Chapter- IV

India’s Trade Relations with EU:
Analysis and Interpretations
Backdrop

International trade has attracted a focal attention from the planning elites in the developing economies and as a matter of fact is an activity of strategic importance in the development process of a developing economy. For foreign trade being an engine of growth, developing countries have fitted it in their developmental programmes to cultivate its advantages to the fullest. As a matter of fact, the swings in foreign trade are responsible for the ups and downs of the economic growth and development of a country and India is no exception to it.

India had an active and mutually enriching trade with all the early civilizations. The history of India’s trade and commerce goes back to the Phoenician times when not only did cotton and teak, spices, silk and precious stones change hands, but a whole series of ideas and thought systems were shared. Indian silks and fine muslins were highly prized and there are glaring evidences of a flourishing trade between India and the distant European countries since pre-Christian times. Moreover, Indian trade existed even before the Christian era. During the Kushana period, India’s trade and commerce with the Roman Empire reached its peak. Pliny described India as a source of precious stones (Mathur, 2000). Although, the Arabs proved themselves to be very strong competitors in trade, yet Indian trade had developed further particularly in the seventh and eighth centuries A.D. In the tenth century B.C., India had commercial relations with foreign countries in which the Arabs played the role of ‘Intermediaries’. In the first two centuries of the Christian era, there was a substantial increase in trade between India and Rome. However, the Gupta period is regarded as the golden age in the Indian history as Indian trade and culture created a huge impact on Central Asia and Malaysia. It can, therefore, be said that trade existed in our country from the cons of times (Aggarwal, 1985).
Some of those who are famous to have discovered certain countries, like Columbus, were actually in search of our country which had come to be known as 'Golden Bird' largely because of trade that our country had with other parts of the world. Archaeological discoveries, in India and other parts of the world, have endorsed the flourishing trade in the Gupta and Mauryan periods. However, the trade in those times was mainly 'visible trade'. The Europeans particularly British, formed trading companies in their countries primarily with the objective to develop trade with India. East India Company is a glaring example in this regard. It used to take gold, silver, raw materials and even finished goods to England and gave in turn services like Defense, civil administration, etc. Trade then became both 'visible' and 'invisible'.

At the dawn of India's Independence in 1947, the country had to embark upon a grand economic reconstruction and industrialization programme. The objective of transforming a backward agrarian economy into an industrial country and ensuring the millions a better quality of life was on the top of the government's agenda. This warranted colossal amount of resources quite apart from building the requisite infrastructure and marshalling foreign exchange to translate the set objectives into actual reality.

**European Union–India Bilateral Trade**

European Union and India and bilateral trade has been the bedrock of the Indo-EU relationship. Over the years, the EU has emerged as India's largest trading partner, with a share of 21.51 percent (Table 4.4) of its global exports in 2004-05 and 17.14 percent (Table 4.4) of its total imports coming from EU. Over the past decade, EU has become a major destination for India's products and a source of supplies for the critical imports including raw materials and investment goods.

**India's Trade with EU: A Widening Trade Deficit Scenario**

Table 4.2 is conspicuous of India's Trade deficit with the EU. From early 1970's to early 1980's India's trade deficit rose from Rs. 67.39 crores in 1973-1974 to Rs. 2207.53 crores in 1983-84, registering a nearly five times increase over the period. From 1980's the trade deficit has ever been widening reaching as high as Rs 6231.27 crores in 2004-05. However, between this period spanning more than two decades, we had the lowest trade deficit of Rs.263.15 crores in 1994-95. This was purely
because exports in that year had sharply risen by 21.63 percent over the previous year while imports had gone up by merely 2.01 percent over the previous year. And for the first time from 1973-74 to 2004-05 we had a trade balance with EU in the year 2000-01 to the extent of Rs. 137.66 crores. The phenomenon is ascribed to the fact that Govt. of India and the exporters had made incessant efforts resulting in favourable trade with EU for the first time in 2000-01. However, from a favourable position in 2000-01, India has a burgeoning trade deficit at the end of the year 2004-05. The ever rising trade deficit may be attributed to the pattern of India’s exports and imports. During this period of rising trade deficit, India's exports have meagerly risen from a negative percentage increase of 0.83 to the maximum of 18.60% whereas during the corresponding period, the imports have steeply risen from 3.84% to 22.07%. In absolute terms India’s exports to and imports from the EU have increased by more than five times over the base figure in each case. The exports rose from Rs. 18148.90 crores in 1993-94 to Rs. 77862.04 crores in 2004-05, while imports increased from Rs. 21897 crores in 1993-94 to Rs. 84093.31 crores in 2004-05. Table 4.5 further elucidates that in early nineties i.e., from 1990-91 to 1993-94, India’s trade deficit with EU countries fell down remarkably. From a deficit of Rs. 3909.68 crores in 1990-91, it fell down to Rs. 2068 crores in 1991-92. However, deficit went up again to Rs. 3972 crores in the following year. It however, came down remarkably in 1994-95 when it was only Rs.263.45crores.
Europeans Union’s share in India’s Trade

India’s trade volumes with the EU have been growing at a meteoric speed. A conglomerate of 27 nations, the EU has emerged as India’s single largest trading partner, accounting for more than one fifth share in both exports and imports of the world’s largest economy in terms of purchasing power parity. Over the years, the EU–India have developed a very close relationship that covers key areas like trade and investment, economic and development co-operation as well as cultural exchanges (table 4.4).

Browsing through the table 4.4, it is seen that India’s exports to EU rose from 25.46 percent in 1973-74 to 26.01 percent in 1993-94. However, 1993-94 onwards, India’s exports to EU have been showing a decreasing trend. From a share of 26.01 percent in 1993-94, it fell to 23.94 percent in 2000-01 to 23.12 percent in the following year (i.e., 2001-02). This fall in India’s share to EU continued and it reached to 22.47 percent in 2002-03. However, it again got a slight momentum in 2003-04 when it marginally rose to 22.62 percent but again slipped to 21.51 percent in 2004-05 (Table 4.4). Taking a panoramic view of India’s international trade, we observe that India’s global exports rose more than five times from 1993-94 to 2004-05, while India’s exports to European Union rose to just more than four times during the same period. On the imports front, EU is one of the major sources for India’s import needs. India’s imports from the EU have increased at a lesser pace than global imports. While India’s total imports have increased more than six times from 1993-94 to 2004-05, its imports from the EU increased only less than four times during the same period.

From the table 4.5, share of EU in India’s imports can be traced along the period 1973-74 to 2004-05. Imports from EU have steadily increased over this period. In the year 1973-74, its share was 24.02 percent which rose to 25.40 percent in 1983-84 and further boosted to nearly one-third of India’s total imports in the year 1993-94. However, after that it has been falling consistently— from 30.07 percent in 1993-94 to 21.05 percent in 2000-01, to 20.58 percent in 2001-02 to 19.18 percent in 2003-04, and to 17.14 percent only in 2004-05. During the whole period of 1993-94
to 2004-05, there has been a marginal increase of India’s share of imports from EU only in the year 2002-03 when it rose to 20.81 percent as against the previous year.

![EU's Share(%) in India's Foreign Trade](chart)

**India’s share in EU’s Trade: An Insignificant Milieu**

India’s share in the EU’s trade is very insignificant. In the late 1970’s, India’s share in the EU’s total exports had been within the range of 0.38 percent to 0.52 percent and share in EU’s total imports had been in the range of 0.42 percent to 0.46 percent. In 1980, India’s share in EU’s total exports was 0.48 percent during eighties i.e. in 1985; it grew to 0.71 percent and dropped slightly to 0.68 percent in 1989. In the early 1990’s, however, it fell down and was the least i.e., 0.41 percent in 1991 and increased a little to 0.52 percent in 1992. India’s share has been less than 1 percent over these years.

India’s share in EU’s total imports has also been very small. In 1980, this share was 0.33 percent which rose marginally to 0.39 percent in 1989. In early 1990’s, however, it was 0.39 percent on an average (for the three years from 1990-1992). But India’s share in EU’s trade continues to be still less than 1 percent.

Table 4.6 presents a detailed percentage break-up of India’s total exports to each member country of EU for the period commencing form 2000-01 to 2004-05. The data presented in the table is of latest years i.e., from 2000-01 to 2004-05. However, we are quite familiar with the fact that India’s major partners have been
UK, Germany, Belgium, Italy, the Netherlands and France. In the 1970s, i.e. from 1973-74 to 1979-80, UK dominated the European Union’s trade by having a share of 29 percent (maximum share of 46.60 in 1975-76). However, in the 1980s, its share started declining from 26.89 percent in 1980-81; it fell down to 22.53 percent in 1989-90. At the same time, share of Germany rose to 25 percent in 1989-90. Share of other major trading partners, i.e. Italy, the Netherlands, and France maintained an almost constant level over the years. Belgium, however, showed a rising trend till 1989-90 (17 percent), where after it steadily fell to 13 percent in 1992-93. From 1995-96 onwards, share of UK in India’s total exports to EU starting rising and that of Germany started declining. As in 1997-98, UK is the leading trade partner followed closely by Germany. A notable feature from 1993-94 onwards is that Belgium has become an important trade partner, its place being third. Greece, Luxembourg, Portugal, Denmark, Ireland and Spain are small partners. Shares of Portugal, Greece, and Ireland were even less than 1 percent of total exports to EU. In 1997-98, these countries together accounted for 9.95 per cent of total exports to EU, depicting a remarkable increase from 1992-93. Share of Spain has risen from 1.98 percent in 1983-84 to 5.03 percent in 1997-98. Perusing the figures in table 4.6, it is observed that India’s exports to UK was 21.56 percent which over the years fell to 20.27 percent of the total exports to EU. Similarly, exports to Germany also started declining (17.87 percent in 2000-01 to 15.43 percent in 2004-05). However, exports to Belgium show a substantial increase over the years. These constituted 13.78 percent of the total exports to EU in 2000-01 which rose to 14.5 percent in 2004-05.

Equalising Exports with Imports from EU

India’s exports to and imports from EU are hardly commensurate and the gap thereof has always been distinct. Exports to EU was just 9.08 percent in 1973-74 when India’s foreign trade was restricted to U.K. (Table 4.8). However, Exports registered a momentum in 1983-84, when it was 45.12 percent of Imports from EU. Exports further increased as percentage of Imports from EU. It reached 82.88 percent in 1993-94 and was slightly above 100 percent in 2000-01. However, percentage of Exports dropped marginally over the next four years as they were 95.76 percent (2001-02), 92.70 percent (2002-03), 96.34 percent (2003-04), and finally 92.59 percent (2004-05) vis-à-vis imports during the relevant year. Thus more
than 90% of Exports as percentage of Imports from EU is consistently observed throughout the later part of the study period.

**Direction of India’s Foreign Trade with Major EU Member countries**

*A Cross country analysis and comparison with India’s overall foreign trade.*

An attempt has been made to analyse India’s Import-Export trade with all EU member countries taking into consideration percentage growth increase/decrease in Imports as well exports with each member country. A comparison of percentage of growth increase/decrease with India’s overall foreign trade has been made. Taking due cognizance of the fact that India’s foreign trade within the European Union rests mainly with a few prominent countries like U.K., Germany, Belgium, France, Italy, Netherlands, Spain etc. Therefore, it has been thought pertinent to start the analysis with them. The rest of the, of course, have been taken by relative importance.

**Trade with Great Britain**

Tables 4.6 and 4.7 relating to percentage share of India’s exports to and imports from European Union bring testimony to the fact that India has had historical trade relations with the Great Britain. In fact prior to 1973, when U.K. was yet to join the EU, India’s Exports used to be routed through Great Britain to the rest of Europe. And maximum of India’s foreign trade was with Great Britain. However, with each passing year after 1973 the U.K.’s share in India’s Exports started declining. It was 21.56 percent in 2000-01, which went down to 21.31 percent in 2001-02 and further went further down to 20.07 percent, further plunged to 20.93 percent to 20.27 percent in 2003-04 and 2004-05 respectively. In absolute terms, India’s Export to UK were Rs.10501.52 crores, Rs.10305.60 crores, Rs.12081.43 crores, Rs.13892.31 crores and Rs.15790.31 crores in 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 which has an increasing trend but in relative terms (i.e., percentage share) it has a decreasing propensity (Table 4.9). Further, it is observed that once India’s number one export destination in European Union i.e. Great Britain’s position is replaced by Germany which has become number one Export destination in the Union. Taking a detailed view of the Table 4.7, we observe that Great Britain is the second largest exporter to India after Belgium with
whom trade in raw and finished diamonds has grown quite rapidly for the last few years. However, again, it is seen that just like in Exports, the share of U.K. in India’s Imports are also on the decline. Having a share of 29.77 percent in India’s Imports from EU in the year 2000-01, U.K. was the largest exporter to India followed by Belgium. But as said earlier U.K’s share in India’s Imports show a decline over the period under study. U.K’s share was 24.21 percent in 2001-02, which dropped to 21.72 percent in 2003-04. It finally dropped by more than 3 percentage points in 2004-05, when it touched all time low of 18.69 percent. Again, in absolute terms, we observe an increasing behaviour of India’s imports from Great Britain as is seen in the years 2000-01 (Rs. 14472.66 crores), 2001-02 (Rs. 12224.40 crores), 2002-03 (Rs. 13439.43 crores), 2003-04 (Rs. 14862.26), 2004-05 (Rs. 15717.70 crores) but in relative terms, we observe a decreasing trend when taken into consideration all EU-25 member countries trade. There we see that U.K’s share in imports is dwindling with each passing year. Browsing further through the data we observe that Great Britain’s position in India’s Import trade had been taken over by Belgium. It should, however, be noted that trade with Belgium is exclusively in diamonds and not as diversified as is with countries like Germany and Great Britain.

The percentage growth increase/decrease is one of the indicators of measuring export performance. India’s total export effort had shown overwhelming results over the years under study. India’s total exports had grown from Rs.20901798.00 (2001-02) lakhs to Rs.25513728.00 lakhs in 2002-03 marking percentage growth increase of 22.06 percent over the previous year. However, during the same year, the exports to Great Britain had increased only by 17.23 percent. Whileas, total exports and exports to Britain had absolutely same percentage growth rate in the year 2003-04 i.e. 14.99%, the percentage growth rate in 2004-05 in exports to Britain had been only 14.66% while as total exports had grown at 23.35% in 2004-05. Similarly Great Britain’s share in India’s total exports was 5.16% in 2000-01, which decreased to 4.95% in 2001-02. However, it again plunged to 4.36 percent in 2004-05.

On the imports front, India’s total imports have grown over the years. In absolute terms India’s imports had grown from 24,519,972.00 lakhs in 2001-02 to
29,720,586.00 lakhs in 2002-03, marking an annual growth rate of 21.21%, while as imports from Great Britain have increased only by 9.94%. In the year 2004-05, the total imports have grown from 35,910,764.00 lakhs in 2003-04 to 49,053,168.00 lakhs in 2004-05 at a rate of 36.60% over the previous year. Similarly, Great Britain share in the total imports has also been thinning with every passing year. From a share of 6.27 percent in 2000-01, it dropped to 4.99 percent 2001-02 to 4.52 percent in 2002-03 to 4.14 percent in 2003-04 and lastly dipped to 3.20 percent in 2004-05.

Analysing further, Table 4.35 reveals that India’s total trade has increased at 21.60 percent (2002-03), 18.13 percent (2003-04) and 30.64% (2004-05), while as correspondingly, India total trade with Great Britain has increased by only 13.28%, 12.07 percent and 9.58 percent in the years 2002-03, 2003-04, and 2004-05 respectively. This phenomena brings forth a vital revelation that though Great Britain is an important trading partner for India but at the same time, the import – export trade has been touching new horizons, new destinations, new sources other than the traditional partner like Great Britain. Table 4.35 further elucidates that India’s total trade deficit widens and similar is the case with Great Britain: trade with Britain has been growing on deficit lines all along.

The import and export growth pattern of all EU-member countries have been monitored by Exponential Trend values as are revealed in tables 4.36 and 4.37. As is depicted in the Table 4.36, India’s exports to Great Britain have compound Annual Growth Rate of 9.00% with $R^2$ at 94.3%. Similarly imports from Great Britain have been increasing at CAGR of 5.47% (with a dismal $R^2 = 73.0$). Table 4.44 reveals that Readymade Garments and other clothing accessories has been number one export item to Great Britain throughout the period 1996-97 to 2004-05. In 1996-97 it was 21.07% of total exports to UK. The other major exports have been footwear and other such articles, Fish & other Aquatic invertebrates, Iron & steel, Nuclear reactors, Boilers etc., cotton, organic chemicals, Tobacco, coffee, tea, Mate & spices. The major import commodities from Great Britain had been Gems and Jewellery. The share of Gems & Jewellery was 34.84% in 1996-97 while as it was 56.18% in 2004-04 with absolute value of Gems & Jewellery imported from U.K standing at Rs. 7581.95 crores in 2002-03. The import figure of Gems & Jewellery was Rs. 8511.90 crores (54.15%) in 2004-
05. The other major import items from Great Britain are Engineering goods, Nuclear Reactors, optical surgical Instruments. Their absolute value was 951.14 crores, (6.051%) Reactors, 1711.27 crores, (10.88%), optical surgical Instruments 447.66 crores, (2.84%), Iron & steel 1092.98(6.95%) in 2004-05.
Trade with Germany

Germany is not only the largest market for Indian exports but also the most important source of imports for India amongst all EU member countries. The Exports to Germany had grown at 19.54% in 2002-03 over the previous year whileas, correspondingly total exports of India grew by 22.06% during the same period. However, when India’s world exports grew by 23.35% in 2004-05, exports to Germany grew by only 2.78%. Germany’s share in India’s total exports has been 4.28% (2000-01), 4.08% (2001-02), 4.00% (2002-03), 3.99% (2003-04), 3.32% (2004-05). As is seen exports to Germany are on the increase in absolute terms but its percentage share had decreased (Table 4.19).

The major commodity items exported to Germany are Readymade Garments Rs. 1086.13 crores (16%), Articles of Leather & Raw Hides Rs 895.49 crores (13%), Carpet & Other Floor Coverings Rs. 627.25 crores (9.33%), Footwear & other such Articles Rs. 404.77 (6%) in 1996-97. All these goods maintained their importance throughout the period under study. In 2004-05, the quantum of exports of readymade Garments was Rs. 2500.39 crores (19.81%), Articles of Leather & Raw Hides Rs. 850.20 crores (6.73%), organic chemicals Rs. 831.89 crores (6.59%), Engineering goods including electrical machinery Rs. 724.68 crores (5.73%), Footwear & other such Articles Rs. 699.40 crores (5.54%) in the year 2004-05 (Table 4.40).

The imports from Germany have risen at 20.32% in 2001-02 over the previous year by only 15.25% in 2003-04 and by 30.38% in 2004-05. During the corresponding period India’s total imports had increased by 6.21% (2001-02), by 21.21% (2002-03), by 20.83 (2003-04), and by 31.60 % (2004-05). The major imports from Germany have been Nuclear Reactors, capital Goods, Articles of Iron and Steel, Engineering goods, organic chemicals etc. In absolute terms out of total imports of Rs. 10047.58 crores in 1996-97, the share of Nuclear Reactors was Rs. 3325.82 crores (33%), the share of capital goods was Rs.2245.96 crores (22%), the value of Iron and Steel imported was Rs. 932.06 crores (9%), Engineering goods was Rs. 532.11 crores ( 5.25%). Over the years imports from Germany grew more rapidly as compared with exports particularly with regard to some product categories like organic chemicals, Nuclear Reactors, Engineering goods, Iron and Steel, pharmaceutical products, Aircraft, spacecraft & parts thereof. However, the
import of capital goods has seen a declining trend over the period. The capital
goods import stood at Rs. 2245.96 crores in 1996-97 was Rs. 1576.10 crores in
1997-98, Rs. 1425.37 crores in 1998-99, Rs. 1327.58 crores in 2000-01, Rs. 479.56
crores in 2001-02, Rs. 595.10 crores in 2004-05. An important inference that can
be drawn from this phenomenal decrease in capital goods import that is India had
make itself technological self-reliant in many industries where we previously used
to be dependent on foreign machinery. The share of Nuclear Reactors in total
imports from Germany stood at Rs. 5464.83 (31.25%), Engineering goods Rs.
2885.58 crores (16.50%), organic chemicals Rs. 947.15 crores (5.41%).

To Germany, we find that by and large there has been proportionate
increase in exports to Germany alongside increases in India’s world exports. 20.31%
increase in 2002-03 for Germany and 21.21% increase for India’s total exports
during the same year. Again, we see 30.38% increase in exports to Germany,
correspondingly 36.60% increases in India’s exports to world in the year 2004-05.

India’s total trade has increased at the rate of 4.55 percent in 2001-02,
21.60% in 2002-03, 18.31% in 2003-04, and 30.64% in 2004-05. Correspondingly,
during the same period India’s foreign trade with Germany has increased at 8.64%
and large, we find conformity with the level of increases in India’s total trade with
that of the increases in total trade with Germany. India has a trade deficit with
Germany and with each passing year the quantum of deficit increases, as it does
with India’s total trade foreign trade. Further since Germany is the leading country
in the EU therefore, the deficit is also large. India’s exports to Germany have a
compound Annual Growth Rate (CAGR) of 6.68% (R²=84.2%) (Table 4.36). Similarly,
imports from Germany have been increasing greater than exports to Germany. The
CAGR of Imports from Germany are pegged at 8.00 percent (R² = 68.4%).

Germany has also come up as India’s top sources of foreign technology and
foreign direct investment. In 1989, Germany topped the list of foreign investors for
the first time with over 120 crores (DM 120 million) of sanctioned investment. In
fact, German investment proposals amounted to 58 percent of all foreign investments
sanctioned by the Government in that year. In the early 1990s, i.e. 1991-92,
Germany has maximum number of foreign collaborations approved and had second position in the country-wise foreign investments in India. Germany accounted for 35 percent of the total foreign investments approval in India from 1991 to 1994.

Although there is increases in volume and value in the bilateral trade, from the Indian point of view, the share of Indo-German trade in Germany's aggregate trade has been very small, being merely about 0.5 percent of the total Germany trade volume during the later years of 1980s. German imports from India constitute only a minuscule of its total imports (around 0.3 percent) and German supplies, in terms of its world wide exports, also form a very negligible portion (about 0.5 percent). Germany's main trading partners have remained unchanged, namely, France, the Netherlands, UK, Italy, Belgium, Luxembourg inside Europe and USA outside Europe. This trade profile has largely been the fallout of the global and regional framework within which Germany evolved itself in the post-war years (Mathur, 1999).

Germany had witnessed an eco-politico resurgence as the country stepped into the 1990s. The unification of the Germany and the integration of the European market in 1992 are having profound effects on its economy. For Germany the single European Market by the end of 1992, could not have been better timed. The market took shape at a time when Germany had emerged as a big technological power, following all pervasive modernization and technological up-gradation, where some of other EU member nations were lagging behind in meeting the tough competition given by the German firms. Moreover, German unification has brought tremendous opportunities for India. Unification has led to steep rise in German imports as the German industry alone cannot possibly supply all the goods needed for the reconstruction of the economy particularly, the former East German territories. India should, as such, avail of these opportunities in the present as well as in the future. India, should also take caution of East Asia, a region, which has been maintaining its exports at a commendable rate despite various restrictions. The four NIC – S. Korean, Taiwan, Hong Kong and Singapore – account for nearly 40 percent of German exports to the south, south East Asia and Far East Asia excluding Japan (Lall, et al, 1993). The share of these four economies in the German market is about 53 percent of the total imports from this region. India's position among the East Asian countries, in the early 1990s, was fifth or sixth with regard to trade with
Germany. China, Taiwan, S. Korea and Hong Kong were ahead of India in exporting to Germany in aggregate in commodities of India’s interest such as garments, leather products and engineering goods. Being a developing country, India has relatively less sophisticated technology, small volumes of production and low labour productivity in the modern sector industries afflicted by high input costs of basic industrial material (steel, plastics, copper, furnace oil etc.) as compared to International prices, the structure of its exports is dominated by traditional products of low value, although, a modest degree of commodity diversification is noticed in its trade composition in recent years (early 1990s).

The prospects of Indian exports, however, cannot be viewed independently of the EU framework and, to some extent, global concerns like unilateral restraints by developed countries. It is argued that there have been two sets of factors affecting the performance of Indian textiles in EU markets. The first is domestic, like lack of modernization of textile machinery, pull of domestic market, high cost of production due to use of outdated machinery and other factors like escalations of cotton prices, heavy internal taxation and low productivity of labour etc. Among the external factors severe competition from Hong Kong, Pakistan, S. Korea and China (mainly on account of low prices) hit India’s exports adversely (ACCI, India, 1992). Exchange rate variations quota spread or concentration were the other major setbacks. However, with the abolition of quota system from January 2005, there are good prospects of Indian Textile Industry to flourish in the coming years. But, there is another drawback that is Indian industrialists are reluctant to invest in technological up-gradation which stagnates quality of products. They are not adaptable to demand, design and fashion and more importantly, have a short term outlook leading to problems like non-adherence to quality and delivery schedules. Consequent to hike in wages among the traditional suppliers and structural adjustments in the industrial patterns, a number of new competitors such as Thailand, Philippines and Brazil have emerged. The East Europeans and the Chinese are also putting up stiff competition for woven fabrics in the German market.

Indo-German bilateral trade has to be viewed in a broader perspective. The new targets of the trade relationship cannot be achieved merely in terms of quantitative parameters. A new qualitative element will have to be introduced with a
time frame as a reference point. (Lall, *et al.*, 1992) Since, the Indian economy, like many other developing economies which pursued the import substitution strategy, could not build strong scaffolding for a national economy to realign its global relations through external factors by greater participation in the global division of labour attracting foreign capital and technology. Indo-German trade relations in this context would develop provided;

- **Indian industrialists**, by seizing initiatives become competitive enough in terms of quality production, concentrate on the export of sophisticated finished products with proper adherence to quality, time and delivery schedules, joint production through proper identification of sectors and opportunities where mutually productive operations could be established with the help of joint ventures.

- **Exporters**, who are keen to make a dent in the foreign markets, adopt professional and aggressive marketing strategies keeping the suitability of the channels of distribution and proper marketing analysis in mind; study market structure, identify consumer needs, tastes, preferences and develop new products/innovations/designs in conformity with the consumption trends, analyse distribution sector and adopt joint marketing with the local German importer distribution.

- **India strengthens its economic relations and make Germany its major economic partner** if it has to reap fruits of international business with Germany.

  Indo-German trade relations are ever strengthening. The recent visit of Indian trade and political delegation in April, 2006, headed by the Indian prime Minister, Dr. Manmohan Singh bears testimony to the fact that Indo-German trade relations have christened into a new era with a lot of promise and prosperity for the people of both the nations.
Trade with Belgium

Belgium is a fast emerging destination for Indian exports. Besides, iron and steel, capital goods, and chemical material and products, India imports huge quantity of pearls and precious stones especially rough diamonds from Belgium. Table 4.12 reveals that exports to Belgium have grown at the rate of 21.27% in the year 2002-03 over the previous year and correspondingly the total exports of India have also grown at almost same level (22.06%). Similarly, on the imports side, we observe a contrasting behaviour between growth in imports from Belgium and growth in total imports of India. While imports from Belgium had grown at 36.35% in 2002-03 over the previous year, total imports for India, during the same year, had grown at only 21.21%. Again, the percentage growth of imports from Belgium was only 1.70 percent in 2003-04, while as the total percentage growth of imports for India was 20.83%.

As far as India’s total trade is concerned (import/export), it had grown at a whooping 31.28% with Belgium in 2002-03 as compared to the relevant growth figure vis-à-vis total world trade, which is just 21.60%. The data in Table 4.12 further indicate that while the total trade with Belgium had grown at 18.71% in 2004-05 over the previous year, the total Trade of India with rest of world had grown at 30.64% in the same year (i.e. 2004-05) over the previous year. However, amid optimistic sentiment of growing trade with Belgium, the data provided in Table 4.12 gives a contrasting picture. The trade share of Belgium vis-à-vis India’s total trade is dropping with every passing year. It was 4.56% in 2000-01, dropped to 4.36% in 2000-01, jumped back to 4.71% in 2002-03 but again dropped to 4.07% in 2003-04 and further dipped to 3.70% in 2004-05.

Of all the items of export, Gems and Jewellery forms the maximum. The cut and polished diamonds and pearls exported to Belgium in the year 1996-97 were of the value of Rs. 2419.95 crores (62.38% of total exports to Belgium in that year). Again in the year 1997-98, the finished pearls exported to Belgium were of the value of Rs. 2750.54 crores (60.89%). Throughout the period under study, the value of finished Gems and Jewellery exported to Belgium were always above 60%, (64%, 63%, 61%, 61% of total exports to Belgium in the years from 1999-2000, 2000-01, 2001-02, 2002-03 in that order). However, the share of Gems and
Jewellery exports to Belgium dropped in the years 2003-04 and 2004-05 valuing at Rs. 4845.86 crores (58.40%) and Rs. 6064.65 crores (55%) respectively. Apart from export of Gems and Jewellery, India also exports to Belgium readymade Garments, Cotton, Carpet & other floor coverings.

On the imports paradigm, it is again the Gems and Jewellery which forms the maximum chunk of imports from Belgium. Pearls and precious stones imported from Belgium amounted to Rs. 6699.65 crores (68.45% of total imports in 1996-97) which rose to 72.95% of total imports from Belgium in 1997-98 with absolute value of Gems and Jewellery reaching as high as Rs. 8576.74 crores in that year. The share of Gems and Jewellery imports from Belgium further increased to 76% in the year that followed (i.e. in 1998-99). It rose to 80.49% in 1999-2000, 77.85% in 2002-03, 78.83% in 2003-04 and in 2004-05; the absolute value of Gems and Jewellery imported from Belgium was Rs. 17981.50 crores, which was 80.42% of total imports from Belgium (Table 4.45). The other major imports from Belgium are Iron and Steel, Nuclear Reactors, Organic Chemicals.

The value addition executed by Indian diamond shapers on the rough pearls and precious stones imported from Belgium is renowned by world over. However, it is astonishing to observe that trade with Belgium has never been favorable. The reason could be that the imported rough diamonds from Belgium after cutting and polishing find other export destinations as well. Belgium. However, trade with Belgium is heavily skewed to diamonds, precious, semi-precious stones etc. The Table 4.53 relating to commodity imports from Major Trading Partners of EU and their percentage share in total imports reveal that import of Gems and Jewellery from all major trading partners of EU i.e. Belgium, Germany, France, Netherlands, Italy, Spain and U.K. account for more than 40% of imports in most of the years under study. The compound Growth Rate (CAGR) of Gems and Jewellery to major trading partners of EU based on the data from 1996-97 to 2004-05 is 11.31% (R^2 = 94.7%). The CAGR of import of Gems and Jewellery is only 4.7% (R^2 = 1.7%). Further, the export of polished diamonds, precious stones, account for 11 to 13 percent of total exports during all the years from 1996-97 to 2004-05.
Export Growth With Belgium & World

Exports to and Imports from Belgium
Trade with France

France occupies an important position in the EU and has been an important source of imports for India. Major imports from France include Aircraft, spacecraft and parts thereof, Engineering goods including electrical machinery, Nuclear Reactors, Iron and Steel; optical/surgical instruments, capital goods and organic chemicals. On the other hand, the major exports to France are Readymade Garments, Articles of Leather and Raw Hides, Footwear and other such articles. The export to France show almost the same growth pattern as is witnessed in case of India’s total exports. To cite example, when exports to France grew at 15.34% in 2002-03 over the previous year the total exports of India grew at 22.06%, correspondingly. Similarly, when export to France grew by 13.23%, the total exports of India grew by 14.98% likewise the percentage growth was 22.82% in case of exports to France in 2004-05 over the previous year whileas, it was 23.35% in case of total Indian exports. However, contrasting figures are observed in case of Imports from France as compared with total Imports from world. For example, when the percentage growth of imports from France was 37.54% in 2001-02 over the previous year, the percentage of growth of India’s total imports from the world was a minuscule of 6.21%. Similarly, percentage growth in imports France was by 31.51% in the year 2002-03, while as it was only 21.21% in case of total imports from rest of the world. Imports from France had decreased by 5.39% in 2003-04, while as on world-wide scale, imports has increased by 20.83% (over the previous year). The last year of study i.e. 2004-05 also witnesses a contrasting feature with regard to growth in imports from France as compared with growth in imports from rest of the world. Imports from France had grown by 66.66% in 2003-04, over the previous year whileas, in case of growth in imports from rest of the world; it was 36.60%, over the previous year.
India’s total trade with France had grown over the years. Table 4.17 shows that India’s trade with France had grown by 12.47% in 2001-02, by 22.97% in 2002-03, by only 3.83% in 2003-04 and by 42.98% in 2004-05, while as quite different growth pattern had been witnessed in case of rest of world. India’s total trade had grown by 4.55% (2001-02), 21.60% (2002-03), 18.13% (2003-04), 30.64% (2004-05). However, France’s share in India’s total trade has by and large been growing. It was 1.75% in 2000-01, 1.88% in 2001-02, grew to 1.90% in 2002-03, came down to 1.67% in 2003-04, went again high in 2004-05, when it was 1.83% (Table 4.17). Nevertheless, India’s total trade with France has never been favorable because the overwhelming imports of Aircraft, spacecraft & parts thereof, Engineering goods, Nuclear Reactors, Iron & steel, capital goods. All these imports far outdo the exports to France. The whole country of France in general particularly the Paris in particular, being the hub of fashion ware, India can further capitalize on readymade Garments and unwoven fabrics by further promoting Indian fabrics and readymade garments across France so that this major export item from India finds further boost. Table 4.36 shows that exports to France has a compound Annual Growth Rate of 10.78% (R² =91.4%) while as the CAGR of imports from France is 12.59% (R² =83.4%) (Table 4.37).

As mentioned earlier the major exports to France have been readymade Garments. The value of readymade garments in India’s total exports to France in the year 1996-97 was Rs. 1059.75 crores (41.68%), again readymade garments occupied the maximum share in India’s exports to France in the years that followed. Their absolute values were Rs. 1212.12 crores in 1997-98 (42.96%), Rs. 1479.56 crores in 1998-99 (42.38%), Rs. 1699.30 crores in 1999-2000 (44.70%), Rs. 2390.12 crores in 2003-04 (40.60%). The other major items of export are Articles of Leather and Raw Hides, Footwear & other such articles.
Export Growth with France & with World

Exports to France & Imports from France

- Export Growth with France
- Export Growth with World

- Exports to France
- Imports from France
Trade with Italy

Italy has been one of the important destination points for Indian exports especially for leather and its manufactures, readymade garments and textiles, cotton, footwear etc. India maintains an ever-increasing trade balance with Italy. In 2000-01, India's trade balance was Rs. 267332.06 lakhs, which increase to Rs. 384275.75 lakhs in 2004-05. India's exports to Italy have also been growing each year. The exports to Italy were 21.00% higher than previous year in 2003-04 and were still higher by 23.29% in 2004-05. However, imports from Italy also rose each year from 2000-01 to 2004-05. The imports rose by 16.91% in 2002-03 over the previous year, whereas, there was a spurt in imports by 25.24% in 2003-04 and by 20.99% in 2004-05 (Table 4.22). However, there is no similarity in the pattern of increase in India's foreign trade with Italy and India's total trade with rest of the world. India's foreign trade with Italy rose by 15.16% in 2002-03, by 22.59% in 2003-04, by 22.41% in 2004-05 while as during the same years, India’s total foreign trade grew by 21.60% in 2002-03, by 10.13% in 2003-04 and by 30.64% in 2004-05.

Readymade garments constituted 14.12%, Articles of Leather and Raw Hides 13.17%, Footwear 6.49% and Cotton constituted 11.14% of the total export basket to Italy in 1996-97. Analysing further the Table 4.41 we find that the value of readymade garments exported to Italy was Rs. 1555.44 crores of the total exports in 2004-05, which was 15.87% and the value of this item was 1487.61 crores in 2004-05 and constituted 15.18%. Looking at the imports from Italy, it is observed that the major import commodities from Italy are Nuclear Reactors, Iron and Steel, Organic Chemicals and Ceramics (Table 4.48). Table 4.36 reveals that Compound Annual Growth Rate of exports to Italy has been 10.71% ($R^2 = 91.8\%$) while as imports from Italy have a CAGR of 5.10%. The compound annual growth rate of exports to Italy is quite good at 10.71% with co-efficient of determination at 91.8 while as imports from Italy register a CAGR of only 5.10% signifying therein that imports from Italy are not growing as fast as that of exports to Italy.
Trade with Netherlands

India’s exports to Netherlands have ever been increasing. The value of readymade garments exported to Netherlands in the year 1996-97 was Rs. 612.89 crores which constituted 20.25% of total exports. The figure rose to Rs. 1009.15 crores in 2004-05 registering a growth of 14.64%. The other major export items include Edible Vegetables, Fruit & Nuts was Rs. 354.86 crores (11.72% of Total exports in 1996-97) which rose to Rs. 562.34 crores in 1999-2000. However, these items at Rs. 406.65 crores witnessed a negative growth in 2004-05.

Exports to Netherlands rose in the same manner, as did it in case of total exports for India during the years 2001-02, 2002-03, and 2003-04. The exports to Netherlands increased by 2.47% (2001-02) while as such increase in the total exports to rest of world was 2.68% in the same year. Again exports rose by 23.09% to Netherlands in the year 2002-03 and that for the world it increased by 22.06%. Similarly, exports rose by 16.81 percent in case of Netherlands while as they rose by 14.98% in case of total exports to world (Table 4.28). However, Netherlands share in India’s total trade has been decreasing. It was 1.39% in 2000-01, which gradually came down to 1.21% in 2004-05. Nevertheless, India’s trade with Netherlands has always been favorable. India’s trade balance with Netherlands was Rs. 202180.45 lakhs in 2000-01, which rose to 3444565.41 lakhs in 2004-05. According to 4.36 results, the export trade with Netherlands has been increasing as per compound Annual Growth Rate (CAGR), at 10.09% (R² = 94%) signifying therein that exports to Netherlands are growing at a good rate of more that 10 percent with a co-efficient of determination at 94%. and imports have a CAGR of 6.10 % at R² = 60.7% (Table 4.37) conveying that the growth rate of imports is less as compared to growth in exports.
Export Growth With Netherlands & Export Growth with World

Exports to Netherlands & Imports from Netherlands
Trade with Spain

India's trade with Spain has also been growing over years. India's total foreign trade was Rs. 369312.53 lakhs in 2000-01, which steadily rose to Rs. 764484.69 lakhs in 2004-05. Exports to Spain have also grown from Rs. 304371.66 lakhs in 2000-01 to Rs. 596421.38 lakhs in 2004-05 and imports during the same period have grown from Rs. 64.940.87 lakhs to Rs. 168063.31 lakhs. The trade with Spain has always been favorable. India's trade balance with Spain was Rs. 239430.79 lakhs in 2000-01, which sprouted to Rs. 428358.66 lakhs in 2004-05. The major item of export to Spain is yet again Readymade Garments, which at Rs. 224.77 crores in 1996-97 represents 14.89% of total exports to Spain in that year and represents 19.08% in 2004-05 of total exports. The other major export items are Articles of Leather & Raw Hides, Rs. 160.68 crores in 1996-97 which reached to 602.07 crores in 2004-05. The exports of Iron & steel & its articles thereof also rose from 24.94 crores in 1996-97 to 941.91 crores in 2004-05. The major import items from Spain include Organic chemicals, Iron & Steel, Nuclear Reactors, Engineering goods. As per4.36, the Compound Annual Growth Rate (CAGR) of exports to Spain Stand at 16.47% (R² =96.7%) whileas, the CAGR for imports from Spain is 10.27% (R² =64.3%) (Table 4.37). The CAGR of exports to Spain signify that export growth to Spain is fairly on a higher pedestal (i.e., 16.47%) with co-efficient of determination at 96.7% whileas imports are also growing at a good rate of more than 10 per cent but growth rate of imports is less than that of growth rate in exports.

Spain is one of important Western European country with which India has good trading relations. Spain, if properly accessed could be a gateway for Indian merchandise to other countries like Portugal.
Overall View

The overall picture of India’s foreign trade with EU member countries is revealed in tables 4.6 and 4.7. The Tables present a holistic view of India’s trade with all EU member countries in percentage figures. From Table 4.6, it is evident that U.K., Germany, Belgium, Italy, France, Netherlands and Spain share maximum of Indian exports. These have been major export destinations in the EU in the year 2004-05. U.K. continues to be number one export destination for Indian merchandise throughout the period 2000-01 to 2004-05 followed by Germany, Belgium, Italy, France, Netherlands and Spain in that order. However, U.K’s share in Indian exports has been witnessing a declining trend, from 21.56 percent (2000-01) to 21.31 percent (2001-02) to 21.07 percent (2002-03) to 20.93 percent (2003-04) to 20.27 percent (2004-05). While the exports to Belgium continue to swell, 13.78 percent (2000-01), 13.71 percent (2001-02), 14.02 percent (2002-03), 12.50 percent (2003-04), 14.50 percent (2004-05), that of Germany continues to fall. Germany’s share in Indian exports is dwindling throughout the period 2000-01 to 2004-05 except in the year 2002-03 when it gained 0.14 percentage points over the previous year. Exports to Germany as is shown in the Table 4.6 have been gradually falling. From a share of 17.87 percent in 2000-01 it dropped to 15.43 percent in 2004-05. On the other hand, the share of Netherlands and Spain continue to grow. Netherlands share in Indian exports was 8.24 percent in 2000-01, which went up to 8.85 percent in 2004-05 and in between went as high as 8.92 per cent in the year 2003-04. Similarly, Spain’s share has also been seeing an upward trend. From a share of 6.24 percent in 2000-01, it gained momentum in each year that followed. In 2001-02, it reached 6.68 percent, which further shot up to 6.84 percent in 2002-03. In the year 2003-04, it touched 6.94 percent and finally reached 7.65 percent in the last year of the study i.e., 2004-05.

Browsing further through the Table 4.6, it is observed that exports to France have been in the decline too. Notably France’s share in Indian exports shows a gradual decrease throughout the period of 2000-01 to 2004-05. From a share of 9.55 percent in 2000-01, it dropped to 9.28 percent in 2004-05. The share of Italy shows an increase from 12.26 percent in 2000-01 to 12.58 percent in 2004-05. However, in between three years i.e. 2001-02, 2002-03, 2003-04, it has been
hovering around 11.5 percent. Apart from these seven major trading partners in the EU, the other countries, which do leave an impression so far as Indian exports are concerned, include Sweden, Denmark, Ireland, Greece, and Portugal whose share in Indian exports has been hovering around 1.50 percent. And from the Table 4.6 it is depicted that while the share of Sweden is on the decline that of Denmark has not shown much improvement. From a share of 1.63 percent in 2000-01 it reached to 1.66 percent in 2004-05 with major setbacks in 2001-02 (1.49 percent) and in 2002-03 (1.55 percent). The share of Greece shows an increase from 1.06 percent in 2000-01, it reached 1.69 percent in 2004-05, revealing that with each passing year it has improved. Alongside, Portugal’s share in Indian exports is gradually declining from a share of 1.37 percent in 2000-01 it dropped during all years and reached to 1.21 percent in 2004-05. Table 4.6 further shows that rest of fourteen countries in the EU comprises of Austria, Chezh Republic, Cyprus, Estonia, Finland, Hungary, Latvia, Lithuania, Luxembourg, Malta, and Poland-all of them have a paltry share in Indian Exports. Their aggregate share in Indian exports during 2004-05 has been a meagre 4.31 percent. From the analysis, it can be ascribed that these fourteen countries have remained largely beyond the reach of Indian exporters. However, they could be potential market for Indian merchandise in future.

Table 4.7 gives a percentage break-up of Indian imports from EU member countries. Just like exports the imports are also dominated by the seven major trading partners of EU i.e., U.K., Germany, Belgium, France, Italy, Netherlands, Sweden, Spain. However, here instead of U.K, it is Belgium which is leading the front on imports. The share of Belgium is 26.97 percent in 2000-01, 26.10 percent in 2001-02 and 26.10 percent in 2002-03, 29.04 percent in 2003-04, and 23.97 percent in 2004-05. The trade with Belgium is exclusively for Gems and Jewellery, Precious and Semi-precious stones. India Imports raw diamonds from Belgium and exports finished Gems to Belgium. From the Table it is shown that the share of U.K. is again dwindling in terms of imports as well. The share was 29.77 percent in 2000-01 which dropped to 24.21 percent in 2001-02 to 21.72 percent in 2002-03 to 21.57 percent in 2003-04 and finally to 18.69 percent in 2004-05. While as, the share of Germany continues to swell in imports, from 16.52 percent in 2000-01 to
20.79 percent in 2004-05. Germany’s share in India imports sees a gradual increase throughout. France and Italy also show a marked increase over the period. The share of France rose from 6.62 percent in 2000-01 to 9.92 percent in 2004-05 with a consistent increase every year except in the year 2003-04 when it dropped to 7.27 from 8.56 in the previous year. Similarly, Italy’s exports to India have also been on the upsurge during the period 2000-01 to 2004-05. Its share rose from 6.80 percent in 2000-01 to 7.08 percent in 2004-05, the whole period shows an increasing trend except in the years 2001-02 and 2002-03 when its share shrunk. Netherlands’ share of exports to India continues to swing between 4.11 percent (2000-01) to 4.90 percent (2004-05). India’s import from Spain have also been on the increase. From a share of 1.33 percent in 2000-01 it touched 1.99 percent in 2004-05. Imports from Austria, Denmark, Finland, and Ireland hover around 0.96 (Ireland) to 2.01 percent (Finland) as in year 2004-05. In this India’s imports from Austria has been on the rise. From 0.65 percent in 2000-01, it reached to 1.37 percent in 2004-05 with gradual and consistent increase every year. The share of Denmark and Finland shows swings throughout the period. The aggregate imports from rest of thirteen countries of EU i.e. Cyprus, Czech Republic, Estonia, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Slovak Republic, Slovenia, Greece, Hungary are to the extent of 2.84 percent in the year 2004-05.

The analysis of the two tables (i.e. Table 4.6 and Table 4.7) reveal that apart from the seven/eight countries, which form the main trading block for India both the exports and imports and with whom around 90% of the foreign trade is transacted, there are other upcoming countries in the Union like Finland, Denmark, Portugal, Austria, Greece, and Ireland which show a lot of promise for trade with India. The rest of the EU countries are showing insignificant trade and could be considered as potential new market for Indian merchandise and services.

**Trade with Other Member Countries of EU**

The trade with other EU members countries, namely Greece, Luxembourg, Denmark, Portugal, Ireland, Latvia, Lithuania, Malta, Sweden, Estonia, Cyprus, Hungary, Poland, Slovak Republic, Slovenia, Finland, Czech Republic and Austria is quite ordinary and very insignificant as is testified from the data of exports (percentage) and data of imports (percentage) depicted in the tables 4.6 and 4.7.
relating exports to and imports from these countries. These countries together show 10 percent trade in total exports of EU to India in 1997-98. Spain, Portugal, Austria and Sweden, however, offer great potential for Indian exports. Moreover, imports from these countries are a minuscule and imports from Luxembourg, Malta, Estonia, Latvia, Lithuania, Greece, Cyprus, Ireland, Poland, Slovak Republic, Czech Republic are almost negligible. Therefore, there is need for greater co-operation between India and the other member countries of the EU in the fields of trade.

**Commodity Composition of Trade with EU**

India’s exports to EU can be classified into the following broad categories:-

- Agriculture and marine products
- Leather and its products including footwear.
- Chemicals and other allied products
- Textiles and Garments
- Jute and Coir products
- Engineering and Electronic goods
- Gems and Jewellery

About 70 percent of India’s exports to EU comprise of commodities which include leather, tea, diamonds, cotton fabrics, tobacco, precious and semi-precious stones and coffee. The remaining exports of about 30 percent comprising of engineering goods, chemicals and software form a promising area which still offers a wide scope for exploitation.

**India’s major product exports to EU**

India has been exporting various products to EU countries. The range of export products is exhaustive and diversified. As such, analysis has been confined to the major products exported to the EU. The data for analysis and interpretation has been retrieved from the official website of Directorate General of Foreign Trade (DGFT), Government of India using 8 digit ITC-HS Code. Only major commodity groups have been taken into study. For systematic and in depth analysis 13 Major Commodity Groups have been formulated. These are: Readymade garments; Leather, leather manufactures and footwear; Gems and Jewellery; Agro-based
goods; Coffee, Tea, mate and Spices; Cotton and its manufactures; Engineering Goods; Organic Chemicals; Fish and other Aquatic Invertebrates; Carpet and Other Floor Coverings; Iron and Steel and Articles thereof; Plastics and its articles thereof; and Miscellaneous Group. In the wake of the paucity of time and other constraints export of major products to EU covers only seven major trading countries in the EU. These countries have been purposely chosen as India’s foreign trade with them is quite large. As stated earlier, about 90 percent of the exports are with these countries and hence, the analysis is confined to these countries only. These include UK, Germany, Belgium, France, Italy, Netherlands and Spain.

**Readymade Garments**

Readymade garments is the major export product of India to EU. Export of this product shows an increasing trend over the past several years. Readymade garments exported to major trading partners of the EU were of the value of Rs. 8949.42 crores in the year 2000-01, representing 20.50 percent of the total exports to EU major partners in that year. In 2001-02, the figure of readymade garments exports reached to Rs. 9348.26 crores (21.70 percent of total exports to EU major partners) (Table 4.52). In 2002-03, the figure again reached as high as Rs. 11306.90 crores (22.13 percent of total exports). In 2003-04 and 2004-05 it was Rs. 12226.25 crores and Rs. 12693.85 crores respectively. The major export destinations for this product have been UK, Germany, France, Italy and Spain. Exports of readymade garments to UK were Rs. 3485.56 crores, to Germany it was Rs. 2500.39 crores, to France Rs. 2466.65 crores, Italy Rs. 1555.44 crores, Spain, Rs. 1138.11 crores and Netherlands Rs. 1009.15 crores in the year 2004-05 (Table 4.52). Although, Great Britain accounts for the maximum Indian exports of readymade garments in absolute value terms where this export item represented 22.07 percent of total exports to that country in 2004-05, yet it is France whose imports of readymade garments from India account for 34.12 percent of its total imports from India in 2004-05. To examine the growth rates of various products exported, exponential growth for important products have been calculated in Table 4.54. The table bears testimony to the fact that the compound annual growth rate (CAGR) for readymade garments is 12.08 percent with co-efficient of determination ($R^2$) is 98.58 percent. It can be, thus,
inferred that there is good prospectus of exports of readymade garments to the EU member countries.

The main export items in readymade garments group comprises of T-shirts, blouses, jerseys, pullovers, shirts and skirts. Though there is strong garment industry in the Union, it should not be difficult for India to exploit the enlarged union market more effectively. This is so because the European garment industry is expected to orient itself to high fashion items and personalized items such as garments design, colour, shape, appearance etc., matter a great deal (Lall, et al., 1993). Moreover, India’s exports of textile and clothing are also governed by GSP scheme. EU’s new GSP scheme for 1995-2004 had been finalized and had become effective from January 1, 1995. It is in India’s interest to maintain and improve GSP access as over two fifths of our total exports enter into EU under preferential tariffs (Council of EEC, 1994). However, these are other factors which are likely to influence India’s exports of garments to EU. These are:

- Sever competition from East Europe like Romania, Czech Republic, Slovenia, Slovak Republic, Serbia.
- Low labour cost countries, such as Portugal, Greece and Ireland within EU.
- Technological up gradations leading to less labour intensive and/or high skilled labour oriented production.
- Readymade garments are not now subject to quota system

**Leather, Leather Manufactures and Footwear**

Leather and its manufactures including footwear is another important item of exports to the EU. Articles of Leather exported to major trading partners of EU were of the value of Rs. 3296.52 crores in 2000-01 which was 7.50 percent of total exports in that year to these seven countries. The value of articles of leather was Rs. 3377.20 crores in 2004-05. Whileas the value of Footwear exported to these major trading partners of EU was Rs. 1802.45 crores in 2000-01 which in a period of five year rose to Rs. 2574.67 crores in 2004-05 (Table 4.52).

Germany has been the largest export destination of leather and its manufactures. The value of leather articles exported to Germany was Rs. 850.20
crores in 2004-05 (Table 4.40) followed by Italy Rs. 689.16 crores (Table 4.41),
followed by Spain Rs. 602.07 crores (Table 4.43), followed by UK Rs. 587.39 crores
(Table 4.44). Footwear exports have been highest to Germany where it was Rs.
699.40 crores followed by Italy, Rs. 430.26 crores in 2004-05. The exponential
growth trend for leather and articles of leather calculated from 1996-97 to 2004-05
comes to 4.80 percent ($R^2 = 74.7$ percent) (Table 4.56). While as the growth trend
for Footwear and other such articles is 15.36 percent ($R^2 = 94.5$ percent).

Leather and its manufactures is a sector where there is substantial domestic
production with Italy, Spain, Portugal, Germany, UK and France. Exports of a
number of items in this category are subjected to GSP ceilings in the Union.
However, due to a number of factors such as demand in EU countries, the problem
of environmental pollution posed by the Union’s domestic industry, the shortage of
hides and skins within the EU on the one hand, the relative cost advantage enjoyed
by the countries like India in this labour intensive sector and the fact that leather
manufacturers are personalized items, on the other. Supplies from third world
countries to the EU are not expected to be affected to any great extent in future.

There is, however, a possibility that countries like Spain, Portugal and Italy
might try to expand their share of finished leather goods in the EU market. This could
make the competition for India in the leather goods tougher, but at the same time,
due to the expanded market opportunities, third countries like India could penetrate
more into EU, given the cost advantages it enjoys in this labour intensive sector.

**Gems and Jewellery**

Another very important category of exports to EU by India is gems and Jewellery
represented by pearls, precious and semi-precious stones with diamonds (worked).
The exports of this category to major export destinations (countries) in the EU was
of the value of Rs. 5656.83 crores in 2002-01 representing was 12.96% of all
exports to all these countries. The figure jumped to Rs. 8063.58 crores in 2004-05
representing 11.63% of total exports to these seven major export destinations in the
Union (Table 4.52).

Belgium is the single largest export destination of cut and finished items of
pearls and diamonds followed by UK. The exports to Belgium have been Rs.
6064.65 crores which was 55.02% of the total exports to Belgium in 2004-05 (Table 4.38) whereas, the share of UK in this export category was Rs. 1041.30 crores in the same year (Table 4.44). Germany, Italy, France and Spain are other export destinations for this category. However, their share is minuscule as compared to Belgium. The exponential growth trend for Gems and Jewellery as calculated under Table 4.54 reveals that this category of export has a Compound Annual Growth rate of 11.31% ($R^2 = 93.75\%$).

$$\text{Logy } y = 3.93 + 0.498x$$

**Agro-based Goods**

Agro-based category of goods include coffee, tea, mate and spices. There is a high demand for these products in Europe particularly for that of coffee, tea and spices.

**Coffee, Tea, Mate and Spices**

The export of coffee, tea, mate and spices to the major export destinations in the EU was valued at Rs. 997.95 crores in 2000-01 which was 2.28% of the total export trade executed that year with these countries. However, as revealed by the Table 4.52, there is erratic trend in the export of these commodities. It fell to Rs 848.34 crores in the following year i.e. 2001-02, but rose back to Rs. 975.73 crores in 2003-04. However, its relative share in the total export to the Countries like UK, Germany, France, Italy, Belgium, Netherlands and Spain has fallen over the years. The share of these commodities in the export trade with these countries fell from 2.28 percent to 1.96 percent (in 2001-02), and 1.86%. In the year 2004-05 the figure went all time low to 1.37 % (Table 4.52).

Tea is mainly exported to England whereas, coffee to Germany and Italy. As per Table 4.44 it is observed that the export quantities of tea etc., to England have been on the rise. It was 303.20 crores in 1998-99 but rose to Rs. 322.49 crores in 2000-01. However, after that it fell in 2001-02 to Rs. 243.59 crores. Since the year 2002-03, it has gained momentum again. The value of exports to Germany in this category was Rs.402.09 crores which mostly consisted of coffee and spices (1997-98). After that we observe a gradual fall in the export of these commodities to Germany. However, after that it fell again in 2001-02 to Rs. 243.59 crores. Since the year 2002-03 it has gained momentum again.
Italy is also an important export destination for this group of goods. The export quantities are valued Rs. 303.04 crores at the end of the year 1998-99 as per Table 4.41. The exports of these items particularly coffee and spices to Italy gained momentum after major falls in the years 2000-01, 2001-02 but again gained pace and was at Rs. 252.58 crores in the year 2004-05 (Table 4.41). In case of spices, pepper is an important item of exports. The vital partners for this group are France, Netherlands and UK.

It is worth mentioning here that for coffee, tea and spices, EU is entirely dependent on third world countries, competition to India in this category, mainly comes from Kenya and some other ACP countries, which have stepped up their exports of all the three items in the recent years. They have also availed of the Union’s substantial financial support for development of production and stabilization of export earnings in these products. Moreover, they enjoy tariff benefits in the EU market for coffee. Non-ACP competition countries are the South American countries particularly Brazil, for coffee, Sri Lanka and Indonesia for tea and Malaysia, Indonesia and Brazil for pepper. Even though European unification have to face the challenge from these countries, some of which are associated with the Union under the Lome Conventions and stricter and uniform application of health and sanitary standards. The regression equation computed under Table 4.54 shows that the CAGR of coffee, tea, mate and spices is 1.36 percent which signifies that the growth prospects of tea, coffee, mate and spices vis-à-vis EU is a dismal one.

**Cotton and its manufactures**

Cotton is an important export product of India. Italy is the largest importer of cotton from India followed by Germany and UK. The value of cotton exported to Italy in the year 1996-97 was Rs. 396.44 crores which was 11 percent of the total exports to Italy in that year. The exports of cotton to Italy rose to Rs. 581.66 crores representing 5.93% of the total exports in the year 2004-05 (Table 4.41). The exports to Germany were of the value of Rs. 354.97 crores which was 3.79% of the total exports to Germany in the relevant year. However, as we observe from Table 4.40, export of cotton to Germany has dropped in the year 2004-05 to Rs. 85.76 crores. Cotton exports to Great Britain were the 560.79 crores in 1996-97 (7.71 percent) but over the years it has fallen quite hugely. In 2004-05, the export of cotton to UK has
dropped to Rs. 177.54 crores registering only 1.12 percent of total exports to UK in that year.

Table 4.52 presents an aggregate value of various categories of goods exported to major trading countries of EU. As revealed by the data available in Table 4.52, we find that the aggregate exports of cotton to seven major trading partners of EU i.e. UK, Germany, Italy, France, Belgium, Netherlands and Spain was Rs. 1608.96 crores, representing 4.68 percent of the total exports during the year 2000-01. However, the exports of cotton has, over the years, fallen except with a one time increase in 2002-03, when the value of cotton exports was Rs. 1675.72 crores, since then it has again come down to Rs. 1329.65 crores in 2004-05. Table 4.54 pertaining to regression of commodities shows that cotton has a negative growth rate of -0.98 percent (calculated as Compound Annual Growth Rate). It simply substantiates the findings of the Table 4.52 that there is a declining trend in the export of cotton on aggregate basis to major countries of EU. Tables 4.40, 4.41 and 4.44 pertaining to exports to Germany, Italy and UK representing also corroborate the negative growth trend of cotton. As in all these countries, Indian cotton exports have consistently declined over the last few years.

**Engineering Goods**

Engineering goods including electrical machinery is one of important category of exports falling in the non-traditional export list. Of late, Indian Engineering goods particularly electrical appliances are finding an emerging market in the EU. The export of engineering goods including electrical machinery valued was 2.79 percent of total exports to EU Major Countries in 2000-01, valued at Rs. 1291.30 crores. Table 4.52 further narrates that the export in this category grew faster over the years, particularly from the year 2002-03 when its total value was Rs. 1853.93 crores representing 4.62 percent of total export trade executed during that year. Looking at the country-wise break up of exports of this category of goods, we observe from Tables 4.40, 4.44, 4.42 that Germany, UK and Italy in chronological order, are major export destinations of engineering goods from India. Exports to Germany in this category rose from Rs. 104.09 crores in 1996-97 to Rs. 724.68 crores in 2004-05 in which year it represented 5.73 percent of total exports to Germany (Table 4.40). The exports to UK as revealed by Table 4.44 show that exports have been quite erratic in
this category. In the year 1996-97, India exported engineering goods worth Rs. 416.14 crores which dropped sharply in the next two years (Rs. 187.16 crores and Rs. 190.93 crores in 1997-98 and 1998-99). After that, we, however, observe a growing trend in exports of engineering goods, to UK. The value of exported engineering goods to UK in 2004-05 was Rs. 653.58 crores representing 4.13 percent of total exports to UK that year. The regression analysis computed in Table 4.54 shows that this category of products has a promise of growth in exports as the Compound Annual Growth Rate (CAGR) for this product is 24.60 percent ($R^2 = 78.6$ percent) signifying therein that there is tremendous export potential for this product category.

**Organic Chemicals**

The EU is also an important export destination for organic chemicals materials and its products. Around 25 percent of total global exports of this group from India was sent to EU (in the yearly 1990s). Table 4.52 exhibits that the total exports of organic chemicals to major trading countries of EU was Rs. 1863.33 crores in 2000-01 which was more than 4 percent of total exports to all seven countries. The exports in this category went on increasing and in the year 2004-05, the total exports of organic chemicals was Rs. 2983.91 crores representing more than 10 percent of total exports in that year.

Browsing through the tables pertaining to country-wise break-up share of exports of each commodity group, we observe that the maximum exports of this group of materials have gone to Germany, followed by Spain, Italy, Netherlands, UK, Belgium and France. The value of exports of this item, to Germany was Rs. 1046.10 crores in 2004-05 constituting more than 8 percent of total exports to Germany in that year (Table 4.40). The requirement of Germany for chemicals is ever increasing as Germany has a strong pharmaceutical industry base renowned throughout the world. India, therefore, should always respond to Germany’s requirements and keep Germany always on the priority list so far as export of chemicals is concerned. Spain and Italy are the other two destination countries for export of chemicals from India. Rs. 438.31 crores worth of chemicals were exported to Spain and Rs. 373.98 crores worth of chemicals were exported to Italy in 2004-05. The regression analysis for organic chemicals exported to seven major countries in
the EU show that the Compound Annual Growth Rate (CAGR) for chemicals is poised at 15.52% ($R^2 = 92.8\%$). This shows that there is good prospects of export growth in this category of materials.

Fish and Other Aquatic Invertebrates (Marine products)

The Union’s imports of fish, ocean crusts and molluses from India has increased over the years. In a period of five years from 2000-01 to 2004-05, the exports have grown 11.38 percent. In 2000-01, the exports of marine products were of the value of Rs. 913.06 crores which increased to Rs. 1017.01 crores in 1004-05 representing 1.46% of total exports to major export destinations of EU (Table 4.52).

The country-wise break-up of exports of marine products reveals that England has been the highest importer of Indian marine products followed by Belgium and Italy. The share of England in this category was to the tune of Rs. 333.80 crores in 2004-05 (Table 4.44), Belgium’s share was to the tune of 315.65 crores (Table 4.38) and Italy’s share was to the extent of Rs. 119.44 crores (Table 3.41). Exports to other countries like Germany, France, Spain and Netherlands are very minimal. India’s major item in this group is frozen shrimps. The competition for India comes mainly from China, Indonesia, Thailand, Bangladesh, Cuba and Tunisia besides ACP countries which enjoy better tariff rates. Indian shrimps are subject to sanitary and phyto-sanitary standards in the EU (Mathur, 1999). As such Indian exporters should meet the criteria of requirements clearly before exporting. They should adhere to the proper use of preservatives, proper colour specification etc. In this sensitive commodity group, India has a severe competition with ACP countries particularly in view of the fact that they enjoy relaxed tariffs from EU under Lome Conventions through financial support for development and exploitation of fishery resources for higher processing and for stabilization of export earnings. Besides, the EU countries, can, by agreement, operate their fishing vessels in ACP waters.

To focus and develop this sector, the Indian industry should consider: (1) the uniform and stricter implementation of health regulations, and packaging and labeling laws throughout the Union (2) increased competition from third world countries including ACP countries (3) the major sea food companies in the Union joining hands through mergers and acquisitions for large scale operations (4) the
limitations faced by India due to concentration of its supplies in one product group
namely, shrimps. Regression analysis was run in Table 4.54 where we find that the
growth as determined by CAGR for this product category is 13.76% (R² = 66.2%),
which spells out a good growth prospects of exports of this commodity group.

**Carpet and other Floor Coverings**

This product category is one of the important exports in the traditional items of
India's export basket. The exports of this product category to major trading
categories of EU including UK, Germany, Italy, Belgium, France, Netherlands and
Spain was of the value of Rs. 978.01 crores representing 2.24 percent of the total
export trade transacted between India and EU major countries in the year 2000-01.
The exports of this commodity group rose to Rs. 1175.01 crores in 2004-05
representing 3.71 percent of total exports to EU major partners (Table 4.52).

The cross country export analysis of carpet and other floor coverings reveal
that among the seven major trading partners of EU, Germany has topped the list as
being number one export destination for Indian carpets throughout the period from
1996-97 to 2004-05 followed by Great Britain. In the year 1996-97, the export value
of carpets and other floor coverings to Germany was Rs. 627.25 crores representing
9.33% of the total exports to Germany in that year. However, following a non-tariff
barrier levied by Germany in the year 1997 that Indian carpets cannot be accepted in
Germany as child labour is involved in its making, the exports of this commodity
showed a steep fall as is revealed in the Table 4.40. It is observed that from 1997-98,
the exports to Germany came down significantly from Rs. 627.25 crores to 517.41
crores, Rs. 431.20 crores in 2001-02 and Rs. 411.20 crores in 2002-03. In 2004-05,
however, the figures attained some respectability registering an increase of 28.55%
over the 2002-03 exports of this category of products (Table 4.40). On the
comparison, the exports of carpet and other floor coverings to the second highest
destination i.e. UK is on the increase. Table 4.44 bears testimony to this fact. From a
small figure of Rs. 101.09 crores in 1996-97, the exports rose to 266.05 crores
registering a percentage growth of 163.18 percent over a period of nine years. And
exports have increased with every passing year as is revealed in the Table 4.44.
The regression analysis was done for this product category as is revealed in Table 4.54. The product category has a growth rate of only 1.19% which bears testimony to the fact that the non-tariff barrier levied by Germany has been quite detrimental for the export growth of this product range. Germany being the central market for Indian carpets and Germany's city Frankfurt has been the hub of carpet market throughout Europe.

**Iron and steel and Articles thereof**

One of the important items in the export basket of India has been Iron and Steel and its articles thereof. Table 4.52 reveals that the exports to the EU in this segment have rapidly increased. As we look at the table, we find that the value of exports of articles under this category are Rs. 1475.74 crores which account for 3.38 percent of the total export trade transacted with the major countries of the EU. Over the years it has increased speedily. From a figure of Rs. 1475.74 crores in 2000-01, it reached to Rs. 6204.84 in 2004-05, representing 8.95 percent of total export trade executed between India and the major trading countries of the EU including UK, Germany, France, Italy, Netherlands, Belgium and Spain.

A cross country analysis into the export pattern of the Iron & Steel items reveals that UK has been the largest destination of Iron and Steel products from India followed by Germany and Italy. Iron and Steel exports to UK was Rs. 226.66 crores in 1996-97 which steadily rose to Rs. 842.51 crores representing 5.33 percent of total exports to UK in 2004-05 marking a percentage increase of 271 percent over a period of nine years (Table 4.44). Exports to Germany have also been on continuous increase right from 1996-97 to 2004-05. The value of exports of iron and steel products to Germany in the year 1996-97 was Rs. 136.52 crores which hiked to 669.55 crores in the year 2004-05, registering a spiral increase of 569 percent over a period of nine years. The share of iron and steel in Germany’s imports from India in 2004-05 was 5.30 percent. Similarly the exports of Iron and Steel to Italy is also on the upbeat, with a paltry export figure of Rs. 70.57 crores in 1996-97 to as high as Rs. 1487.61 crores in 2004-05 marking a significant increase of 1387 percent over a period of nine years. The regression analysis done in Table 4.54 reveals that the export growth rate of this category of products is 24.60( R² being 78.6 percent) signifying therein that the export rate in this commodity group is very high.
Therefore, Indian exporters should focus on this commodity group to yield maximum advantage from such exports.

\[ \log y = 3.17 + 0.0921x \]

**Plastics and its articles thereof**

Export of plastics and its articles thereof show an increasing trend over the years. The value of exports in this category rose from Rs. 513.14 crores in 1996-97 to Rs. 1273.29 crores in 2004-05 registering an increase of 148 percent increase over the intervening period. Table 4.52 reveals that each year there has been a rapid increase in the export of this group of products to the major trading partners of the EU. Table 4.42 exhibits that England been the largest recipient of this product category. The exports to England have been on the rise particularly from the year 2000-01 onwards. The value of such exports was 110.37 crores in 2000-01 which reached to Rs. 251.82 crores in the year 2004-05 registering an increase of 151.82 percent over a period of five years. Italy has been the second largest export target as revealed by Table 4.41, the exports to Italy in the year 1996-97 was just Rs. 49.80 crores which stepped up gradually in the following years and reached to Rs. 218.09 crores in 2004-05 representing 2.22 percent of total exports to Italy in that year. The other countries i.e. Germany, Belgium, France, Spain and Belgium account for a minuscule share in this category of products. The Regression Table 4.54 shows that the products under this category have a growth of 15.63 percent calculated as Compound Annual Growth Rate (CAGR) with \( R^2 = 84.9 \) percent. The CAGR at 15.63 percent signifies that exports of plastics to the seven major trading partners of the EU are increasing at a good rate with coefficient of determination at around 85%.

\[ \log y = 2.73 + 0.0631x \]

India has excellent export prospects in this category of products. However, due care has to be taken with regard to the standardization, certification and phyto-sanitary measures to ensure hassle free entry into the large EU market.

The above mentioned product categories account for more than 65 percent of total exports from India to major trading partners of EU in the year 2004-05. As stated earlier the major trading partners comprising of UK, Germany, France, Italy,
Belgium, Netherlands and Spain account for about 90 percent of export trade with the all EU member countries.

**India’s Imports**

India imports a wide range of products from the leading trading partners of the EU. The following products imported from the EU in 2004-05 have the maximum value weightage in order of their placement in the year 2004-05:

- Gems and Jewellery
- Nuclear Reactors
- Engineering goods
- Aircraft, spacecraft and their parts
- Organic chemicals
- Optical, surgical instruments
- Capital goods

These product categories in aggregate account for 81 percent of the imports from these countries, in 2004-05 (Table 4.53). The import trade with these leading trading partners covers about 90 percent of total import trade with all 25 EU member countries. The rest 10 percent trade is executed with other 18 member states.

Analysing further the Table 4.53, it is seen that Gems and Jewellery account for the maximum share in the imports ranging from 49.46 percent in 2000-01 to 36.49 percent in 2004-05. The imports on account of nuclear reactors was Rs. 5437.83 crores representing 12.21 percent of total imports from those leading trading partners. The share of imports on this has increased to Rs. 12068.66 crores in 2004-05 with a percentage share of 16.49 percent in the total imports from those countries. However, the share of capital goods in the imports from leading partners from EU is ever on the decline with a share of 3.48 percent in 2000-01, it has fallen to 1.84 percent by the end of 2004-05. The fall in the imports of capital goods is purely attributed to the robust industrialisation base the country has laid over the years. However, the import of commodity groups like the Iron & steel imports are on the rise. The imports of Iron and Steel were Rs. 1626.31 crores in the year 2000-01 with
a share of 4.65 percent. The imports have hiked to Rs. 4101.41 crores marking a
growth of 152 percent over a period of five years.

New Member countries of EU (January 1st, 1995)

The trade deficit was Rs. 2068 crores in 1991-92, when EU comprised of 12 member
countries, if the new member countries were a part of EU in 1992 and 1993, trade
deficit would have been Rs. 2309.3 crores in 1991-92 and Rs. 4289.3 crores in 1992-
93. In other words, deficit would have increased by 11.65 percent in 1991-92 and by
7.97 percent in 1992-93. The reason for a rise in deficit can be attributed to a steeper
rise in imports than exports. Imports after the entry of new members would have
risen by 5.3 percent as against exports which would have increased by 4.88 percent
with the entry of new members, whereas exports would have risen by 4 percent only
leading, thereby, to an increase in trade deficit by 7.9 percent.

On the basis of above analysis, it can be predicted that unless India’s exports
to Sweden, Finland and Austria increase substantially in coming years, these
member countries will remain marginal partners only. Trade deficit can be bridged
to a considerable extent in future only if exports are increased and imports reduced
substantially.

Hence, our conclusions will not be seriously affected even with the inclusion
of these new member countries in the EU in 1995.

Entry of 10 more countries to the EU: Their Impact on India’s Foreign Trade

On 1st of May, 2005 ten more countries were admitted to the EU. These countries
included Estonia, Latvia, Lithuania, Cyprus, Malta, Poland, Czech Republic, Slovak
Republic, and Portugal. Thus, on date the EU membership came upto 25. What
would have been the impact on India’s foreign trade with EU had these countries
joined earlier? To examine these phenomena, an analysis has been made to see the
impact of their entry into the EU vis-à-vis India’s foreign trade with EU and the
same is made available as hereunder:
Table- 4A
Impact on Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>India's Exports to EU -15 (Rs.Crores)</th>
<th>India's Exports to EU -15 (Rs.Crores)</th>
<th>India's Exports to World (Rs.Crores)</th>
<th>Percentage share of EU -15 of India's World Exports (2/4*100)</th>
<th>Percentage share of EU -25 of India's World Exports (3/4 *100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2000-01</td>
<td>47,560.96</td>
<td>48,747.25</td>
<td>2,03,571</td>
<td>23.36</td>
<td>23.94</td>
</tr>
<tr>
<td>2001-02</td>
<td>46,956.59</td>
<td>48,341.97</td>
<td>2,09,180</td>
<td>23.06</td>
<td>23.11</td>
</tr>
<tr>
<td>2002-03</td>
<td>55,753.32</td>
<td>57,338.10</td>
<td>2,55,137</td>
<td>21.85</td>
<td>22.47</td>
</tr>
<tr>
<td>2003-04</td>
<td>63,853.03</td>
<td>66,370.13</td>
<td>2,93,367</td>
<td>21.76</td>
<td>22.62</td>
</tr>
<tr>
<td>2004-05</td>
<td>75,370.53</td>
<td>77,862.04</td>
<td>3,61,879</td>
<td>20.82</td>
<td>21.51</td>
</tr>
</tbody>
</table>

A look at the above table suggests that if the Ten Countries would have joined earlier, say in the year 2000, then the share of India's exports to EU would have been 23.94% of India's world exports instead of 23.36%, making a miniscule difference of 0.58%. Similarly, had these countries joined in 2001, the share of India's exports would have risen by a negligible 0.05%. Thus, as we observe we do not find much difference in India's trade with 25 member country EU and 15 member country EU so far as exports are concerned. Therefore, it can be deduced that export trade with the newly admitted countries into EU has been quite negligible.

Table-4B
Impact on Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>India's Imports to EU -15 (Rs.Crores)</th>
<th>India's Imports to EU -15 (Rs.Crores)</th>
<th>India's Imports to World (Rs.Crores)</th>
<th>Percentage share of EU -15 of India's World Imports (2/4*100)</th>
<th>Percentage share of EU -25 of India's World Imports (3/4 *100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>2000-01</td>
<td>48115.46</td>
<td>48609.59</td>
<td>230873</td>
<td>20.84</td>
<td>21.05</td>
</tr>
<tr>
<td>2001-02</td>
<td>49773.86</td>
<td>50478.22</td>
<td>245199</td>
<td>20.29</td>
<td>20.58</td>
</tr>
<tr>
<td>2002-03</td>
<td>60695.98</td>
<td>61851.24</td>
<td>297206</td>
<td>20.42</td>
<td>20.81</td>
</tr>
<tr>
<td>2003-04</td>
<td>67227.13</td>
<td>68889.29</td>
<td>359107</td>
<td>18.72</td>
<td>19.18</td>
</tr>
<tr>
<td>2004-05</td>
<td>82236.03</td>
<td>84093.31</td>
<td>490531</td>
<td>16.76</td>
<td>17.14</td>
</tr>
</tbody>
</table>
The above table puts forth an important inference regarding the insignificant trade with the newly admitted ten member countries into the EU. India’s trade with these countries has been all through miniscule and had these countries been in the EU earlier, say in the year 2000, it would not have affected the India’s imports to a great extent. As we observe, India’s trade with EU – 25 would have been 21.05 % of India’s World trade as compared with 20.84% in 2000-01, with EU –15. Thus a difference of less than a quarter percent would have been there, had these countries been in the bloc earlier in 2000. Testifying further, we again observe that there would have been an increase of 0.46% in import trade of India with EU–25, had these countries joined earlier, which is quite insignificant.

Thus from the above, it is logically deduced that there would have been a miniscule upsurge in trade with EU both in imports as well as in exports, had these Ten new member countries joined earlier. In other words it can be said that India’s trade with these new member countries is insignificant and abysmally low and unless India makes strong inroads in these new markets, trade with these countries will have no significant bearing on India’s foreign trade.

Summary

The history of India’s trading relations can be traced out from the pre-Christian times. However, trading relations with the EU is almost as old as the EU itself. India formalised its trading relations with the EU in 1963 as has been discussed in detail in chapter –III.

India has an ever widening trade deficit with the EU. India’s exports could never equalize imports from the EU and India’s share in the EU’s trade is very insignificant. It does not even come up to one percent of EU total trade with the rest of the world. Although, the Union is a conglomerate of 25 countries (now 27 with the annexation of Romania and Bulgaria), yet on the basis of Judgmental sampling we have observed that about 90 percent of India’s trade is confined to only seven countries of Western Europe viz., Great Britain, Germany, Belgium, France, Italy, Netherlands and Spain. Excepting Netherlands and Spain, India has trade deficit with the other five major trading partners of the EU. The other 18 countries have insignificant trade with India but, nonetheless, these are potential
new markets for India in future. An exponential trend analysis was conducted with the objective to monitor growth rates of exports and imports vis-à-vis these seven major trading partners. As revealed by the analysis India’s exports to Great Britain are growing at Compound Annual Growth Rate (CAGR) of 9% while imports from Great Britain have registered a CAGR 5.47%. In case of Germany, the CAGR of India’s exports is 6.68% while imports from Germany are growing at 8%. The analysis further revealed that trade with Belgium, which is mainly confined to pearls and precious stones, has been all along growing. Exports to Belgium have a CAGR of 9.49% while imports from Belgium are growing at 7.45%. Similarly export growth with France has been at a CAGR of 10.78% while imports from France are growing at 12.59%. Italy has been an import export destination for leather and leather articles. The exports to Italy have registered an exponential growth trend of 10.71% while imports from Italy have been growing at Compound Annual Growth Rate of 5.10%. The trade with other two countries i.e., Netherlands and Spain with which India has trade surplus, is also growing. The exports to Netherlands are growing at more than 10% while imports are growing at more than 6%. Similarly the exports to Spain are growing at a double digit level of 16.47% while imports from Spain are growing at 10.27%.

In order to gauge the composition pattern of trade with these seven major trading partners, again an exponential trend analysis was conducted to examine the growth rates of the major commodity groups which are exported to these countries. In this connection twenty four commodity groups were selected (table 4.54). The commodity groups were selected on the bases of Harmonised System of Commodities adopted world wide. The selection of the commodity groups was done on ‘value’ bases attached to each commodity group (not on ‘quantity’). During the analysis, it was found that Readymade garments, Gems and Jewellery, Fish and Other Aquatic invertebrates, Plastics and articles thereof, articles of Stone, Plaster, cement, mica etc., Footwear and other miscellaneous goods have posted an export growth rate of (computed as CAGR) more than 10%. While imports of other commodity groups are growing at a very high speed like Iron and Steel (23.60%), Engineering Goods (23.09%), Nuclear reactors, boilers (19.21%), Rubber and articles of rubber (26.43%). The other commodity groups like Leather
and Leather articles; Staple fibers; Edible vegetables and fruits, Tanning and dyeing extracts, Pharmaceutical Products; Cereals; and Carpet and other Floor Coverings have a compound growth rate of less than 7%. The Carpets and other Floor coverings, once a high growth export commodity group, has now been registering a low export growth. As per the analysis the CAGR of this commodity group is just 1.19%.

The commodity imports from Major Trading partners have also been gauged with the help of exponential growth trend. However, here the sixteen commodity groups were selected for the purposes of analysis. The Compound Annual Growth Rate of the commodities exported to seven major trading countries of the EU has been 11.30% whereas the CAGR of imports from these countries has been recorded at 8.91%. With this result in view which is characterised with high export growth and low import growth one can be optimistic that in future we can expect par terms of trade if not surplus trade with these major countries of EU.

Towards the end of chapter an analysis was done with regard to what would have been the impact on India’s trade volumes if the ten countries who joined on 1st May 2005 would have joined in earlier in 2000-01.

The observations and conclusions with regard to what has been analysed and interpreted in the current chapter in the light of the objectives of the study already set forth using the required data for the purpose and other relevant informative materials necessary for the conduct of such study, the succeeding culminating chapter features the ‘conclusions, suggestions and policy implications’.