Problems and Prospects
Chapter VIII

PROBLEMS AND PROSPECTS

The Euro became the new currency for eleven members states of EU when a single monetary policy was introduced under the authority of the ECB, heralding the third and final stage of monetary union.

Legally, the participating national currencies had ceased to exist and became 'non decimal sub-division' of the Euro.

Euro area financial markets switched to the Euro, including foreign exchange, share and bond markets. New euro area government debt was exclusively issued in Euro as from that day, i.e., January 1st 2002.

1. COMMON EURO CURRENCY

Birth of the Euro: January 1st, 1999 – History was made on 1st January 1999 when eleven European Union Countries (later to become twelve) irrevocably established the conversion rates between their respective national currencies and the Euro, and created a monetary union with a single currency, giving birth to the euro.

In these twelve countries (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland), euro banknotes and coins entered circulation on 1st January 2002.

The three year transition period before the introduction of Euro notes and coin began, with the principle of 'no compulsion, no
prohibition’ meaning people and business had the freedom to carry out transaction in Euro, but were under no obligation to so. EU Heads of State and Government meeting at the Feira European Council decided that Greece had fulfilled the converge criteria and would join the euro from January 2001. The rate for conversion of Greek drachma to the euro was also announced. Danes noted not to adopt the euro in a national referendum on membership of the single currency. However, the Danish Kroner continued to shadow the euro as a member of the ERM II.

But the history of Europe’s common currency has been a long time in the making and can be charted back to the origins of the European Union itself.

**Changeover from national currencies**

Out of the 27 Member States of the European Union, 13 already form part of the Euro area (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourough, the Netherlands, Austria, Portugal, Slovenia and Finland).

Slovenia was the first of the recently acceded new Member States to adopt the euro as its currency (1 January 2007).

The other countries are Member States with a derogation (Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Romania, Slovakia and Sweden) will join the euro area as soon as they fulfill the necessary conditions on the basis of the “Maastricht” convergence criteria following the established
procedure. UK and Denmark have a special status allowing them to decide when (and if) they will join the euro area.

**Legal steps and procedure**

The procedure set out in Articles 122 and 123 of the EC Treaty for the adoption of the euro by a particular Member State provides for the following steps:

- At least once every two years, or at the request of a Member State with a derogation, the European Commission and the ECB report on the progress made in the fulfillment by the Member States of the “Maastricht” convergence criteria in accordance with the procedure established in Article 121 of the EC Treaty.
- On the basis of a proposal by the Commission and after consulting the European Parliament, the Council decides whether or not the country will adopt the euro.
- The Council, after consulting the ECB, adopts the conversion rate at which the euro shall be substituted for the currency of the Member State concerned.

**Convergence criteria**

The Maastricht convergence criteria laid down in Article 121.1 of the Treaty are the following:

- **Price stability**: Inflation rate not exceeding by more than 1.5 percentage points that of the three best performing countries.
- **Public finances**: Absence of excessive government deficit, which is defined in terms of the government deficit having to be
below the reference value of 3% of GDP and the level and evolution of the government debt compared to the reference value of 60% of GDP.

- **Exchange rate stability**: Observance of the normal margins of the exchange rate mechanism of the EMS without severe tensions of devaluation for at least two years.

- **Long term interest rates**: Not exceeding by more than 2 percentage points that of the three best performing countries in terms of price stability.

The Treaty moreover requires an examination of the compatibility of the country’s national legislation, including the statutes of its national central bank, with the relevant provisions of the Treaty.

**Practical aspects for the introduction of the Euro**

The national authorities are in charge of the co-ordination of all preparatory work for the introduction of the euro in their country.

For practical and logistical reasons, the current euro-area countries introduced a transitional period of three years (a single year in the case of Greece) between the adoption of the euro as the currency (1999 for eleven countries and 2001 for Greece) and the introduction of the euro cash (so called “Madrid” scenario). The main alternative is the so-called “big bang” scenario in which entry into the euro area coincides with the introduction of euro banknotes and coins.
The introduction of the euro banknotes and coins is followed by a period of dual circulation during which banknotes and coins denominated in national currency are being withdrawn but still have legal tender status.

The use of the Euro in the world

Circulation

The euro circulates in the euro area, currently comprising thirteen Member States of the European Union (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia and Finland).

Certain parts of the euro area are located outside the European continent, such as the four French overseas departments (Guadeloupe, French Guyana, Martinique and Reunion), as well as Madeira, the Canary Islands etc.

The euro also circulates outside the European Union.

- Third countries having adopted the euro as their national currency: Monaco, the Vatican City and San Marino
- Overseas territories where the euro is official currency: Saint-Pierre-et-Miquelon and Mayotte
- Countries and territories with euro as de facto currency: Andorra, Kosovo and Montenegro
**Links with other currencies**

Several countries and territories have linked their currencies to the euro through different types of agreements. Some of these agreements were concluded with the EU, while others are unilateral.

- **Exchange Rate Mechanism II (ERM II):** Denmark, Estonia, Cyprus, Latvia, Lithuania, Malta and Slovakia.

- **Bilateral exchange-rate agreements:** CFP franc area, CFA franc area, Comoros Islands and Cape Verde.

- **Unilateral exchange rate regimes involving the euro:** Bosnia and Herzegovina, Botswana, Bulgaria, Croatia, Czech Republic, FYR Macedonia, Hungary, Israel, Jordan, Libya, Morocco, Romania, Russia, Serbia, Seychelles, Tunisia and Vanuatu.

**Benefits of the single currency**

There are a number of clear benefits for having a single European currency which were the major motivations behind the creation of the euro.

- **Practical benefits for citizens:** traveling with the euro.

- **Single market:** reaping the full benefits of the EU’s single market.

- **Single financial market:** benefits for savers and borrowers.

- **Macroeconomic framework:** benefits of a single currency to the economy as a whole.

- **Europe’s role in the world:** advantages for Europe’s international role.
• **Political integration**: benefits related to the wider process of integration.

Academic research on the relative merits of fixed and flexible exchange rates (optimal currency area) also points to a number of economic challenges for countries participating in a single currency. These include increasing the mobility of labour and capital and encouraging trade and stronger competition.

**2. BALANCE OF TRADE**

The concepts of balance of trade and balance of payments are often misunderstood. Economists frequently say that while the balance of payments includes the balance of trade, the balance of trade does not include the balance of payments. This statement makes the confusion worse confounded. A country exports and imports many visible goods and invisible services. Invisible services include tourism, shipping and other transport services, banking and insurance services for whose exports and imports payments are made and received by the country in international trade. A country’s balance of trade refers to the value of imports and exports of commodities and services only. The balance of payments is, however, more comprehensive including as it does the total debits and credits relating to all the items on account of which a country makes payments to and receives payments from rest of the world.

In short, the balance of trade is only a part of the balance of payments. The balance of trade is simply the difference between the value of commodity exports and imports and it has no analytical
significance *per se*. However, the balance of trade is usually the largest component of international balance of payments of a country. A favourable balance of trade may co-exist with an adverse balance of payments and vice-versa.

**Table 8.1: Balance of Trade with the European Union**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RUPEES IN LACS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Export</td>
</tr>
<tr>
<td>2002-03</td>
<td>5,752,462.17</td>
</tr>
<tr>
<td>2003-04</td>
<td>6,670,563.12</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,199,557.88</td>
</tr>
<tr>
<td>2005-06</td>
<td>10,284,222.26</td>
</tr>
<tr>
<td>2006-07</td>
<td>12,129,554.85</td>
</tr>
</tbody>
</table>

### 3. Currency Problem

Prior for setting up of European Monetary Union (EMU) trade with members of European Union used to pose currency problem as all the 27 countries constituting EU had their own monitory units in which they preferred to make an accept payments. While engaging in import export trade with these countries the trader of another country had to deal with billing and currency conversation problem. Some of the countries are so small that their currencies were not traded in the open market and thus posing a serious problem making an accepting payments.

After the members state of European Union from Euro Land by introducing a common currency called Euro with effect from January 1st 1999. Until July 2002 the nation currencies of Euro land countries
had to be complete with drawn paving may to the Euro to take over respective currencies of euro land countries.

The single currency is an important step in the monetary and financial integration of the member countries. The objective is to fuse the national economics into a single large economy which will enhance the overall economic efficacy and welfare. The Euroland will be almost the size of the US economy and larger than Japan. While the US has huge current account deficit, the Euroland has large surplus. This would help add strength to the euro.

It is believed that the single currency will bring in substantial gains such as lower transaction costs, enhanced competition, transparent price, price stability and greater certainty for investors. According to the European Commission, the initial gain can be as much as 0.5 per cent of the GDP of these countries.

The single currency will bring a single interest rate, eliminate currency risk and give equity and bond markets the necessary scope and liquidity to attract big investors. Europe will rank alongside the US as the deepest and most liquid market in the world.

Consumers will benefit in several ways. The single currency will impart price transparency throughout the Euroland-when there were many currencies price comparisons were not so easy. Prices now will tend to be equal throughout the Euro area.

The single currency saves a lot on the cost of hedging against exchange rate risks, estimated at $ 25 billion.
Companies in the Euroland benefit from the ease of outsourcing, relocation of production bases, mergers and take-overs, transportation, procedures, marketing, etc., besides the savings on hedging costs. These would also help improve their global competitiveness.

It is expected that with the emergence of the Euroland, companies that once dragged their feet on Pan-European production—daunted by the welter of currencies, taxes and inflated pay levels—will face a far simpler landscape. They will come under terrific pressure from equity-portfolio managers to shift to low-wage, higher-efficiency regions, moves that companies like Volkswagen are already making. This in turn, it is hoped, will make Europe's work force leaner and meaner. It is felt that EMU will be a "Trojan horse", unleashing forces that will subvert Europe's overgrown welfare states.

An important impact of the Euro will be the decline in the dominance of the US dollar in the global economy because the Euro will increasingly replace the dollar in several spheres.

Before the launch of the Euro, about 60 per cent of the foreign exchange reserves holding by central banks and governments were in US dollars. The corresponding share of the European currencies was about 20 percent (mostly D Mark). The share of the Euro would rise in future and that of dollar will fall. The EMU and Euro land would expand in size with more countries joining both. The Euro would also be accepted as a currency of peg by several nations.

The dominance of dollar will also decline in the securities market with the increasing presence of the Euro. It may be noted that the stock
exchange of London and Frankfurt entered into a dynamic agreement for cooperation which has been widely perceived as a vanguard effort to integrate the European stock markets into a single European stock exchange. The integrated Frankfurt London exchange with a $3 billion plus market capitalisation would be the world’s second largest stock exchange (this is roughly 48 times bigger than the Mumbai Stock Exchange). There would be a substantial increase in the investments in the European securities markets (which will have both European and foreign securities) by both Europeans and foreigners.

In short, the dominance of dollar will decline and a bipolar global monetary order will emerge. A stable and growing European economy will, however, be beneficial to the US (as also to other nations) because of mutual interdependencies in the integrated global economy.

According to Robert Solomon, Guest scholar at the Brookings Institution, as in the United States, foreign trade will be a smaller part of EMU’s overall trading activity, as intra-Europe trade increases. Countries hoping to join the Euro area will likely make payments in Euros. But it is unlikely that the rest of the world with large reserves in US dollars or, as with Latin America, strong trading ties with the United States, will dump dollars for Euros, or that the Euro would pose serious competition to the dollar as a reserve asset. According to John Richardson, Deputy Head of the European Commission delegation to the United States, the Euro would however, grow in importance, eventually becoming a reserve currency, as Europe becomes a simpler place to do business, providing a stimulus to world growth and prompting market operators to want to hold euro balances.
Implications of Euro for India

The Euro has important implications for India. The Euro land accounts for about one-fifth of India’s foreign trade. (The European Union as a whole makes up about one-fourth of her total trade). Further, the EU is an important source of aid and foreign investment. Indian companies have significant investment interests in Europe and they also tap the European capital market.

Indian businessmen benefit, like their counterparts in other countries, from the benefits of a single currency instead of many. According to a study conducted by B. Bhattacharya and Vinayak Ghatate of the Indian Institute of Foreign Trade, New Delhi, the Euro will benefit Indian exports as products from this country will become cheaper in the Euro land. According to this study, 15 product groups in the country’s export basket have a price elasticity which will help them to capture a significant portion of the European markets with lower prices. The product groups that will benefit include foodstuffs, fats and oils, plastics, wood articles, textiles, articles of stone, chemicals, base metals, vehicles, vegetable products, wood-pulp and pearls.

The study says that the Euro is expected to reduce the transaction costs and help in greater integration of capital markets, while resulting in a higher level of growth in the Euro land.

The Euro will also result in greater price transparency throughout the Euro land and this is expected to give a push towards a uniform pricing strategy for different markets. The Euro will not
result in a uniform retail pricing structure throughout Euro land because of the divergent cost structure in businesses.

The study says that the pressure to introduce uniform prices will come from the higher end of distribution channel and Indian exporters will have to redesign their export pricing strategies accordingly.

It says that the Euro changeover requires a dual display of prices, one in the respective national currencies and the other in euros. This will necessitate several changes in the existing packaging and labeling requirements. If the Euro becomes a strong currency, it will make India’s imports from Euro land costlier. However, if due to greater integration the European firms become more efficient, the exchange-rate-induced price-rise may get neutralised by higher efficiency and productivity levels.

The study opines that the advent of the Euro is both a challenge and an opportunity for Indian exporters and it will now depend on their skills to use it to their advantage.

4. EXPORTERS PROBLEMS

As the world has becomes more industrialized and as markets has become globalised, trade has increased proportionately and grown tremendously in both volume and value terms. Concomitantly, patterns in trade have also changed, as new nations enter the world-trading arena. In 1948 world trade totalled $51.4 billion. This figure rose to $331 billion in 1970, increased to $2.627 trillion in 1986, and
reached $11.06 trillion in 2004. This increase in world trade volume can be best illustrated by Figure 8.3.

Most of the world's trade is carried out among the industrialized countries. These groups of countries comprise Western Europe, North America, and Japan, currently accounts for 65.2 percent of exports sent to other countries and receives 68 percent of all imports. In comparison, developing countries account for only 28.2 percent of exports and take in 25.6 percent of imports. These figures include the volumes attributed to members of the Organisation of the Petroleum Exporting Countries (OPEC), which account for 5.1 percent of world exports and 2.8 percent of imports. Table 2.1 itemizes OPEC's importance in the global economy.

Table 8.2: OPEC's Share of the World Market, 2003 (in percent)

<table>
<thead>
<tr>
<th></th>
<th>Crude Oil</th>
<th>Natural Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>78</td>
<td>49</td>
</tr>
<tr>
<td>Production</td>
<td>40</td>
<td>16</td>
</tr>
</tbody>
</table>


The pattern of trade is changing, however, as the fortunes of nations change in different trading regions. While high-income, developed countries continue to hold the lion's share of world trade, greater portions of activity are being taken over by new entrants into the world market. The most notable, historically, is Japan, which completely reversed its fortunes, prospects, and future since its reconstruction and growth after World War II. In 1950 Japan had merchandise exports of $820 million and imports of $974 million; by
1970 these levels had risen to exports of $19.318 billion and imports of $8.881 billion. By 2003 Japan was exporting $542 billion worth of products and services in world markets and importing products and services valued at $493 billion.

Japan is being joined by other fast developing Asian countries that are nipping at the heels of the wealthy, industrialized nations and rapidly increasing their levels of industrialization, production, and exports. Some of Japan's increased exports were imported by the rapidly developing Chinese economy.

**Table 8.3: World’s Leading Exporters**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total World Exports (goods and services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. European Union</td>
<td>17.16</td>
</tr>
<tr>
<td>2. United States</td>
<td>13.59</td>
</tr>
<tr>
<td>3. Germany</td>
<td>9.11</td>
</tr>
<tr>
<td>4. United Kingdom</td>
<td>6.63</td>
</tr>
<tr>
<td>5. Japan</td>
<td>6.11</td>
</tr>
<tr>
<td>6. France</td>
<td>5.23</td>
</tr>
<tr>
<td>7. China</td>
<td>4.13</td>
</tr>
<tr>
<td>8. Italy</td>
<td>3.95</td>
</tr>
<tr>
<td>9. Canada</td>
<td>3.55</td>
</tr>
<tr>
<td>10. Netherlands</td>
<td>3.35</td>
</tr>
<tr>
<td>11. India</td>
<td></td>
</tr>
</tbody>
</table>


The value of Chinese exports of goods and services in 2003 was $483 billion. Given China's strong projected gross domestic product (GDP) growth over the next decade, this trend is sure to continue. Other challengers to Japan include the so-called four tigers, or newly industrialized countries (NICs): South Korea, Taiwan, Singapore, and
Hong Kong. Trade activity by these nations is slowly moving the focus of international trade patterns away from traditional routes of north-north activity, between developed countries, to those of increased trade between north and south that is between developed and developing nations. Similarly, the growth in trade by less-developed countries is increasing, as economic development and increases in standards of living provide citizens of those nations with higher incomes and surplus resources to spend on goods other than basic necessities.

These trends in the trade patterns of the twentieth century indicate a reduction of US and European dominance in the world trade arena. On the other hand, the Asian and Middle Eastern countries are increasing their participation in world trade because of their rapid industrialization and the importance of petroleum and petroleum products. US trade with these countries has also been increasing significantly, marking a departure from its traditional trading pattern that relied to a very large extent on trade with European trading partners. Furthermore, changes in the international political climate, especially the thawing of relations with countries with centrally planned economies as they move toward market economics, had led to marked increases in US trade with Russia and the former Soviet bloc countries and the People's Republic of China. Rapid and far-reaching technological developments have also affected trade patterns, because raw material monopolies have been threatened by hi-tech substitutes, such as synthetic products. Countries that were major exporters of such raw materials have had to look for other
products to export, and export market shares have shifted dramatically in these commodities, for example, rubber and metals.

A careful reading of table 8.3 makes it clear that India was no place among the world's top 10 leading exporters where China occupies 7th place followed by Italy, Canada and Netherlands. India is far behind with below 2% share. The basic reasons behind is backwardness is slow progress of economic reforms, coupled with poor infrastructure and lengthy and complicated rules and regulations. Despite liberalisation, legal formalities and compliance is still much time consuming and cumbersome. Bureaucratic attitude is not positive and red tapeism exists. In the backdrop of these problems the exporters involved in trade with EU face the following specific problems:

1. **Stringency of Standards**: India stands has 10th largest trade partner of EU. In the last few years exports to EU have been increasing. India's exports to the EU increased from USD 18.2 billion in 2004-05 to USD 23.3 billion in 2005-06, registering a growth of 27.3% in 2006-07 (Apr-Dec) India's exports to the EU stood at USD 19.2 billion. Despite this growth India's trade with EU is increasing at a decelerated rate. One of the reasons behind this is disapproval of India's manufactured goods and agro-products on the basis of the products quality standards. Year after year EU is making its quality standard more stringent to debtor imports from India and other developing countries. This is a short of technique in practice in developing countries to discourage the imports indirectly specially from developing countries. Deliberately such standards are fixed by
developed countries and also EU which are hard to be qualified by the producers of developing countries in absence of adequate quality control facilities and required quality of raw materials and intermediate goods. This is not true that by making such provision they try to protect their environment and people from the harmful elements. Because more harmful element are found in the products sold by them in the world market. India must present to the dispute Redressal Council of WTO against such practices of developed countries for imposing indirect non-tariff barriers and imports.

2. Complexity of rules and procedures: Trade is a transaction transacted for the common benefit of the parties involved. A Conducive environment is required for promotion in growth of trade. But the same is not true at international level where trade diplomacy is involved. The procedures and practices of trade are fixed there with diplomacy. The rules of gain are so ambiguous as difficult to be understood even by noble laureate of economics. Mr. Kamal Nath, Commerce Minister, Govt. of India pointed out at the EU India summit jointly organised by CII, FICCI and the Commerce Ministry in New Delhi “that while tariffs may be low in the developed world, markets are becoming increasingly difficult to penetrate due to mounting stringency of standards and complex rules and procedures. ....” This statement highlights the seriousness of situations. When a Union Minister of India is pointing out something in the presence of EU trade Commissioner, the point must be having higher degree of seriousness.

These type of practices are also a clear cut discouragement to import. Announced lower tariff on imports and an on announced
complexity in import rules and procedures indicates a deceiving practice in international trade adopted by EU. This problem is discouraging India’s exports to EU.

3. Frequent use of Trade defence instruments: WTO visa-vis India EU bilateral trade agreement confer of on the trading partner certain trade defence instrument to be exercised by them in some exceptional situation in the interest of their country. This is matter of a grave concern that these instruments are being unscrupulously exercised by some countries or economic unions. One of the example is India EU trade, where EU’s antidumping actions against Indian products were taken in frequent cases, Mr. Kamal Nath while putting India’s view at EU India summit held in New Delhi in Sep. 2005 said, “it disproportionately large number of products in textiles, electronics, chemicals, pharmaceuticals, herbal remedies and steel sectors face such action. The EU’s trade defence actions was limited to 0.5% of EU’s global imports, in the case of India 3.5% of its exports to EU faced such action”.

Not only anti-dumping actions but other trade defence instruments like restrictions imposition of counter value duties and inclusion of certain items in prohibited lists also exercised against imports from India. India propose to raise these issues during Doha round of talks to be held in December 2007 in order to protect India’s economic interest.

4. Trade potentials not fully exploited: The world’s to leading fast developing economies China and India play an increasing role in trade with members of EU. China, which was the fourth trading
partner of the EU in 2000 has since become the second trading partner after the USA. India, was the 17th trading partner in 2000, ranked 9th in 2006. On the occasions of EU India summit took place on 13th Nov. 2007 in New Delhi, Eurostat, the statistical officer of the European Union issued the latest data available on trade and investment India and the EU and China and EU. According to these data between 2000-2006, EU trade in goods with India grew by around 80%, with exports increasing from 14 billion Euro to 25 billion and imports from 13 billion to 23 billion. As a result EU deficit in trade with India rose from 1 billion Euro in 2000 to 2 billion Euro in 2006. In 2006, India accounted for 2.1% of euro exports and 1.7% of euro imports. This way India’s exports to EU grew at a slower speed there by India’s trade deficit with EU increased by 1 billion Euro between 2000-2006. In relative term India’s export to EU countries were 0.4% lesser than its imports.

Among 27 member states of the EU India had substantial trade with Germany, Belgium, The United Kingdom, Italy and Spain. India’s trade with rest of 22 member states of the EU was below 1 billion Euro. Highlighting the under utilisation of the potentials of trade with member states of the EU. China the neighboring country of India and rather a new trading partner of the EU have three times more trade with EU than the India has with it. China trade with the member states of the EU above 1 billion Euro include Belgium, Germany, France, Italy, Netherlands, Finland, Sweden, The United Kingdom, Spain, Hungary, Poland and Denmark. This way India is fur way from China in matters of trade with EU. There are washed unexploited
potential trade with many of the member states of the EU, like Sweden, Finland, France, Austria, Ireland and Chezoslovia.

5. **Quality Standard Compliance**: Indian exporters to EU are facing a serious problem relating to standards of quality of exportable goods. EU is revising very frequently its import quality standards of goods. These standards are not only very strict but very complex too. Adherence to standards on one hand require right quality of inputs used in the process of production of exportable goods and on the other require testing lab facilities to check the quality of products. The exporters are facing on both of the fronts in India no standards have been fixed for quality of industrial inputs and so right quality of inputs are hardly available. The small enterprises do not have facility of testing lab, where they can test quality of their product to assess export ability of the output. With effect from January 2008 EU is going to revise its product quality standard again. The exporters from India will be in difficulty again with respect to quality of goods to be exported. The Govt. of India and the State Govt. as well can do a lot to solve this problem by extending the testing lab facility at least in the export habs. The Govt. can also notify the quality standards of at least those inputs which can spoil the output quality as per EU norms.

6. **Lack of adequate infrastructure**: The first and the foremost requirement of fast economic growth is laying down adequate infrastructure comprising of electricity, telecommunication, banking, insurance, roads, railways, ports and air services. The changes economic policy illded positive results in favour of India. The preparedness and the positive attitude of Indian entrepreneurs helped
India in-vainning export order but the existing infrastructure is unable to bear the increased load of export driven activities. During the period of more than 15 years of globalisation a little has been done to improve the core of infrastructure. Erratic supply of electricity is pinching much to the industrialist. Due to poor supply position they are lagging behind not only in keeping their production schedule but cost of production is also increasing. Concession at the port and aerodromes disturbing the delivery schedules. These problems need be addressed quickly.

5. IMPORTERS PROBLEMS

The importers engaged in trade of goods with EU faced the under noted problems in the course of their business:-

1. **Tariff and Non-Tariff Barriers**: Indian importers while importing from member states of the EU face a several tariff and non-tariff barriers, like discriminating duties, additional duties and counter-veiling duties. No doubt India has reduced rates of its customs duty to reasonable standards. At duty rate on certain items are still high. The importers also do face certain non-tariff barriers while making imports in the form of quantitative restrictions, import licensing, mandatory testing and certification for a large number of products, as well as complicated and lengthy customs procedures, to top it all India’s tax system is non-transparent and complex one.

These issues of tariff and non-tariff barriers have been raised by trade commissioner of the EU on different occasions. European industries dealing it have also raised the issues relating to tariffs and non-tariffs barriers on several platforms. This is a welcome
development that both of the parties have agreed upon discussion on the problem in both the multilateral and bilateral negotiations.

2. Lack of Openness: India’s trade and goods in under 1% of world’s totals, whereas the EU’s is around 15%. Over 25% of India’s imports and exports of goods are from and to the EU. The EU is India’s largest, albeit-declining, trade partner. India provides about 1.5% of the EU’s imports and exports. India’s share of world’s services trade is over 2% and the EU’s around 25%.

Despite more than 15 years of economy reforms India’s performance in the front of world is very poor. Trade openness which is measured in terms of imports and exports of goods and services as percentage of GDP indicates status of participation world trade in relative term. While viewing India from this angle we find that India is much behind China and Brazil among the emerging economies of the world. The two factors have been identified behind this poor performance the first one being the slow process of liberalisation and reforms and second one, low level of literacy and skilled workers.

Unlike other major developing economies, India is moving resources directly from agriculture to service sector, rather than seeing the manufacturing sector first become the engine of domestic and export growth. This became possible because of a big divide among the population as deprived and privileged classes. The deprivates are unskilled or skilled labour while the privileged are professionals not interested to undertake physical strain. The failure of India incomplete elimination of bureaucratic interference and introducing transparency in trade and revenue related rules and regulation, kept the foreign investors away from India. Similarly, the traders at international levels
take less interest in dealing with India because of non transparent and lengthy and completed rules and procedures.

Table 8.4 : Indian Trade Openness

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports of goods &amp; services as % of GDP</th>
<th>Exports of goods &amp; services as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>China</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>India</td>
<td>14</td>
<td>21</td>
</tr>
</tbody>
</table>

Source : Foreign Policy

By Foreign Policy in Globalization Index Ranking, India has been ranked at 71st number as second least globalised in world.

3. A large number of negative list items: Both India and EU have a lengthy list of negative items. Items of negative lists are a sort of restricted items subject to quantitative restrictions, license requirement or high tariff attracting items, while some items are totally prohibited. The importers and exporters of both sites face the problem with respect to these items. But it is expected that India and EU would have the flexibility to exclude certain products from the tariffs elimination commitment and negative list items. Both of the trading partners have principally agreed to the size of the negative list items that should not exceed 10% of the totals tariffs line. The modalities are still to be work out by both of the parties and it is expected that after India EU summit some concrete decision may be taken with respect to this.

6. PROSPECTS OF TRADE WITH EUROPEAN UNION

The EU is India’s largest partner in trade and investment. It is an important source of technology and a major destination for our service
providers. It is important to nurture this relationship and forge newer strategies for strengthening the existing economic bonds. Although bilateral trade is at a healthy €26 billion, it is still far below the potential that exists. It is evident that traditional links will have to be sustained as new promising links are established. India-EU Summits have repeatedly underscored the political will for building a strong relationship at the business level. Successive Business Summits have identified a variety of initiatives to augment trade and investment flows. The Summit in Copenhagen decided to boost the level of trade to Euro 35 billion by 2005 and to double it to Euro 50 billion by 2008. Positive growth prospects following EU enlargement and the renewed focus on economic reform through implementation of the Lisbon Agenda afford promising opportunities to achieve these targets.

Clearly further measures need to be taken to expand trade and investment in sectors of mutual interest such as textiles, clothing, marine products, pharmaceuticals and chemicals, steel and engineering, and also the services sector. European companies, for example, could look at the new opportunities for investment in power generation, transmission and distribution where state monopolies are being deregulated and domestic private enterprises are looking for joint venture opportunities. Europe has acknowledged expertise in port management and should aggressively participate in port development activities in India, especially in newer ports being set up as corporate entities. European companies also have long experience in construction, operation and maintenance of roads, based on the realisation of user charges. The highway development project currently underway in India offers vast opportunities in this area. The privatisation of airports and the new “open skies” approach offers
scope for large investments in civil construction and management. Urban sector reforms offer new opportunities in the construction sector and development of the entertainment and leisure industry. Agro-processing area, in where the Europe has been a leader for many decades and the reforms undertaken by India in the agricultural sector, offer considerable scope for cooperation. Given India's high standards in medical care and related services, and given Europe's ageing population, this is an interesting area where further collaboration can be pursued. India has opened up the Insurance and Banking sectors for foreign direct investment. Our patent laws have also been strengthened. The flexibility shown by India in connection with participation in preferential trading arrangements with ASEAN and Asian countries in general would bring tariff rates down, even. While, quantitative restriction have been eliminated. Cooperation in Information and Communication Technology has vast potential, in view of India's large pool of trained and qualified professionals in this area. The two sides must engage in greater policy dialogue in key areas of interest and take measures to promote and facilitate increased cooperation between their businesses and industry.

India can do even better by increasing its exports of meat, fishes, marine product, horticulture products, hand made and handicrafts items, processed foods, apparel and garments, leather and leather footwear, synthetic footwear, engineering goods, procession machinery, auto vehicles, IT and IT enabled services.

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