Chapter- V

Conclusions, Suggestions and Policy Implications
The present chapter, the penultimate one (of the present study), summarises the main findings of the study followed by conclusions and lastly suggestions are put forth for the purposes of finding place in the policy implication programme at different levels of implementation hierarchies across all administrative machinery of foreign trade development in the country. The conclusions drawn and the suggestions offered are with specific reference to the India-EU trade relations.

The erstwhile Import-Export Control Act of 1947 had all its impetus on the import substitution and therefore could not do anything towards export promotion till the beginning of early nineties when in 1992, the Foreign Trade (Regulation and Development) Act was passed. This was in tune with the changing scenario of the Indian business environment as the country had decided to take on the path of liberalisation. This new legal enactment in foreign trade domain was a part of the larger new regulatory framework that was being put in place to catch hold of the benefits of liberalisation programme and also to integrate Indian economy with the global economy to fall in line with the globalisation process as fostered by WTO.

India’s foreign trade share has been less than 1% which is far below for a country with such a huge potential. Realising that there is a positive correlation between foreign trade and economic growth, India has been now putting special stress, on the promotion of exports through its encompassing, well defined and well-structured five year foreign trade policies in vogue from 1992 onwards. There are a plethora of export incentive schemes in place to foster more exports. India has been trying to change the composition of its exports as well as imports and it has been successful in this purpose. India’s export composition basket comprises more of finished (value added) commodities than when it used to export only
primary agriculture commodities in the last four decades before 1990s. Similarly, composition of Imports has also undergone a metamorphical change. We are now importing more input raw material and primary goods than we used to do during the early decades after independence. Alongside, the compositional change in both imports and exports as affected lately, there has been a drastic change in the direction of imports as well as exports. Earlier, as we are aware of, India’s export trade was mainly confined to Great Britain. Around 27% of India’s exports were directed to Great Britain alone in 1960-61 and India’s exports were then being re-exported to other countries of Western Europe during that era.

While taking a cursory look at the directional changes of India’s exports which have taken place in the four and a half decades that have gone by, we find that the direction of exports to Asia has increased four times (6.9% to 27.7%) in 2003-04 whereas there has been a drop of more than 20% in the share of India’s exports to the OECD group of countries during the same period. The OECD group of countries which comprise of advanced countries of Europe and America and whose populace has a better per capita income than any other group of countries are always a better proposition of destination for all exporting countries. Why has India’s trade fallen to abysmally low levels with these countries is a big conundrum to be addressed to? The western European Countries like U.K., Germany, France, Italy, Netherlands, Spain, Belgium etc., are dwelled by advanced societies with the second highest GNP after USA and people of these societies are characterised with high consumption pattern. In such a promising scenario why India’s exports has fallen too low with these countries, is again a question of par significance. Today European countries have unionized themselves into a mode of highest integration by forming a Union. The European Union now a cluster of 27 member countries with common economic, social and political objectives and wherein 13 member states have already avowed themselves into a common currency Euro, is both a challenge as well as an opportunity for a country like India. With common external trade policy, trade with the EU, of late, has not been all that easy. Even with so many agreements in place between India and the EU, Indian exporters are finding it difficult to force an easy entry into the EU market. Moreover, how does India cope up with discriminatory approach that springs of as
a result of EU being highly unionized and how does India take a recourse to the fundamental principal of ‘Non-discrimination’ of the WTO vis-à-vis its trade relations with the EU. Under the gamut of these encompassing issues concerning India’s prospects for foreign trade with EU, a study was undertaken with the following basic premises.

**Basic Premises of the study**

- That EU is the single largest trading partner of the EU accounting for one-fifth of India’s foreign trade both in imports as well as in exports

- That due to directional changes in the India’s foreign trade to Asia (particularly east Asia) and Africa, trade with EU has been witnessing a falling scenario over the years

- That EU having come up as an impregnable bloc of 27 countries with common commercial policy, common economic policy, common agricultural policy and uniform external policy, trade with EU has not been all that easy

- That EU comprising of affluent societies of Western Europe will be always a cherished market place for Indian exports and at the same time countries of the eastern Europe, hitherto untapped, offers a huge market potential for Indian exports

Under the purview of the above basic premises and in the light of the objectives of the study set forth in chapter-1, a study was conducted and the following conclusions were drawn.

**Conclusions**

a) **Falling Trade Scenario with the EU**

India’s trade with the EU has been showing a decreasing trend both in exports as well as in imports. Out of the total exports, 26.01% went to the EU in 1993-94 but exports to EU dropped to 21.51% in the year 2004-05. Similarly, on the imports front, we observe a steep fall as well. Imports from the EU constituted one-third of the total imports from the rest of the
world in 1993-94 which fell to as low as 17.14% in 2004-05. The falling trade scenario with the EU leads to the conclusion that our exporters are finding it difficult to penetrate the EU market under the restrictions which spring of from the entry barriers imposed by the EU laws. Correspondingly, we also observe a steep rise in exports to Asian countries during the same period (Table 4.59). This is purely because of the geographical thrust on Asia as given by the foreign trade machinery and the new slogan called “Look East” has now been in place for a pretty long time.

b) **India’s miniscule Share in EU’s Foreign Trade**

India’s share in the EU’s trade is very insignificant. India’s share in the EU’s total exports has been hovering around 0.38 percent to 0.52 percent. Similarly India’s share in EU’s total imports has been ranging between 0.42 percent to 0.46 percent. Nevertheless, India’s share in the total trade of the EU has been less than one percent which is quite less for a huge country like India with a lot of foreign trade potential.

c) **India’s widening trade deficit scenario with EU**

India has been facing a trade deficit with the EU. The trade deficit which rose from Rs. 67.39 crores in 1973-74 to Rs. 2207.53 crores in 1983-84 and the trade deficit hiked to Rs.6231.27 crores. This widening trade deficit bears testimony to the fact that India’s exports to EU has been coming down hugely while as conversely India’s imports from EU have been mounting. India’s overall trade is also in the deficit but that is purely on account of huge imports of POL from the OPEC countries. However, there is not a single country in the EU which exports petroleum to India. As such, India’s trade deficit with the EU is squarely because of more imports of goods from the EU than exports to the EU.

d) **Trade with Major Trading Partners of EU (Seven Major EU Countries sharing around 90% of the India’s foreign trade with the EU)**

Tracking down India’s trade relations with EU, a two-tier analysis comprising of trade growth with the member countries of EU and secondly commodity export and import growth rates was conducted to gauge which
commodities have been showing a growing trend in exports, which commodities are stagnant in growth and which are having negative growth trends. During the process of analyzing the growth pattern with EU member countries, it was found that more than 90 percent of India’s foreign trade with the EU member countries is confined to seven major trading partners viz., U.K., Germany, France, Italy, Belgium, Netherlands and Spain. Taking 2004-05 as the latest year for analyzing the respective share of EU major countries, we observe that Great Britain shares 20.27% of total exports to EU, Germany shares 15.43%, Belgium 14.50%, Italy 12.58%, France 9.28%, Netherlands 8.85% and Spain 7.65%. Together these seven countries account for about 89% of the total exports to EU 25 countries.

Just as these seven major EU countries share about 90% of the export trade of India to the EU so do they also account for almost the same percentage of trade in so far as imports from EU are concerned. Checking on the same analogy we find that these seven countries dominate the imports from EU to India. However here instead of U.K., it is Belgium which leads the group of seven. The share of Belgium in the total imports from EU is 23.97%, the Share of Germany is 20.79%, that of U.K., comes to 18.69%, 9.92% of total of EU imports comes from France, 7.08% comes from Italy, Netherlands shares 4.09 % and Spain shares 1.99 %in the year 2004-05.

e) **Trade with other EU member countries**

As we conclude the analysis, we can safely deduce that apart from the seven/eight countries with whom around 90% of the foreign trade is transacted, there are other countries in the Union like Finland, Denmark, Portugal, Austria, Greece, and Ireland which show a lot of promise.

f) **Trade with Eastern European Countries**

It was further observed during the analysis that the rest of the EU member countries like Greece, Luxembourg, Latvia, Lithuania, Malta, Sweden, Estonia, Cyprus, Hungary, Poland, Slovak Republic, Slovenia, Finland, and Czech Republic are insignificant trade partners of India. But nonetheless
these countries offer an unprecedented market opportunity for Indian merchandise.

**Major Commodity Exports to EU**

After analysing the growth pattern of trade with the EU countries, an attempt was made to gauge the growth rates of different commodities as were exported to the EU major countries during the reference period under the study. In this regard, twenty four commodity groups were classified using 2-digit ITC-HS Code. These were: Readymade Garments; Leather, Leather manufacturers and footwear; Gems and Jewellery; Coffee, Tea, Mate and Spices; Cotton and its manufacturers; 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; Manmade Staple fibers and filaments, Tobacco and tobacco substances; Salt, Sulphur, earths and stones; Nuclear Reactors, Boilers; Articles of Stone Plaster and Cement, Mica; Edible Vegetables & edible fruits and nuts; Tanning and Dyeing extracts; Pharmaceutical products; Cereals, Inorganic chemicals; Rubber and articles of rubber; and Miscellaneous Group.

**Growth Patterns of Export Commodity Groups to EU**

Using exponential trend values the growth rates for all the twenty four commodity groups identified were taken to examine which commodity group is showing more growth in exports and which commodity group is non-moving and which commodity group is showing negative growth in exports. However, given the paucity of time, the interpretation of the results as obtained in the table 4.54 has been done only in case of eleven commodity groups which are forming the major chunk of the export basket of India.

**g) Readymade Garments**

It was found that England in the EU market is the major destination of readymade garments absorbing one-fifth of India's total exports to EU. In the last year of the study period, Paris the fashion city of the world has recorded the maximum of the imports of Indian garments. In fact, in this year i.e., 2004-05, France's imports of garments from India has accounted for 34.12% of total exports from India to EU. Thus, U.K., followed by
Germany, Italy, Spain, etc., (in that order) forms the market for Indian garments in the EU. This commodity group is having a compound growth rate of 12.08% with co-efficient of determination as 98.58%.

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**Leather, Leather Manufacturers and Footwear**

The export growth prospects of the Leather and its manufacturers calculated through exponential trend values comes to 4.80% while as the compound annual growth rate of footwear is 15.36%. Thus we may conclude that although leather and its manufacturers do not entail a good growth prospects but the export growth potential of footwear is quite brighter.

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**Gems and Jewellery**

Gems and Jewellery is another important export category represented by pearls, precious and semi-precious stones and diamonds. Belgium is the single largest export destination of cut and finished items of pearls and diamonds followed by U.K., Germany, Italy, France and Spain. But the imports of gems and jewellery from Belgium are also very large and after the artisans of India have worked over them are sent to different countries in Europe like England etc.

The exponential growth rate for this commodity group is 11.31% with co-efficient of determination \((R^2 = 93.75\%)\)

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**Export Analysis of Agro-based products**

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

The EU is entirely dependent on the import of these commodities from the third world countries. However, the competition for India comes mostly from Kenya and some other ACP countries, which have stepped up their exports of all the three items in the recent years. As already narrated the ACP countries are enjoying special benefits from EU under its GSP scheme of tariff modulations. Competition comes from Brazil for coffee, Sri Lanka and Indonesia for tea and Malaysia, Indonesia and Brazil for pepper.
The export growth prospects calculated with the help of regression analysis comes to just 1.36% (CAGR). This signifies that the export growth prospects for all the three commodities have gone grim.

**k) Engineering Goods**

Engineering goods including electrical machinery falls in the non-traditional list of Indian exports. Of late, Indian Engineering goods particularly electrical appliances are finding an attractive market in the EU.

India should put a heavy stress on the exports of engineering goods and should entail some export incentive schemes for exporting engineering goods because the growth prospects for this commodity group are quite bright. As per the exponential growth trend, it has registered a compound annual growth of 23.60%.

**l) Organic Chemicals**

Germany is an important destination for organic chemicals followed by Spain, Italy, Netherlands, U.K., Belgium and France.

The analysis revealed that there is compound annual growth rate of more that 15% (\(R^2 = 92.8\)) exhibiting thereby that the export prospects of this commodity group is quite bright and India should focus more and more on this commodity group to ensure that more and more exports take place in this commodity group.

**m) Fish and Other Aquatic Invertebrates (Marine Products)**

Over the years the imports of fish, ocean crusts and molluses from India into EU have increased. England, followed by Germany, France, Spain and Netherlands (in that order) are the major destinations of Indian marine products. This commodity group is a SPS sensitive and as such India should adhere to proper usage of preservatives, colour specifications etc. to ward off any chance of levying NTB by any EU member country. Moreover, India has a tough competition from ACP countries which are enjoying n laxed tariffs from EU under Lome Conventions through financial support for development and exploitation
of fishery resources for higher processing and stabilization of export earnings. Besides, the EU countries can operate their fishing vessels in ACP waters.

Even under the brunt of severe competition from ACP countries the export growth rate calculated with the help of regression analysis, we have observed that CAGR at 13.76% which spells itself that this commodity group has a tremendous potential for export growth in the EU market.

n) **The other exports of India into EU member countries are Carpets and Other Floor coverings; Iron and Steel and Articles thereof; and Plastics and its Articles thereof.**

Export of Carpets and Other Floor coverings is an important commodity group and forms a vital part in the export basket of India. Although, the export growth of carpets and other floor coverings is not so optimistic, yet this commodity group has always created a niche for India in the foreign market. Similarly, Iron and Steel and articles thereof has over the years turned out to be a major export group of commodities and in fact in the last few years it has assumed an important commodity group by accounting for about 9% of the total exports transacted to EU in the year 2004-05 with the value of exports reaching as high as Rs. 6204 crores. The compound annual growth rate for this commodity group is about 24% which is quite encouraging. Likewise the export of Plastics and its Articles thereof has also assumed importance in the recent past. However, this commodity group is subject to Sanitary and Phyto-sanitary measures and therefore the exporters of these commodities have to be extra careful. The export growth prospects of this commodity group as calculated with help of regression equation is more than 15% which is quite satisfactory.

o) **Commodity Imports from EU member countries**

India imports a wide range of products from the major trading partners of the EU. The following products imported from EU have the maximum value weightage in that order. These are: Gems and Jewellery; Nuclear Reactors; Engineering goods; Aircraft, Spacecraft and their parts, Organic Chemicals; Optical and Surgical Instruments; and Capital goods.
Gems and Jewellery has been an important import commodity group accounting for about 37% of total imports in 2004-05. The heavy import of gems and jewellery is not an area of worry rather it is a matter of pleasure for having exorbitant import of gems and jewellery as the feature of these commodities is in the nature of primary goods and after working over them they are re-exported to the outer world and interestingly to these EU major countries. With regard to the import of Nuclear Reactors which account for about 17% of the total imports from the EU, India should try to minimize its import and should try to build up capabilities to produce the nuclear reactors within the country as indigenous replacements. The import of capital goods has undergone a massive metamorphical change. As we are aware that during the first few decades after independence, the country was desperately dependent on import of capital goods machinery. However, over the years, with the broad based industrialisation now in place in India, the import share of capital goods has always been dwindling.

p) **Annexing of 10 more countries: Their impact on India’s Foreign Trade**

Ten more countries were annexed to the EU on 1st May 2005 bringing the total number of country membership to 25. These countries are Estonia, Latvia, Lithuania, Cyprus, Malta, Poland, Czech Republic, Slovak Republic, Slovenia and Hungary. To examine whether joining the EU a few years earlier by these countries would have made some impact on the Indo-EU trade. It was found that it would have hardly made any difference. The share of India’s exports to EU would have been 23.94% of the world exports by India instead of 23.36%, making a minuscule difference of 0.58%. This is so because these ten countries are insignificant partners of India and their becoming a part of EU has hardly made an indelible impression on India’s foreign trade.

q) **India-EU Trade Agreements: A complete structure for fostering trade**

The success of foreign trade is deeply rooted in the trade agreements between the contracting countries. The effecting of trade agreements is itself dependent on the harmonious political relations between the desiring
countries. Indo-EU foreign trade is basically an outcome of long series of trade agreements effected through the help of decades of mutual trust and understanding. With its humble beginning in 1964 by formalizing relationship with the then EU ‘Six’ and deputing its ambassador to Brussels, Belgium, India EU trade relations have come a long way through and finally culminated and christened into a Summit level meeting from the year 2000 at Lisbon. The agreement known as ‘Strategic partnership’ is an all encompassing agreement. Presently there is complete structure of trade agreements in place between India and the EU aimed to enhance trade between themselves.

Apart from the trade relations based on the mutual trust and understanding the EU and India have been sharing common opinions on a number of issues of international significance. Their political ideologies are almost similar. Both the EU and India nourish and cherish democracies and have an excellent human rights record except for India in one state i.e., Kashmir where India is said to have unleashed terror on the people seeking self-determination. In view of a host of similarities existing between the EU and India, there is every possibility that trade between the two could be furthered easily.

Suggestions and Policy implications
In view of the conclusions drawn based on analytical, empirical and descriptive analysis of various variables relating to the study and which have been put forth in the foregoing pages, the suggestions are recommended to be implemented at the different levels of administrative hierarchies.

Triple-pronged Strategy
As a matter systematic approach the suggestions have been put forth as a tri-dimensional strategy. This triple-pronged strategy would entail (a) Firm-specific strategy (b) Industry-Specific strategy and (c) Country-Specific strategy

Firm-Specific Strategy
Michael Porter, the guru of comparative advantage asserts that “it is the firm or company not the country which forges a competitive advantage”. Therefore, the
importance of firm or company in the arena of competition can not be underestimated. The firm-specific strategy vis-à-vis India's trade with EU would revolve around the following:

1. **Establishing an Organic Presence in the European Union**

   An organic and continuous presence in the EU market is indispensable in promoting Indian exports to the EU. As a matter of strong recommendation, India should set up chain outlets in one form or the other in Europe, such as, a marketing office, branch, subsidiary, etc., to enable Indian companies to obtain enormous advantage in terms of access to timely information on market trends and potential customers. This would result in substantially improving Indian competitive strength.

2. **Plug into European Economic Interest Grouping (EEIG)**

   The European regulation provides for the creation of an EEIG which encourages co-operation between businesses across national frontiers in the Union by enabling them to form an informal alliance called an EEIG, for common, non-profit making support activities. Any European business can be a member of an EEIG and this includes European subsidiaries of third country companies. Thus, if an Indian subsidiary company, *albeit* small, shall enable Indian companies to be a part of European corporate culture.

3. **Take Advantage of the European Company Statutes**

   As a result of new law companies created in EU will be known as “European companies”. Companies can be formed either through merger and will be governed by a set of EU law rather than by different national company laws. European public limited company and can now be formed by two or more union based businesses from at least two member states and these would include European subsidiaries of their country subsidiaries. Thus an Indian subsidiary of European country can be a part in the corporate world.
4. **Strengthening Marketing Capability**

Every individual company has to adopt a professional approach to marketing. Indian companies should build tie-ups with European counterparts in the area of marketing. European companies have already started doing so. For example, realizing their own inability to market the product and also knowing that a major Indian toiletries company is not presently catering to the detergent powder segment, Henko detergent powder of a German company was marketed in India by Hindustan Lever Ltd. Therefore, such type of spaces should be searched into by the Indian companies and should also avail the services of global professional bodies rendering services in the area of market surveys and identification of potential business partners and buyers. Globally reputed consultancy firms like McKinsey Consultancy or A.T. Kearney Consultancy are available for conducting relevant market research and Indian corporates should avail their expertise before launching their product or service in the EU market.

5. **Establishing Links with European SME**

In the EU small and medium enterprises (SMEs) are receiving special attention in the progress towards completion of the EU market unification. As such forging tie-ups with the European SMEs is an easier way for Indian companies in getting knowledge of the competitiveness of the European market. The SMEs of the EU boosting on good R&D and marketing resources can be, in particular, beneficial for Indian companies in seeking a penetration of European markets. The SMEs are quite dynamic in terms of technological adaptation and innovation. They also maintain a special type of relationship with customers and suppliers and exercise control over a diverse range of activities. The tie-ups also enable Indian companies to be a partner in the research and technology programmes.

6. **Fix Priority on Quality Assurance and Standards**

The fundamental contention between the EU and the developing countries is the issue of standards. Harmonization of Standards and technical regulations amongst all member countries has been one of the biggest
issues during the single market programme and it has paved a way for “European” Standards, testing and certification procedures leading to enormous cost reductions. However, on the other hand, developing countries have the apprehension of these standards being used as a non-tariff barrier against their products.

With a modest beginning in 1987 as essentially an information exchange programme, the EU-India standards and quality programme has over the years churned into a major co-operation area. The EU-India standards and quality programme is a major component of bilateral co-operation. It includes the modernization of Indian testing laboratories, the setting up of a National Accreditation Scheme to international norms, and the introduction of the education in quality in engineering colleges under the scheme of Harmonisation of Standards. A number of Indian standards have been harmonised with European Standards. From 1995, under the Quality Training, so many government officers have been trained as qualified assessors.

7. India-EU Partenariat

Under India-EU Partenariat, the European Commission organises Euro-Partenariat in Europe every six months. The first EU-ASEAN partenariat was held in Singapore. India has been selected as the next destination. The co-organisers of the event are CII, ASSOCHAM and FICCI and the Council of EU Chamber of Commerce in India. The co-organisers of the event should ensure that the companies they select for participation in the partenariat should create a lasting impression.

From the side of EU, representatives of the 15 member countries visited India. The delegation came to India and had a first hand study of the Indian business scenario. They were apprised of the economic reforms particularly the liberalisation reforms that were initiated in the early 1990s. The government should always ensure that such visits by the high level delegations take place so that they would be apprised and motivated to invest in India.
8. **Availing of official Schemes**

There are a number of official schemes in vogue to promote India-EU trade relations under the purview of India-EU Industrial Co-operation programme. These include Bureau Rapprochement Enterprises, the EC Investment Partners. These existing institutional schemes should be fully exploited by the individual companies to make full use of them.

**Industry-specific Strategy**

An industry association is reckoned as a force that can create fissiparous pressures in comparison to a single industry organisation. Promoting Indian industry in the EU markets is always a costly proposition for an individual company. Thus industry associations like CII (Confederation of Indian Industries), ASSOCHAM or FICCI should take up immediate measures to create a sizeable and visible presence in the EU market. Till now there has not been any concerted effort on the part of Industry associations for taking up joint programme of making Indian industry presence feel in the Union market.

The following strategies at the industry level should be adopted to reap the benefits of having an indelible mark in the European market.

9. **Indian industry associations should create India as Brand in the Union market.**

The already present Indian industry associations should make vigorous efforts jointly to create such an impact in the EU market about Indian produce that every item exported should become a brand itself which shall gradually culminate into India becoming a brand name of quality products with reasonable prices. However, as we know that creating such an image would require a huge promotional exercise involving enormous costs therefore Industry associations from India should focus on conducting Industry exhibitions in the major cities and towns of the EU market. In the meanwhile they should always avail the opportunity of participating in the EU conducted trade fairs which again shall render an opportunity to create India as brand.
10. *Role of Indian Industry towards the promotion of Standards*

Indian Industry associations should start a nationwide campaign for the standardisation of quality. The concept of Total Quality Management (TQM) should widely publicize amongst the industries and Indian firms should be made aware of the benefits of producing to the standards. The Indian companies should extend full support to the government to acquire enabling companies to acquire ISO 9000 standards.

11. *Technology Adoption*

With the coming up of new technology particularly in the area of labour intensive industries, it has become imperative for such industries to quickly adopt the technology so that the quality standards are speedily upgraded which shall result in the better offshore market for such goods. It is worthwhile to mention here India has an extensive base of textile and leather industry and both have carved a niche in the overseas market but adoption of new technology particularly adoption of new designing technology in the field of textile industry is all the more important.

In brief Indian Industry associations have a vital role in promoting Indian industry and its products and thus create a brand image for India as a whole.

**Country – Specific Strategies**

The country specific strategies are typically those that are concerned with the strategies to be taken up at the official level.

12. *Promoting Greater Indian Presence*

Indian presence in the EU has been extremely negligible. The FDI from India is also not of so much magnitude. It is also a fact that Indian industry could not invest in EU because of the foreign exchange restrictions. Indian business class, unlike their counterparts from the developed north, has been subject to capital account convertibility restrictions and they were not in a position to invest in foreign market. But now the things have changed
Indian companies can now partly utilize their funds towards investing the same in any foreign country up to a certain extent.

13. **Need for Pronounced & Visible Presence of Indian Enterprise**

India's image in the foreign trade as an exporter of textile and leather goods has to be replaced and India has to be positioned as a country capable of producing high class sophisticated and engineering and electronics goods. In this connection Indian trade councils and Indian diplomatic missions should do publicity of India as a hub center of engineering and electronics.

14. **Need for Enhanced Role of Embassies**

The Indian Ambassadors Committee report had recommended the upgradation of Economic and Trade sections of the Indian Embassies. This route of upgradation in the already existing system would not only be cost-effective way for monitoring developments in the region as well as participating in the discussions relating to ongoing external policies of the EU.

15. **Creation of Countervailing Lobbies**

The government should create strong countervailing lobbies in different countries of the Union so that whenever there is any Voluntary Export Restraints (VERs) or other Non-Tariff Barriers in any country of the EU, the countervailing lobby would will come with a rebuttal and offset them by timely and fitting action.

16. **Revamping Trading and Export Trading houses**

Trading and export trading houses have to be revamped and reinforce them with the objective to enable them to make concerted efforts in the overall exporting efforts. In this regard these houses should direct their efforts more towards the promising EU market.

17. **EU's Expert Assistance towards Modernization of Laboratories**

Under EU-India standards programme the modernization of Indian laboratories has culminated in the identification of three areas viz., automotive sector, domestic electrical appliances and processed food. It was EU which first advised India to implement a National Accreditation
Scheme for testing and certifying services and products in India. If India has to really take advantage of the uniform EU standards, then Indian companies have to gear up and tighten its domestic quality assurance requirements. Therefore, mandatory quality assurance systems and homologation facilities should be set up for the domestic market as a first step. Companies should be made to produce to standards irrespective of whether it is for the domestic market or for the foreign market.

Other Suggestions

18. Search for new markets within the EU

Although India's 90 percent of foreign trade in the EU is concentrated with the seven countries viz., U.K., Germany, Belgium, France, Italy, Netherlands and Spain, yet India should look into the other countries of the eastern Europe who have now passed the phase of transition economies and are now on the pedestals of market economy and India could make these countries of eastern Europe as thrust areas for positioning their products.

19. Price-related Competitive advantage

In certain products like apparel and clothing, knitted and crocheted goods, carpets, tobacco, animal feeds, pearls and precious and semi-precious stones, India enjoys a fair amount of better price advantage. Whileas, in other major products like marine, edible fruits and nuts, oil meals and leather goods India's competitiveness is very much lacking. It is therefore important to improve the productivity and competitiveness of these major export products. However, it is difficult for India to improve upon the competitiveness in the marine products as the EU extends special privileges in the form of lesser import duties to ACP countries.

20. Some Commodity Groups need immediate thrust attention

During the analysis it was observed that certain commodity groups enjoy a fair amount of export growth potential like Readymade Garments (12.08%), Gems and Jewellery(11.63%), Engineering Goods( 23.60%), Footwear (15.36%), Organic Chemicals (15.52%), Fish and Other Invertebrates (13.76%), Iron and Steel( 23.60%), Plastics and Articles thereof ( 15.63%)
whileas other Commodity groups are lagging behind in terms of fostering export growth potential like Leather manufactures (4.80%), Coffee, Tea, Mates and Spices (1.36%), Carpet and Other Floor Coverings (1.19%). As such it is suggested that some immediate steps be taken to ensure that fair amount of export growth is infused in these commodity groups.

21. Export basket needs to be diversified

The composition of India’s export basket has to be changed. Hitherto the export basket contains only three principle commodity groups viz., Leather and Leather goods, textiles and textiles articles, pearls and precious stones. These three commodity groups took together account for two-third of the total exports to EU. But India has over the years, specialized in other industrial activity areas particularly in the area of engineering and electronics goods. Moreover, India has now learnt the articulation of value addition and this they have done particularly in the area of agriculture goods. The primary agriculture goods have now been value added. Thus the export basket should now be quite diversified with these commodity groups. This would give India a competitive edge as a country with many groups of commodities.

22. Faster Inter-Union Trade stimulus to India’s Trade

The single European market has been responsible for the larger inter-union trade between the member countries. However, inter-Union trade is quite low in items like tea, coffee, spices, articles of leather, fabrics of leather, clothing and precious and pearls of precious stones and marine products. The lower trade in these products in the Inter-Union countries has offered an opening for countries like India. Similarly, Inter-Union trade between several member countries of the Union like Denmark, Germany, Italy, U.K., and Spain is of lesser magnitude. This again creates an opportunity for India to go for more exports to these countries.

23. Service Sector boom

The service sector integration at the global level will develop more rapidly in future. Indian banks must make strategic alliances with European banks
particularly in the area of investment banking and one more area where India can develop its foothold is the foreign travel sector because global travel and global tourism is likely to increase in huge proportions.

24. **Completion of the Union market**

With the completion of the single market, and with the coming up of the Union-wide institutional framework, the variations in the nation policies got quite reduced and the because of the common policy there is now more 'predictability'. This predictability or transparency has led to the development of more efficient information network.

25. **Inroads by Asian Tigers**

Some Asian countries like Malaysia, Thailand and Indonesia have already started making inroads in the EU market. Indian strategy should be to carefully work out a strategy which should revolve round the following:

**Special Strategy**

- Proper choice of Products
- Professional marketing approach with an efficient information system network
- Identifying of new market territories particularly in the region of transition economies of the Eastern Europe.
- Development of catalytic institutions

Four sectors i.e., agriculture, engineering including electronics and textiles, leather

Products need special thrust and they have to be exported in larger proportions.

26. **Index Numbers present a favourable scenario**

Taking a thirty year time period into consideration, through index numbers technique (as shown in table 4.60), it was found that the GDP of EU has increased 8.5 times whileas the population has grown only 1.5 times. Thus the
per capita GDP has tremendously increased and so has the purchasing power of the EU populace. Another inference which can be deduced from the Index Numbers technique is that the exports from India have increased 11 times, whereas EU imports from rest of the world have increased only about 8 times. This means that our export effort to the EU market has been good but it should never mean that we have done enough or we should never be complacent because it has remembered that our imports from EU have also increased at a higher pace and the country is having huge trade deficit with the Union as a whole. Therefore, there has to be more export effort in order to see off rising trade deficit and ensure a state of affairs which is characterised with substantial trade balance with this largest trading partner.

27. **EU’s Trade Policy towards developing Countries — India can benefit as well**

The EU has created certain avenues for the sake of development of trade with the developing countries. The EU, if properly and closely viewed has been helping to develop sustainable trading relations with developing countries using different pedestals. The EU has been taking a due regard to the efforts put in by the multilateral trading system in promoting trade with developing countries.

As the WTO members have agreed to the issue of development at the heart of the future negotiations and as per Doha Development Agenda (DDA) market access has to be given to all developing countries particularly to least developed countries. Taking due cognizance to Doha Development Agenda, the EU has proposed market access upto all lines of production in all non-agriculture products by eliminating tariff peaks and high tariffs and significantly reducing tariff escalation. It is worth mentioning that 70% of the exports by developing countries belong to non-agriculture products. India being a developing country has an advantage here of availing the tariff concessions offered by the EU.

However, EU has always stressed that more advanced developing countries, e.g. members of the G20 (of which India is a member country), should open their markets more significantly and provide increased
opportunities for the weakest as this could help to compensate for preference erosion in their traditional markets, i.e. the developed countries.

28. **Capacity Building**

The EU is the main provider of Trade Related Assistance worldwide. This includes strengthening basic infrastructure to trade and addressing supply side constraints. The WTO membership set up a "Global Trust Fund" to deliver technical assistance and training. The EU has demonstrated its commitment to enhancing the negotiating capacity of developing countries by providing over 60% of the total funds. The EU is committed in supporting the Integrated Framework (IF) for the Least Developed Countries, a multi-agency, multi-donor program that assists the least developed countries to expand their participation in the global economy. EU has done a lot towards creating capacity building in India particularly in the area of Standardisation and Certification programmes.

29. **GSP Scheme**

The EU GSP scheme is the largest of all developed-country GSP systems. In 2003 EU imports under GSP totalled €52 billion. Under the EU GSP between 1999-2003 developing countries share in total EU imports grew from 33% to 40%. The current GSP, in place since 1995, applies to imports from developing countries that pay duty on entering the EU market and that are not already duty-free under Most Favoured Nation agreements. The reform approved in June 2005 simplifies the EU GSP scheme by reducing the number of GSP arrangements from five to three. The coverage of the general GSP scheme will be extended to 300 additional products mostly in the agriculture and fishery sectors. A new "GSP Plus" incentive scheme will be targeted at especially vulnerable countries that have ratified and effectively implemented key international conventions on sustainable development, labour rights and good governance. It will cover around 7200 products which will enter the EU duty free.

Finally the EU has led the way by eliminating all duties and quotas for all products originating from Least Developed Countries (LDCs), under
the "Everything But Arms" (EBA) initiative. The GSP scheme is also beneficial to India and as the study conducted by the IIIT, India, GSP Scheme of EU has benefited India largely than any other GSP scheme of other developed countries.

Thus from the above we can safely draw the inference that the EU has been offering lot of measures under the auspices of WTO, bilaterally and unilaterally and India can benefit a lot from such schemes and thus trade can groom between the EU and India.

The Summing Up

India- EU trade, firstly, as we have observed through the analysis in the preceding chapters of this study, is confined to only few countries of the Western Europe and the trade is not geographically well diversified. Therefore, there is urgent need to look into other countries of the EU particularly towards the Eastern Europe which have now came out of the transitory period and are now full fledged market economies. However, the diversification should not mean diversion of the trade from Western Europe because trade with the Western Europe will always be under better terms as the countries of the West Europe are dwelled by affluent societies with better higher per capita income and thus better purchasing power. Eastern Europe is potentially a good market for Indian merchandise.

Secondly, as we have seen through the index number analysis that the population graph of Europe is almost flat without any significant growth. Europe, as they say, is an old continent, dwelled by old age people. Therefore, our exporters should position only those products which cater to the requirements of the old age category. This strategy, could, in particular be applied in case of garment exports and all other commodity groups where product positioning is based on age-strata.

Thirdly, certain commodity groups like Carpet and other Floor Coverings, Leather and Leather goods, Tea, Coffee, Mate and Spices are loosing their sheen as export commodities not only in the EU common market but throughout the world. Thus necessary drastic steps have to be taken to revive their growth because all
these commodity groups belong to the labour intensive industries and lot of employment is sustained in such industries.

Fourthly, the EU has a Common Agriculture Policy popularly known as CAP. Under CAP, all member countries of the EU extend export subsidies to the farm sector. Thus the agriculture commodities are cheaper in the EU market and this is becoming detrimental to the exports of agro-based products from developing countries and India is the most sufferer. As per WTO principle, trade distortions have to be removed and providing of subsidies creates distortion in the prices of the agro-based products. The WTO authorities have till now failed to motivate the EU and USA to withdraw export subsidies to the farm sector. In this regard the last ministerial conference of WTO failed to bring up any solution to this issue. Hopefully, once the export subsidies are withdrawn Indian exports in the agro-based segment will pick up tremendously.

Sixthly, India’s share in the global trade is just around one percent which is quite minuscule for a country with such a huge export potential. India has already carved a niche in the information technology sector and service sector in India is already marching ahead. Thus the need of the hour is that we should make service products as a brand so that we export more service products to the outside world including EU market.

With the coming of Euro, now ten years of its successful voyage, US dollar has lost its sheen throughout world. Thus our exporters should invoice their merchandise in euro rather than in US dollars. This shall give leverage to the EU importers as they can easily arrange euros than US dollars.

Lastly, ‘Quality’, ‘not Price’ is the sine quo non of modern trade transaction. India-EU Standards and Certification Programme is already in place and India has benefited a lot from the EU with regard to upgrading their laboratories for quality assurances and even service sector industries including academic institutions have been brought under harmonised quality system as is in vogue in the EU. However, lot has to done in this regard. All sectors of the economy, all companies whether in public sector or in private sector, have to brought under harmonised quality system.
so that our goods and services enter the foreign market without any obstacle or without giving any country a chance to resort to any non-tariff barrier (NTB).

Thus the above suggestions, if implemented at the policy implication level, will result in enhanced trade between India and the EU. One has to remember that the world is going to create a free trade regime by itself or by the multilateral trading system like WTO in the near future and everybody; every company will be a part of the global trade process. However, those countries will face no difficulty which takes the initiative well ahead of others. Thus let us start preparing ourselves for a world which will characterised with a borderless trade where there is free flow of all factors of production.