a trade surplus with some member states (e.g., Britain, between 1974 and 1977) the

overall balance of trade with the EEC has generally been adverse to India except for 1976. This is obviously because India's exports to the EEC failed to keep pace will increasing import from the region. [Banerji, (1984), p.86].

3.5 Distribution of India's exports to major EEC Countries

Table 3.3 shows percentage of exports trade by India with major EEC countries from 1970-71 to 1986-87 (out of world's 100 per cent). The table shows that the largest percentage share in India's exports was with U.K. (11 per cent) followed by West Germany (2.1 per cent) and Belgium (1.3 per cent) and France (1.2 per cent). The percentage share of Italy and Netherland stood at 0.9 per cent while other EEC countries taken together accounted for 0.9 per cent of India's exports to the world. The EEC countries together accounted for 18.4 per cent of the total world exports of India. This shows that the U.K. imported the largest chunk of India's exports in 1970-71. But since 1977-78 the direction of India's trade within the EEC has changed and U.K.'s share in India's exports has gone down from 11.1 per cent in 1970-71 to 9.7 per cent in 1977-78 and again to 5.9 per cent in 1980-81. It went on decreasing till 1985-86. But in 1986-87 the percentage of U.K.'s share in India's total exports increased to 5.9 per cent. The percentage share of West Germany in India's total exports

Table 3.3 : Percentage distribution of India's Exports (World's total) to the Major EEC countries

Country	1970-71	1977-78	1980-81	1981-82	1983-84	1984-85	1985-86	'86-87
Belgium	1.3	3.7	2.2	2.7	2.2	1.7	2.1	2.8
France	1.2	2.7	2.2	1.9	1.6	1.6	1.9	2.2
West Germany	2.1	4.5	5.7	4.4	4.1	4.1	4.7	5.9
Italy	0.9	1.9	2.3	2.0	1.7	1.8	1.9	2.5
U.K.	11.1	9.7	5.9	5.4	5.0	5.2	4.8	5.9
Netherlands	0.9	2.5	2.2	1.4	2.1	1.7	1.5	1.8
Other EEC countries	0.9	0.7	1.1	0.7	1.3	0.95	0.8	0.87
EEC Total	14.4	25.7	21.6	18.5	17.95	17.05	17.7	21.97

Source : DGCI & S, Basic Statistics Relating to Indian Economy 1988, CSO, Government of India, p.107.

has shown a rising trend and became equal to the U.K. in 1986-87 and stood at 5.9 per cent. On the basis of percentage share of exports, it can be stated that India has now a more diversified direction of exports within the EEC and there is a shift in the direction towards other EEC countries like West Germany, Belgium, France and Italy. An excessive dependence on U.K. is declining and this is a welcome trend. This is also evident from the fact that though U.K.'s share in India's exports has been declining India's total exports to the EEC region have risen from 18.4 per cent to 21.97 per cent to between 1970-71 and 1986-87.

3.6

Direction of India's Export to the EEC Countries

Table 3.4 and Figure 3.2 show the percentage share of India's exports to the EEC countries out of India's total exports to the EEC. The table gives us an idea about the direction of India's exports within the EEC. In 1970-71, the highest percentage share of India's exports went to the U.K. which was 60.96 per cent of India's total exports to the EEC. Next in importance was West Germany taking 11.56 per cent of India's exports. Belgium, France, Netherlands were taking 7.27, 6.43 and 5 per cent respectively. But in 1972-73, the share of U.K. in India's exports fell to 42.44 per cent while the share of West Germany, Netherlands made a considerable progress. The share of Belgium recorded a

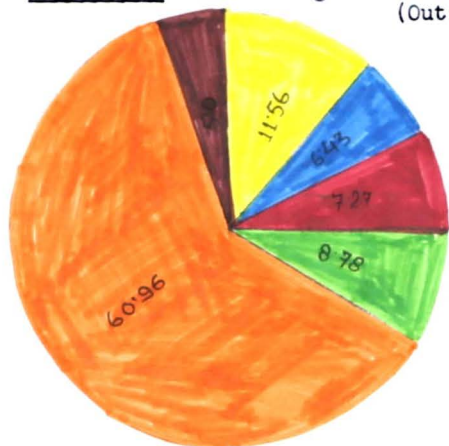
Table 3.4 : Direction of India's Exports Trade within EEC Countries

(Figures in Per cent)

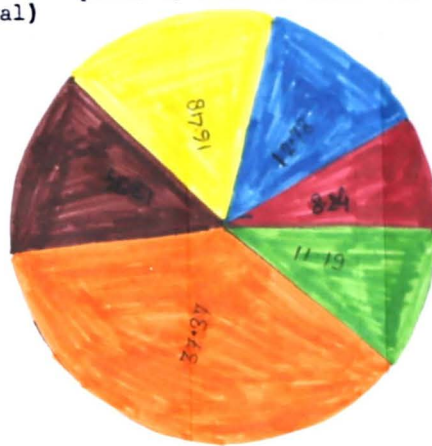
Year	Belgium	France	West Germany	Netherlands	U.K.	Other EEC Countries	EEC Total
1970-71	7.27	6.43	11.56	5.0	60.96	8.78	100.00
1972-73	7.40	11.28	15.30	8.70	42.44	14.88	100.00
1974-75	7.53	11.23	15.19	10.26	44.67	11.12	100.00
1975-76	5.32	10.09	13.80	9.63	49.32	11.84	100.00
1976-77	8.24	12.78	16.48	13.94	37.37	11.19	100.00
1977-78	14.51	10.48	17.54	9.84	37.69	9.94	100.00
1978-79	14.77	11.27	17.35	11.50	33.89	11.22	100.00
1979-80	9.53	11.27	21.70	12.59	29.46	15.45	100.00
1980-81	10.16	10.32	27.05	10.69	27.76	14.04	100.00
1981-82	11.8	10.52	24.92	7.81	29.81	15.85	100.00
1982-83	14.31	10.05	23.26	7.85	30.91	10.54	100.00
1983-84	11.80	8.91	21.38	11.33	31.68	14.90	100.00
1984-85	9.64	9.56	24.37	9.72	30.60	16.10	100.00

Source : Economic Survey - 1980-81, pp. 124-125
 Economic Survey - 1988-89, pp. S.76-S.77
 Economic Survey - 1981-82, pp. 134-135.

Figure 3.2 : Percentage Distribution of India's Exports to the EEC Countries
(Out of EEC's Total)



1970-71



1976-77

- U.K.
- FRG
- France
- Belgium
- Netherlands
- Other EEC



1980-81



1984-85

Based on Table 3.4

marginal increase from 7.27 in 1970-71 to 7.40 per cent in 1972-73. The share of other EEC countries rose sharply from 0.78 per cent to 14.88 per cent. This shows India's success in diversifying its direction of exports within the EEC and declining dependence on the U.K. In 1974-75 the share of the U.K. again rose to 44.67 per cent while the share of West Germany remained almost the same. The percentage share of other EEC countries came down to 11.12 per cent from 14.88 per cent in 1972-73.

The year 1976-77 registered an increase in India's exports. Exports to the EEC increased by 64 per cent during 1976-77 [Sundaram, (1983), p.178].

The share of West Germany, France, Belgium and Netherlands rose sharply. The share of other EEC countries remained almost the same.

While the share of the U.K. in India's total exports has been showing a declining trend till 1984-85 (Table 3.4). The U.K. continues to be the biggest market for India's products in the EEC. The percentage share of West Germany has been showing an increasing trend throughout between 1970-71 and 1984-85. The share of France which rose in the beginning has been declining in later years. The share of Belgium has also been fluctuating which reached the highest of 14.77 per cent, has shown a decreasing trend. The same

is true for Netherlands. The other EEC countries have grown in importance throughout and their share in India's total exports to the EEC has shown a rising trend.

However, despite the declining share of the U.K. in our exports it is clear that U.K. still occupies the most important place as a market of our exports, although India has succeeded in diversifying it's direction of exports within the EEC.

3.7 Exports of Agricultural Products

The possibilities for the exports of agricultural products by India to the EEC depend on both the international economic environment and the domestic economic factors which influence the domestic consumption and production of agricultural commodities. These consumption and production trends are affected by overall economic factors such as rates of growth of population, per capita incomes, as well as by specific policies such as taxes and subsidies and the Government price-support programmes designed to influence them.

3.7.1 India's Policies affecting Exports of Agricultural Sector

The main Indian policies affecting agricultural sector are the programmes which are designed for the spread of modern agricultural technology in the country to boost agricultural production and productivity. The effective

operation of this programme and the public distribution system determines the disposable surplus and thus affects export possibilities. Besides, the export of agricultural products has been banned or restricted at times in order to check the increase in the domestic prices of such necessities. These policies affect the reputation of India as a dependable supplier of these commodities and thus hinder export prospects of many crops such as cereals, sugarcane and vegetables. But for cash crops such as tea, exports are determined by the responses of private producers and exporters to market forces, though the government's fiscal measures may effect these responses. [Agarwal, (1984), p.105].

3.7.2 The Common Agricultural Policy (CAP) and India's Exports

The policies of the EEC are also responsible for affecting the accessibility of its markets for India's exports. For example, the price-support policies embodied in the Common Agricultural Policy (CAP). The CAP, by raising prices of many agricultural products for domestic consumers and producers, restricts the demand for such products and encourages supply from intra-community sources, by encouraging domestic production. Another example is the non-tariff barriers in respect of agricultural goods.

Further, the concessions given to the ACP countries under the Lome convention has affected the competitiveness

of India as against other developing countries. Imports of foods and animals are an increasingly important sub-category of agricultural imports as they constituted almost 70 per cent of such imports during 1973-77. [Agarwal, (1984), pp.107-108].

3.7.3 Agricultural Imports by the EEC

Agricultural imports by the European Community as a percentage of total merchandise imports increased slowly, and therefore agriculture's share in total merchandise imports declined from 32.5 per cent during 1962-66 to 17.2 per cent during 1973-77 as indicated in Table 3.5. The decline in the share of agriculture in merchandise imports was mainly in the categories of foods and animals and crude materials which together amounted to 90 per cent of imports of agricultural products in 1962-66. The share of imports of foods and animals in total merchandise imports declined by over a third between 1962-66 and 1973-77. The share of crude materials declined by over 70 per cent during the same period.

3.7.4 Prospects of India's Agricultural Exports

3.7.4.1 Prospects of Cereals and Fruits and Vegetable Export

Production and demand trends in the Indian economy indicate that there might be increasing exports surpluses of wheat and rice. The supplies of meat also seem to be

Table 3.5 : Share of trade of Agricultural products in total merchandise trade (in Percentage)

	EEC imports		Indian Exports	
	1962-66	1973-77	1962-66	1973-77
(a) Agricultural Products	32.5	17.2	43.9	35.4
(1) Foods and animals	18.3	11.9	30.6	25.1
(2) Crude materials	11.1	3.3	8.9	7.0
(3) Beverages and tobacco	2.1	1.2	2.9	2.4
(4) Animal and Vegetable oils	1.0	0.8	1.5	0.9
(b) Fish and fish products	0.8	0.8	0.7	3.1
(c) Forestry Products	4.5	4.2	0.3	0.5

Source : Food and Agriculture Organisation, Trade Yearbook, for the relevant years in India and the E.E.C., (1984), Lall, Ernst & Chopra (Ed), p.108.

increasing. Furthermore, while fruits and vegetables are important export group, a large part of the earnings comes from onion export. This is because large exportable surplus of fruits and vegetables do not occur as their income elasticity of demand is high in India. Therefore, the problem is one of generating exportable surpluses in India, and this would depend largely on the government procurement and distribution.

3.7.4.2 Prospects of Traditional Exports Items

For traditional exports such as tea, the prospects

seem to be not very bright because of stagnant demand in the European Community. The Indian products do not lack competitiveness and Indian exports have not been affected much by the preference given to other LDCs under the Lome Convention.

3.7.5 Lack of Import Demand in the EEC

However, there is an additional problem of matching any export surpluses that may arise in India to the import demand of the European Community. For example, the Indian exports of oilseed cake meal have been increasing, as also imports by the Community. Demand in the European Community has increased mainly for soyabean cake, which account for two thirds of India's exports of oilseed cake, have been stagnant, while for cottonseed and linseed cake meal, the other important Indian exports, imports have declined. Similarly, in the case of meat, Indian exports have largely consisted of dried offal and sheep meat. Imports of these have been declining in the European Community in the 1970s [Agarwal, (1984), pp.118-119].

CHAPTER IV

COMPOSITION OF INDIA'S IMPORTS FROM THE EEC

4.1 India's Imports and the EEC

The European Economic Community has become important in India's imports also. There has been an increase in India's imports from this region. Value-wise imports have been more than the exports except during 1976-77, and consequently, India has a deficit in it's trade balance with the EEC throughout from 1970-71 to 1986-87 as shown in Table 3.1 and Figure 3.1 except during 1976-77.

Imports not only feed industries but enable them to reorient, reorganise and rationalise. At times, due to abnormal circumstances, certain essential goods like cereals are also imported. Imports of cereals remained significant for many years but later on there was reduction in imports of fertilisers and food imports.

The increase in imports is also due to increase in prices of imports. There is no doubt that imports have to be reduced and import substitution has to be an integral part of our foreign trade policy.

4.1.1 India's Principal Imports from EEC

India's imports from the EEC mainly consist of iron and steel, machinery electrical and non-electrical,

engineering products, transport equipment, and manufactured goods like chemicals, drugs, scientific and control instruments, etc. The Table 4.1 shows India's principal imports from the EEC.

Table 4.1 : EC's Principal Exports to India

	(Figures in Million)					
	1980		1983		1984	
	ECU	US \$	ECU	US \$	ECU	US \$
Organic Chemicals	52	72	127	133	170	134
Rough diamonds and minerals	38	470	964	858	1025	809
Iron and Steel	255	354	303	270	431	340
Machinery other than electric	483	671	938	835	984	776
Electrical Machinery	73	101	171	152	194	153
Scientific and control instruments	68	94	132	117	162	128
Transport equipment	165	229	96	85	140	110
1 ECU (US \$) =	1980: 1.39		1983: 0.890		1984: 0.789	

Source : EEC Chronos, in Role of Foreign Trade in Indian Economy (1986) Adiseshiah M.S. (Ed.), p.186.

It can be observed from the table that the share of the above items in the total EEC exports to India has shown a rising trend, from 61% in 1980 to 67% in 1984. This indicates a growing specialisation of the EC in these industrial sectors.

4.1.1.1 Import of Machinery

During 1980-84, Machinery (other than electric) constituted the bulk of imports in value terms. The import of machinery by India which was 483 million ECUs in 1980 increased to 938 million ECUs in 1983 and in 1984 it was 984 million ECUs.

4.1.1.2 Import of Rough Diamonds and Minerals

India's imports of rough diamonds and minerals have also registered a sharp rise and increased from 338 million ECUs in 1980 to 964 million ECUs in 1983, recording a rise of about 185 per cent between this period.

4.1.1.3 Import of Iron and Steel

Imports of Iron and Steel have also shown an increasing trend during this period. In 1980, the import of iron and steel was 255 million ECUs while it increased to 303 million ECUs in 1983, and again to 431 million ECUs in 1984, registering a rise of about 69 per cent between 1980 and 1984.

4.1.1.4 Import of Organic Chemicals

Imports of organic chemicals from the EEC increased from 52 million ECUs to 170 million ECUs rising by 227 per cent between 1980 and 1984.

4.1.1.5 Import of Electrical Machinery

Imports of electrical machinery also recorded a sharp rise of 167 per cent rising from 73 million ECUs to 194 million ECUs during 1980-84.

4.1.1.6 Import of Scientific and Control Instruments

Scientific and control instruments recorded an increase of 138.2 per cent between 1980 and 1984 rising from 68 million ECUs to 162 million ECUs.

4.2 Development of Imports from the EEC

Despite the increase in our imports from the EEC, our share in the EEC exports remained stagnant over the years [Sundaram, (1983), p.177].

While the EEC's exports consist largely of manufactured products as can be seen from the Table 4.2 in 1979, exports of all primary products amounted to no more than 8 per cent of total exports, and even this was due to an increase in food exports, as each year India receives large amounts of milk powder and butter oil as part of the EEC's contribution to Operation Milk Flood. The EEC is making a major contribution, through its food aid programme, to Operation Milk Flood II, an ambitious project which seeks to help about ten million families through increased production and marketing of milk. Since 1978, the EEC has been supplying 31,000 tonnes of skimmed milk powder and 12,700 tonnes of butter oil each year. The EEC meets the shipping charges also [Lall and Chopra, (1984), p.18]. Otherwise the bulk of Community exports consist of chemicals, especially fertilisers, a wide range of capital goods and defence equipment [Luigi (1984), pp.27-28].

Table 4.2 : EEC: Development of exports to India, 1973-79
(million EUA)

	1973	1974	1975	1976	1977	1978	1979	1979/73 I (Per cent)
TOTAL EXPORTS	676	842	1,079		1,388	1,860	2,006	197
0 Food	15	39	179		68	62	75	400
1. Beverages, Tobacco	2	2	2		3	3	3	50
2. Crude Materials, in edible	5	23	32		32	29	24	380
3. Mineral Fuel and related materials	1	2	3		4	9	7	600
4. Animal vegetable oils and fats	6	neg	neg		87	65	51	750
5. Chemicals, related products	83	137	201		143	218	261	215
0-4 Total primary p.	29	66	216		194	169	160	452
6. Mfd. Goods, Classed chiefly by materials	191	196	200		429	754	734	284
7. Machinery Transport	340	388	407		505	559	602	77
8. Miscell. Mfd. articles	19	20	26		40	69	89	368
5-8 Total Mfd. goods	633	741	835		1,116	1,600	1,686	166

I Percentage change between 1973 and 1979.

Neg = less than 500,000 EUA

Source : Statistical office of the European Communities in "India and the EEC", Lall, Ernst & Chopra (Ed), 1984, p.44.

As the Table 4.2 shows, the total manufactured products constitute, more than 80 per cent of India's imports from the EEC. Although the manufactured products have recorded 166 per cent change between 1973 and 1979, while the total primary products have registered 452 per cent rise between the same period. But in value terms, manufactured goods dominate India's imports from the EEC. Between 1973 and 1975 the total imports from the EEC have risen considerably. This seems to be due to the conclusion of the Commercial Cooperation Agreement between India and the EEC in 1973.

4.2.1 Growth of India's Imports Since 1970-71

Table 3.1 which shows India's foreign trade with EEC and the world shows that imports from the EEC have increased their share substantially from 1970-71 to 1986-87. The share of EEC in India's imports which was 19.5 per cent in 1970-71 rose to 24.4 per cent in 1979-80 with an annual growth rate of 23.5 per cent [Economic Survey, 1980-81].

India's imports from the EEC countries declined only in 1976-77. But the decline was marginal and since the exports rose sharply, the trade balance was surplus of Rs. 68.96 crores for India. As the Table 3.1 shows imports from the EEC rose by Rs. 462.18 crores. However, their share in India's total imports declined from 24.1 per cent in 1979-80 to 22.0 per cent in 1980-81 [Economic Survey,

1981-82]. Imports have been steadily increasing from the EEC and stood at Rs. 6541.5 crores in 1986-87, while the imports from the world stood at Rs. 20,200.7 crores. This shows that about one-third of India's imports are supplied by the EEC, and it has emerged as an important trading partner of India.

4.2.2 Distribution of India's Imports from EEC Countries

Table 4.3 shows percentage of imports trade by India with major EEC countries. It shows that while the EEC together supplied 19.6 per cent of India's total world imports, 7.8 per cent was supplied by the U.K. followed by West Germany which supplied 6.6 per cent of India's total world imports. In 1977-78, while the share of EEC in India's total imports rose to 25.1 per cent, the share of the U.K. has fallen slightly, while that of West Germany increased to 9.2 per cent. The shares of France and Belgium and Netherlands have also improved considerably. Most of India's imports from Belgium consist of rough diamonds which are re-exported after cutting and polishing. The percentage share of Italy has decreased.

In 1980-81, EEC's total share in India's imports came down to 21.07 per cent as against 25.1 per cent in 1977-78. The share of U.K. also declined to 6.0 per cent in 1980-81. The share of West Germany and France has also declined in 1980-81 while the shares of Italy, Belgium, Netherlands and

Table 4.3 : Percentage distribution of India's imports (World total)
to the major EEC Countries

Country	1970-71	1977-78	1980-81	1981-82	1983-84	1984-85	1985-86	1986-87
Belgium	0.7	2.3	2.4	3.7	4.1	4.6	4.8	5.4
France	1.3	2.6	2.2	1.9	1.8	2.1	3.0	3.3
West Germany	6.6	9.2	5.5	7.0	7.1	7.5	7.9	9.6
Italy	1.8	1.5	1.9	1.7	1.8	1.7	1.6	2.2
U.K.	7.8	7.7	6.0	6.0	7.3	5.5	6.4	8.1
Netherlands	1.2	1.4	1.7	2.05	1.7	2.13	1.51	1.91
Other EEC countries	0.2	1.3	1.4	0.9	1.2	1.07	1.39	1.79
EEC Total	19.6	25.1	21.07	23.18	25.02	24.63	26.6	32.38

81

Source : DGCI & S, Basic Statistics Relating to Indian Economy, 1988, C.S.O.
Government of India, p.104.

and other EEC countries have shown an improvement.

Country-wise, U.K. has remained the largest source of India's imports till 1983-84 within the EEC, but in 1984-85, West Germany had overtaken U.K. with 7.5 per cent of Indian imports while the share of the U.K. fell to 5.5 per cent in the same year. In 1985-86, the U.K. has improved it's position and supplied 6.4 per cent of India's total imports. West Germany improved it's position further and supplied 7.9 per cent of India's imports. This trend continued till 1986-87 and West Germany supplied 9.6 per cent of India's imports while the U.K. supplied 8.1 per cent. Italy, Belgium, France and other EEC countries have improved their shares in India's global imports. The analysis of Table 4.3 shows that like exports, India has diversified the direction of it's imports also, and the EEC countries together account for 32.38 per cent of India's global imports in 1986-87.

4.3 Direction of India's Imports within EEC

Table 4.4 and the Figure 4.1 reflect diversification of direction of India's imports within the EEC. Out of EEC's total supply of imports, the share of U.K. reduced from 41.16 per cent in 1972-73 to 25.36 in 1974-75. But after that, U.K.'s share in the EEC's total supply of imports has improved considerably from 25.93 in 1975-76 to 36.37 per cent in 1976-77 while that of West Germany has

Table 4.4 : Direction of India's Import Trade within EEC Countries

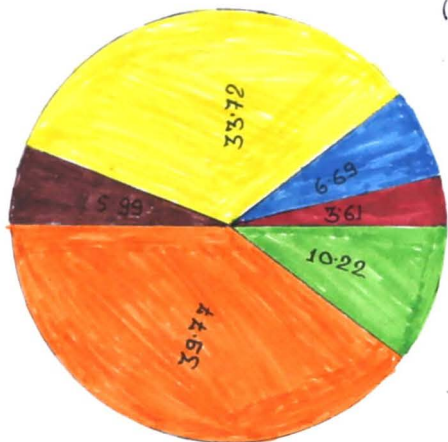
(Figures in Per cent)

Year	Belgium	France	West Germany	Netherlands	U.K.	Other EEC Countries	EEC Total
1970-71	3.61	6.69	33.72	5.99	39.77	10.22	100.00
1972-73	8.85	6.91	29.94	6.37	41.16	6.77	100.00
1974-75	12.03	9.66	36.46	6.33	25.36	10.16	100.00
1975-76	7.89	17.94	33.77	5.83	25.93	8.64	100.00
1976-77	5.68	13.92	31.42	6.49	36.37	6.12	100.00
1977-78	10.14	10.49	36.72	5.44	30.51	6.70	100.00
1978-79	17.12	10.86	30.23	7.58	27.37	6.84	100.00
1979-80	12.11	9.54	29.61	6.67	32.56	9.51	100.00
1980-81	11.61	11.00	27.22	8.42	28.68	13.07	100.00
1981-82	16.39	8.29	30.98	9.11	26.70	8.53	100.00
1982-83	19.03	12.75	24.69	7.85	27.29	8.39	100.00
1983-84	16.37	7.30	28.34	7.03	29.09	11.87	100.00
1984-85	18.80	8.46	30.54	8.63	22.11	11.45	100.00

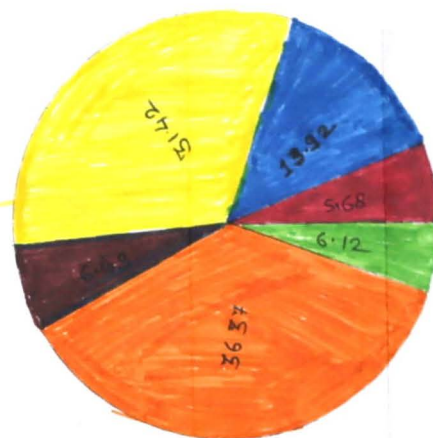
Source : Economic Survey, 1980-81, pp. 124-125.
 Economic Survey, 1981-82, pp. 134-135.
 Economic Survey, 1988-89, pp. S.76-S.77.

Figure 4.1 : Direction of India's Import Trade within the EEC Countries

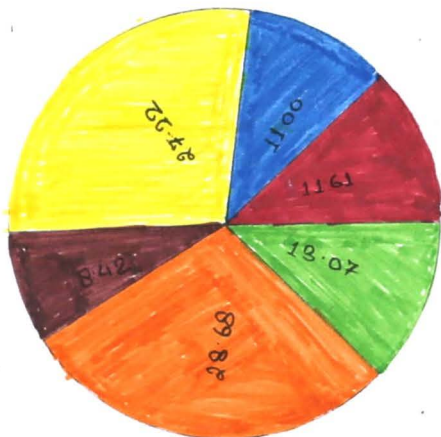
(Per cent)



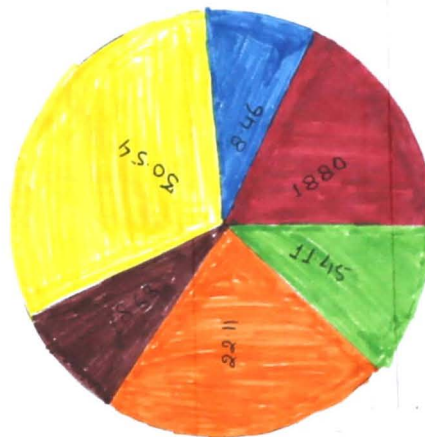
1970-71



1976-77



1980-81



1984-85

- U.K.
- FRG
- France
- Netherlands
- Belgium
- Other EEC

Based on Table 4.4

gone down from 33.77 per cent in 1975-76 to 31.42 per cent in 1976-77. Again in 1977-78, the share of West Germany has improved, while that of U.K. gone down as compared to the previous year. In 1978-79 the shares of both U.K. and West Germany declined while the share of Belgium increased considerably from 10.14 per cent in 1977-78 to 17.12 per cent in 1978-79. The share of other EEC countries, Netherlands and France also improved. This shows India's success in improving trade relations with other members of the EEC, than U.K. and West Germany.

U.K.'s share in India's total imports from the EEC showed a declining trend between 1979-80 and 1981-82 it again increased in 1983-84 and further decreased to 22.11 per cent of the total imports from the EEC. While the share of West Germany fell between 1978-79 and 1980-81 and again fell in 1982-83 but showed a rising trend during 1983-84 and 1984-85. The share of Belgium which was as high as 19.03 per cent of EEC's total supply of Indian imports in 1982-83 has fluctuated and stood at 18.80 per cent in 1984-85, while the share of France has also been fluctuating and was 8.46 per cent of India's total imports from the EEC. Netherlands which supplied 5.99 per cent in 1970-71 improved it's position to 8.63 per cent. Other EEC countries have also improved their position and supplied 11.45 per cent of India's total imports from the EEC. The share of the U.K. in total

imports rose from 6.4 per cent in 1985-86 to 8.1 per cent in 1987-88. The Federal Republic of Germany, imports from which increased by 12.4 per cent in 1987-88, emerged as the single largest source of India's imports with its share in total imports at 9.7 per cent in 1987-88. (Economic Survey, 1988-89). This shows the fact that West Germany which had overtaken the U.K. in the past continues to occupy the position of the single largest source of supply of India's imports. In the case of United Kingdom 20-25 per cent of Indian imports consist of unworked diamonds and precious stones [Ramanathan, (1984), p.144].

4.4 Direction of India's Imports with Selected EEC Countries

Table 4.5 which reflects India's foreign Trade with selected EEC countries between 1975-76 and 1984-85 shows that between 1975-76 and 1980-81 imports rose very sharply from Belgium (244 per cent), Italy (184 per cent), U.K. (157.4 per cent). In the case of Federal Republic of Germany it was 87.7 per cent while imports from France rose by 42 per cent and from Netherlands by 24 per cent. Then again between 1980-81 and 1982-83, India's imports from Belgium increased from Rs. 296 crores to Rs. 618 crores registering a rise of 109 per cent while in case of France it was 48 per cent and imports from U.K. rose by 21.6 per cent and from Netherlands it rose by 18.6 per cent while from Federal Republic of Germany, it increased by 15.4 per cent during the same period. However, imports from Italy

Table 4.5 : Direction of India's Foreign Trade with Selected EEC Countries

	(Rs. Crores)					
Item	Belgium	FRG	France	Italy	Nether-lands	U.K.
<u>1975-76</u>						
Imports(-)	86	370	197	85	64	284
Exports(+)	45	118	86	80	82	421
Balance	41	252	111	5	+18	+137
<u>1980-81</u>						
Ms (-)	296	694	280	242	215	731
Xs (+)	145	385	147	152	152	395
Bal.	-151	-309	-133	-90	-63	-336
<u>1982-83</u>						
Ms (-)	618	801	414	241	255	886
Xs (+)	211	343	148	142	116	457
Bal.	-407	-458	-266	-99	-139	-429
<u>1983-84*</u>						
Ms (-)	672	1,120	308	271	251	1,143
Xs (+)	207	374	156	164	195	555
Bal.	-465	-746	-152	-107	-56	-588
<u>1984-85*</u>						
Ms (-)	779	1,262	347	277	339	1,002
Xs (+)	181	455	202	202	180	662
Bal.	-598	-807	-145	-75	-159	-340

* Provisional.

Source : DGC I & S; Compiled from statement 104, RBI, Report on Currency and Finance, Vol. II (Statistical Statements), 1984-85, p.140.

declined from Rs. 242 crores in 1980-81 to 241 crores in 1982-83 registering a marginal fall of 0.4 per cent but again increased by 12.5 per cent between 1982-83 and 1983-84. Imports from Belgium continued to rise and India imported goods worth Rs. 779 crores from Belgium in 1984-85. Imports from Federal Republic of Germany which increased by about 40 per cent between 1982-83 and 1983-84 slowed down their pace and increased by 12.7 per cent between 1983-84 and 1984-85. Imports from France declined from 1982-83 to 1983-84 by 25.6 per cent and since exports have increased during this period, India's deficit in the trade balance has reduced in this period. Imports from the U.K. have declined only between 1983-84 and 1984-85, causing a fall in the trade balance deficit also. Imports from Netherlands have recorded a fall between 1982-83 and again between 1983-84 and 1984-85. The trade balance came down to Rs. 56 crores from Rs. 139 crores in 1982-83 but again rose in 1984-85 to Rs. 159 crores due to a fall in exports.

4.5 The Balance of Trade

India's balance of trade was surplus with Netherlands and U.K. during 1975-76 only and with other countries it was deficit. The deficit gap has been widening due to ever increasing imports and fluctuating exports. In short, on an international level, EEC has emerged as India's main supplier.

CHAPTER V

"FORTRESS EUROPE - 1992" - IMPACT ON INDIA'S TRADE

5.1 Fortress or a Partner

The threat of 'Fortress-Europe' after 1992 has caused concern throughout the world, especially among the developing countries. Doubts have been raised whether single market would be a fair market and whether it would be a "Fortress" or a partner despite it's claims that the rising tide will lift all boats, i.e., a richer Europe will mean a richer third world. At the same time Europe 1992 offers greater challenges as well as increasing opportunities for India.

5.2 The Emerging Scenario in 1992

The European Economic Community is steadily gaining strength in the world economy. Since its inception the Community has already become the world's largest trading block accounting for 20 per cent of the world's trade as against 16.7 per cent and 9.6 per cent respectively in the case of the U.S.A. and Japan. The frontier free market (an area without internal frontier in which the free movement of goods, persons, services and capital would be ensured) of 320 million people will be bigger than that of the U.S.A. (244 million) and Japan (122 million). The

establishment of the single market will involve changes in three main areas, viz., Dismantling the remaining barriers to trade; opening up public procurement, cooperating on fiscal policy. According to the EC predictions, the greatest economic benefits from the single market will come due to greater competition and economies of scale, besides the benefits from the liberalisation of financial services, public procurement, and abolition of frontier controls.

5.3 Consequences for the Third World

Products imported from poor countries are subject to many of the restrictions and standards that will be changed. But poor countries are also conceivably dependent on such internal restrictions which help to support their market share in a particular country. It is this dependency which increases the fear that the single market may have serious consequences for the Third World. There are fears about trade diversion away from the Third World countries as reduced cost of production and distribution will result in an improvement in the competitiveness of EC produced goods and services and so there would be a redirection of demand from suppliers outside the Community to suppliers within the Community. However, the Third World should benefit from lower prices for manufactured imports. Whether there would be a boost to their economies will depend upon the balance of trade creation and trade diversion.

5.3.1 Third World - A Growing Market for the EEC

The Community cannot afford to become "Fortress-Europe" as foreign trade accounts for 24 per cent of its GDP. The developing countries like India offer a huge and an evergrowing market to the EEC. It is important for the Third World countries to ensure that their legitimate interests and developmental initiatives are safeguarded.

It is equally important for the EEC that instead of giving broad assurances, a clearly distinct, well thought out and imaginative forward looking policy in regard to the developing countries is put forward.

5.4 Implications for India

India's share in EEC imports is around 0.8 per cent and in exports 1.7 per cent. In terms of rank, India stood 27th in 1987 among EEC's suppliers. On the other hand India became the 11th largest importer from the EEC. Exports to the EEC showed an increase of 25 per cent from Rs. 3957 crores in 1987-88 to Rs. 4946 crores in 1988-89 [Economic Survey, 1989-90].

5.4.1 India's importance to the EEC

5.4.1.1 India should be recognised as a significant region in the developing world for forging mutually advantageous bonds of economic partnership in trade, investment, industrial collaboration and transfer of technology. India has a proven record of political stability, steady economic

growth inspite of serious constraints, shared values of democracy. Not only that, EEC is India's largest trading partner accounting for about 25 per cent of India's foreign trade. All these and the very size and range of India's requirements should receive special attention on the part of the European Community.

5.4.2 Challenges and Opportunities for India

1992 is an event which offers challenges as well as opportunities for India. A unified single market is expected to be an expanding one and not a shrinking one. So there would be greater opportunities than before. At the same time, an increasingly competitive environment will be generated from within the market and also outside the market, this would mean greater challenges. India will have to bargain effectively for as much access to the EEC market as possible. Moreover, India will have to enhance rapidly and clearly it's own global competitive capacity.

5.4.3 Prospects of India's exports

The progress of India's exports to the Community is of vital importance in the overall global context, if the trade deficit is to be reduced and the external debt burden is to be contained. The task is challenging indeed as to reduce the trade deficit without reducing imports would imply that India's exports must grow three

times faster than imports. The exports to the EEC will have to be increased and diversified.

Over 70 per cent of India's exports to the EEC consist of consumer goods, such as cotton textiles and garments, handicrafts, carpets, leather and leather products, gems and jewellery, marine products, tea, coffee, cashew, spices and other food items. The market for these items is expected to expand as there would be higher economic growth and resultant increase in consumption. The impact of higher demand would mean increased and keener competition from rival suppliers from the developed as well as the developing world. India will have to give more importance to quality control, packaging and adherence to delivery schedules and at the same time fix competitive prices for its exportables.

Although, our exports to the EEC represent 25 per cent of our total exports, our exports of engineering goods to the EEC represent just 5 per cent of our total exports to the EEC. The impact of 1992 would also be reflected in the increased demand in the engineering and manufacturing sectors.

5.4.3.1 Need to restructure Industry

India will have to initiate action as restructuring of industry, the formation of largest trading companies through mergers and acquisitions, etc., would result in

big supply orders. This would require parallel restructuring, export orientation of concerned industrial sectors in India so as to generate export surpluses of larger magnitudes on a competitive, continuing and dependable basis.

5.4.3.2 Need for Improving Technical Standards

Technical standards are expected to be progressively harmonised and this is likely to bring about expansion especially in engineering, electrical and electronic goods. India will have to ensure that our standards are in tune with available standards in the Community. A beginning has been made in this direction under the Indo-EEC Industrial cooperation programme. Linkages have been established between the Bureau of Indian standards and the European standards Institution.

5.4.3.3 Potential for Electronics Telecommunication and Information Engineering Exports

Electronics, telecommunications and information engineering are emerging as promised fields for Indian exports to the EEC. India's current share is although negligible but potential is promising and could be tapped to advantage through establishment of marketing network anticipating technology trend and the establishment of software centre in India and Europe. To fully tap the prospects that exist in the field of electronic components

electrical instruments, computer hardware, computer software and services, project consultancy, consumer electronics and allied products it is necessary to have continuing market surveys, field exposition in different states of the EEC.

5.4.3.4 Potential for Engineering Exports

The market for engineering products which is already 37 per cent of global trade is expected to increase as industrial activity gathers further momentum in the wake of a single market. India would require tremendous competitive efforts, quality standardisation and price competitiveness to break through this competitive market. Recently, Indian export performance has improved in these sectors. In cooperation with the EEC, several projects for technological upgradation have been carried out in fields such as foundry techniques and tools, cycles, builder's hardware, standards testing, and quality controls, etc. There is good potential in the automobile and transportation sector, machine tools and hand tools, electrical machinery and mechanical machinery, instruments and base metals such as castings, forgings.

India while focussing on it's export effort can concentrate on those markets where it has a natural advantage, whether it be casting or forgings or engineering intermediates or software or services. India can take

advantage of custom built equipment where designing, engineering and part manufacture can be done in India at a much lower cost than would be done in Europe.

5.4.3.5 The Rupee-Trade and India's Exports

The Rupee trade with the Soviet Union can open up an opportunity area for increased trading with the EEC. Soviet Union is extremely short of free Foreign Exchange. They would like to buy goods from Europe which are not made in the USSR or in India. EEC countries could supply partly manufactured goods in India for any European currency. India would add value and supply these goods to the Soviet Union in rupees. In the process everyone gains provided this arrangement is not misused. This could provide an impetus to exports from India.

5.4.3.6 Use of Counter Trade to boost Exports

In certain sectors exports from the EEC can be sizeable for example, telecommunications, avionics, fertilizer manufacture, capability and defence. The large purchases from the EEC should be matched with counter-purchase from India. Counter-trade can be judiciously used as a means of furthering our exports of engineering goods.

5.4.3.7 The Buy-back Arrangement

One of the most potent instruments of generating exports potential is a buy-back arrangement. If each

company could sell the idea to it's partners in the Community that a buy-back makes good economic sense, our export effort will get tremendous boost. Therefore, by exhorting our collaborators in the EEC to buy back because it makes it worth their while to do so, engineering exports can be increased.

5.4.3.8 Production Servicing Facilities in India

Increased global competition and the imperative of increasing cost efficiency could lead to a search for production and servicing facilities even outside the Community, particularly in labour intensive sectors. On a selective basis, India's opportunities could be explored in the fields of textiles and clothing, automobile components gems and jewellery, machine tools, and hand tools, electronic goods and components, software, processed food products, etc., as India has the capability in these areas.

5.4.3.9 Development of Export Strategy

In the industrial sector, India's export may come in direct competition with Community products. Therefore, to meet the enhanced competition on the one hand and to benefit from the anticipated market expansion on the other, India would need to develop an export strategy based on upgradation of technology, product adaptation according to change in market requirements and efforts to achieve

cost reduction through higher capacity utilisation.

5.4.3.10 Need for Exchange of Information

Indian industries will be able to exploit the potentialities only if the communication gap is bridged and two-way flow of information on prospects and possibilities is facilitated. Workshops should be organised at all industrial centres in India in collaboration with the EEC to bring to the notice of the Indian industry and trade the rapidly moving developments in the EEC and how India could take advantage of them. This will also help in identifying the areas where India could then approach the EEC for providing special support or access facilities.

5.4.3.11 Incentives to Exporters

Exporters in select thrust sectors, where export potential is more, who achieve a pre-determined minimum export performance should be permitted to use part of their foreign exchange earnings through exports to acquire existing businesses abroad through which they can establish in foreign markets. This would help generate assured exports out of India without the fear of attracting protectionist barrier of the host country.

5.4.3.12 Potential for increasing Exports of Textiles and Clothing

The fourth MFA expires in July 1991. Under the new arrangement, EEC quotas are likely to be retained while

member state quotas are abolished. If this were done without adjustments, it would mean some liberalisation since each exporting country could exploit its quotas more intensively. At present, certain member state quotas remain underutilised, but the unused portion cannot be transferred to a member whose quota is filled. Thus in some cases an EEC quota would be introduced where one did not exist in the past. Moreover, if the Commission were administering the quotas, they might be more strictly enforced than at present [Briefing Paper, November 1989, ODI]. In these new circumstances, India is one of those countries which seem best placed to expand their exports of textile and clothing.

5.4.3.13 Changed Quota Restrictions and VRA

The quota restrictions can simply be abolished because the EEC industry could withstand the extra competition [Briefing Paper, November 1989, ODI]. For footwear and consumer electronics quota restrictions appear most likely. Replacing existing bilateral quotas by EEC quotas would generally mean an extension of protection since imports into all twelve member states would be covered. Footwear imports from the Republic of Korea, Taiwan and China are subjected to quotas by various member states. A Community Voluntary Restraint Agreement restricting imports to the EEC as a whole, may be proposed for each of

these countries [Briefing Paper (1989), ODI]. Here also India stands to gain due to the voluntary Restraint Agreement.

5.4.3.14 Unified VAT and Excise Duties

There is a proposal that all member state value-added tax (VAT) and excise rates should be within agreed bonds. Excise taxes will be limited to alcoholic drinks, tobacco and mineral oil. Thus excise taxes on coffee will have to go [Briefing Paper, November 1989, ODI]. It implies that due to the unification of VAT and excise duties, and removal of border restrictions will provide better opportunities for our exports, some of which have till now been rendered incompetent in some EEC countries due to higher incidence of VAT and other local restrictions. However, excise rates will have negative consequences for tobacco exporters of India as the prices will rise and consequently imports in the EEC would fall.

5.4.4. EEC - 1992 A Lucrative and Expanding Market

Any effort towards promotion of trade and economic exchanges between India and the European Economic Community is bound to have a global impact on India's developing exports, because if we are competitive in the EEC market, we would be competitive elsewhere also. Since the EEC is our largest trading partner, new initiatives are required in order to enable us to take advantage of what promises

to be not only a lucrative but an expanding market. There is a need for India to prepare itself to face the challenge of a rapidly changing scenerio in Europe and convert the challenges into opportunities.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The relation which have existed between India and the EEC for the last three decades are varied and constantly changing. They now extend beyond purely commercial or sectoral interests and have much wider implications.

India was primarily concerned initially with safeguarding it's access to the U.K. market, once Britain joined the European Community (1.2).

When the community was enlarged to include Denmark, the U.K. and Ireland, trade relations between India and the EEC had developed to the point where both the EEC and Britain felt that the existing network of bilateral and other arrangements could be counted on to safeguard India's exports to the U.K. market. India was one of the first Asian countries to recognise the importance of the emerging Community (1.2.1.1).

The keystone of Indo-EEC relations is the Commercial and Economic Cooperation Agreement (2.2) which provides India and the EEC with a favourable legal basis for expanding their cooperation. There are many possibilities for cooperation as India possesses huge industrial, scientific and human resources.

The EEC was among the first to launch the scheme of Generalised System of Preferences (GSP)(2.3). Although India has not been able to take full advantage of the scheme, it became one of the principal beneficiaries. The EEC should not allow it's GSP scheme as an instrument of discrimination against India and as suggested (2.3.2.2) before, there is need for further improvement in the GSP.

The two-way trade between India and the Community has increased at a modest rate with the expansion of the Community in 1973 when U.K., Denmark and Ireland joined it. But the trade restraint policy of the EEC has adversely affected India's trade in some products (2.4).

India has not been able to realise the full potential for exports to the Community (2.6). There are many and varied reasons for this (2.6.1). Various suggestions have been made for boosting India's exports (2.7).

India's unsatisfactory performance in the exports to the EEC seems to be mainly due to it's composition of exports. Suggestions for suitable changes have also been made (3.2).

The volume of India's trade with the EEC has increased substantially (3.4) but the overall balance of trade with the EEC has generally been adverse to India except in 1976 mainly because India's exports to the EEC failed to keep pace with

increasing imports from the region (3.4.2).

The direction of India's exports within the EEC between 1970-71 and 1986-87 shows that U.K. still occupies the most important place for our exports (3.6). The importance of other EEC countries like West Germany, France, Belgium and Netherlands has also increased. This shows India's success in diversifying the direction of it's exports (3.6).

Exports of agricultural products have been discussed in (3.7) and the prospects of India's agricultural exports have been analysed in (3.7.4).

The EEC has occupied an important place in our imports also, as there has been an increase in India's imports from the EEC steadily (4.1). India's imports mainly consist of iron and steel, machinery, engineering products, transport equipment and manufactured goods (4.1.1).

Imports from the EEC have shown a rising trend between 1970-71 and 1986-87 and about one-third of India's imports are supplied by the EEC which has emerged as an important trading partner of India (4.2.1).

The U.K., which remained the largest source of India's imports till 1983-84 within the EEC was overtaken by West Germany and this trend continued till 1986-87. Italy, Belgium and France have also improved their shares in India's global imports (4.2.2). This shows that India has improved

it's trade relations with other members of the EEC (4.3).

The changing scenario in Europe due to the declaration of a single unified market in 1992 has caused concern throughout the world (5.1).

Since EEC is India's largest trading partner and also India is a significant region in the developing world, India deserves to receive a special attention in a Unified EEC of 1992 (5.4).

1992 is an event which offers challenges as well as greater opportunities for India; and India will have to bargain effectively for greater access to the EEC market (5.4.2).

India's exports to the EEC must grow three times faster than the imports if the trade deficit is to be reduced and external debt burden is to be contained. Suggestions have been made to boost exports (5.4.3).

Being competitive in the European Market would mean that India is competitive elsewhere also. So any effort towards promotion of trade between India and EEC is bound to have global impact (5.4.4). India needs to prepare itself to face the challenges and convert them into opportunities.

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