Chapter Six

Conclusion
The on-going moves towards shaping up the Single European Market (SEM) has brought into sharp focus the role of the European Community (EC) as a key factor in the processes of regional political and economic integration. In the aftermath of the Second World War the countries of Europe were faced with economic chaos, widespread unemployment, hyper-inflation and political deficiencies. As the Cold War intensified, Europe was divided into two opposing camps, based on divergent ideologies, one led by the non-European power, the USA, and the other peripherally European power, the USSR. In fact, this is the first time in European history, that Europe was not only eclipsed as the epicentre of global power, but also was reduced to the status of a dependency both for political survival and economic development. Under these circumstances, it was not surprising that Europeans had to find ways and means to ensure that they had some voice in shaping the dramatic events then taking place in Europe. Apart from the external factors, the major obstacle within Europe was structural, in that it was fragmented into several political entities, which traditionally had more to divide than to unite them.

As such, in the post World War II period, the powers that mattered in Europe were two superpowers, the US and the USSR. The only European power, which then stood out as a factor to be reckoned with was the UK, which then was the strongest economic power in Europe, but was not particularly interested in getting involved seriously in achieving European Unity. However, its prime concern was to ensure political stability in Europe which would enable the UK to pursue its policy of three-concentric circles, such as playing a key role in shaping up the post-war Commonwealth, in fostering special relationship with the US and other English speaking countries, and also pursuing a balancing role in Europe. This explains that the UK could not oppose to European Unity, but at the same time it could not involve itself in the new edifices of organic integration taking place in Europe. The
British attitude towards Europe was, to say the least, somewhat enigmatic. The Europeans, particularly in France, Italy and Benelux countries were keen on experimenting regional integration with a mind to overcoming the internecine feuds, and also pooling up their resources to reconstruct their war-ravaged economies collectively and also pulling up a United front against any challenge to European democracies.

The Schuman declaration of March 1950 bore historic significance in that it set out new regional frame for pooling up basic industrial resources of strategic importance (coal and steel) at the regional level. The successful functioning of the European coal and steel community led to the establishment of the European Economic Community as well as EURATOM, through the Treaty of Rome of 1957. Thus, the trio of the European Communities was complete. In 1968, the EC turned itself into a customs Union, permitting free movement of goods, services, capital and labour throughout the community, free from any tariff and quota barriers. Further, the treaty of Rome provided for gradual adjustment of tariffs up or down towards the common external tariff. The net result of the liberalization of trade within the community was a considerable increase in intra-community trade. There was also a modest increase in the Community’s imports from third countries. While the average annual increase in imports from third countries rose from 9.4 per cent to 10.0 per cent during 1953-58 and 1958-67 respectively, intra-community trade increased from 14.2 to 28.4. The intensification of economic integration, gradual expansion of the community and the alignment of the national economic policies brought more economic dividends with the passage of time. The expansion of the community in order to bring fifteen countries into its fold by 1 January 1995 has raised the intra-community trade to around 60 per cent of the total trade of the EC.
The two oil crises of the 1970s, loss of competitiveness of European firms, growth of non-tariff barriers by member states in order to protect domestic market, economic recession and the rise of the NICs, besides the dominant economies such as the USA and Japan left Europe in a disadvantageous position. The community lost its creditor status and became a large scale debtor to the USA and Japan. Even it had to run a trade deficit in relation to the NICs, besides the USA and Japan. For the EC, the painful reality was that the Japanese lead in the high tech areas had been increasing ever since the mid-1970s. This technology gap seems to have caused a grave stir in the industrial circles, as some Euro-Sceptics came to describe this phenomenon as "Eurosclerosis". As such the weaknesses of the EC vis-a-vis Japan and the US impelled it to consider deepening of European integration, going beyond the Customs Union, which had not helped it in creating free trade within the community.

Against this backdrop, the Heads of states and Governments of all member states repeatedly made declarations committing themselves to the completion of a fully unified internal market. In its response to the challenge, the European Commission published a white paper in June 1985 setting out the necessary programme together with a clear time table for action. The white paper measures found its legislative embodiment in the form of the Single European Act (SEA) in 1986 in order to transform the community into a Single Enlarged Market by the end of 1992 by dismantling the non-tariff barriers such as physical, technical and fiscal. The rationale behind the SEA was to create a frontier free Europe by enabling people, goods, services and capital to move around as freely as in a domestic market.

Even though the EC was formally transformed into a Single Market on 1 January 1993, there were shortfalls in the implementation of White Paper measures.
Even by 8 July 1996, there was 100 per cent implementation of measures only in one out of four components of physical barriers, three out of nineteen components of technical barriers and one out of two components of fiscal barriers. Amongst member states while Denmark tops the table with notification of 217 out of a total 282 measures, Austria finishes last with 176 measures. The Maastricht Treaty charted out an ambitious plan for the formation of a Supranational European Union and succeeded in gaining optimal support from its member states, which does not seem to have been whole-hearted. In fact, many in these states criticized it as a complex, voluminous and ill-conceived draft treaty. Reactions to the SEM from the member states as deduced from community-wide public opinion poll conducted in 1994 showed that fifty four per cent felt very hopeful of the positive outcome of the Single Market. Interesting enough, major member states, such as France (47 per cent), Germany (51 per cent), Britain (53 per cent) and Italy (57 per cent) seem to have been less enthusiastic. Smaller member states, such as the Netherlands (70 per cent), Ireland (69 per cent) have welcomed the enlarged market. Response from Belgium (57 per cent), Portugal (54 per cent), and Spain (53 per cent) has been rather mediocre.

The Single European Market has emerged as the world's largest trading entity with a population of more than 370 million. Its range of activities and objectives has deepened and widened considerably and the plans currently under implementation in this direction are fairly ambitious. But this integration process has not been a smooth affair. Though as stated earlier the founding members of the EC were able to set up a customs Union in 1968, one and half years before the deadline, the momentum has not been kept up in recent times. The initial move towards a faster integration was possible because of determination of the concerned member states of the EC. The high degree of unemployment, substantial fiscal deficit, and the rise
in the rate of inflation currently prevailing in Europe as well as the growth of Eurosceptics have come in the way of further deepening of European integration. In order to make the SEA more transparent and its implications more effective, it is expected of the Union to educate people through appropriate media channels. Besides, there are other shortfalls in its operational framework, including internal contradictions within member states, abandonment of the "federal" concept and tough convergence criteria of the EMU.

Deepening integration under EC-1992 Programme means completion of the third stage of regional economic integration, that is the Single Market, after having finalized the preceding stages of free trade area and the customs union. There are remaining national barriers in merchandise trade such as for automobiles and textiles and the removal of these final national quotas is a job which should have been finished during the second stage of the customs union. Only in these few industries it would be possible to change the common external protection level if member countries lifting national quotas would insist on an equivalent protection at outer borders.

The Cecchini Report (1988), in order to assess the benefits of removing NTBs, reclassified them as tariffs, quotas, cost-increasing barriers, market entry restriction and market distorting activities practised by governments. Tariffs and quotas have largely been removed by the Customs Union, but not completely. There continue to exist some NTBs, such as VERs relating to cars and electronic equipment and quotas on textiles connected to the MFA. The Report pointed out that these barriers cost the Community more than 200 billion ECUs and their removal held forth the prospect of 5 per cent growth in GNP, price reduction of 6 per cent and creation of more then 2 million new jobs. Furthermore, if the member states also adopt appropriate policies commensurate with the Single Market plan, there may
be a rise of 7 per cent in GNP and five million new jobs. Also, these would be tangible input in the community's industrial competitiveness, particularly in relation to Japan and the US.

Three types of gains from a Single Market have been identified: gains from a better use of comparative advantage, gains from larger markets and gains from greater competition. Free trade within this region allows better exploitation of its comparative advantage. Again, larger markets would find firms in a better position to exploit economies of scale, both static and dynamic. Finally, third kind of gain would come through the profound effects on the intensity of competition. More particularly, increased competition would reduce price-cost margins, intensify the search for cost-cutting techniques and stimulate technological innovation. The interplay of "trade creation" and "trade diversion" effects within the community is expected to be positive and welfare enhancing as the SEM programme will bring in structural adjustment and relocation of some industries in addition to free movement of factors of production. A positive trade effect is expected to be much smaller for primary commodity exporters than for exporters of manufactures and much lower for low-income countries than for middle-income countries. In a static scenario, it is anticipated that the balance in trade between low-income and middle-income countries outside the EC would shift further to the detriment of the former. This so-called export redistributive effect might become stronger due to accelerated resource-saving technological progress in a single market and because of very limited management capacities in low-income countries to respond quickly to new challenges posed by the EC market.

The two factors that would determine the spill over effects are the proportion of EC trade conducted with third countries (currently at about 40 per cent) and the share of exports in the third country's GDP. The relevant parameters would,
therefore, be the price and income elasticities of third country exports, since these determine the amount of "trade diversion" (exports fall as EC prices fall with increasing competitiveness) and the amount of "trade creation" (exports gain as EC incomes with market expansion and efficiency). The community at present expects the Single Market to promote higher growth and lower prices as firms exploit comparative advantages and economies of scale more effectively, and as competition among firms increases. The "trade creation" and "trade diversion" effects brought about by the project may cancel each other, with few repercussions for the outside world.

Increased growth in the EC deriving from the completion of the Single Market would be divided between the regions, but the reallocation of resources implicit in that boost to growth would affect regions differentially according to their competitiveness. Competitiveness would itself depend on three sets of influences: those specific to sectors independently of their location, those relevant to the nation within which the region is located and those specific to the individual region. Besides the regions, the Single Market will have its impact on different regions. Again, it depends upon the member states' performance in that sector. Performance is based on a set of four indicators, intra-and extra-EC coverage ratio, export specialization and product specialization. It is seen that the more successful sectors in some countries have maintained their competitive position in their own markets by the use of various barriers which the 1992 programme is designed to abolish. The adjustment that would follow the maturing of the EC-1992 project is seen as being part of the internalization of European industry through direct investment in other countries by firms based in any one member state or by the increasing use of joint ventures or full mergers between companies based in different member states, towards the growth of genuinely European Companies.
The market integration in the EU may have noteworthy implications for developing countries after the signing of the Uruguay Round of negotiations at Marakesh. The implementation of the Marakesh agreement from 1 January 1995 would be marked by an erosion in tariff preferences for developing countries which is reflected in the new GSP scheme of the union. Again due to relocation of some industries in the low-cost member nations is expected to restrict the market availability for developing countries. Further, the financial grant meant for developing countries may partially get diverted to the poorer regions as per the EC strategy. Finally, the fear of "Fortress Europe" has not been completely unfounded. There has, however, been no such design to raise barriers against imports from the third countries. As EC resorts to temporary safeguard mechanisms to protect its industries, the fears of "Fortress Europe" cannot be discounted. But there are certain advantages that may accrue to the developing countries due to the market integration. The products from developing countries would move freely within the Single Market, after the product complies with any of the member state regulations. The single market is also likely to benefit developing countries indirectly. The operation of economies of scale, better allocation of resources and increased investments would lead to higher growth rates, rise in income and consequently more demand.

Therefore, it is expected that the developing countries can increase the export of their products. But the developed countries and NICs are busy making alliances, joint ventures, mergers and acquisitions in order to enter the European market as well as to improve their penetration rate that may become difficult later on. Whether the positive "trade creation" effects of the integrated market would compensate for the negative "trade diversion" effects from which third world countries suffer is uncertain, but mostly unlikely. This means that exports of the third world countries might be reduced if the exporters are not able to adjust themselves to the new
conditions of the changing integrated market. In order to ease problems arising from the Internal Market, the respective developing countries must take action to diversify their production and trade structure, to modernize their industries to find new competitive markets and to adjust themselves to the changing conditions of the Single Market.

The Single Market will have its effects on India's exports as well, being its largest trading partner. On the negative side, increased intra-EC trade is expected to displace exports from India. Secondly, the adjustment costs within the EC because of some low-income member states would lead to a reinforcement of trade protection. Preferential arrangement with Eastern Europe and EFTA besides ACP countries would put India at a disadvantageous stage. Again, the new GSP scheme will partially reduce the benefits afforded by the Union on the export of leather products (except footwear) and textiles but it may not keep India at a disadvantage as its competitors will be equally hit by the new scheme.

But on the other hand there will emerge some positive effects. Rise in income as well as demand in the European Union due to better functioning of its economy because of removal of barriers may get manifested in more imports from developing countries in general and India in particular. It is expected that the Union may suppress imposition of VERs and adhere to its CCP in order to provide uniform protection to member states after the emergence of WTO. This would enable India to penetrate into European market in a better way. But again the Union is raising fresh NTBs in order to ban importing goods having child labour content, non-conformity to environmental standards, azo dyes and some chemical content. This would hit India's exports to the EU drastically as some of its exports to the EU do not conform to the specifications. Secondly, the phasing out the MFA quota under WTO agreement in a phased manner and its completion by 2005 would create more
market for Indian products. Again under WTO agreement there would be cut in agricultural subsidies provided to European farmers. Therefore, it would create more market for Indian agricultural products in the European market which is cost-competitive. Rationalisation of the production process combined with the need to become competitive in the high-tech sector could persuade Europe to transfer its capacities in old and uncompetitive industries like clothing, tanneries, forging, leather and marine products to India, which in return could export the surplus to the EC market. The Unified Market is expected to encourage the firms to collaborate and jointly promote industrial ventures in India. The long term need to have a dynamic trade partner in an era of increasing interdependence may induce the EC to step up transfer of technology and capital to India. The saving of real resources which are currently being expended on coping with the existing trade barriers, could be diverted to third world countries including India as aid or grant or concessional credit. But there is a fear that the Union may divert a larger chunk of its developmental aid or grant to the poor regions of the Union, the Eastern Europe and ACP countries with whom it has a special relationship.

The significance of EC-1992 to India lies in that it could directly provide an important additionality to its export possibilities in this market. The extent of this additionality would depend on (i) the "trade creation" and "trade diversion" effects of Europe 1992 on India and (ii) its substitution possibilities with third country exports in this market. Trade creation for India would depend on the response of Indian exports to the growth of EC GDP. According to the Emerson Report, adverse impact of the Single Market Programme on imports from extra-EC countries is likely to be around 10 per cent, spread over a large number of items. In case of India, the impact will remain concentrated on textiles and clothing, gems and jewellery, leather products, some agricultural products, engineering goods and some chemical items
of the country. The result of various studies show that India's export to EC market would increase by around 1 per cent as a result of the formation of the SEM and its "trade creation" and "trade diversion" effects. But this gain may get affected if other factors such as protectionist policies like MFA or anti-dumping activities or VERs and harmonisation of technical standards are imposed by the EC on developing countries like India.

The Union is the largest trading partner of India, accounting for about a quarter of its total exports and a third of its total imports. But India plays a very marginal role in the Union's trade by accounting for about 1.27 per cent of the total extra-EC import and 0.67 per cent of total EC import (extra plus intra). In order to meet the challenges and to take advantage of the opportunities emanating from the Single Market Programme, the Government of India and its firms have to reorient and redesign their strategies. Indian industry needs to go in for a massive technological upgradation and be particular about quality, productivity and commitment to terms of the contract and adherence to delivery schedules. Indian companies would have to adopt professional strategies aimed at establishing long-term brand presence in the European market. The government alongwith the industry should restructure and remodel production and infrastructural facilities in the thrust sectors, e.g., textiles and clothing, leather and leather products, agro-based products, chemicals and engineering goods etc. to achieve scale economies and conform to the quality and standards norms, expected by European consumers. Again India has to diversify its export base by providing incentives to those items where it has a very insignificant share. India has to devise policies to enter markets other than Germany, the UK, Italy, Belgium and France where it has a very marginal presence. And finally, the government should make its policies transparent so that the industry can take advantage of many schemes and benefits offered by its agencies. Alongside the
new liberalization policy launched in June 1991, there has to be a new orientation mechanism just to meet the challenges and take advantage of the opportunities created by the Single Market.