Chapter- I

Introduction
With around two decades of focused structural reforms behind it, India's economy can today be considered a real success story. The GDP growth has been consistently rising since early 2000s. For the three years form 2001-02 to 2003-04, India has registered a consistent growth in GDP at an average rate of 7.5 per cent. The growth has even been higher at 8.4 per cent in the year just gone by i.e., 2005-06. As a matter of fact, Indian economy is one of the world's fast growing economies identified with great potential for the growth prospects ahead (The Economy Survey of India, Govt. of India, 2006). It is estimated that Indian economy will in a couple of years witness a double digit growth. As of now, India is the second largest growing economy after china and far ahead of other growing economies like Brazil, Mexico, Russia, Kazakhstan etc. With the government's considerable stress on developing infrastructural facilities, the country is poised for absorbing higher growth intakes.

Transforming, by gradual and prudent liberalisation programme characterized with deepening macro economic reforms, India is set to be reckoned as an economic powerhouse in the very near future. The reforms initiated in early 1990s have been more radical in Industrial policy and EXIM policy. All the more the financial sector reforms have been more piercing in capital market and banking sector. The era of early 1990s, in fact, witnessed the unshackling and falling of old regulatory edifices to pave the way for liberalisation-oriented new regulators. Capital Issues Control Act of 1947 was repealed and gave way to SEBI Act of 1992; FERA Act of 1973 has been replaced by FEMA Act of 2002; the famous Industrial Policy Resolution of 1957 has been abrogated and replaced by New Industrial Policy.
of 1991; MRTP Act has been abolished and a new Competition Act is in the offing; and the Import and Export Control Act of 1947 has been done away with and replaced by Foreign Trade (Development and Regulation) Act of 1992. The Insurance Regulatory Development Authority (IRDA) has been enacted. Nevertheless, the new regulatory framework has been instrumental in (a) Integrating Indian economy with the world economy and (b) giving a fillip to India’s consistently increasing growth. Liberalisation is a global phenomena and India, as a matter of fact could have hardly afforded to remain outside this encompassing phenomena. Realising this, the liberalisation was inevitable to reap the ever increasing benefits of free trade regime fostered by WTO. With trade liberalisation initiated from early 1990s, the focus has shifted from import substitution to greater export promotion. Consistently, India has increased its share of world trade form 0.5 per cent in 1992 to 0.58 per cent in 2005-06 and the target is to achieve 1 per cent of global trade share by the fall of tenth plan (The Economy Survey, Govt. of India, 2006).

Going into the third generation of reforms, India’s future economic prospects appear increasingly bright, especially given India’s robust eminence in key upcoming sectors like Information Technology and service sector. The Indian IT sector has created a niche in the world over and India’s software technology and IT professionals have been highly sought after by the world throughout. The foreign trade sector, over the years has been under going metamorphical changes. From an erstwhile import substitution regime to the present robust export promotion thrust, the peak import duties have come crumbling down from as high as 300 per cent to as low as 20 per cent in 2005-06. Moreover, the quantitative restrictions on imports have been almost done away with. Around 1500 import items can now be imported without quantitative restrictions. The negative import list has further been pruned. Export promotion has been helped by many incentive schemes offered to exporters from time to time. There is greater institutional support for enhancing exports than there was ever. The Directorate General of Foreign Trade has prepared a country-commodity-matrix to help exporters with regard to which country requires what commodity/commodities. In every EXIM policy the Govt. relocates the geographical thrust area with which India could trade with better competitive advantage. This has paved way for new export destinations where saturated markets for Indian exports
are alternated with new welcoming destinations. However, amidst this promising scenario Indian exports are confronted with discriminatory approach both on account of heavy tariffs imposed by developed countries and unrealistic non-tariff barriers imposed by a number of other countries. As we know, the world has been witnessing the creation of regional trade blocks giving way to Free Trade Agreements (FTAs). The member countries in every regional free trade agreement are enjoying the benefits of low or no tariffs whereas discriminatory tariff structure is imposed on third countries. Unfortunately, India is hugely suffering on this account. Situated in South Asia and surrounded by developing economies whose populous’ purchasing power capacity is far below, India has been desperate in penetrating affluent economies who have joined together as impregnable blocs through free trade agreements or customs unions or monetary union. The free trade agreement of USA, Mexico and Canada resulted in the formation of NAFTA in 1988, the formation of MERCOSAR by Latin American countries including Brazil, Argentina etc. and lately the emergence of European union in 1992 embracing 25 countries of both economically affluent Western European countries and transition economies of the Eastern Europe. All these regional trade blocs particularly created by economically developed countries have been creating barricades for entry by way of exorbitant tariffs and unjustified non-tariff barriers and thus curtailing the export prospects of Indian merchandise. Of all these trading blocs, the European Union is the most formidable, the most unionized (the 13 countries in the bloc have already adopted the uniform currency of Euro and the others are following suit). Moreover, the Union is characterised by highest GDP after USA, affluent societies of Western Europe and recently shifted to market economies of Eastern Europe. The European Union is regarded as the economic and political powerhouse standing proudly against USA and thus re-creating the bi-polar world thereby fulfilling the vacuum left by the fall of erstwhile USSR. Both EU and India have common challenges, common economic philosophies and objectives. These factors have christened their relationship on these lines for the last forty years. The relationship was formalized in a series of bilateral agreements in 1973 and 1981. However, a formal structure was established only in 1994 by way of a Co-operation Agreement of Partnership and Development with a joint commission meeting regularly to visualize scope for new
areas for co-operative action. The joint commission has paved way for a series of joint initiatives and bilateral economic and trade agreements. The importance of this common approach has become more conspicuous in the era of globalisation. This has been reflected in the discussion at the highest level between India and EU since regular summit meetings were instituted in 2000. Ever since the first summit in Lisbon, India and EU have been committed to joint efforts to tap the full potential of their economic relations. The main thrust of this work has been through a series of bilateral programmes which sprout progressively into new domains of mutual interest as they develop in importance. The landmark agreement on Science and Technology Co-operation signed by the EU and India in November 2001 allows Indian scientists to participate in EU research activities and gives European scientists access to similar programmes in India. India is a hub of a range of high-tech and scientific fields and as such there is an enormous potential for EU–India collaboration in high-tech areas such as information technology, biotechnology, nanotechnology and new materials.

India’s trade relations with European Union have been growing at a rapid speed. The Union is the largest single 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. The relations between India and the member states of European Union have a long history. But the EU–India relations really took roots in their present form in 1963, when India was amongst the first developing countries to establish diplomatic relations with the then six-nation European Economic Community. Over the years, the EU – India has developed a very close relationship in key areas like trade and investment, economic and development co-operation as well as cultural exchanges. The trade between India and EU increased from € 25.851 billion in 2002 to € 27.496 billion in 2003 registering a growth of 6.36 per cent. EU exports to India have shown an impressive growth of 10.42 percent in 2003 against a growth of 4.77 percent in 2002. Exports to India increased to € 14.208 billion in 2003 from € 12.867 in the previous year. While as imports from India, on the other hand, increased from € 12.984 billion in 2002 to €13.288 in 2003 registering a growth of 2.34 percent.
The Need for the Study

In the wake of a falling trade scenario with Russia and other eastern European countries particularly after the fall of the former USSR with which India had substantial trade volumes (purely because trade with the then USSR was Rupee-Rouble based) the trade, as an alternative destination, shifted to western European countries particularly after 1990s especially in certain segments of exports like textiles and clothing, Gems and Jewellery and leather manufactures. Given the huge and sprawling market in the EU coupled with second largest GDP (the largest GDP belongs to USA), and an affluent populous, the prospects for Indian exports seem quite well. However, the presence of EU as a formidable trading bloc offers both opportunities as well as constraints to the developing countries of the world. By having a uniform external tariff policy which was formally adopted by the Union on July 1, 1968 popularly known as Common External Tariff (CET), the EU has put the developing countries on the disadvantageous setting because even the relatively small and insignificant countries of the union like Latvia, Estonia, Lithuania, Luxembourg, Cyprus, Malta etc., have the prerogative to resort common external tariff policy towards imports from other developing countries and India is no exception to it.

Amidst constraints of Common External Tariff policy, Common Economic and Commercial Policies, the EU offers great opportunities for the developing countries as well. For example, the introduction of Generalised Scheme of Preferences (GSP), a scheme for developing countries for various imports from these countries is a stimulant for exporters of these countries (including India). Under the GSP scheme, developing countries can have easy access to the European market in segments which belong to cottage industries, small scale industrial products etc. The GSP scheme of the European Union has graduation mechanism whereby each developing country’s exports to the Union has to fulfill certain criteria. Being given free access to the European Market, under the graduation mechanism, if the exporting country in question is a poor country, no import tariffs are charged. However, as the country attains affluence over the years, certain import duties are charged depending upon its development. The GSP scheme is actually a
replica of the GSP scheme of UNCTAD. Nevertheless, it is an established fact that regional economic groups have resulted in increased trade amongst the member countries in the region and as a consequence there is an inherent danger of discrimination against third countries. How shall India as a third country increase trade relations with EU by taking recourse to Article XXIV of GATT which specifically recognizes regional arrangement as an exception to multilateral trading system (i.e., WTO), is a matter worth studying? Textile and clothing sector is an extremely significant part of our economy accounting for 20 percent of national industrial output and providing means of living to 30 million people. Any restriction of market access for our exports of textiles and clothing products would, therefore, have serious implications for India in terms of income and employment. The protectionist measures imposed by developed countries particularly by resorting to Non-Tariff Barriers (NTBs) put our textile industry in jeopardy. The other protectionist measures adopted by developed countries in various ways, restricting market access for goods and services produced in developing countries in various ways including those produced in India include Restrictive Import Policy Regimes, standards, tests, labeling and certification measures which are set at an unrealistic levels for developing countries or are scientifically unjustified (e.g., sanitary and phyto-sanitary measures), agricultural export subsidies, barrier on movement of services, barriers to investment. It is worth mentioning here that under Common Agricultural Policy (CAP) of European Union heavy subsidies are given to farm sector, thereby allowing agriculture products available at cheaper rates within the Union, which as a result curtails the prospects of agriculture exports from developing countries like India into the Union. Whileas, under WTO provisions all subsidies have to be withdrawn to allow fair competition. The European Union has been adamant in retaining the Common Agriculture Policy and thereby the export subsidies to their farmers continue. Infact, this was one of the important issues responsible for failure of Ministerial Conference in Hong Kong in 2005. The developing countries led by India, Brazil, Mexico impressed strongly, in the conference, for the removal of export subsidies to farmers by European Union and USA. The developing countries now forming more than 2/3rd membership at WTO, have started exerting fissiparous pressures through formation of common interest
groups like G-20, to prevail upon the developed countries with regard to removal of subsidies to farm sector allowed by their respective governments. The G-20 is led by India, Brazil, South Africa, Mexico etc. Moreover, the two issues pending reconciliation between developed and developing countries are Agriculture Market Access (AMA) and Non-Agriculture Market Access (NAMA). While the developing countries stress on allowing their agriculture products into US and EU markets, for which US and EU are required to concurrently withdraw subsidies to farm sector to allow removal of price disparities of agriculture products in developed markets like EU and US. The developed countries, on the contrary, want unhindered entry of their industrial products into developing countries like India, Brazil, South Africa etc and that too at a fairly reduced import tariff structure than is presently prevalent. Both the broad issues are awaiting settlement for the last two years. Nonetheless, India is hugely suffering on account of agriculture market access and Indian agricultural products particularly tea, coffee, spices etc., which were earlier large foreign exchange earners, are presently finding stiff competition in European Markets on account of subsidies offered to farm sector products there.

Moreover, Indian global trade share has been at an abysmal low of around 0.73 percent (DGFT, 2007), while as the share of US, Germany, Japan, England, France in the world trade is double digit. The Govt. of India through its revised trade policies has been laying stress for increased trade with trading countries and blocs. EU being a bloc of 27 member countries with the 2\textsuperscript{nd} highest GDP after US characterised by diversified cultures, abundant population and largely advanced societies with affluent purchasing power populous, is a market worth penetrating for larger benefits.

In view of numerous issues (some of which have been specified above) that have come forth with the emergence of European Union as an impregnable bloc (a conglomerate of 25 countries, now 27 with the annexation of Romania and Bulgaria on 1.1.2007), the prospects for increasing trade relations with EU is not a cat walk for India. Moreover, India’s foreign trade as a whole is undergoing tremendous directional as well as compositional changes particularly since 1991 (i.e., the year the liberalisation programme kick started). The compositional changes have been advantageous to India in the sense that as against exports of raw materials as inputs,
India now is exporting value added finished products which has resulted in employment generation as well. Alongside, the directional changes have also occurred over the years. The erstwhile export destinations like U.K. and Russia have been replaced by new destinations in East Asia, Western Europe and Latin America. Direction-wise, over the years, India’s trade has drifted more towards Asia and Africa and affluent societies of Western Europe characterised with high purchasing power have been forgotten. Thus keeping in view the broader perspectives of India’s foreign trade and its prospects of higher trade with European Union under the global trade regulator WTO, the present study is imperative and as such has been attempted keeping in view the following set of objectives:

**Objectives of the Study**

The study has been undertaken keeping in view the following set of objectives

1. To study the perspectives and prospects of India’s foreign trade with focus on following areas in particular:
   - Rationale for foreign trade and historical trace-out of India’s Foreign Trade
   - The directional and compositional pattern of India’s international trade and the changes that have occurred over a period of time (since 1950-51)
   - India’s foreign trade policies
   - Institutional support system and reforms in India’s foreign trade

2. To study the trends of trade between member countries of European Union and India

3. To examine and probe into the changing pattern of commodity composition of trade between India and EU.

4. To study India’s trade relations with the seven major trading partners of EU (UK, Germany, France, Italy, Belgium, Netherlands, India)

5. To analyse and interpret the framework of various agreements that have come forth from time to time between EU and India

6. To analyse on the basis of the growth rates as to with which country/countries and in which commodities is India’s trade falling or going high
7. To suggest, based on the study results, the measures aimed at improving the trade relations between EU and India and to suggest on the basis of conclusions arrived, a comprehensive strategic programme for Government of India for increasing trade relations with EU.

Hypothesis

In order to give proper direction to the study and make it achieve its objectives, the following set of working hypothesis has been developed.

1. India-EU trade relations are not based on any systematic approach or agreements and is without any legal sanctity from EU

2. India-EU trade rests with only major trading partners of the EU like Germany, UK, Belgium, France, Italy, Netherlands and Spain. Whileas, India conducts a negligible trade with other member countries of the Union.

3. Under the conducive milieu of global business environment fostered by WTO, coupled with enlarged market potential of EU and with India’s strong thrust on the foreign trade promotion, India’s trade with EU is like to increase immensely.

4. The growth of India’s exports to EU is specific to a few commodities only and most commodities show a negative growth.

Research Methodology and Materials

The research methodology and materials has been discussed in the following three categories:

1. Research Design
2. Data source and Instruments
3. Data processing and data analysis

Research Design

The research design for the study has been formulated keeping in view the objectives of the study. While formulating the research design the following scheme has been followed.

1. As a requirement to a research issue, the issues necessitating the conduct of a research have been highlighted. The need for the study has
been justified followed by objectives of the study and hypotheses. The research methodology adopted while conducting research has been put forth. This has been followed by historical profile of EU along with the institutional support system of the EU. A brief profile of major trading partners has also been put forth. All this has been covered in the chapter “Introduction”

2. Critical study of India’s foreign trade, under broad theme areas like foreign trade and economic development, composition of India’s foreign trade, direction of trade, recent foreign trade policies and institutional support system for carrying out India’s foreign trade form the subject matter of chapter-II. The meticulous study of foreign trade as a macroeconomic feature of India’s economy under the broad areas laid the basis for an in depth and specific study of the core research issue of studying India’s trade relations with EU. All these encompassing issues have been dealt under the chapter “India’s Foreign Trade: Perspectives and Prospects”

3. For studying trade relations between countries perusing underlying trade agreements between the concerned countries is always indispensable. As such the trade agreements entered into from time to time have been thoroughly evaluated and examined in the light of their role towards bettering India-EU trade relations. Giving due regard to these agreements, which, in fact, form the bedrock of Indo-EU trade relations, a separate chapter has been devoted under the name “India-EU Trade Agreements-A Review”

4. For ensuring an in-depth study of India’s trade relations with EU, an analytical study into the commodity composition and Direction of trade between EU and India has been made and interpreted in the light of the set objectives. On the basis of judgmental sampling it was observed that around 90% of India’s trade with EU is with seven major trading partners of EU, trade relations with theses countries has been thoroughly examined. The whole analysis, pertaining to the areas as narrated, has
been mirrored in the chapter “India’s Trade Relations with EU-
Analysis and Interpretations”. The Chapter, in fact is the operating
chapter of the study as it culls out the results and findings of the study.

5. The findings of the study and conclusions drawn been summarised in
this penultimate chapter. Numerous suggestions and recommendations
based on these findings have been put forth have been put forth for
implementation at different levels of institutional machinery. The
conclusions, suggestions aimed at improving the India’s trade relations
with the EU have been captured under the last chapter “Conclusions,
Suggestions and Policy Implications”

Data Source and Instruments

The present study is purely based on the secondary data source. Most of the data
have been retrieved from the official website of Directorate General of Foreign
Trade of India (DGFT), offshoot link of the mother website source of Ministry of
Commerce & Industry, Govt. of India. The commodity exports from India and commodity
imports in India have now been adjusted according to the International Trade Classification,
Harmonized System of classification followed world over popularly symbolised as
ITC (HS) code. The data used for the study has been retrieved as two-digit code of
grouped commodities. The other sources of data and information have been the
Economy Survey, Govt. of India, and Center for Monitoring Indian Economy
(CMIE), Govt. of India. Information regarding various matters of the European
Union has been made available from the official website of European Union
(www.europa.com), and European commission (www.europeancommission.com).
While discussing various provisions and the role of WTO as a multilateral trading
system towards facilitating India’s foreign trade, the data has been acquired from the
official website of WTO (www.wto.org). In view of the nature and objectives of the
study, the data for the whole study, as already stated, has been from the secondary
sources. For the purposes of augmenting authenticity and validity to the various
conclusions drawn on the basis of the data analysis, personal discussions were held
with a number of faculty members of reputed contributions at the Indian Institute of
Foreign Trade, Qutab Institutional Area, New Delhi.
Data Processing

The data pertaining to commodity exports and imports from EU retrieved from the Export and Import Data Bank of DGFT do actually belong to 99 major commodity groups codified as per ITC (HS) Code but due to the constraint of time and space, only major commodity groups were taken for research analysis. The selection of major commodity groups was done objectively on the basis of their import value and export value. Highly valued commodities were taken for analysis. The selection, in this regard, was done separately for imported commodities and exported commodities. 99 major commodity groups codified at 2-digit level as per ITC (HS) Code were taken for initial evaluation and 24 Commodity groups from the Export basket and 17 commodity groups from the Import segment were finally chosen for analysis. The minimum export and import value for a commodity group to qualify for separate analysis was fixed at Rs.100 crores. The remaining 75 Commodity groups in exports and 82 Commodity Groups in imports were treated in aggregate and separate analysis was conducted under the heading “Miscellaneous Group”

The data for the purpose was taken from 1997-98 to 2004-05. The year 1997-98 (initial year for analysis) was purposely chosen as it was deemed that by then the liberalisation policies in all areas particularly those concerning with foreign trade policies had started blooming. Thus the data selected was processed and with the use of regression analysis, Compound Annual Growth Rates (CAGR) of selected commodities of importance in the import as well as export segment were computed. On the same lines selection of major trading partners in the EU was done. Here the selection was done on the basis of the maximum trade turnover between India and member countries of the EU. Before the selection, a preliminary analysis was done and it was found that seven countries in the Union account for more than 90% trade with India and as such trade value figures both in import and export segments with these countries were obtained and put to analysis and subsequently trade growth rates with each country obtained. Moreover, country-specific analysis was performed. The data obtained was processed in the light of the objectives. Data like India’s exports with a member country in the Union, India’s exports to the world, percentage comparisons of export increase/decrease to the member country and to
the world with the objective to observe some similarity in the behaviour of export
growth. The same test with same objective was repeated in imports as well.

**Instruments of Analysis**

The instruments of analysis (the statistical tools) used for the study have been
objectively selected to arrive at dependable results. To elicit a true state of affairs
keeping in view the objectives of the study, the statistical methods of percentage
comparisons, summary statistics such as averages, YoY growth and compound
growth rates have been used. To unravel growth rates of trade between member
countries of EU and India and also to examine the commodity-wise growth rates
both in exports and imports, the exponential trend equation of \( Y=ab^x \) has been fitted
into the time series data from 1997-98 to 2004-05.)

The following formulae have been used.

1. Exponential trend equation \( Y=ab^x \)
2. Logarithmic form of the equation \( \log y = \log a + x.\log b \)
3. Corresponding normal equations
   \[
   \sum log y = N.\log a + \log b. \sum x \\
   \sum x. \log y = \log a. \sum x + \log b. \sum x^2
   \]
4. Compound Growth Rate [ \( Gr = 100( b-1) \) ]

The Index Number technique has been used to compare and contrast among
various important variables like of EU population, GDP of EU, EU’s imports from
rest of the world and India’s Exports to EU.

**Scope of the Study**

❖ The scope of the study is confined to India’s Trade relations with the 25
member countries of the European Union. The recently joined 2 more
countries (i.e., Bulgaria and Romania) have been excluded from the study.

❖ The reference period of the study has been 1997-98 to 2004-05. However,
while discussing India’s foreign trade reference period has been selected
from 1951-52 to 2004-05.
The study has been restricted to 24 Commodity Groups from the export basket and 17 commodity Groups from the Import data bank.

Limitations of the Study

The study is bereft with following limitations:

During the preliminary analysis it was found that 90 percent of the trade between India and the member countries of the EU is confined to seven countries of the EU comprising of UK, Germany, France, Belgium, Italy, Netherlands and Spain. This phenomena warranted a comprehensive study of India’s trade with these ‘major trading partners’. Accordingly, these major trading partners occupied a focal attention during the study. The inferences drawn are quite typical to these countries and can not become a yard stick or a bench mark towards formulating policy implications for enhancing trade with the remaining 18 countries which mostly consist of eastern European countries which have just passed the phase of transition economies after breaking the shackles of socialist system. These countries represent an untapped market and as such necessitate a different policy implication programme quite converse to the one as would be there for the ‘major trading partners’.

As the study was restricted to 24 commodity groups from the export basket and 17 commodity groups from the import segment retrieved at 2-digit ITC (HS) code out of 99 commodity groups, the remaining commodity groups both from the exports and imports were taken for a separate aggregate analysis under the heading ‘miscellaneous Commodity group’. The selection of the commodity groups was done on the bases of export and import value wherein the import or export value of any commodity group whose value was at least Rs.100 would qualify for separate analysis. The remaining commodity groups both in import and export segments were not taken for separate analysis because of paucity of time and space. Thus the inferences drawn form the analysis of selected commodity groups can not represent those commodity groups which fall outside selected commodity group domain as each commodity group beyond those selected for analysis.
represent a distinct category. However, ‘the aggregate analysis’ done for such leftover commodity groups has partially minimized this limitation.

**Historical Profile of EU**

The Medieval Times in Europe is replete with dreams, aspirations by philosophers, clergymen, thinkers, statesmen conjuring the picture for a unified Europe. Intellectuals and Quakers with the humanistic approach and belief in universal brotherhood had come out with a proposition that a unified Europe can possibly emerge, if an institution in the nature of a European senate, consisting of European rulers, can be created (Mathur, 1999).

During the eighteenth and nineteenth centuries, while individuals here and there did talk of desirability of creating a unified Europe, but the kingdoms and principalities focused on consolidation and integration at home rather than across the continent. After consolidation, a more significant development that took place during this period was the ambition of acquiring and expanding overseas empires by every European power. Thus, the dream for creating unified Europe got blurred, which in turn invariably led to rivalries and intercine wars. Therefore, this period spanning over two hundred years could not fructify the dreams of a unified Europe.

The two world wars particularly the World War II brought about total devastation in the whole of Europe especially western part. After the war while, under the auspices of newly formed UNO, efforts were on to create certain International Institutions like International Bank for Reconstruction and Development (IRBD) and International Monetary Fund (IMF) to support the war ravaged economies of western Europe and to create a stable monetary system which had got disrupted because of war, Europe itself saw the formation of certain formidable institutions like (i) Organisation for European Economic Co-operation (OEEC) and (ii) European Payments Union (EPU). These institutions did help in bringing together concerned countries and in that sense the coming up of these institutions contributed significantly towards creating an atmosphere and urge among European people for taking steps for European integration. While the Second World War was still on, there were some leaders who were applying their minds to the possibility of avoiding future wars. Among them two proponents of European
unity, Alterio Spinelli of Italy and Jean Monnet of France (European publication, 1999) were of the opinion that unless steps were taken to propagate and install democracies in the post-war Europe in place of totalitarianism and also to curb national antagonism, the objective of avoiding future wars would never be achieved. They propagated that interactions and co-operation among European powers and joint action in certain selected areas would pave the way for European integration.

After the cessation of war, it was Sir Winston Churchill, who, as early as September 1946 conceived the desirability of a unified Europe, stressed for creating 'the European family and building for that purpose a kind of United States of Europe.' Gradually the idea of forging unity among western European countries started catching on. Conflicts had ravaged the continent of Europe. During the first half of twentieth century, and after the end of Second World War, there emerged a broad vision of a new united Europe which would transcend national antagonisms (EU publication, 1995). This vision was shared by many statesmen across the continent. Among them, Robert Schuman, the then French foreign minister, who in concurrence with German Chancellor Konrad Adenauer, in a declaration on May 9, 1950, proposed the pooling of the coal and steel industries of France and the Federal Republic of Germany and invited other countries as well. Responding to the appeal, the six European countries—Belgium, Germany, Italy, Luxembourg and the Netherlands came together to sign the Treaty of Paris. Thus the European Coal and Steel Community was born (ECSC). The formation of ECSC basically is said to be foundation of European Union as clearly envisaged in the preamble to the Treaty of Paris. The evolution of integration has gone through several stages and various forms. In 1957, these six nations signed the treaties of Rome to create the *European Economic Community* (EEC) and the European Atomic Energy Community (EURATOM). The EEC came into force from Jan. 1, 1958.

In the beginning the European Community (EC), now presently called European Union was conceived with the objective to promote economic and monetary union among the member states, involving the creation of a common free trade zone and establishing a single market and common prices for most agricultural products.
Burgeoning Membership

Observing the rapid development of exchange of goods and services among the six ECSC countries, the other countries got enticed. Denmark, Ireland and the United Kingdom joined the Union, making the total membership to Nine. Greece joined in 1981, and Spain and Portugal in 1986. On Jan 1, 1995, Austria, Finland and Sweden also became members, taking the membership from 12 to 15.

On 1st May 2004, ten more countries joined the Union. They are Poland, Estonia, Latvia, Lithuania, Czech Republic, Slovak Republic, Slovenia, Malta, Cyprus and Hungary. Today, the EU is a strong and formidable union of 25 member countries with a number of other candidate countries waiting in the line to be accessed to the Union e.g., Turkey, Romania, Bulgaria. Romania and Bulgaria were admitted to the Union on January 1, 2007. Now there are 27 member countries in the Union.

Institutional Support System of EU

The institutional edifices of EU are unique in so far as their formation and functions are concerned. The institutional support system of EU largely distinguishes it from a number of traditional international organisations. The founding fathers of EU had envisioned a distinct institutional system for European Union, the one which is not in the hands of member states. Instead the Treaties set up an institutional system enabling the Union in the areas assigned to it enact legislation that is equally binding on all its members.

By accepting the Treaties of Rome and Paris, member countries have shed a great measure of their sovereignty in favour of independent institutions representing national and shared interests. The institutions compliment each other, each having a part to play in the decision-making process. As a fact of the matter, it can be said that the task of achieving the aims of three communities—the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM)—rests with the following institutions:

- The European Parliament
- The European Council
- The European Commission
- The European Union Court of Justice
The above institutional framework is assisted by the following:

> The Economic and Social Committee (ESC)
> The Court of Auditors
> The European Investment Bank

The role and functions of the above institutional framework is discussed in the following pages.

**The European Parliament**

As a corollary to democratic setup, the role of parliament assumes a watch-dog function and also plays an important role in enacting legislations. Although its powers are more limited than those of parliaments in parliamentary democracies, the European Parliament has a say in Union legislation, the budget and is the Union’s supervisory body. It has been seen from the last many years that European Parliament is becoming more and more involved in the adoption of European Laws.

Starting from 1979, the sixth European Parliament was elected in 2004. It was the sixth time that direct universal suffrage took place in 2004- following June 1979, 1984, 1989, 1994, 1999 and the citizens of the Union voted for a new parliament. Until 1993, there was no uniform electoral process. Each member country used to apply its own electoral law for the election to the European Parliament. Moreover there has been a notable change in the number of parliamentary seats. With the inclusion of Austria, Finland and Sweden on Jan., 1995, the number of parliamentary seats was increased from 518 to 624. This revised distribution was decided at the Edinburgh European Council meeting on December 11 and 12, 1992. As the Union continues to swell with new countries becoming members, there is a corresponding increase in the parliamentary seats of the EU Parliament. The complete break up of the parliamentary seats allotted to each member country is hereby re-produced
**Growth in Parliamentary Seats as a result of Growth in Membership**

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**Note:** The Parliamentary seats will be further revised as per the proposed number indicated in the column.

The parliament has ambitious plans for its future role. It has drawn up a draft constitution which aims at establishing a new balance of power between the three EU institutions – the parliament, the Commission and the Council. The proposal is that members of European Parliament (MEPs) would join the European Council in defining the guidelines of EU policy, adopt laws jointly with the council, elect the European Commission’s President and table a vote of confidence in the Commission. The Parliament has also recommended that the Western European Union (WEU), the future military arm of the 12-nation Union, be absorbed into the European Union in order to organize a foreign and defense policy.
Normal sessions of the parliament are held in Strasbourg (one week a month except in August) but extra-ordinary sessions are held in Brussels. Its secretariat is in Luxembourg. The parliament is headed by a Bureau composed of the President and 4 Vice-Presidents elected by members. Eight political parties have been recognised by the EU parliament for the purposes of contesting elections. The prominent among them are: Christian Democrats, Socialists, Liberals and the Greens.

European Council

In 1974, all heads of the state met in Paris, France and took two major decisions. The first decision was that European Parliament should be directly elected by the Universal suffrage (though it took five years before direct elections were actually held). The second decision was that all foreign ministries of the member countries would meet under ‘European Council’ with the President and one of the vice-Presidents of the Commission. The decision came into effect forthwith and the first European Council was formally enshrined in the Single European Act in 1986. The membership of the council comprises of foreign ministries of all member countries. When the ministries of Foreign Affairs meet, it is called the ‘General Council’ and deals with major political problems. The Council also discusses the economic issues of the member countries. The council adopts community Legislation (regulations, directives and decisions). Article 148 of the EEC Treaty distinguishes between decisions adopted unanimously, by a single majority and by a qualified majority.

The European Commission

The European Commission is one of the important institutions regulating the functions of European Union. Under a single entity the European Commission regulates affairs of ECSC, the EEC and the EURATOM.

Composition of the Commission

The Commission has 20 members replacing the old one with 17 members only from January 1995 onwards. The term of the Commission’s office has been raised to 5 years from 4 years. The Commission is the guardian of the Treaties. It is a regulator that ensures, with impartiality the implementation of all the provisions of the Treaties and also ensures that the Union’s decisions are correctly applied. It may use the prerogative to cause infringement against any member state or refer the
matter to the court of Justice. The commission is a representative body of European Union in International organisations (e.g., WTO, ILO etc) and in all trade agreement between EU and other country/ies. The Commission is assisted by a large number of committees: advisory committees, management committees and regulatory committees, which are composed of the representatives of the member state governments.

**Court of Justice**

The court of Justice is the supreme judicial authority of the union- an independent body which ensures that the Union Laws are applied in a uniform manner. It is the final arbitrator of the Union law.

**Composition**

The court consists of 15 judges and 9 advocate general appointed by the common accord of the Government of the member states. The holding term is of 6 years. The independence of the judges is guaranteed by the statute. Their deliberations are secret and they are irremovable. A Court of First Instance attached to the court of Justice, was set up in 1989. It has 15 members appointed for a renewable term of six years by common accord of the governments of the member states. The court of First Instance sits in the chambers composed of three or four judges. Both the court of Justice and the court of First Instance are based in Luxembourg.

**Powers and Functions**

The basic function of the court of Justice is to ensure that the Treaties of the Union are upheld by every person, every Union's institution and every member state. It may at the request of a Union institution, a member state or an individual annul an Act by Council or Commission if it is found incompatible with the Treaties.

As already stated, the following bodies have been set up to assist the above discussed institutions.

**A) Economic and Social Committee**

The committee is the body of all interest groups representing various categories of economic and social activity: employers, workers and other forms of interest groups involved in activities like agriculture, transport, commerce, crafts, the professions,
the small businesses, consumer affairs, protection of the environment and co-operatives are all represented on the committee.

The committee brings together various social and economic groups with the objective of building the European Union. It is an institutional task to ensure that all the major institutions like European Parliament, European Council and European Commission are kept abreast with the viewpoints of all interest groups with regard to the formation of priority list.

The activities of the committees have increased tremendously (from seven opinions in 1968 to nearly 180 in 1989). The Single European Act has increased the involvement of the committee in the drafting of the texts relating to the completion of the single market.

B) Court of Auditors

Set up by the Treaty of 22nd July, 1975, the Court of Auditors held its constituent meeting in Luxembourg (its provisional Headquarters) on 25th October, 1977. The Court took over from EEC and EURATOM Audit Board and from the ECSC Auditor as the body-in-charge of external auditing of Union’s general budget and the ECSC’s operating budget.

Work of the Court of Auditors

The main task of the court is to examine the accounts of all revenue and expenditure of the European Union and of all organisations set up by the Union. It investigates whether all revenues have been received and all expenditures incurred in a lawful manner and whether the financial management has been sound. Regular audits are conducted on the records forwarded by the Union Institutions. Audits may be carried out not only in member states but also in non-member countries receiving Union aid, such as ACP (African, Caribbean and Pacific) states receiving support from European Development Fund.

At the end of the each financial year, the financial statements are produced and published in the official journal. The European Parliament has been attaching lot of importance to the establishment of Court of Auditors, makes full use of the opportunities offered by court’s investigating powers, opinions and annual report to
re-inforce its own control over Union’s expenditure and thereby have a significant say in the affairs relating to the budget preparation.

The European Investment Bank (EIB)

The Treaty of Rome in 1958 established the European Economic Community (EEC) and alongside the formation of EEC, it saw the coming up of the European Investment Bank (EIB) in the same year i.e., 1958. The objective of the Bank was to ensure capital investment and balanced regional development of the Union.

The EIB is based in Luxembourg and is administered by a Board of Governors consisting of ministers designated by member states, which lays down general directives on the Bank’s credit policy. The Board of directors consisting of administrators and deputies are appointed for a renewable five-year term of office by the Board of Governors on the basis of the nominations by the member states and the commission.

Role of EIB

As an autonomous institution of the Union, the EIB is responsible for granting loans and issuing guarantees to finance capital projects consistent with the aims of the Union’s economic policy. Within the Union it finances investments whose purpose is to:

- Improve transport and telecommunication infrastructure of benefit to the Union
- Foster the economic development of the less favoured regions
- Infuse competitiveness in the industry to make it more competitive at the international level particularly by promoting state of art technologies and small medium sized business
- Protect the environment and improve the quality of life
- Secure energy supply
- Outside the Union the EIB helps to implement Union’s development policy under the Lome Conventions (69 African, Caribbean and Pacific states) and financial agreements with 12 Mediterranean countries. Since 1989, it has extended its activities in assisting the economic recovery of Hungary, Poland and other countries of Central and Eastern Europe particularly by investing in transport, telecommunication and energy.
Introduction to India’s Major Trading Partners of the EU

India’s major trading partners in the EU are UK, Germany, Belgium, France, Italy, Netherlands and Spain. As trade relations with these countries has been taken up comprehensively in the chapter “India-EU trade relations: Analysis and Interpretations” but a detailed introduction is all the more necessary.

United Kingdom

Situated outside the continental Europe, United Kingdom has a population of more than 60 million. The per capita GDP a UK citizen $ 31,600 (CIA, Fact Book). India has traditional relationship with United Kingdom following prolonged British rule in the sub-continent for about more than 200 years. The British East India Company, a trading company set up by British at Kolkatta has had the genre of creating trading relationship with India. As is evident from the GDP, residents of UK are very affluent and possess a great purchasing power. England is one of the major industrialized countries of the world and in International politics England is a very important country having the privilege of veto power in the UNO.

The United Kingdom consists of England, Wales, Scotland (who together make up Great Britain) and Northern Ireland. The United Kingdom is a constitutional monarchy and parliamentary democracy. The main chamber of parliament is the lower house, the House of Commons, which has 646 members elected by universal suffrage. About 700 people are eligible to sit in the upper house, the House of Lords, including life peers, hereditary peers, and bishops. The English account for more than 80% of the population. The Scots make up nearly 10% and the Welsh and Irish most of the rest. The UK is also home to diverse immigrant communities, mainly from its former colonies in the West Indies, India, Pakistan, Bangladesh and Africa.

English Economy

For over twenty-five years, the British economy has corresponded with what has been described by some since the 1980s as the Anglo-Saxon model, focusing on the principles of liberalisation, the free market, and low taxation and regulation. Based on market exchange rates, the United Kingdom is the fourth largest economy in the
world (IMF, 2005) and the second largest in Europe after Germany. The British were the first in the world to enter the Industrial Revolution, and, like most industrialising countries at the time, initially concentrated on heavy industries such as shipbuilding, coal mining, steel production, and textiles. The empire created an overseas market for British products, allowing the United Kingdom to dominate international trade in the 19th century. However, as other nations industrialised and surplus labour from agriculture began to dry up, the United Kingdom began to lose its economic advantage. As a result, heavy industry declined, by degrees, throughout the 20th century. The British service sector, however, has grown substantially, and now makes up about 73% of GDP (National Statistics, 2006).

The service sector of the United Kingdom is dominated by financial services, especially in banking and insurance. London is the world’s largest financial centre with the London Stock Exchange, the London International Financial Futures and Options Exchange, and the Lloyd’s of London insurance market all based in The City. It also has the largest concentration of foreign bank branches in the world. In the past decade, a rival financial centre in London has grown in the Docklands area, with HSBC and Barclays Bank relocating their head offices there. Many multinational companies that are not primarily UK-based have chosen to site their European or rest-of-world headquarters in London: an example is the US financial services firm Citigroup. The Scottish capital, Edinburgh, also has one of the large financial centres of Europe (Mark, 2003).

Tourism is very important to the British economy. With over 27 million tourists a year, the United Kingdom is ranked as the sixth major tourist destination in the world (UNWTO, 2002-05). The British manufacturing sector, however, has greatly diminished, relative to the economy as a whole, since World War II. It is still a significant part of the economy, but only accounted for one-sixth of national output in 2003 (Patricia Hewitt, 2004). The chemical and pharmaceutical industry is also strong in the UK, with the world’s second and sixth largest pharmaceutical firms (GlaxoSmithKline and AstraZeneca, respectively) being based in the UK (Trade & Industry, 2007). The United Kingdom’s agriculture sector accounts for only 0.9% of the country’s GDP (CIA Factbook, 2005). The UK has large coal, natural gas, and oil reserves, although the natural gas and oil reserves are gradually
diminishing. The currency of the UK is the pound sterling, represented by the symbol £. The Bank of England is the central bank, responsible for issuing currency. The UK chose not to join the Euro at the currency’s launch, although the government has pledged to hold a public referendum for deciding membership and the UK public opinion is against the notion.

Germany

Germany has the biggest population of any EU country. Its territory stretches from the North Sea and the Baltic in the north to the Alps in the south and is traversed by some of Europe’s major rivers such as the Rhine, Danube and Elbe. Germany is a federal republic. The lawmakers at the national level are the Bundestag, whose members are elected every four years by popular vote and the Bundesrat, which consists of 69 representatives of the 16 states (Bundesländer). After the collapse of the Berlin Wall in 1989, the former GDR (German Democratic Republic) was incorporated into the Federal Republic. Five new Bundesländer joined the European
Union. German is the most widely spoken first language in the European Union. Germany is the world’s third largest economy, producing automobiles, precision engineering products, electronic and communications equipment, chemicals and pharmaceuticals etc. Its companies have invested heavily in the central and east European countries which joined the EU in 2004.

**German Economy**

Germany has the largest economy in Europe and the third largest economy in the world, behind the United States and Japan (The Guardian, 2003) It is ranked fifth in the world in terms of purchasing power parity (CIA Fact Book, 2006) The export of goods is an essential part of the German economy and one of the main factors of its wealth. According to the World Trade Organization, Germany is the world’s top exporter with $1.133 trillion exported, from the beginning of 2006 (Germany’s exports to other Eurozone countries are included in this total). It has a large trade surplus of 165 billion euros in 2006 (Federal Ministry of Economics and Technology, Germany). In the service sector, Germany ranks second behind the United States (The CIA Fact Book, 2006) Most of the country’s exports are in
engineering, especially in automobiles, machinery, metals, and chemical goods (The Fact Book, 2006). In terms of total capacity to generate electricity from wind power, Germany is first in the world and it is also the main exporter of wind turbines. Germany was the world’s leading exporter of goods in 2005-2006. Although problems created by reunification in 1990 have begun to diminish, the standard of living remains higher in the western half of the country. Germans continue to be concerned about a relatively high level of unemployment, especially in the former East German states where unemployment tops 18% (Deutsch Welle, 2004). In spite of its extremely good performance in international trade, domestic demand has stalled for many years because of stagnating wages and consumer insecurity. Germany’s government runs a restrictive fiscal policy and has cut numerous regular jobs in the public sector. But while regular employment in the public sector shrank, “irregular” government employment such as “one euro” jobs (temporary low-wage positions), government supported self-employment, and job training increased. The national economy has nonetheless shown signs of improvement in recent years, the economics magazine Handelsblatt declaring it one of the most competitive in the Eurozone. Economists for the Institute for Economic Research in Berlin expect Germany’s economic growth to increase consistently over the next two years (Deccan Herald, 2005)

France

France is one of the largest countries in Europe, stretching from the North Sea to the Mediterranean. The president of the Republic has an important political role. He chairs the meetings of the Council of Ministers (cabinet), and retains overall responsibility in key areas of foreign affairs and defense. The day-to-day running of the country is in the hands of the prime minister. The president is elected by direct suffrage for a period of five years. The parliament consists of a National Assembly, directly elected every five years, and a Senate whose members are chosen by an electoral college.

France has produced some of the continent’s most influential writers and thinkers from Descartes and Pascal in the 17th century, to Rousseau and Voltaire in the 18th, Balzac, Baudelaire and Flaubert in the 19th and Sartre and Camus in the 20th. In the last two centuries it has given the art to the world such as the works of
Renoir, Monet, Cezanne, Gauguin, Matisse and Braque, to name but a few. French cuisine is one of the finest in Europe; cooking and eating are part of French culture and lifestyle.

Year of EU entry: Founding member

Political system: Republic

Capital city: Paris

Total area: 550 000 km²
Population: 60.9 million

Currency: euro

French Economy

France has an advanced industrial economy and an efficient farm sector. Main activities include automobile manufacture, aerospace, information technology, electronics, chemicals and pharmaceuticals and fashion ware. France’s economy combines extensive private enterprise (nearly 2.5 million companies registered) with substantial (though declining) government intervention. The government retains considerable influence over key segments of infrastructure sectors, with majority ownership of railway, electricity, aircraft, and telecommunication firms. It has been gradually relaxing its control over these sectors since the early 1990s. The government is slowly off holdings in France Télécom, Air France, as well as the insurance, banking, and defence industries. A member of the G-8 group of leading industrialised countries, it ranked as the sixth largest economy in the world in 2005, behind the United States, Japan, Germany, The People’s Republic of China and the United Kingdom. France joined 11 other EU members to launch the Euro on January
1, 1999, with euro coins and banknotes completely replacing the French franc in early 2002.

According to the OECD, in 2004 France was the world's fifth-largest exporter and the fourth-largest importer of manufactured goods. In 2003, France was the 2nd-largest recipient of foreign direct investment among OECD countries at $47 billion, ranking behind Luxembourg (where foreign direct investment was essentially monetary transfers to banks located in that country) but above the United States ($39.9 billion), the United Kingdom ($14.6 billion), Germany ($12.9 billion), and Japan ($6.3 billion). In the same year, French companies invested $57.3 billion outside of France, ranking France as the second most important outward direct investor in the OECD, behind the United States ($173.8 billion), and ahead of the United Kingdom ($55.3 billion), Japan ($28.8 billion) and Germany ($2.6 billion). In the 2005 edition of *OECD in Figures*, the OECD also noted that France leads the G7 countries in terms of productivity (measured as GDP per hour worked). In 2004, the GDP per hour worked in France was $47.7, ranking France above the United States ($46.3), Germany ($42.1), the United Kingdom ($39.6), and Japan ($32.5) (OECD, 2005). Despite figures showing a higher productivity per hour worked than in the US, France’s GDP per capita is significantly lower than the US GDP per capita, being in fact comparable to the GDP per capita of the other European countries, which is on average 30% below the US level. The reason is that a much smaller percentage of the French population is working compared to the US, which lowers the GDP per capita of France, despite its higher productivity. In fact, France has one of the lowest percentages of its population aged 15-64 years at work among the OECD countries. In 2004, 68.8% of the French population aged 15-64 years was in employment, compared to 80.0% in Japan, 78.9% in the UK, 77.2% in the US, and 71.0% in Germany (OECD, 2005) This phenomenon is the result of almost thirty years of massive unemployment in France, which has led to three consequences reducing the size of the working population: about 9% of the active population is without a job; students delay as long as possible their entry into labour market; and finally, the French government gives various incentives to workers to retire in their early 50s, though these are now receding.
As many economists have stressed repeatedly over the years, the main issue with the French economy is not an issue of productivity. In their opinion, it is an issue of structural reforms, in order to increase the size of the working population in the overall population. Liberal and Keynesian economists have different answers to that issue. Lower working hours and the reluctance to reform the labour market are mentioned as weak spots of the French economy in the view of the right and lack of government policies fostering social justice. Recent government attempts at adjusting the youth labour market, to combat unemployment, have met with fierce resistance. With over 75 million foreign tourists in 2003, France is ranked as the first tourist destination in the world, ahead of Spain (52.5 million) and the United States (40.4 million). It features cities of high cultural interest (Paris being the foremost), beaches and seaside resorts, ski resorts, and rural regions that many enjoy for their beauty and tranquillity (green tourism). Apart from tourism France attracts a lot of religious pilgrims to Lourdes, a town the Hautes-Pyrénées département, that hosts a few million tourists a year.

France has an important aerospace industry led by the European consortium Airbus and is the only European power (excluding Russia) to have its own national spaceport (Centre Spatial Guyanais). France is also the most energy independent Western country due to heavy investment in nuclear power, which also makes France the smallest producer of carbon dioxide among the seven most industrialised countries in the world. As a result of large investment in nuclear technology, nearly nine tenths of the energy needs of the country are met by nuclear power plants (86.9% in 2005) (DGEMP, 2007).

Large tracts of fertile land, the application of modern technology, and EU subsidies have combined to make France the leading agricultural producer and exporter in Europe. Wheat, poultry, dairy, beef, and pork, as well as an internationally recognised foodstuff and wine industry are primary French agricultural exports. EU agriculture subsidies to France total almost $14 billion. Since the end of the Second World War the government made efforts to integrate more and more with Germany, both economically and politically. Today the two countries form what is often referred to as the “core” countries in favour of greater integration of the European Union.
Belgium

Belgium is a federal state divided into three regions: Dutch-speaking Flanders in the north, Wallonia in the south where the language is French, and Brussels, the bilingual capital, where French and Dutch share official status. There is also a small German-speaking minority of some 70000 in the eastern part of the country. Belgium’s landscape varies widely: 67 kilometres of seacoast and flat coastal plains along the North Sea, hills in the centre and the uplands forests of the Ardennes region in the southeast. Brussels hosts several international organisations: most of the European institutions are located there as well as the NATO headquarters.

Independent since 1830, Belgium is a constitutional monarchy. The two houses of Parliament are the Chamber of Representatives, whose members are elected for a maximum period of four years, and the Senate or upper house, whose members are elected or co-opted. Given its political make-up, Belgium is generally run by coalition governments.
Italy

Italy is mainly mountainous, except for the Po plain in the Emilia-Romagna region, and runs from the Alps to the central Mediterranean Sea. It includes the islands of Sicily and Sardinia, Elba and about 70 other smaller ones. There are two small independent states within peninsular Italy: the Vatican City in Rome, and the Republic of San Marino. Italy has a two-chamber parliament, consisting of the Senate (Senato della Repubblica) of upper house and the Chamber of Deputies (Camera dei Deputati). Elections take place every five years.

The country’s main economic sectors are tourism, fashion, engineering, chemicals, motor vehicles and food. Italy is a member of the G8 group of industrialized countries.

Netherlands

The Netherlands, as the name indicates, is low-lying territory, with one third of the country at or below sea level. Many areas are protected from flooding by dykes and sea walls. Much land has been reclaimed from the sea, the Flevoland polder being the most recent example.
The Dutch Parliament (or Staten General) consists of two chambers. The first, with 75 members, is indirectly elected and has limited powers. The second chamber, or lower house, is directly elected and controls the government. Members of both houses serve a four-year term. Given the balance among Dutch political parties, all governments are coalitions.

Industrial activity is predominantly in food processing, chemicals, petroleum refining, electrical and electronic machinery. It has a dynamic agricultural sector. The port of Rotterdam is the busiest in Europe, serving a vast hinterland which stretches into Germany and central Europe. The Netherlands has a history of great painters. The 17th century was the age of the Dutch Masters, such as Rembrandt van Rijn, Johannes Vermeer and Jan Steen. The 19th and 20th centuries are no less remarkable for their high-calibre artists like Vincent van Gogh and Piet Mondriaan.

Spain
Spain is a constitutional monarchy, with a hereditary monarch and a bicameral parliament, the Cortes or National Assembly. Catalonia, the Basque Country and Galicia have special status with their own language and other rights under the

<table>
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<tr>
<th>Year of EU entry:</th>
<th>Founding Member</th>
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<tbody>
<tr>
<td>Political system:</td>
<td>Constitutional monarchy</td>
</tr>
<tr>
<td>Capital city:</td>
<td>Amsterdam</td>
</tr>
<tr>
<td>Total area:</td>
<td>41 864 km²</td>
</tr>
<tr>
<td>Population:</td>
<td>16.3 million</td>
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<td>Currency:</td>
<td>euro</td>
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constitution of 1978 which enshrines respect for linguistic and cultural diversity within a united Spain. The country is divided into 17 autonomous communities (regions) which all have their own directly elected authorities.

High plateaux and mountain ranges such as the Pyrenees and the Sierra Nevada dominate mainland Spain. Running from these heights are several major rivers such as the Ebro, the Duero, the Tagus and the Guadalquivir. The Balearic Islands lie offshore in the Mediterranean while the Canary Islands are to be found off the African coast.

Spain’s main economic sectors include agriculture (especially fruit and vegetables, olive oil and wine), fish, textiles, automobiles and tourism. From Velázquez in the 17th century, through Goya in the 18th and 19th, to Picasso, Dali and Miro in the 20th, Spain has a rich artistic culture. Spanish Flamenco music and dance are widely admired around the world while Cervantes’ novel Don Quixote is one of the landmarks of modern European literature. Spanish film directors such as Pedro Almodóvar, Alejandro Amenábar and Luis Buñuel have received several international prizes.
Apart from the seven major trading partners the detailed country profiles of which have been given in the foregoing pages, there are several other countries in the EU with which India has or is developing trading relations and they are by no means insignificant trading partners. Though their share in India's trade may be minuscule, yet they offer a plenty of promise in the form of new markets. As such an in-depth analysis has been done with regard to these countries as well in addition to the comprehensive analysis of the seven major trading partners as already described. These countries are: Austria, Cyprus, Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Luxembourg, Malta, Slovenia, Slovak Republic, Sweden, Luxembourg, Poland, Ireland, Greece, Portugal and Finland.