Preface

Formal transformation of the European Community (EC) into European Union with a Single Market by the end of 1992 was a hallmark in the history of Western Europe. It was the realization of a long-cherished goal of 1957 when European Economic Community (EEC) in the form of a Customs Union came into existence. As some of the non-tariff barriers are yet to be dismantled, the Single Enlarged Market of the Community would take some more time to realize its concrete shape. The road to achieve this goal has been somewhat complicated. Inspite of its inherent contradictions and lukewarm approach by some member states, the European Community has moved far beyond expectations by taking its membership from six in early 1950s to fifteen since 1995. The transformation of European Community into a Single Market means, conceptually at least, that people, goods, services and capital could move freely throughout the Union as in a domestic market. The European Community (European Union after 1993) is the largest trading entity in the world, accounting for about a fourth of world trade and the Single Market with its 370 million odd inhabitants would possess greater economic potential than any other grouping.

The adoption of the Single Market measures and the virtual implementation of this project has disturbed the established patterns of trade among the partners of the Union and the rest of the world in a number of distinct ways. This has obviously resulted in change in relative prices of goods to be traded. The most important changes are visualized in the form of 'trade creation' and 'trade diversion'. As a Single Market is the extreme case of economic integration, the effect of 'trade creation' and 'trade diversion' would be considerably significant in
the case of the EU. In the long run European Single Market would gain from the two most powerful processes initiated by it viz. the economies of scale and increased competitiveness among firms. The transformation of EC into a Single Market affects the flow of trade in two ways: firstly, by creating trade among members through the operation of the dynamic factors of economies of scale and competition among firms; secondly, by diverting trade flow from a lower cost supplier outside the union to a relatively high cost supplier within. As the Community transformed itself into a Single Market by the end of 1992 from a Customs Union by dismantling its non-tariff barriers, the intra-Community trade may realise a higher growth.

There are fears expressed in different world regions about the EC turning into a 'Fortress Europe'. Removal of non-tariff barriers, it is hoped, would result in a significant reduction in costs due to a better exploitation of economies of scale, an improved efficiency in enterprises resulting from mere competitive markets, adjustment between industries on the basis of a fuller play of comparative advantage in an integrated market and a flow of innovations, new processes and new products, stimulated by the dynamics of the Single Market. The historic transformation of the EC into a Single Market is expected to give rise to manifold fears, as well as hopes and speculations about its effects upon the global interplay of market forces.

The project 1992 may have manifold implications for developing countries in general and India in particular. The contribution of the EC market to India's external transactions in terms of trade, technology transfer, industrial collaborations and foreign direct investment cannot be disputed. While the EC market is overwhelmingly important for India's external trade the converse is not equally so. India plays a very marginal role in the EC's global transactions. So it is obvious that the onus of adjustment to the far-reaching changes associated with EC 1992 is
on India. As Europe integrated itself into a Single Market, India initiated policy shift from inward orientation to the globalisation of the Indian economy. India has to explore opportunities for augmenting its exports to the EC market, and perhaps, with India's implementation of its policy changes, prospects may improve considerably.

Keeping in mind the importance of the European Union in the new global economic order, it is worth while for a researcher to make an attempt at understanding various aspects of the on-going processes of integration of the Single Market such as a new set of rules and regulations as well as a new network of institutions that would ensure the interplay of market forces in the enlarged market.

The formal declaration of the Community to turn itself into a Single Market does not mean that the Single Enlarged Market has since started functioning in the true sense of the term. There are problems manifold still in-built in the EC project itself. This study makes a modest attempt to analyse them as well as their implications in the coming years. The SEM has yet to give evidence of its capability to overcome the internal problems, as well as to successfully complete with the other industrial giants globally.

Chapter I provides political and economic background to the evolution of the European Community since its inception, its evolution as well as the deepening of its integration. Further, it delves into the processes of its transformation into a Single Enlarged Market and tries to work out the intra-community economic benefits emanating from the integration.

Chapter II deals with the theories of "trade creation" and "trade diversion" effects and measures the degree of effectiveness of these theories on a Single Market, European Union shaping itself into a new paradigm.
Chapter III examines the position of major sectors as well as regions in this ever changing economic bloc and also analyses the impact of the Single Market on these sectors and regions.

Chapter IV evaluates the trade effects and competitiveness of the Single Market in the fast changing global economic setting particularly since the inception of the World Trade Organization (WTO). It also attempts to understand implications of the Single Market for both the developed as well as developing economies.

Chapter V gives an account of India's trade equations with the European Union. Besides it also examines the impact of the Single Market on India's liberalized economic regime and ventures to suggest a few policy prescriptions for Indian firms, how to meet the challenges, and grab opportunities, made available by the Single Market.

In the final chapter on conclusion, a modest attempt has been made in order to find out the overall impact of the Single Market through the interplay of "trade creation" and "trade diversion" effects. It also analyses the short-falls, problems and contradictions associated with this enterprise itself. Further, an attempt has been made to assess the impact of the Single Market on a global scale with special reference to India.