CHAPTER 1

Introduction

1.1 Introduction

The European Union which was established by the Treaty of Rome (1957) is the largest trading block in the world. It was basically an attempt by some European Countries to counter the economic might of the United States of America. Since its establishment it has acquired huge dimensions in terms of size and economic power.

India as an emerging power in Asia has had strong links with European Union since the very beginning. The trade relations between India and the European Union have been growing ever since. European Union is a major destination of India’s exports. Similarly, European Union is an important source of India’s imports. There is tremendous scope for expansion of trade between India and the EEC in terms of composition and diversification especially with the recent expansion of the Unified Market as a strong market of 27 nations.

International trade is as important as inter-regional trade. It encourages people to enjoy a more happy and prosperous life with a high standard of living. Foreign trade includes both exports and imports.

The exports are helpful in the economic growth on the one hand and sources of foreign exchange (required to pay for imports) on the other. In the new trading system surplus of our production is easily disposed in foreign markets. This disposition of surplus encourages more production. Larger production involves greater use of work force. As a result, greater employment and income is generated. Expansion of income leads to greater purchasing
power in the hands of people who in turn spend their income on goods produced in the economy. This increase in demand for goods causes an increase in production, income and employment. Ultimately, economy grows.

Similarly, significance of the imports cannot be ignored. The imports also play an important role in the development of the economy. Industrial development is the key to economic growth. It depends upon capital goods like machinery and equipments, infrastructural facilities like power, transport, communications etc. Agriculture also requires machines like tractors and other equipments for faster growth. A developing country does not have sufficient resources or technical know-how to produce such goods or even if it is producing these goods, the production may not be sufficient. This deficiency can be overcome by the imports. Thus, the productive capacity of the country increases. Further, when supply of essential goods like food and related items is not sufficient to satisfy domestic demand, imports are the only source to balance these two opposite forces.

The economic crisis of 1990-91, when foreign exchange reserves had plummeted to almost $ 1 billion (June, 1991), industrial production was falling and overall economic growth had declined to 1.1 percent (in 1991-92), makes our study more interesting and important during post-reform period. The economic reforms have enlarged its significance by curtailing different barriers. Ultimately, interdependence among nations expends.

During post-reform period, India’s foreign trade became more significant in general and India’s trade with European Union even most significant in particular, for the point of view of overall development. Therefore, in the next section, we switch over our discussion to the European Union.

1.2 Background

The term ‘union’ is defined as an organisation of members having similar goals and objectives. European Union is such an organisation of European
countries. The European Union (EU) is an economic and political union of 27 member states, located primarily in Europe. Committed to regional integration, the EU was established by the Treaty of Maastricht in 1993 upon the foundations of the European Communities. On May 27, 1952, the inherent dynamism of the new-born Europe prompted plans for two new communities—the European Defence Community (EDC) based on a treaty signed by the Six, viz. Germany, France, Italy, Belgium, the Netherlands and Luxembourg. The EDC’s aim was to integrate armed forces of Europe. The ministers of these six members called to prepare a plan for a political Community. However, on August 30, 1954, the French National Assembly rejected the plan outright. In the meeting at Mesina, at beginning of June 1955, the foreign ministers of ‘Six’ announced that they intended to continue the attempt to establish a United Europe so as to preserve Europe’s role in the World, restore its influence and prestige and steadily increase the standard of living of its people.

In February 1957, the council of the Organisation for European Economic Co-operation (OEEC) began negotiations for the establishment of a free trade area. At the same time then, these were two separate series of negotiations; one culminated in the Treaty of Rome signed by the Six on March 25, 1957 and the other in the formation of the European Free Trade Association (EFTA) on May 3, 1960. The Rome Treaties establishing the European Economic Community (EEC) and the European Economic Community (EURATOM), together with the Parishe Treaty, establishing the European Coal and Steel Community (ECSC), formed constitutions of the European Union. The EEC and EURATOM treaties entered into force on January 1, 1958.

These three European Communities; the EEC, ECSC and EURATOM, had the common aim of political union, and common methods of removing market barriers. The European Community was to lay the foundation of an ever-closer union among the people of Europe and by pooling resources to preserve and strengthen peace and liberty.
The development of the European Union has been made by several expansions. These expansions are shown as below:

**List of EU-27 Membership**

<table>
<thead>
<tr>
<th>Accession</th>
<th>State</th>
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<tbody>
<tr>
<td>March 25, 1957</td>
<td>Belgium</td>
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<td></td>
<td>France</td>
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<tr>
<td></td>
<td>Germany</td>
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<td>Italy</td>
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<td></td>
<td>Luxembourg</td>
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<td></td>
<td>Netherlands</td>
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<td>January 1, 1973</td>
<td>Denmark</td>
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<td></td>
<td>Ireland</td>
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<td></td>
<td>United Kingdom</td>
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<td>January 1, 1981</td>
<td>Greece</td>
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<td>January 1, 1986</td>
<td>Portugal</td>
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<td></td>
<td>Spain</td>
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<tr>
<td>January 1, 1995</td>
<td>Austria</td>
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<td></td>
<td>Finland</td>
</tr>
</tbody>
</table>
The EU enlargement with several expansions (as shown above) is being discussed here. The UK originally refused to play any part in the ECSC and the EEC. It was a founding member of the seven-country European Free Trade Association (EFTA) set up in 1960. Britain soon realised that it could not make its political influence through EFTA. Denmark also saw the EU as a free access to a common market, with its food production being three times the requirements of its population. Ireland also tried to enter into union in order to boost up its economic growth. Meanwhile, some other nations were into queue.
to get into union. On 9th August, 1961, Britain made its first formal application for full membership to the Union. On 9th and 10th November, 1961, the representatives of the six governments of the member states, held a meeting in Brussels with the British delegation led by Lord Privy Seal. He was appointed by the British Government to conduct negotiations on the accession of the U.K. to the Union. On 10th August, 1961, the Danish government the opening of the negotiations with a view to Denmark’s accession. The government of Ireland applied for an accession to the European Union on July 31, 1961. However, the British application was turned down by the French in 1963. In 1967, British applied again and once again, the attempt foundered against French reservation.

1.3 India’s Relations with EU

India has a multi-dimensional relationship with the EU which is our largest trading partner, biggest source of foreign direct investment, major contributor for development and important source of technology. India was first among Asian Nations to accord recognition to the European Community in 1962. Initially, our contacts with the community were limited to economic and commercial links since this was the extent of the community’s competence. As the Community evolved and took on a political dimension as well, India decided to establish a closer political relation with it.

1.3.1 Interdependence between India and the EU

Mr. Chris Pattern, Commissioner for External Relations of the European Commission, had observed on the 50th Anniversary of Europe Day and India’s 50th Republic Day that “as the two largest democratic entities in the world, partnership and cooperation between the EU and India is of key significance to world peace and prosperity”. However, these lofty sentiments notwithstanding, it is widely recognised that India-EU relations have so far lacked in depth, substance, and content.
These two traditional partners have shared five hundred years of history, unique bonds of democracy and Western democratic institutions, a common legal system, commitment to free press and rights of the individual, affinities of culture and language, India-Europe relations have singularly lacked in depth and substance. Politically, the hiatus of the Cold War era has not yet lifted; economically, the content of the relationship is meager; culturally, we have not been able to build upon this ‘asset’ to strengthen and shape our relations. On its part, the EU’s entrenched Cold War era perception of India has neither changed in substance nor provided a meaningful basis for a new partnership. For much of Europe, India is still an area of darkness with pervasive and hopeless poverty and social ills. For India, Europe is not yet central to our priorities, which appear to the ‘US-centric’ and display an almost unending and total preoccupation with domestic and sub-continental problems.

As we have already said that the EU is India’s major trading partner and the top source of foreign investment. On an average almost 25 percent of our exports are destined to EU, as against about 23 percent of our imports are the exports of the EU during the post-reform period. It is obvious that these two trading partner are mutually interdependent.

1.3.2 Trade Relations between India and the EU

The main motive behind the close linkages between India and the EU is economic progress. The EU has been India’s largest trading partner over the last forty years. More importantly, there has been a constant growth in EU-India trade during the post-reform period. As we have pointed out in the preceding section that the approximately one-fourth of our trade relation are made with the EU. EU’s major items of imports from India are textiles, readymade garments, gems and jewellery, leather and leather manufactures, chemical and related products, agriculture and allied products and engineering goods. Meanwhile, engineering goods, textiles and readymade garments constitute more than 45 percent of our exports to the EU. While, more than 33
percent of our imports from EU, is contributed by a single sector i.e. capital goods.

Still there is considerable scope for expansion in EU-India in a variety of products. The Medium Term Export Strategy announced by the Government of India has rightly stressed the need to have a comprehensive strategy towards trade expansion between India and its important trading partners. The Strategy projected various growth targets for different products for the 5-year period 2002 to 2007.

India’s foreign trade relations constitute the single most important plank of the EU’s external relations. After having established a common external customs tariff, as a corollary to its internal customs union, the European Union embarked on the road of a common trade policy. The EU had taken its place on the world stage as a trading partner in its own right and constituted, as a matter of fact, one of the largest trading blocks in the world.

1.3.3 The India-EU Strategic Partnership

In 2004, the Fifth India-EU Summit meeting at the Hague endorsed the proposal to upgrade the India-EU relationship to the level of a ‘Strategic Partnership’ and a Joint Action Plan (JAP) was adopted at the Sixth India-EU Summit meeting held in New Delhi in 2005.

With the advent of the 2003EU security strategy, a major shift could be detected in the way in which the EU was defining its relations with the world in general and in particular with India. The security strategy identified six countries, including India, for a strategic partnership, given their importance in contemporary international politics and their future role as well. From 2004 onwards, the India-EU strategic partnership has evolved with the adoption of the landmark Joint Action plan, which can be seen as the definitive blueprint detailing the areas of cooperation.
Economic Cooperation, Trade and the Environment

The introduction of the Euro has strengthened the EU’s role and responsibilities in the international monetary arena. In an increasingly interdependent and global economy, where the financial and monetary policies of one major economic actor affect others, India and the EU share a common interest in developing an in-depth policy dialogue on global financial and monetary issues. For this reason, India and the EU should promote exchange of views and information between relevant institutions and policy makers in the economic and financial domain. This would allow an exchange of views on macroeconomic and financial matters of common interest. Dialogue already taking place in various fora should be further strengthened. To this end it is agreed to; Exchange information on financial services regulatory policies, banking systems and accounting standards; encourage the European Investment Bank to continue its involvement in investment in India, and to explore strengthening it in the future.

Business Cooperation

The close association of industry and business in India-EU cooperation as well as dialogue between businesses from both sides are crucial to achieving the common goal of enhanced trade and investment. Industry and business of India and the EU are not only competitors but also partners. Regular business summits have been held since 2001. These summits have helped to create better understanding of the opportunities and obstacles in a broad variety of sectors. The recent phenomenon of Indian investments in EU especially in knowledge-based sectors of IT, Pharmacy, etc., has added a new dimension to overall India-EU economic relations. Both sides should build on those experiences to promote a strategic discussion on improving business links.

We have therefore decided to: Hold a Business Round Table on a regular basis together with the Business Summits. Industry Associations concerned on both sides will take appropriate action to continue the Business Summit and
Business Round Table initiatives. The Round Table will come up with innovative ideas to further trade and investment; Promote the development of networks for sectoral industrial cooperation and investment promotion; Further discuss strengthening of the existing information dissemination mechanism and explore the need for new instruments for facilitating EU-India trade and investment; Reinforce business-to-government dialogue based on the work undertaken under the Joint Initiative for Enhancing Trade and Investment, which should feed into the sectoral policy dialogues; Operationalise the Trade and Investment Development Programme (TIDP) Web portal to provide both sides with comprehensive information on trade and investment issues.

India and the EU are committed to creating the conditions necessary for sustainable economic development. Each recognises the interdependencies in the field of environment and the transboundary character of many environmental problems. As major global actors, both partners are fully conscious of their capacity to play a central role in international efforts towards better environmental global governance. India and the EU are signatories and active contributors to the main multilateral instruments, including the Kyoto Protocol, and the UN Convention on Biodiversity.

To realise our shared vision of making sustainable development a reality, India and the EU will seek to: Strengthen the dialogue on global environmental issues with a view to building mutual understanding in particular on the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol, the Montreal Protocol on Substances that Deplete the Ozone Layer, the UN Convention to Combat Desertification and the Convention on Biological Diversity; Hold meetings of the Joint Working Group (JWG) on Environment on a yearly basis and develop high level visits; Organise an India-EU environment forum in 2005 with stakeholders involving business, academia and civil society to exchange views and information; Hold an experts’ meeting to exchange views on voluntary eco labeling schemes; Identify key
environmental issues and approaches to sustainable development where exchange of experiences and cooperation could be mutually beneficial.

1.3.4 General Constraints in India and the EU Relations

Even after having important and beneficial relations, there are serious hindrance and constraints. For India, the EU is still a very difficult market to penetrate into. Indian businessmen are not familiar with the numerous and often confusing EU regulations and business practices. In some cases, language is still a problem. Some EU countries, apparently, prefer doing business with Africa, East and Southeast Asia of Latin America which they know better, rather than India. The EU practices highly restrictive trading arrangements for India as compared to her partners in Africa, Latin America and the Pacific Countries and in other leading countries, including in the Mediterranean and Southern Africa. Market access, therefore, is the most important constraints for India particularly when India has counted with layers of preferential treatment accorded with some other countries.

There are a large number of tariff and non-tariff barriers which have become major deterrents. For example, the EU’s health, sanitary and psytosanitary, quality and standards and environmental and social laws are seen by many as a major hindrance for developing countries in doing business with the EU. Briefly, India has a serious market access problem in the EU and to make matters more difficult the application of EU laws do not always appear to be transparent. The growing number of anti-dumping cases against India, for example, is and evidence of this aspect of the problem of market access. The EU’s Generalized System of Preferences (GSP) Scheme for developing countries is also being phased out and made highly conditional.

India has already been excluded from this scheme in many important sectors. On the basis of some estimates, Indian exports to the EU could double in a more liberal and more open environment, notably for products like textiles, garments, gems and jewellery, leather and leather products, electronics goods,
agricultural and allied products, chemicals etc. The EU’s stringent work permit rules also make it difficult for Indian experts and workers to operate from the EU countries. It is not easy to open our corporate offices in the member nations of the EU.

Without any hesitation, we can say that our exports to the EU have failed to reach their potential capacity. The EU, on its part, has a list of its own complaints. The Indian market is still seen to be restrictive and protected; it is perhaps true that Indian tariffs are among the highest in the world. India’s complex business and bureaucratic practices are rightly cited as major deterrents. India is still seen as a country of delays, sometimes unethical and non-transparent practices are generally displaying a negative attitude towards business and investments; also, India is seen as a country embroiled in political uncertainties, domestic problems and regional tensions. Briefly, the perception of India as a partner in business and commerce is still somewhat negative. The attitude of the Western media and the generally sensational and uninformed reporting on India does not help matters. We themselves are not able to project our positive and impressive image in some places of Europe.

Both of these trading partners also have differences with their own interests and perceptions in WTO, UNCTAD, the UN system. While the European Union has, generally, espoused the interests of the developed countries of Europe, India has done so for the developing world. For example, India and the EU hold different views on issues like a new round of Multilateral Trade Negotiations, the so-called ‘new issues’ sought to be included in the WTO agenda, viz. the social clause, the multilateral agreement on investments, competition policy and a host of other issues. There are fundamental differences in the construction of a new international economic environment and in the pattern of the development path.

The differences between the perceptions and interests of India and the EU are obviously exposed in the context of the Doha Ministerial Meeting of WTO. While, broadly speaking, the EU would like a new and comprehensive round of
Multilateral Trade Negotiations (MTN) to commence soon; India preferred that the Doha Meeting ought to first address the unresolved and pending issues flowing from the Uruguay Round agreements. The EU, on the other hand, believes that all issues, including implementation issues, could be addressed in a comprehensive new round with a broad-based agenda. The European Union and the developed countries would like issues such as market access, competition policy, agriculture, industrial tariffs, trade facilitation, TRIPs, government procurement, investments, social issues, and the so-called sensitive sectors to be on the agenda for Doha. India has reservations on most of these issues and would like to place on the table issues such as progress in implementation, movement of natural persons review of the TRIPs Agreements to safeguard the interests of developing countries, and issues of market access including specifically non-tariff barriers and other impediments to free trade. Briefly, India would not like any non-trade related issues to be raised under the aegis of WTO which is essentially meant to provide a platform for discussing trade related issues and rule making to ensure free flow of trade among countries.

Although, India and the EU have fundamental differences on some of these issues and the scope of the Doha Ministerial Meeting, yet both of them share broad convergences on other fundamental issues. For example both India and the EU believe that free and unhindered international trade is good for the economic health of both the regions. The rapid growth and development of the developing countries is beneficial for the developed counties and vice versa. Both India and the European Union support a rule-based international trading system which is non-discriminatory, open, and equitable. Both India and the EU would like a global economic and commercial infrastructure to emerge in which all countries have a stake and an equal voice. Both believe that development assistance and technology transfer to developing countries should take place on a non-reciprocal and concessional basis. Indeed, the EU’s development assistance to India, particularly in sectors such as health, primary education poverty alleviation, afforestation, etc., has been an important
contribution to India’s socio-economic development. Both India and the EU have agreed that special provisions should be made for the least developed countries in order to fulfil their special needs and requirements.

One more difference between India and the EU has been seen regarding nuclear ‘proliferation’. Where India seeks time-bound global and complete nuclear disarmament, the EU is seemed to be in favour adopting an ad hoc fire fighters’ approach. India is situated in a highly nuclearised environment and neighbourhood and cannot afford to give up her minimum nuclear deterrent purely for defence purposes without a global agreement on the elimination of all weapons of mass destruction. The differences between India and the EU on the Comprehensive Test Ban Treaty (CTBT) and the Nuclear Non-Proliferation Treaty (NPT) stem from this differing approach. Like Europe, India would take a lead in calling for time-bound global nuclear disarmament as also for a common fight against global terrorism, particularly cross-border State sponsored terrorism, narcotics and the nexus between criminals and sponsors of these evils. India and the EU share a common commitment to democracy, development, non-proliferation and global peace and security and fight against this global war.

**Some Other Constraints**

Even after expressing some recognitions and reaffirmation in the India-EU Joint Declaration, issued after the first summit meeting held in Lisbon on 28 June 2000, India-EU relations are based on immutable and enduring bonds of democracy, pluralism, respect for the rights of the individual and law and order and an independent judicial system, press and media. However, notwithstanding these strong shared bonds, there are fundamental differences between the perspectives of the EU and India. Some of our thinkers feel that the EU has been less than sympathetic to and supportive of a democratic secular India, one of the few countries to practice democracy in the developing world against overwhelming odds. The Cold War policies of maintaining ‘equi-
distance’ between Indian and Pakistan have caused the EU to continue to look at the Indian subcontinent from the Cold War prism. The EU’s failure, some argue, to forthrightly support Indian democracy, secularism and pluralism when it came and continues to remain under pressure from cross-border terrorism, subversion and destabilization is inexplicable and many in India wonder whether the EU practices a policy of political expediency rather than of the lofty principles which are the basis of our respective societies. These have been specifically reiterated in the Joint Declaration which commits the two sides to cooperate in combating terrorism and the threat terrorism poses to democratic societies. Likewise, the EU’s views on fundamentalism and religious extremism appear at times to be confusing and equivocal. The EU’s refusal, so far, to forthrightly condemn cross-border State-sponsored terrorism against democratic countries is a cause for concern to thinkers in India who look to the EU to take an active and leading role on these hot issues.

Regarding some social issues, the EU reveals lack clear understanding of the perspectives of countries like India. While India and the EU share a common commitment to human rights and individual freedom, many would argue that there is no such thing as the human rights of terrorists and criminals who indulge in wanton killing of innocent unarmed civilians. There is a difference between human rights and legal processes; a fair and transparent trial must, of course, be available to everyone; but human rights are primarily the rights of those who are victims of terrorism and exploitation. The persons, who do not believe in universal human values, can obviously not claim any protection in the garb of human rights. The view from the EU, quite clearly, is not in consonance with the realities on the ground in India. There is also a suggestion that on some of these issues, the EU’s policies and prescriptions at times, are far too intrusive and even penal in nature, thus rendering them counterproductive. If the EU does want to assist in promoting and upholding these high universal principles, it must adopt a more soft and helpful nature.
Having discussed the problems and constraints in the above paragraphs, we can say that India and the EU are the complements for each other in the pursuit of their respective field of interests. Even after various differences and constraints, the EU is India’s largest trading partner with the prospect of cooperation and growth in bilateral relations. With over 400 million inhabitants, the EU is the largest economic entity in the world, representing about 40 per cent of world trade; if someone were to take into account its proposed eastward expansion and the imminent integration of 11 countries of Central Europe and beyond into the EU, the opportunities become even more enlarged and obvious. We must avail seriously the advantage of its rapidly evolving environment. For India, the EU is an indispensable partner and the time is propitious for India and the EU to forge new partnerships reflecting the full potential of the possibilities.

1.3.5 The Commercial Cooperation Agreements and India-EU

A number of Co-operation Agreements have been made between India and the EU. The institutional basis for EU-India political dialogue is a Joint Political Statement signed simultaneously with the 3rd generation Co-operation Agreement. It fixed annual ministerial meetings, and opened the door to a broad political dialogue. Fixing annual ministerial meetings, this dialogue has opened the door to a broad political dialogue. In order to make a comprehensive discussion in this regard, we consider some of important cooperations in the following systematic way.

1.3.6 India-EU Cooperation

The EU contributed 20.42 percent for India’s imports and 21.86 percent of our exports in the year 2002-03. The EU and its Member States collectively make the biggest bilateral contribution to India's development programmes. Since 1976, the European Commission has committed €2 billion to India in development assistance, and has devoted some €225 million to development
and economic co-operation with India over the next 5 years. This is in addition to substantial humanitarian assistance offered, particularly in response to drought and floods. India and the EU have been working towards building a comprehensive relationship that spans a wide variety of areas. The 1994 Cooperation Agreement between the EU and the Republic of India on partnership and development provides for respect of human rights and democratic principles as the basis for EU-India cooperation. The institutional basis for EU-India political dialogue is a Joint Political Statement signed simultaneously with the Cooperation Agreement. The Commission Communication on an ‘EU-India Enhanced Partnership’ of June 1996 advocates pursuit of an equilibrium between economic growth, social progress and environmental conservation and sets the stage for a comprehensive relationship between equal partners. The EU-India Summits held in Lisbon and New Delhi in June 2000 and November 2001 have set out action plans for the major policy areas of the EU-India relationship, including development cooperation and the broadening of economic cooperation in different sectors such as transport, energy, IT, environment, science and technology, trade and investment development.

On 29 November 2003, the fourth EU-India Summit took place in New Delhi to further strengthen ties. During the run-up to the Summit, the EU Cultural Weeks 2003 staged different cultural events in New Delhi and in five other cities. Some of the made during this summit are as below;

a) EU-India Trade and Investment Development Programme

The programme TIDP, with an outlay of € 15 million towards technical assistance, will focus on smoothening the process of trade and investment, with the aim of bringing these closer to the potential that exists. The details regarding the modalities for administering the programme have been agreed in the form of a Financing Agreement for the TIDP. Access to accurate information, training, contacts between Indian and European counterparts, and
sharing of best practices are central to the TIDP. The main objective of the programme is to improve the day-to-day working practice of the target groups, like agencies dealing with trade flows and economic actors on both sides. TIDP focuses on tackling impediments to smooth trade and investment through co-operation in such fields as certification, sanitary and phyto-sanitary standards, investment facilitation, intellectual property rights and raising awareness in the modern life.

b) **India-EU Customs Co-operation Agreement**

Since India and the EU are growing as major trading partners to each other and are therefore significant users of custom procedures. Both of these partners successfully finalised the EU-India Bilateral Agreement on Customs Co-operation, a new instrument confirming the parties' joint commitment to further deepening co-operation and developing more efficient and transparent custom procedures. The main objectives include trade facilitation by increasing mutual understanding, harmonisation and simplification of customs procedures; fighting against fraud related to Indian and European legislation by providing a legal basis for mutual administrative assistance (exchange of information and carrying out of enquiries on request). Computerisation of customs procedures, training and exchanges of officials is the main concerned regarding application.

c) **Implications of Common Currency Union**

A group of partner countries may decide to form, or join, a monetary union in expectation that the current and future benefits exceed costs. There is an increased usefulness of money stemming from the liquidity services provided by a single currency circulating over a wider area - as a unit of account, medium of exchange, standard for deferred payments, and store of value. In this regard, the EU has decided to adopt a common currency i.e. euro. The name *euro* was officially adopted on 16 December 1995. However, it was introduced to world financial markets as an accounting currency on 1 January
1999, replacing the former European Currency Unit (ECU) at a ratio of 1:1. Euro coins and banknotes entered circulation on 1 January 2002.

The euro (sign: €; code: EUR; plural: euros) is the official currency of the eurozone: 16 of the 27 Member States of the European Union (EU). It is also the currency used by the EU institutions. The eurozone consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Estonia is due to join the eurozone on 1 January 2011.

**List of Eurozone-16 Membership**

<table>
<thead>
<tr>
<th>State</th>
<th>Adopted</th>
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<tbody>
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<td>2. Belgium</td>
<td>January 1, 1999</td>
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<td>3. Finland</td>
<td>January 1, 1999</td>
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<td>4. France</td>
<td>January 1, 1999</td>
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<td>5. Germany</td>
<td>January 1, 1999</td>
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<td>6. Ireland</td>
<td>January 1, 1999</td>
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<td>7. Italy</td>
<td>January 1, 1999</td>
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<tr>
<td>8. Luxembourg</td>
<td>January 1, 1999</td>
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<tr>
<td>9. Netherlands</td>
<td>January 1, 1999</td>
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<tr>
<td>10. Portugal</td>
<td>January 1, 1999</td>
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<tr>
<td>11. Spain</td>
<td>January 1, 1999</td>
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<tr>
<td>13. Slovenia</td>
<td>January 1, 2007</td>
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</table>
Eleven countries (i.e., Denmark, Sweden, the United Kingdom, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Romania) are EU members but do not use the euro. Before joining the eurozone, a state must spend two years in the European Exchange Rate Mechanism (ERM II). Since 1 January 2009, the National Central Banks (NCBs) of Estonia, Latvia, Lithuania, and Denmark have been participating in ERM II. The remaining currencies are expected to follow as soon as they meet the criteria. Few countries have declared a target date, and only Estonia has gained approval to join on 1 January 2011.

The 1992 Maastricht Treaty obliges most EU Member States to adopt the euro upon meeting certain monetary and budgetary requirements, although not all states have done so. The United Kingdom and Denmark negotiated exemptions, while Sweden turned down the euro in a 2003 referendum, and has circumvented the obligation to adopt the euro by not meeting the monetary and budgetary requirements.

The euro is the second largest reserve currency (a status it inherited from the German mark) as well as the second most traded currency in the world after the U.S. dollar.

The monetary policy of all countries in the eurozone is managed by the European Central Bank (ECB) and the European System of Central Banks (ESCB) which comprises the ECB and the central banks of the EU states that have joined the zone.
Evidence on the Effect of the Introduction of the Euro

In conformity with the economic predictions, empirical studies have found that the introduction of the euro has had a positive impact on the movement of goods, financial assets, and people within the eurozone. In addition, countries which previously had weak currencies have benefited from lower interest rates and their firms now have easier access to capital.

i) Trade

The consensus from the studies of the effect of the introduction of the euro is that it has increased trade within the eurozone by 5% to 10%. A recent study estimates this effect to be between 9 and 14%. Nevertheless, a recent meta-analysis of all available studies suggests that the prevalence of positive estimates is caused by publication bias and that the underlying effect may be negligible.

ii) Investment

We have found a positive effect of the introduction of the euro on investment. Physical investment seems to have increased by 5% in the eurozone due to the introduction. Regarding foreign direct investment, a study found that the intra-eurozone FDI stocks have increased by about 20% during the first four years of the EMU. Concerning the effect on corporate investment, there is evidence that the introduction of the euro has resulted in an increase in investment rates and that it has made it easier for firms to access financing in Europe. The euro has most specifically stimulated investment in companies that come from countries that previously had weak currencies. A study found that the introduction of the euro accounts for 22% of the investment rate after 1998 in countries that previously had a weak currency. The effect is however
less clear for firms coming from the strong currency countries; the introduction has not been beneficial for most of them.

**iii) Inflation**

The introduction of the euro has led to extensive discussion about its possible effect on inflation. In the short term, there was a widespread impression in the population of the eurozone that the introduction of the euro had led to an increase in prices. Paradoxically, this impression has not been supported by general indices of inflation, showing no major effect of the introduction of the euro. A study of this paradox has found that it is due to an asymmetric effect of the introduction of the euro on prices: while it had no effect on most goods, it had an effect on cheap goods which have seen their price round up after the introduction of the euro. The study found that consumers based their beliefs on inflation of those cheap goods which are frequently purchased. It has also been suggested that the jump in small prices may be because prior to the introduction, retailers made fewer upward adjustments and waited for the introduction of the euro to do so.

**iv) Exchange Rate Risk**

One of the advantages of the adoption of a common currency is the reduction of the risk associated with changes in currency exchange rates. It has been found that the introduction of the euro created "significant reductions in market risk exposures for nonfinancial firms both in and outside of Europe". These reductions in market risk "were concentrated in firms domiciled in the eurozone and in non-Euro firms with a high fraction of foreign sales or assets in Europe". These changes were however "statistically and economically small".
1.4 Objectives of Present Study

During and reforms period, the signs of the payment crisis became evident in the second half of 1990-91 when the half war led to a sharp increase in oil prices. Foreign exchange reserves began to decline from September 1990. The foreign exchange reserves declined from a level of Rs. 5480 crore ($ 3.11 billion) at the end of August 1990 to Rs. 1666 crores on 16 January 1991. The crisis reached further to its peak of ($ 1 billion) in the summer of 1991.

In order to overcome from this crisis, a bundle of attempts had been made. This bundle is termed as economic reforms. Globalisation, liberalisation and inception of WTO have been lubricating the wheels of external trade that is taken as engine of economic growth. As we know our major trading partner among individual nations is named as USA, while the EU in the leader among trading blocks. It is also observed to have excess potentiality of growth in the foreign trade with EU regions. In order to extract this potential and to avail the situation we should make our trade relation even more strong with EU. Therefore, the requirement of this situation is to study, work and to search more innovative ideas in this direction.

In view of the above, the present study is designed:

1. to examine the trends of our exports to the EU,
2. to determine the impact of imports of capital goods from EU on India’s exports of manufactures,
3. to analyse the impact of WTO on India’s trade performance,
4. to examine and analyse the problems and prospects of expansion of trade relations between India and the EU.

1.5 Hypotheses

In the light of these objectives, the following hypotheses are tested for the purpose of present study:
I. India’s terms of trade with EU has not deteriorated during post-WTO era,

II. Import of capital goods from EU has not led to the significant increase in exports of manufactured goods to EU.

The study would make recommendations for overcoming the constraints and the prospective scenario in the light of its findings.

1.6 Plan of the Study

In order to conduct the present study in a planned manner, the following seven chapters have been prepared.

Chapter 1, Introduction: In this chapter, the introduction, background and India’s relation with EU are discussed. The topics included here are; Introduction, Background, India’s Relations with EU, Objective of present study, Hypotheses and Plan of the Study.

Chapter 2, Review of Literature: The literature collected from given sources has been reviewed in this chapter. It includes Introduction and Some Theoretical Development.

Chapter 3, Methodology: This is prepared for methods and techniques used. It contains Introduction, Data Collection and Analysis.

Chapter 4, India’s Exports to EU: This chapter has been prepared for analysis of trends in the exports that contains Introduction, Volume of India’s Exports, India’s Exports to EU, Composition of India’s Exports to EU, Direction of India’s Exports to EU and Reasons for Inadequate Growth Performance of India’s Exports to EU.

Chapter 5, Trends in India’s Imports from EU: In this chapter a time profile of India’s imports from the EU has been discussed. The topics of this chapter are: Introduction, Volume of India’s Imports, India’s Imports from EU, Composition of India’s Imports from EU, Sources of India’s Imports from EU,
Implications of J-Curve, India’s Commodity Terms of Trade with EU and the Regression of Exports of Manufactured Goods on Imports of Capital Goods.

Chapter 6, The Implications of Ongoing Economic Reforms on Indo-EU Trade: After discussing the introduction of the EU and its trade relations with India, we include the topics: Introduction, Emerging Scenario in the Post-Reform Period, Consequences and Implications for India, Problems and Prospects, and Prospects of India’s exports.

Chapter 7, Summary and Conclusions: This is the last chapter of our study. Topics discussed here are as- Introduction, Summary of Findings, Policy Implications and Limitations of the Study.