Chapter V
INDIA’S STRUCTURAL CHANGES WITH EUROPEAN UNION AND ITS FOREIGN TRADE POLICY

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CHAPTER V
INDIA’S STRUCTURAL CHANGES WITH EUROPEAN UNION AND ITS FOREIGN TRADE POLICY

5.1 Introduction:-

This is the fifth and important chapter of this study. In this chapter we studies the India’s structural changes with respect to European Union and India’s foreign trade policy of study period (1990-2005) and we will also study that which support to help India, agreement of trade and tariffs, given by EU to or for India, firstly we will study the structural changes between India and the European Union.

Generally there were two main sub points of foreign trade; first was structure of foreign trade and second one is direction of foreign trade. Under this study the structure of India’s foreign trade with respect to European Union. There were also two sub points of structure of foreign trade, first was import structure and second was an export structure. Import structure means, which goods and services are imported by India from EU it’s called as import structure and export structure means, which goods and services are exported by India to the EU it’s called as exports structure.

Historical trend of the composition of the India’s exports to the European Union shows that India has never been a very prominent exporter of hi-tech items. A close look at the composition of its exports reveals that rather exporting primary and labour intensive low value added manufactured goods. This was the basic feature of India’s exports to the European Union.

Nearly 70 per cent of India’s exports to EU comprise of commodities which included, fish and crustaceans, edible fruits and nuts, coffee, tea, mate and spices, articles of leather, organic chemicals, cotton, carpets, articles of apparel and clothing, footwear, precious stones.

The residual exports of about 30 per cent comprising cereals, fats and oils, tobacco manufactures, plastic, rubbers, iron and steel, electrical machinery, miscellaneous goods etc.¹

5.2 Product-wise analysis of India’s exports to European Union:-

Product wise analyses of the India’s exports to the European Union are as follows:
5.2.1 Fish, crustaceans, molasses and other aquatic invertebrates:

India’s Exports of Fish, crustaceans, molasses and other aquatic invertebrate product to EU has been indicated increrasing trend for the past several years i.e. 1996-97 to 2006-07, the exports has grown more rapidly from Rs. 72171.60 Lakhs in 1996-97 to Rs. 117430.97 Lakhs in 2001-02. In 2001-02 this product represented 2.42 per cent of total exports to EU. In 2005-06 fish, crustaceans, represented fall down to 1.72 per cent (Table No 5.1).

### Table No. 5.1

**INDIA’S EXPORTS TO EUROPEAN UNION**

(Valued in Rs. Lakhs)

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<tbody>
<tr>
<td>1</td>
<td>03</td>
<td>Fish and crustaceans,</td>
<td>72,172.06</td>
<td>39,566.11</td>
<td>61,252.19</td>
<td>84,847.29</td>
<td>104,799.9</td>
<td>117,430.9</td>
<td>147,222.9</td>
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<td>157,406.1</td>
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<td>2</td>
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<td>Coffee, tea, mate, &amp; spices.</td>
<td>101,806.4</td>
<td>155,233.0</td>
<td>170,649.13</td>
<td>146,842.54</td>
<td>117,838.6</td>
<td>110,028.8</td>
<td>108,635.9</td>
<td>112,192.3</td>
<td>113,592.0</td>
<td>141,172.06</td>
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<td>Organic chemicals</td>
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<td>143,457.0</td>
<td>143,291.87</td>
<td>164,433.39</td>
<td>204,594.6</td>
<td>214,769.8</td>
<td>276,107.2</td>
<td>332,199.7</td>
<td>386,876.6</td>
<td>484,427.60</td>
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<td>30</td>
<td>Pharmaceutical products</td>
<td>55,616.99</td>
<td>86,315.28</td>
<td>55,825.68</td>
<td>58,966.47</td>
<td>80,800.22</td>
<td>71,782.68</td>
<td>103,500.1</td>
<td>124,819.8</td>
<td>166,126.3</td>
<td>191,723.7</td>
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<td>42</td>
<td>Articles of leather</td>
<td>184,175.2</td>
<td>225,693.1</td>
<td>252,177.53</td>
<td>234,929.98</td>
<td>288,661.8</td>
<td>361,018.8</td>
<td>253,122.7</td>
<td>291,186.0</td>
<td>304,366.2</td>
<td>352,488.58</td>
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<td>6</td>
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<td>Cotton</td>
<td>190,866.5</td>
<td>194,772.8</td>
<td>202,112.94</td>
<td>180,754.38</td>
<td>196,366.9</td>
<td>138,928.3</td>
<td>214,770.0</td>
<td>205,780.8</td>
<td>188,840.0</td>
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<td>7</td>
<td>57</td>
<td>Carpets and other textile floor coverings.</td>
<td>118,904.1</td>
<td>108,664.0</td>
<td>113,234.90</td>
<td>132,486.41</td>
<td>116,315.0</td>
<td>107,796.8</td>
<td>111,913.0</td>
<td>159,902.3</td>
<td>152,014.3</td>
<td>205,085.78</td>
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<td>8</td>
<td>61</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted.</td>
<td>177,471.0</td>
<td>165,977.4</td>
<td>230,662.79</td>
<td>281,534.18</td>
<td>296,957.6</td>
<td>371,597.4</td>
<td>518,085.1</td>
<td>554,052.3</td>
<td>561,951.6</td>
<td>730,455.50</td>
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<td>62</td>
<td>Articles of apparel and clothing accessories, knitted or crocheted.</td>
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<td>367,165.7</td>
<td>437,055.27</td>
<td>424,928.98</td>
<td>519,045.1</td>
<td>488,512.6</td>
<td>563,979.5</td>
<td>577,153.2</td>
<td>638,962.5</td>
<td>1,002,757.44</td>
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<td>10</td>
<td>63</td>
<td>Made up textile articles</td>
<td>119,582.5</td>
<td>114,915.2</td>
<td>142,082.48</td>
<td>170,423.73</td>
<td>209,151.6</td>
<td>208,682.4</td>
<td>208,840.6</td>
<td>208,009.5</td>
<td>342,190.5</td>
<td>397,998.65</td>
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<td>11</td>
<td>64</td>
<td>Footwear</td>
<td>225,815.2</td>
<td>258,442.5</td>
<td>294,131.47</td>
<td>516,946.14</td>
<td>507,145.3</td>
<td>573,379.3</td>
<td>676,434.0</td>
<td>677,037.0</td>
<td>829,355.2</td>
<td>314,195.59</td>
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<td>12</td>
<td>71</td>
<td>Pearls, precious or semiprecious stones</td>
<td>316,144.6</td>
<td>368,442.5</td>
<td>394,341.87</td>
<td>516,946.14</td>
<td>507,145.3</td>
<td>573,379.3</td>
<td>676,434.0</td>
<td>677,037.0</td>
<td>829,355.2</td>
<td>905,711.48</td>
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<td>13</td>
<td>72</td>
<td>Iron and steel</td>
<td>33,722.80</td>
<td>70,473.53</td>
<td>63,792.72</td>
<td>62,083.95</td>
<td>83,053.65</td>
<td>61,494.14</td>
<td>77,226.02</td>
<td>116,192.8</td>
<td>489,379.0</td>
<td>307,787.21</td>
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<td>14</td>
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<td>Articles of iron or steel</td>
<td>31,963.01</td>
<td>44,815.04</td>
<td>46,984.33</td>
<td>56,012.09</td>
<td>82,799.89</td>
<td>87,045.23</td>
<td>113,975.8</td>
<td>149,372.9</td>
<td>218,831.4</td>
<td>256,554.29</td>
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<td>15</td>
<td>84</td>
<td>Nuclear reactors, boilers, machinery.</td>
<td>69,083.05</td>
<td>90,166.57</td>
<td>96,982.45</td>
<td>111,294.46</td>
<td>150,600.8</td>
<td>159,362.1</td>
<td>178,940.9</td>
<td>256,126.5</td>
<td>324,227.7</td>
<td>442,163.56</td>
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<td>16</td>
<td>85</td>
<td>Electrical machinery.</td>
<td>66,120.71</td>
<td>56,829.72</td>
<td>65,057.23</td>
<td>84,408.29</td>
<td>141,972.3</td>
<td>258,166.0</td>
<td>261,855.7</td>
<td>258,949.9</td>
<td>327,007.66</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>3,418,515</td>
<td>3,409,423</td>
<td>3,872,294</td>
<td>4,188,485.1</td>
<td>4,885,565</td>
<td>4,843,287</td>
<td>5,752,462</td>
<td>6,670,563</td>
<td>8,199,557</td>
<td>10,284,222</td>
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</tbody>
</table>
Note: - Figures in bracket indicate the percentage to exports.
Source: - Department of Commerce and Ministry Export Import Data Bank (www.commerce.nic.in)

5.2.2 Coffee, tea, mate and spices:-

India’s exports of coffee, tea, mate and spices to EU also showing rising trend for the past several years, Rs. 107006.42 Lakhs in 1996-97 to Rs. 110028.84 Lakhs in 2001-02 and Rs. 146910.99 Lakhs in 2005-06. It represents 3.49 per cent share in 2001-02 and 1.42 per cent in 2005-06 it means its share in exports start to decline (Table No 5.1).

5.2.3 Tobacco and manufactured tobacco substitutes:-

According to Table No 5.1 India’s exports of tobacco and its substitutes to EU assumed great importance in 1996-97 it exports Rs. 32379.99 Lakhs, its decline to Rs. 28246.13 Lakhs in 2001-02 and it increased to Rs. 42349.40 Lakhs in 2005-06. It represents 0.41 per cent of total exports to EU in 2005-06 whether it was 1.02% in 1996-97. Means share of tobacco exports to EU declined slightly.

5.2.4 Organic chemicals:-

According to Table No 5.1, Organic chemicals are important items of Indian exports. India exports to EU were Rs. 102521.60 Lakhs in 1996-97 it was 3.25 per cent of India’s total exports to EU. In 2001-02 it reach to Rs. 204769.86 Lakhs (4.22 per cent) of India’s total exports to EU, and in 2005-06 exports of this item reach to Rs. 484427.60 Lakhs (4.71 per cent) of India’s total exports to EU.

5.2.5 Pharmaceutical products:-

Pharmaceutical products are also an important item of Indian exports, India exports to EU of this product were Rs. 71782.68 Lakhs (1.48 per cent) of India’s total exports to EU in 2001-02 it increased from Rs. 55616.99 Lakhs in 1996-97 but in the view of per centage it decreased from 1.76 per cent in 1996-97 to 1.48 per cent in 2001-02, and finally it shows rise to Rs. 179324.87 Lakhs (1.74 per cent) of India’s total exports to EU in 2005-06. Means pharmaceutical products show increase and decrease both from 1996-97 to 2005-06 (Table No 5.1).

5.2.6 Tanning or dyeing extracts:-

Tanning or dyeing extracts is a new product included in composition of India’s exports to European Union. India exports to EU Rs. 52562.69 Lakhs (1.66 per cent) of its total exports to EU in 1996-97. Share of this product in India’s exports to EU were
increased but at a view of per cent it decreased, it was Rs. 68034.28 Lakhs (1.40 per cent) in 2001-02 and Rs. 111900.90 Lakhs (1.08 per cent) of India’s exports to EU in 2005-06 (Table No 5.1).

5.2.7 Plastic and articles thereof:-

Table no 5.1 indicates the data of India’s exports to EU of plastic and articles thereof, India’s exports to EU were Rs.44178.34 Lakhs (1.40 per cent) of India’s total exports to EU in 1996-97, Rs. 59230.25 Lakhs (1.22 per cent) in 2001-02 and in 2005-06 its increased to Rs. 160257.89 Lakhs (1.55 per cent) of total exports of India to EU.

5.2.8 Raw hides and skins:-

Exports of raw hides and skins are displays by the table no 5.1, this is a historical products of India’s export to Europe. Before independence India’s foreign trade was small, it only with the UK. India’s exports of raw hides and skins to EU were Rs. 56619.03 Lakhs (1.79 per cent) of total exports to EU in 1996-97, its increased to Rs. 100996.78 Lakhs (2.08 per cent) of India’s total exports to EU in 2001-02, but in 2005-06 it was rapidly decrease to Rs. 83352.41 Lakhs (0.81 per cent) of total exports to EU.

5.2.9 Articles of leather:-

Leather and its articles is another important item of India’s exports to EU. Table No 5.1 reveals that India’s exports to EU of this product were Rs. 184175.27 Lakhs (5.84 per cent) of India’s total exports to EU in 1996-97, Rs. 261018.86 Lakhs (5.38 per cent) of total exports to EU in 2001-02, it decrease to Rs. 352488.58 Lakhs (3.42 per cent) of total exports to EU in 2005-06.

5.2.10 Cotton:-

Cotton is also a historical and important item of India’s exports to EU, India exports to EU were Rs. 190066.59 Lakhs (6.03 per cent) of India’s total exports to EU in 1996-97, exports of cotton to EU decreased to Rs. 183928.61 Lakhs (3.79 per cent) of total exports to EU in 2001-02 and in 2005-06 its reach to Rs. 206058.39 Lakhs (2.00 per cent) of total exports to EU by India (Table No 5.1).

5.2.11 Carpets and other textile floor coverings:-

Table no 5.1 shows the India’s exports of carpets and other textile floor coverings to EU, it was Rs. 118904.19 Lakhs (3.77 per cent) of India’s total exports to EU in 1996-97, its decreased to Rs. 107798.66 Lakhs (2.22 per cent) of total exports
to EU in 2001-02 and in 2005-06 its decreased to 1.99 per cent of total exports of India to EU.

5.2.12 Articles of apparel and clothing:-

According to Table No 5.1 it shows the data of India’s exports to EU, articles of apparel and clothing is important item of India’s exports to EU, India’s exports to EU were Rs. 567407.61 Lakhs (18.02 per cent) of total exports of India to EU in 1996-97, its increased numerically but at a view of per cent it decreased, it was Rs. 860110.10 Lakhs (17.75 per cent) in 2001-02 and Rs. 1733212.94 Lakhs (16.85 per cent) of total exports to EU in 2005-06.

5.2.13 Made-up textile:-

India’s exports of made-up textiles to EU had been showing rising trend in table no 5.1, exports to EU were Rs. 119582.59 Lakhs (3.79 per cent) of total exports to EU in 1996-97. Share of this product in exports of India to EU increased to Rs. 208682.47 Lakhs (4.30 per cent) of India’s total exports to EU in 2001-02, and in 2005-06 its reach to Rs. 397998.65 Lakhs (3.86 per cent) of total exports to EU.

5.2.14 Footwear:-

Footwear is also an important item of India’s exports to EU Table No 5.1 shows the data of India’s exports to EU, according to table India’s exports to EU were Rs. 125815.29 Lakhs (3.99 per cent) of India’s total exports to EU in 1996-97. It increased to Rs. 232832.59 Lakhs (4.30 per cent) of total exports to EU and in 2005-06 it has seen Rs. 349149.00 Lakhs (3.39 per cent) of India’s total exports to EU.

5.2.15 Iron and steel:-

EU has also emerged as an important market for Indian iron and steel. India’s exports to EU were Rs. 65735.81 Lakhs (2.08 per cent) of India’s total exports to EU in 1996-97. Exports of iron and steel increased to Rs. 148460.17 Lakhs (3.06 per cent) of total exports to EU in 2001-02 and Rs. 564341.50 Lakhs (5.48 per cent) of total exports to EU in 2005-06 (Table No 5.1).

5.2.16 Nuclear reactors, boilers and machinery:-

This is a new item of India’s exports to EU; India exports to EU were Rs. 69083.05 Lakhs (2.19 per cent) of India’s total exports to EU in 1996-97. Exports of this product increased to Rs. 159362.15 Lakhs (3.29 per cent) of India’s total exports to EU in 2001-02 and Rs. 442163.56 Lakhs (4.29 per cent) of total exports to EU (Table No 5.1).
5.2.17 Electrical machinery:-

Electrical machinery is also an important exports product of India to EU, India exports to EU was Rs. 68120.71 Lakhs (2.16 per cent) of India’s total exports to EU in 1996-97, exports of electrical machinery to EU increased to Rs. 158260.63 Lakhs (3.26 per cent) of total exports to EU in 2001-02 and finally its reach to Rs. 327007.66 Lakhs (3.17 per cent) of total exports to EU in 2005-06 (Table No 5.1).

5.2.18 Miscellaneous goods:-

Table No 5.1 indicates the India’s exports of miscellaneous goods to EU, it was Rs. 68508.84 Lakhs (2.17 per cent) of total exports to EU in 1996-97, exports of this item increased to Rs. 144375.09 Lakhs (2.98 per cent) of total exports to EU in 2001-02, but in 2005-06 it decreased to Rs. 67322.83 Lakhs (0.65 per cent) of total exports to EU. ²

From the above all discussion concluded the result that India is trying to change its structure of exports, India included more new commodities in its exports composition, and India got more success to change its structure of exports with respect to European Union. India now trying to exports mostly manufactured goods to EU and slightly tried to decreasing primary goods in its exports structure with EU. If India wants to be the EU’s main trading partner for that want to include quality goods in its exports composition with respect to European Union.

5.3 Product-wise analysis of India’s imports from European Union:-

EU is India’s number one trading partner over the whole world; India imports 21.3 per cent of its total imports from EU. India imports from EU cover a wide range of items like, iron and steel, precious or semiprecious stones, nuclear reactors, boilers and machinery, electrical machinery, project goods mineral fuels and oils, inorganic chemicals, organic chemicals, fertilizers, plastic, rubber and articles thereof etc.

5.3.1 Mineral fuels, oils and their products:-

Table No 5.2 shows the data of India’s imports from EU, India’s imports of mineral fuels and oils and their products are important item of import from EU. India’s imports from EU of this product were Rs. 42922.26 Lakhs (1.13 per cent) of India’s total imports from EU in 1996-97, imports of this product from EU decrease rapidly to Rs. 5175.90 Lakhs (0.10 per cent) of total imports from EU in 2001-02 and it reach to Rs. 7475.25 Lakhs (0.06 per cent) of India’s total imports from EU in 2005-06.
5.3.2 Pharmaceutical products:-

Table No 5.2 shows the statistics of India’s imports from EU, India’s imports of pharmaceutical products from EU were Rs. 12019.41 Lakhs or 0.31 per cent of total imports from EU in 1996-97, its increased to Rs. 43512.57 Lakhs or 0.85 per cent of total imports from EU in 2001-02, and Rs. 88603.46 Lakhs or 0.76 per cent of total imports from EU in 2005-06. Imports of pharmaceutical products is less than one per cent, this is an important product, so imports of this product have to increased.

5.3.3 Organic chemicals:-

Data of imports of organic chemicals from EU displays in Table No 5.2, imports of this product were Rs. 188130.23 Lakhs (4.98 per cent) of India’s total imports from EU in 1996-97, imports of this item increased to Rs. 227707.68 Lakhs (4.48 per cent) of total imports from EU in 2001-02 and in 2005-06 its reach to Rs. 449219.62 Lakhs (3.90 per cent) of total imports from EU. Imports of organic chemicals increased only by value but at a view of percentage it decreased.

5.3.4 Fertilizers:-

India’s imports of fertilizers from EU were declining it was Rs. 39550.50 Lakhs (1.04 per cent) of India’s total imports from EU in 1996-97, it declined to Rs. 16592.14 Lakhs (0.32 per cent) of total imports from EU in 2001-02 and Rs. 45283.35 Lakhs (0.39 per cent) of total imports from EU in 2005-06, because of India get success to increased its manufactured products for that reason imports of fertilizers become decreased.

### Table No. 5.2

**INDIA’S IMPORTS FROM EUROPEAN UNION**

(Valued in Rs. Lakhs)

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<td>Organic chemicals</td>
<td>188,130.23</td>
<td>181,159.78</td>
<td>199,547.16</td>
<td>221,258.64</td>
<td>202,393.20</td>
<td>227,707.68</td>
<td>254,645.40</td>
<td>321,112.97</td>
<td>387,452.83</td>
<td>449,219.62</td>
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<tr>
<td>2.</td>
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<td>Plastic and articles thereof</td>
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<td>93,290.18</td>
<td>95,760.34</td>
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<td>(2.01)</td>
<td>(1.95)</td>
<td>(1.65)</td>
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<td>(1.96)</td>
<td>(2.28)</td>
<td>(2.19)</td>
<td>(2.56)</td>
<td>(2.46)</td>
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</tr>
<tr>
<td>3.</td>
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<td>Pearls, precious or semi precious stones</td>
<td>918,324.00</td>
<td>924,132.94</td>
<td>918,324.00</td>
<td>924,132.94</td>
<td>924,132.94</td>
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<td>4.</td>
<td>72</td>
<td>Iron and steel</td>
<td>247,888.70</td>
<td>195,499.76</td>
<td>120,052.34</td>
<td>136,452.12</td>
<td>130,526.98</td>
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<td></td>
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<td></td>
<td>(6.57)</td>
<td>(4.83)</td>
<td>(2.62)</td>
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<td>(2.67)</td>
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<tr>
<td>5.</td>
<td>73</td>
<td>Articles of iron or steel</td>
<td>64,887.06</td>
<td>84,312.79</td>
<td>99,600.53</td>
<td>61,932.42</td>
<td>54,044.73</td>
<td>30,705.02</td>
<td>48,701.01</td>
<td>105,462.92</td>
<td>150,929.30</td>
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<td>(1.72)</td>
<td>(2.98)</td>
<td>(1.95)</td>
<td>(1.20)</td>
<td>(1.01)</td>
<td>(1.39)</td>
<td>(1.39)</td>
<td>(1.52)</td>
<td>(1.74)</td>
<td>(1.96)</td>
</tr>
<tr>
<td>6.</td>
<td>84</td>
<td>Nuclear reactors, boilers, machinery</td>
<td>742,728.32</td>
<td>500,079.61</td>
<td>767,909.61</td>
<td>566,372.22</td>
<td>54,044.73</td>
<td>30,705.02</td>
<td>48,701.01</td>
<td>105,462.92</td>
<td>150,929.30</td>
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<td>(19.65)</td>
<td>(17.3)</td>
<td>(14.71)</td>
<td>(11.73)</td>
<td>(1.01)</td>
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<td>(1.39)</td>
<td>(1.52)</td>
<td>(1.74)</td>
<td>(1.96)</td>
</tr>
<tr>
<td>7.</td>
<td>85</td>
<td>Electrical machinery and equipment</td>
<td>263,243.83</td>
<td>262,482.13</td>
<td>324,431.83</td>
<td>324,431.83</td>
<td>324,431.83</td>
<td>324,431.83</td>
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<td>(5.38)</td>
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<td>(6.72)</td>
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233
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<tr>
<th>8.</th>
<th>96</th>
<th>Project goods</th>
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<tr>
<td></td>
<td></td>
<td>517,241.6</td>
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<tr>
<td></td>
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<td>661,501.9</td>
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<td>141,197.4</td>
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<td>105,661.4</td>
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<td>148,538.4</td>
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<td></td>
<td></td>
<td>194,401.32</td>
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<tr>
<td>Total</td>
<td></td>
<td>3,772,460.53</td>
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<tr>
<td></td>
<td></td>
<td>4,043,440.21</td>
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<td>4,579,635.36</td>
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<td>4,825,091.98</td>
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<td>4,876,817.19</td>
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<td>5,078,616.44</td>
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<td>6,211,273.94</td>
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<td>6,527,097.93</td>
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<td>8,672,714.42</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11,510,317.58</td>
</tr>
</tbody>
</table>

Note: - Figures in bracket indicate the per cent age to exports.

Source: - Department of Commerce and Ministry Export Import Data Bank (www.commerce.nic.in)

5.3.5 Plastic and articles thereof:

Table No 5.2 indicates the statistics related to India’s imports from EU, according to this table India’s imports of plastic and articles thereof were Rs. 76114.11 Lakhs (2.01 per cent) of India’s total imports from EU in 1996-97, Rs. 116196.36 Lakhs (2.28 per cent) of total imports from EU in 2001-02 and its gone to Rs. 273971.71 Lakhs (2.38 per cent) of total imports from EU in 2005-06, means it recorded the continuous increase in imports.

5.3.6 Rubber and articles thereof:

India’s imports of rubber were Rs. 36395.24 Lakhs (0.96 per cent) of India’s total imports from EU in 1996-97, Rs. 40385.53 Lakhs (0.79 per cent) of total imports from EU in 2001-02 and Rs. 82114.13 Lakhs (0.71 per cent) of total imports from EU in 2005-06. Imports share of rubber and articles thereof remain below 1% (Table No 5.2).

5.3.7 Paper and paperboard:

Table No 5.2 indicates that India’s imports from EU, imports of this item from EU were Rs. 74301.91 Lakhs (1.96 per cent) of India’s total imports from EU in 1996-97. Imports of this item decreased to Rs. 67375.06 Lakhs (1.32 per cent) of total imports from EU in 2001-02 and in 2005-06 imports of this item reach to Rs. 161219.73 Lakhs (1.40 per cent) of total imports from EU.

5.3.8 Precious and Semi-Precious Stones:

Precious and semi-precious stones are the most important imports product for India; India imports this item for process on it and exports to EU. India imports of this product were Rs. 918324.00 Lakhs (24.34 per cent) of India’s total imports from EU in 1996-97, share of this item in imports increased to Rs. 1916237.77 Lakhs (37.73 per cent) of total imports from EU in 2001-02 and in 2005-06 share of this item decreased to Rs. 2494052.41 Lakhs (21.66 per cent) of India’s total imports from EU (Table No 5.2).
5.3.9 Iron and steel:-

According to Table No 5.2, India’s imports of iron and steel from EU were Rs. 312775.76 Lakhs (8.29 per cent) of India’s total imports from EU in 1996-97, share of iron and steel decreased to Rs. 251246.87 Lakhs (4.94 per cent) of total imports from EU in 2001-02 and in 2005-06 share of iron and steel increased to Rs. 901222.40 Lakhs (7.82 per cent) of India’s total imports from EU in 2005-06.

5.3.10 Nuclear reactors, boilers and machinery:-

India’s imports of this item is important, it was Rs. 741728.31 Lakhs (19.65 per cent) of total imports from EU in 1996-97, Rs. 725125.10 Lakhs (19.22 per cent) of total imports from EU in 2001-02 and in 2005-06 it noted Rs. 2129761.65 Lakhs (18.50 per cent) of India’s total imports from EU (Table No 5.2).

5.3.11 Electrical machinery:-

According to Table No 5.2 India’s imports of electrical machinery were Rs. 203243.87 Lakhs (5.38 per cent) of India’s total imports from EU in 1996-97, its increased to Rs. 474394.08 Lakhs (9.34 per cent) of India’s total imports from EU and in 2005-06 its reach to Rs. 1296191.85 Lakhs (11.26 per cent) of India’s total imports from EU. Imports of electrical machinery increase rapidly from 1996-97 to 2005-06.

5.3.12 Project goods:-

Imports of project goods are helpful for India’s economic development, it was Rs. 517241.66 Lakhs (13.71 per cent) of India’s total imports from EU in 1996-97, but it decreased to Rs. 144160.95 Lakhs (2.83 per cent) of total imports from EU in 2001-02 and in 2005-06 its reach to Rs. 194401.32 Lakhs (1.68 per cent) of total imports from EU (Table No 5.2).

India already started to change its structure of imports and exports with European Union. It’s imports more of machinery, chemicals, iron and steel and project goods3, and it's exports more of manufactured goods and it was found that India trying to decrease the share of exports of primary products. This is a sign of that India walk towards to be the developed ones like other developed countries of EU.

5.4 Structural changes in imports of India from European Union are as follows:-

1. Rapid growth of industrialisation necessitating increasing imports of capital goods and raw materials.
2. Growing imports of raw materials on the basis of liberalisation of imports for export promotion.

3. Declining imports of food grains and consumer goods due to country becoming self-sufficient in food grains and other consumer goods through agricultural and industrial growth.

The structure of Indian exports is typical of a developing economy. India has traditionally been an exporter of agricultural raw materials. There has been a continuous decline in the share of agricultural raw materials and allied products. Accordingly, the exports surpluses in many traditional commodities like tea and coffee have not been increasing as much as the Government would have wished. In this connection the growing importance of certain products in this category should be noted i.e. fish and fish products, cashew kernels, vegetables and fruits are also growing in importance.

The impact of industrialisation, exports of non-traditional items are gaining in importance. These items consist of electronic goods, handicrafts, electrical machinery, pearls, precious and semi-precious stones, iron and steel, chemicals, made-up textile, fish and fish preparations. These goods constitute about 70 per cent of India’s exports now. The fact that some of these non-traditional items such as engineering goods, handicrafts, made-up textile, etc have establish themselves in the markets of even the most advanced countries shows that they would continue to be part of India’s exports in the years to come.

However, the exports of some items is quite disturbing for the country for instance, the export of iron or steel show the inability of the economy to use basic development goods. On the other hand the import of iron or steel is much more significant, showing the under utilization of steel capacity created in the country. Thus, the increasing contribution of non-traditional items in India’s export effort has been commendable but not consistent enough.

We should not, however, conclude that only non-traditional items are to the fore and the traditional items have suffered a retreat. Exports of traditional items are also expanding though probably not to the extent desired. Examples are the respectable growth in cotton fabrics, tea, leather and leather manufactures etc.

Thus, the pattern of India’s exports indicates that:
1. The Indian economy is being diversified and non-traditional items of export are growing in importance.
2. The large expansion of engineering or electrical machinery (goods) is partly the result of pick-up in demand in industrial countries.
3. India is now in a position to take advantage of both favourable demand situation and attractive price situation in international markets.
4. While some commodities have tremendous exports potential (e.g. handicrafts, pearls, precious and semi-precious stones, made-up textiles), others (like iron or steel, yarn) have fluctuated widely.
5. With the announcement of the new agricultural policy, emphasis is being given for boosting the export of agricultural products.4

5.5 Foreign Trade Policy:-

Over the years, trade policy has undergone fundamental shifts to correct the earlier anti-export bias through the withdrawal of quantitative restrictions (QRS), reduction and rationalisation of tariffs, liberalisation in the trade and payments regime and improved access to export incentives, besides a realistic and market based exchange rate. The focus of these reforms has been on liberalisation openness, transparency and globalisation with a basic thrust on outward orientation focusing on export promotion activity and improving competitiveness of Indian industry to meet global market requirements.

5.5.1 Salient features of Policy:-

Policies are a general statement which provides guidance to the members of an organization while performing their duties and other activities.

The following are the salient features of the Policy:

1. Policies are continuous decision guidelines.
2. Policies involve decision making power of the managers subject to the authority and delegation of power.
3. Policies are different from objectives. Objectives are that circumstances where we have to reach while policies are those means or resources through which we can reach to that stage.
4. Policies are not rules they are different as they are a decision guide based on a thought. Executive officers have to take decision according to the
circumstances but they have to seek guidance from the policies already issued.  

5.5.2 EXIM Policy - (1992 to 1997):

On March 31, 1992, the Government announced the Export and Import Policy for a period of five years (April 1, 1992 to March 31, 1997), coinciding with the period of Eight five years plan. The chief controller of imports and exports was re-designed as Director General of Foreign Trade (DGFT). The office of the DGFT is responsible for formulation and execution of foreign trade policy, including licensing.

The main thrust of the 1992-97 Exim Policy has been the priority given for export promotion. All items are declared to be exportable except 3 banned items, 68 restricted items and 8 canalized items. Special import facilities have been granted for hotels, tourism industry and for sports bodies. Export Promotion Capital Goods (EPCG) Scheme has been liberalised and is extended to components of capital goods with concessional customs duty of 15 per cent and export obligations of 4 times the CIF value to be fulfilled in 5 years or with customs duty of 25 per cent and export obligation of 3 times the CIF value to be fulfilled in 4 years time.

With a view to encouraging export activities, Government of India has provided special incentives for units can be set up primarily for manufacturing goods for exports. These units can be set up in Export Processing Zones (EPZ) or can be 100 per cent EOU’s. That can be set up anywhere in the country. These EPZ are designated to provide an internationally competitive duty free environment at low cost for export production. Each of the zones provides basic infrastructure like land, standard design factory buildings, roads power, water supply, drainage and custom clearance facilities. The scheme for EOU is complementary to the EPZ schemes. It adopts the same production regime but offers wider location options with reference to sourcing of raw materials, ports of export, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

5.5.2.1 Some incentives given to EPZs and EOUs:

- 100 per cent foreign equity is welcome in EOU and EPZs.
- 25 per cent of the production in value terms may be sold in the Domestic Tariff Area (DTA) at concessional duty rates subject to fulfillment of minimum value addition norms.
• A higher DTA access of 35 per cent and 50 per cent is allowed for electronics and agro industries respectively again no DTA sales is permissible for rice, jewellery, diamonds, precious and semi-precious stones and gems, motor cars, liquor, silver bullion and some other items.
• The specified value addition norms that need to be achieved by EOU’s and EPZ’s units are expressed in terms of the difference between the FOB value realized and the cost of all inputs, including the value of payment made in foreign exchange for royalty, fees, etc.
• Single window clearance
• No import license is required
• Import of oil, industrial inputs exempted from custom duty.
• Supplies from the DTA to EOU and EPZ units are regarded as deemed exports and are hence exempt from payment of excise duty, which means high quality inputs are available at lower costs.
• On fulfillment of certain conditions, EPZs and EOUs are exempted from payment of corporate income tax for a block of 5 years in the first 8 years of operation Export earnings continue to be exempt from tax even after the tax holiday is over.
• Industrial plots and standard design factories are available to EOUs and EPZs units at concessional rate. Private bonded warehouses in 7 EPZs can be set up.
  i. Import and sale of goods included in the DTA subject to payment of applicable duties at the time of sale.
  ii. Training including re-export after repacking or labeling.
  iii. Re-export after repair, reconditioning or re-engineering.
• EOUs and EPZs are permitted to sub-contract part of this production in a case by case basis.
• Supplies to the DTA under international competitive binding against payment in foreign exchange to other EOUs and EPZs units and against import licenses are considered towards fulfillment of the export obligation.
• The FOB value of exports of EOUs and EPZs units can be clubbed with that of purpose of obtaining a Training or Export House Status.

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• EOU and EPZ units may export goods through trading and Export Houses or other EOU and EPZ units.

The new exim policy has given adequate incentives for the agriculture and allied sectors as well as the service sector. The new policy has expanded the scope of Special Import License (SIL) which paves the way for consumer goods import. India’s import regime has been characterised by stringent quantitative restrictions apart from putting under highest customs tariff brackets. The annual amendments of EXIM Policy have progressively pruned the items covered under negative list of imports. Almost entire set of imports of consumer goods is put under negative list which is segmented into three categories. The new policy has substantially liberalised the quantitative restrictions regime as enforced on imports of consumer goods, capital goods, raw materials, intermediates, components, consumable etc. can be imported into India without any restrictions except for certain items in the negative list of imports.

The negative list of imports contained in chapter XV is spited into three categories;

i. Prohibited items which include 3 items, import of which are not allowed.

ii. Restricted items which include 65 items (according to 1992-97 Exim policy as amended in April 1995) import of which is allowed against an import license or under general scheme notified separately

iii. Canalised items which include 7 items as contained in the canalised list, import of which is permissible only through designated agencies.

Quantitative restrictions enforced on capital goods and intermediates were almost wholly removed. Barring few items, import of capital goods is no longer in the Negative List of Imports. Besides the import of second hand capital goods by actual users is permitted freely without a license provided the goods have a residual line of 5 years. Also import of certain capital goods on a re-export basis is allowed without a license. The actual user stipulation on imports of industrial inputs has been removed. Special import facilities are available for hotels and the tourism industry and for sport organisation. In order to augment exports, import of inputs at concessional terms is also allowed under the new policy.

Another important feature of the New Exim Policy is the introduction of a single market determined exchange rate for the Rupee since 1st March, 1993 with effect from 20, August 1994. The Rupee is not convertible in the current account which includes
both trade and invisible accounts. This market determined exchange rate is applicable to inflow of foreign equity for investment and outflow of the event of disinvestment payment in respect of repatriation of dividends, fees and royalties for technical know-how agreements and also foreign travels.

Other salient features of the recently (March 1995) amended Exim Policy is as follows:

- Zero duty import of capital goods in cases where the CIF value exceeds Rs 20 crore.
- Allowing the import of mandatory spares up to 5 per cent of the CIF value of the advance license.
- The system of advance customs clearance permit (ACCP) has been abolished. Hereafter goods can be imported for the purpose of jobbing, repairing, servicing, restoring, reconditioning and renovation on execution of a bond/guarantee which will be redeemed on exports.
- Similarly, patterns of drawings, tools fixtures, moulds, textiles, computer hardware, software and instruments may also be imported if they are directly related to the exports orders. All goods so imported will be re-exported with a value addition if not less than 10 per cent.
- Import of gifts will no longer require a customs clearance permit.
- “Consumer goods” has been redefined to include consumer durables and accessories thereof but excluding components, spares and parts. Hence components, spares and parts of consumer durables are now freely importable. This will not include consumer goods in CKD/SKD condition.
- Special Import License (SIL) is a non-discretionary instrument which serves as an incentive to exports. SILs will be available to the following categories of exports:
  ii. Exporters of telecommunications equipments and electronic goods and services.
  iii. Deemed exporters

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iv. Manufactures/processors who have acquired quality certification under ISO 9000 (SERIES) or BIS 14000 (SERIES) or under any other similar internationally recognized certification of quality.

- The list of freely importable goods popularly known as OGL has been expanded. Raw materials, intermediates and capital goods are already freely importable. Besides, 75 items listed in chapter XV part II are now freely importable. The list has been expanded from 43 to 75 items.
- The list of items importable under the SIL route has also been expanded. The erstwhile list consisted of 42 items. The new list consists of a total of 75 items. Some more items have been identified but these will be added to the list after closely monitoring the level of import the trade balance and the premium on the SIL.  

5.5.3 Foreign Trade Policy (FTP) 2004-2009:-

In a radical move, the Government of India announced, on August 31, 2004 a new Foreign Trade Policy for the period 2004-09, replacing the hitherto nomenclature of EXIM Policy by Foreign Trade Policy (FTP). A vigorous export led growth strategy of doubling India’s share in global merchandise trade in the next five years, with a focus on the sectors having prospectus for export expansion and potential for employment generation, constitute the main plank of the policy. These measures are expected to enhance international competitiveness and aid in further increasing the acceptability of Indian exports.

5.5.3.1 Objectives and Strategy:-

The new Foreign Trade Policy (FTP) takes an integrated view of the overall development of India’s foreign trade and essentially provides a roadmap for the development of this sector. It is built around two major objectives of doubling India’s share of global merchandise trade by 2009 and using trade policy as an effective instrument of economic growth with a thrust on employment generation. Key strategies to achieve these objectives, inter alia, include: unshackling of controls and creating an atmosphere of trust and transparency; simplifying procedures and bringing down transaction costs. Neutralising incidence of all levis on inputs used in export products; facilitating development of India as a global hub for manufacturing, trading and services; identifying and nurturing special focus areas to generate additional employment opportunities, particularly in semi-urban and rural areas; facilitating
technological and infrastructural upgradation of the Indian economy, especially through import of capital goods and equipment avoiding inverted duty structure and ensuring that domestic sectors are not disadvantaged in trade agreements; upgrading the infrastructure network related to the entire foreign trade chain to international standards; revitalising the Board of Trade by redefining its role and introducing into it exports on trade policy, and activating Indian Embassies as key players in the export strategy.

5.5.3.2 Special Focus Initiatives:-

The FTP 2004 has identification certain thrust sectors having prospects for export expansion and potential for employment generation. These thrust sectors include agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear sectors. Sector specific policy initiative for the thrust sectors include agriculture sectors introduction of a new scheme called Vishesh Krishi Upaj Yojna (special agricultural produce scheme) to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Under the scheme, exports of these products qualify for duty free credit entitlement (5 per cent of FOB value of exports) for importing inputs and other goods. Other components for agriculture sector include duty free import of capital goods under Export Promotion Capital Goods (EPCG) scheme.

The special focus initiative for handlooms and handicrafts sectors include extension of facilities like enhancing (0 to 5 per cent of FOB value of exports), duty free import of trimmings and embellishments for handlooms and handicrafts exemption of samples from countervailing duty (CVD), authorising Handicrafts, Export Promotion Council to import trimmings, embellishments and samples for small manufacturers and establishments of a new Handicrafts Special Economic Zone Major policy announcements under gems and jewellery sector encompass: permission for duty free import of consumables for metals other than gold and platinum up to 2 per cent of FOB value of exports.

A new scheme to accelerate growth of exports called ‘target plus’ has been introduced. Under the scheme, exporters achieving a quantum growth in exports are entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. Rewards are granted based on a tired approach, for incremental growth of over 20 per cent, 25 per cent and 100 per cent, 10 per cent and
15 per cent of FOB value of incremental exports. Another new scheme called Vishesh Krishi Upaj Yojna has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Exports of these products qualify for duty free credit entitlement equivalent to 5 per cent of FOB value of exports. The entitlement is freely transferable and can be used for import of a variety of inputs and goods. To accelerate growth in export of services so as to create a powerful and unique served from India brand instantly recognised and respected the World over, the earlier Duty Free Export Credit (DFEC) scheme for services has been revamped and re-cast into the served from India scheme.

To make India into a global trading hub, a new scheme to establish Free Trade and Warehousing Zones (FTWZs) has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in convertible currencies.

5.5.3.3 Annual supplement 2005-06 to the Foreign Trade Policy (2004 to 09):-

The Union Commerce and Industry Minister announced on April 8, 2005, the 2005-06 crafts from agriculture and manufacturing sectors. Auto stood to gain the most; Highlights of the Annual supplement were as follows:

1. Push to export of farm, marine, manufacturing and pharmaceutical products.
2. Export cess on farm commodities abolished.
3. Infrastructure initiative to reduce port congestion.
4. Imports by hotels, other service industries made duty-free.
5. Setting up of inter state trade council mooted.
6. Procedures simplified to cut transaction costs ‘aayat-niryat’ form introduced.

5.5.3.4 Annual supplement 2006-07 to the Foreign Trade Policy (2004 to 09):-

The Union Commerce and Industry Minister announced on April 7, 2006, the 2006-07 supplement to the five year (2004-09) Foreign Trade Policy. With a view to doubling India’s per centage share of global trade within 5 years and expanding employment opportunities, especially in semi-urban and rural areas certain special focus initiatives were identified for the agriculture, handles, handicrafts, gems and jewellery, leather and marine sectors. Concerted efforts would be made to promote exports in these sectors by specific sectoral strategies that shall be notified from time to time.
5.5.3.5 Annual Supplement 2007-08 to the Foreign Trade Policy (2004 to 09):-

Objectives:-

Trade is not an end in itself, but a means to economic growth and national development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity. The Foreign Trade Policy is rooted in this belief and built around two major objectives. These are:

1. To double our per centage share of global merchandise trade within the next five years.
2. To get as an effective instrument of economic growth by giving a thrust to employment generation.

5.5.3.6 Annual Supplement 2008-09 to the Foreign Trade Policy (2004 to 09):-

This Annual Supplement to the Foreign Trade Policy for 2004-09 proposed several innovation steps, which included the following:

1. To promote modernisation of manufacturing and services exports, the import duty under the EPCG scheme was reduced from 5 per cent to 3 per cent.
2. Refund of tax on a large number of services relating to exports had already been announced by the Government. A few remaining issues regarding refund of service tax on exports would also be resolved soon.
3. Income tax benefit to 100 per cent EOUs available under section 10 B of Income Tax Act was extended for one more year, beyond 2009.
4. Sports and toys are mainly produced by our unorganised labour intensive sector. To promote export of these items and also to compensate disadvantages suffered by item, an additional duty credit of 5% over and above the credit under Focus Product Scheme was provided.
5. Exports of fresh fruits and vegetables and floriculture suffer from high incidence of freight cost. To neutralise this disadvantage, an additional credit of 2.5% over and above the credit available under VKGUY was proposed.
6. Interest relief already granted for sectors affected adversely by the appreciation on the rupee was extended for one more year.
7. The DEPB scheme was continued till May 2009.

5.5.3.7 Trade Facilitation Measures, February 2009:-

A full year trade policy for 2009-10 was not announced by the Government in view of the political uncertainty due to general elections held in the country during
April-May 2009. However, as supplement to Foreign Trade Policy 2004-09, following measures were announced by the Government on February 26, 2009 to further simplify export procedures:

1. Duty credit scrips and under DEPB Scheme shall now be issued without waiting for realisation of export proceeds.

2. Export incentives have been provided for certain items like technical textiles, stapling machine, handmade carpets and dried vegetables. In addition incentives of Rs. 325 crore would be provided for leather, textiles etc. for exports w.e.f. April 1, 2009.

3. STCL Limited, Diamond India Limited, MSTC Limited Gem and Jewellery Export Promotion Council and Star Trading Houses (only for gem and jewellery sector) have been added under the list of nominated agencies notified under Para 4 A.4 of Foreign Trade Policy for the purpose of import of precious metals.

4. Import restrictions on worked corals have been removed to address the grievance of gem and jewellery exporters.

5. At present, Government recognises Premier Trading Houses based on an export turnover of Rs. 10,000 crore in previous 3 years and the current year taken together. In view of the prevailing global slowdown, the threshold limit for recognition as premier Trading Houses is now been reduced to Rs. 7,500 crore.

6. Under EPCG Scheme, in case of decline in exports of a product by more than 5 per cent, the export obligation for all exporters of that product is to be reduced proportionately. This provision has been extended for the year 2009-10 for exports during 2008-09.

7. At present, DEPB/Duty Credit Scrip can be under for payment of duty only on items which are under free category. The utilisation is now extended for payment of duty for import of restricted items also.

8. The procedural formalities for claiming duty drawback refund and for getting refund of Terminal Excise Duty for deemed exports are further simplified.

9. Supply of an Intermediate product by the domestic supplier directly from their factory to the Port against Advance Intermediate Authorisation, for export by ultimate exporter, has been allowed.
10. For Advance Licences issued prior to April 1, 2002, the requirement of MODVAT/CENVAT certificate dispensed with in case the customs Notifications itself prescribed for payment of CVD. This will help in closure of a number of pending advance license.

11. Export obligation period against advance authorisations extended up to 36 months in view of the present global economic slowdown.

12. Clarification has been issued by CBEC in respect of architectural services, general insurance services, market research services, storage and warehousing services and knowledge & technology based services so that such services used outside India are treated as export of services. This will remove the existing ambiguity and enable refund of service tax paid in this regard.⁷

5.6 European Union’s Generalised System of Preferences (GSP):-

In spite strong opposition from the developed countries, UNCTAD –I adopted General Principle-VIII, which recommended that developing countries should be granted preferential access to the developed countries without any reciprocity. Realising the need for diversification and expansion of exports, the UNCTAD also passed a resolution (A-III-5), favouring the least developed countries (LDCs) argument of preferential market access to the industrialised countries.

The resolution 21 (II) enunciated as below spelt the objectives of the generalised, non-reciprocal, non-discriminatory system of preferences favouring developing countries including special measures extended to least developed nations:

1. To augment export earning,
2. To promote industrialisation and;
3. To accelerate rate of economic growth,

A special committee on GSP was constituted at its fourth session for implementing the resolution, it recommended:

1. Preferences- giving countries, (while reviewing the GSP), would give maximum attention to the need of developing countries in respect of tariff preferences.
2. Enforcement of safeguard mechanism would be an exceptional case and be decided on only after taking due account of the interest of developing countries;
3. Additional measures were suggested in favouring least developed among the developing countries;
4. Rules of origin should facilitate in achieving GSP benefits;
5.6.1 Structure and operation of the EC’s GSP Scheme and India:-

The EU’s GSP scheme in India has been working in three major areas, viz, agriculture, textiles, and industries. In the industrial sector, a host of manufactured and semi-manufactured items are included in the GSP scheme of the EU. Most of the GSP-covered items have been enjoying either duty-free treatment or minimum duty. The rationale behind such preferential treatment is to let India develop its industrial base as well as manufactured exports. This system is non-discriminatory and non-reciprocal, and is in addition to MFN facilities.

In textiles, total exemption from duty is granted to India because the entire gamut of trade is guided by the MFA system, settled bilaterally between India and the EU. Ceiling and quota arrangement are applicable for preferential imports by individual countries. According to quota system, higher duty is applicable automatically when value of exports exceeds the quota. But in case of ceiling, duty is enforced after negotiations. The EU has never charged higher duty in case of exceeding ceiling limit.

In agriculture, a list of products is drawn up and the items included in the list are determined from time to time. EU is quite flexible in reduction of duty and even in some cases complete exemption is also permissible subject to the exigency of the situation. No quantitative ceiling has been fixed except for five products in which case overall quotas are expressed in tones (two types of called pineapple, instant coffee and two types of tobacco). The preferential treatment is granted according to the nature of products, i.e. sensitive and semi-sensitive items.

Since the adoption of the EU’s GSP scheme in 1971, India has increasingly been enjoying this benefit in all of its manufacturing exports either in the form of zero-duty or in the form of quota/ceiling. Initially, agricultural products were not included in the same for all goods. It depends on the nature of goods, i.e. sensitive, semi-sensitive and in general categorization of Indian items under the EC’s GSP is as follows:

5.6.2 Indian Items under GSP:-

Indian Items under GSP divided into following groups;

A. GSP-Nonsensitive items are as follows;

Frog legs, shrimps, other crustaceans, okra, mangoes, pepper, castor oil, vegetable oils, saddler, electrical equipment, dump trucks, car parts and engine etc
B. Non-GSP items are as follows;

Walnuts, Ginger/paprika, rice, groundnut and oil seeds, vegetable products, linseed/castor oil, oil cakes, low kips, radio receivers, imitation jewellery

C. GSP Sensitive items are as follows;

Silk, wool, fine & coarse, animal hair, yarn and woven fabrics (ch-51), cotton (ch-52), other vegetable textile fabrics, pepper, yarn and woven fabrics of paper yarn (ch-53), Man-made filament yarn (ch-54), man-made staple fiber (ch-55) -wadding, felt and non-woven’s, special yarn, twine cordage, ropes and cables and articles thereof (ch-56), carpets and other textile floor coverings (ch-57), special woven fabrics, tufted textile fabrics, lace tapestries, trimmings, embroidery (ch-58), impregnated, coated, covered or laminated textile fabrics, textile articles of a kind suitable for industrial use (ch-59), knitted or crocheted fabrics (ch-60), articles of apparel and clothing, accessories, not knitted or crocheted (ch-62), other made-up textile articles, sets, worn clothing and worn textile articles rags (ch-63)

Trade in textile is controlled by the MFA, a bilateral system outside of the GATT framework. GSP facilities have also extended to the items covered by MFA. Preferential (GSP) treatment have been given mainly to three types of products, viz,

a. Agricultural goods
b. Textile items and,
c. Industrial goods. India amongst the few developing countries in Asia which are given extensive GSP coverage to its exportable to EC.

5.6.3 Agricultural exports receiving GSP benefits:-

Agricultural exports from India were covered by the EU’s GSP only during the 80s. GSP benefit extended to agricultural excluded items in raw form. Exports of agricultural goods receiving GSP benefit did not contain entire basket, GSP given only to those items which are in processed and manufactured form. Food products and processed food items constitute a very negligible portion of the total exports of the agricultural items.

5.6.4 Industrial exports receiving GSP benefits:-

The rationale behind the introduction of the EU’s GSP scheme was to encourage developing countries for production as well as exports of manufactured items with high level value addition. This means there have been increasing export substitution rather than export promotion. The conventional wisdom says that
developing economies are characterised by surplus labour and less capital and that is why manufactured goods which they produce are more labour intensive and have relatively less capital content. Due to these structural problems, the items which they produce are not internationally competitive except in some areas of handicrafts and works of art. Unless they are given some form of preferential treatment they cannot enter into the markets of the advanced industrialised countries. Due to technological excellence and scale economies, products produced by the developed ones are qualitatively much better. On the basis of this logical fallacy developed countries have offered preferential treatment to exports of manufactures of developing countries to enable them to face more competition in their markets. This preferential access is in the form of duty-free treatment to the manufactured products or reduction of the duties comparable to the non-beneficiary countries.

5.6.5 Textile exports receiving GSP benefits:-

The whole gamut of India’s textile trade has been under the Multifibre Arrangement (MFA). And it has been subject to artificial barriers, which include (i) quota and (ii) ceiling. Following the definition, quota is the maximum absolute amount beyond which higher rate of tariff will be imposed automatically. In case of ceiling it is the minimum absolute level. If exports cross the ceiling limit it the minimum absolute level. If the exports cross the ceiling limit then negotiations will be started between contracting parties to determine the modalities so as to what rate of tariff is to be enforced, the extent of which in most of the cases, depends on the degree of sensitivity of the item.

The EU’s GSP scheme is very restrictive to Indian exporters of textiles and garments. Because none of the item in the very-sensitive category enjoys duty-free treatment, on the textiles and garments is more than doubles as compared to average tariffs to other items.

5.6.6 Implications of EU’s New GSP scheme for Indian exports:-

Before the introduction of new scheme, India was one of the largest beneficiaries of the EU’s GSP scheme. GSP utilisation ratio of Indian goods to the EU market has been very low over the years. In 1990, GSP utilisation ratio 44.25 per cent of which 2.95 per cent were from agricultural exports, 18.68 per cent from textile exports and 15.66 per cent from industrial goods exports.
India feels concerned about the new GSP scheme, because she will be graduated from 1997 due to its specialisation in textiles, garments and leather which are considered as very sensitive in the EU market. Textile is only major group whose prospect is uncertain in the EU market after the removal of GSP facility. Not only have textiles been put into the very sensitive category of the GSP list but also all these items have been under stringent MFA quota as well.

According to the received GSP scheme India ceased to enjoy GSP facilities from 1 January, 1997. Under the new provision, the countries having per capita income less than $ 6000 will continue to enjoy GSP facility in sectors which are highly specialised and will get only 50 per cent of the GSP benefit. This means that in “very sensitive” and “sensitive” categories India will get only preferential benefits of 7.5 per cent and 15 per cent respectively. The new GSP is for the period 2002-2004. The salient features in the new GSP scheme are:

1. Simplification and attractiveness
2. Better targeting and adoptability.

Application of “safeguard” is danger for Indian exports to the EU. On the ground of material injury to the domestic industry, developed countries are given a free hand to enforce “safeguard” or “transitional safeguard” on any competitive product imported from developing countries. The new scheme will also have a safeguard clause analogous to the provision of GATT to cope with significant unexpected imports of a product which cause or threaten to cause serious difficulties to a “community producer” of the like or directly competing product.  

5.6.7 EU’s Institutional Support to Help India to Improve Quality of its Manufactured Goods System:-

The EU is India’s largest trading partner, accounting for 20 per cent of imports and exports. But on the other hand, India’s share in the EU’s trade is barely 1 per cent. Though India has been under chronic balance of payments deficit with the EC in 1993 trade between the two sides improved dramatically when its exports increased by 20 per cent amounting to 5.9 billion ECU and imports by 19 per cent amounting to 6.2 billion ECU. This was particularly important in a situation when extra-EU imports had declined by more than 1 per cent and export growth by 10 per cent. The EU’s development aid since its inception in 1976 had crossed 1.6 billion ECU (Rs 6324.8 crore). From 1976 to 1991, total EU’s ODA to India was $8386.1 million ($ 168.8
million by EU member states and $1217.3 million by the commission). Japan’s ODA to India was $2396.1 and USA’s ODA was $1084 million, during the same period.

On the other hand, these institutional changes are *sine qua non* for improving quality of India’s manufactured exports of the community. The new areas focus on a number of areas the as detailed below:

**5.6.7.1 Standard and Quality:-**

Improvement of standards and quality is the most crucial area of joint cooperation. The main focus of the new agreement is on modernisation of Indian testing laboratories, the setting up of a National Accreditation Scheme to International norms, and the introduction of education in quality in engineering colleges. Changes in standards and quality include the following aspects:

**5.6.7.2 Modernization of Technology:-**

Rather than conventional forum of aid the EU has now focused its attention to imparting better education and training.

In the new agreement, emphasis has been placed on the modernisation of laboratories in three key areas viz. automotive sector, domestic electrical appliances and processed food. The assistance is provided in the form of transfer of technical knowhow, to provide training with a view to giving them knowledge of testing procedures and enabling them to operate and maintain installations according to internationally accepted norms.

**5.6.7.3 Harmonization of Standards:-**

Harmonisation of standards is an essential part of the institutional changes. Under this scheme so far 142 Indian standards have been harmonised with the EU standards and EU directions/regulations.

**5.6.7.4 Quality Testing:-**

In recent years, the EU has directed its trading partners to accept ISO 9000 as the basic standards for exporting into EU markets. The final Act of the Uruguay Round, also maintained ISO 9000 as the universal standard. So far 60 Indian offices belonging to various governments and private agencies have been given intensive training to become qualified accesses by Batalas, UK. A further batch of 5 Indian officers was trained as lead accusers.
5.6.7.5 National Accreditation Scheme:-

Government of India has made a request to the EU to assist her in preparing a National Accreditation Scheme (NAS). Under this scheme, a 5-member European Export Group recommended a comprehensive NAS. The elements of this scheme are:

- The National Quality (NQC) would be the apex body for operating the scheme in India. It should be an autonomous body which will control five separate boards.
- A National Accreditation Board (NAB) for the certification of product and quality management system.
- A National Accreditation Board for the Certification of Laboratories.
- A Board for the Registration of Quality Related Personnel.
- A National Enquiry Service of Standards and Assessment.

5.6.7.6 Education in Quality:-

Education in quality is the top most items on the agenda for cooperation in the new Indo-EU treaty on Partnership and Development. Indian products in the international markets are sold at heavy discounts simply because of their low quality. Quality concept is perceived to be unknown to Indian industry. We also do not have gap in this area the EU has taken initiative to provide education in quality in engineering and management colleges in India, the EU has advised India to introduce TQM (Total Quality Management) in undergraduate and post graduate course on a pilot basis. For this purpose IIT, Delhi will be the nodal agency for implementation of the programmed.¹⁹

5.7 Indo-EU Cooperation Agreement on Partnership and Development 1994:-

The thought and action to improve the economic and commercial cooperation between India and the EC was initiated on 17 December 1973 though the conclusion of the Commercial Cooperation Agreement followed by Commercial and Economic Cooperation Agreement on 23 June 1991. In 1994, these agreements were replaced by Cooperation Agreement on Partnership and Development (CAPD). This new agreement is a modified version of the two erstwhile agreements and is in response to India’s economic reforms, which were initiated in July 1991. The new cooperation agreement has maintained the objectives, as enshrined in the CECA and emphasised upon the need for environmental protection and sustainable management of natural resources. In the new agreement, the EU has extended MFN facility to India in continuation of the earlier agreement. The agreement has emphasised the highest
degree of liberalisation in conducting trade between the two contracting parties by eliminating trade barriers.

Trade in goods has been the central issue for discussion in all bilateral negotiations, but, this is for the first time that, both the parties have agreed to promote trade in services in a mutually exclusive way. Regarding customs duty, both the contracting parties have agreed to exempt goods admitted temporarily to their territories for subsequent re-export unaltered from duty tax and other charges. This may also be for goods which re-enter their territories after processing in the other member states which may not be sufficient for the goods to be treated as originating from the territory of that contracting party.

Recently there has been a spate of anti-dumping cases in the EU. A host of India’s export of textiles has been subject to EU’s anti-dumping duty. In the new agreement, the EU becomes more flexible in dealing with anti-dumping cases arising from India. As regards antisubsidy investigations, every party has agreed to examine in detail the submission of the other and will inform the interested parties concerned of the essential facts on the basis of which decision is to be taken. Before imposing any anti-dumping duty, the contracting parties would do their best to evolve a mutually acceptable constructive solution to the problem.

The cooperation agreement basically works in three broad areas indicated below:

i. Improving the economic environment in India by facilitating better access to EU’s know-how and technology;

ii. Facilitating contacts between economic cooperation and other matures designed to promote commercial exchanges and investments;

iii. Reinforcing mutual understanding of their respective economic social and cultural environment as the basis for effective cooperation.

Another important provision of this agreement is the dismantling of all barriers on trade. As a part of the New Economic Policy, India has already liberalised its trade sector though drastic reductions of tariffs from its imports. Though the EU’s response is not very encouraging in this area, but as per its commitment given to WTO, it is expected that it will relent on its protectionist attitude over the years.10
5.8 EU-India High Level Trade Group:-

The 2005 EU-India summit generated a serious political commitment to increase bilateral trade and economic cooperation and to tackle barriers to trade and investment. Within the Joint Action Plan, the summit launched a High Level Trade Group (HLTG) and mandated it to explore ways and means to deepen and widen the bilateral trade and investment relationship. The HLTG was also tasked with examining the possibility of launching negotiations on a broad-based trade and investment agreement. It was decided that the HLTG would report to the 2006 EU-India summit, which is the purpose of the present document.

The HLTG met five times in New Delhi or Brussels and engaged in substantive discussion on a wide range of subjects. The broader trade policy context was examined and information was exchanged on the EU’s and India’s bilateral trade agreement with other parties. In order to facilitate dialogue, the HLTG exchanged non-papers on trade in goods, trade in services, investment, trade facilitation, public procurement, intellectual property rights, competition and dispute settlement. The exchanges based on these non-papers enabled a clear picture to emerge on areas of convergence, on particular sensitivities and on the issues meriting further examination.

5.8.1 Opportunities for enhanced trade and investment between the EU and India:-

The EU and India, both global players in the world trade, have a shared belief in the benefits of the rule-based multilateral trading system and are deeply committed to supporting fair and balanced trade rules for all. The EU and India have cooperated closely under the aegis of the World Trade Organisation (WTO) and this remains the core framework for their trade relations. Both parties are committed to the successful outcome of the Doha Development Agenda (DDA) negotiations and are convinced that deepening bilateral trade relations should support, rather than undermine, the multilateral route. These are complementary approaches towards the common goal of progressively improving trading conditions within clear and fair rules, to promote growth, employment and sustainable development for all.

The EU and India constitute strategically important markets for each other’s economic operators both in terms of immediate opportunities as well as future potential. Whilst keen to open the door to these opportunities, the EU and India are
aware of the need to ensure the benefits are distributed fairly. The EU and India support keen to encourage a model of growth with equity, which is socially inclusive and broad-based. Both are conscious of the need for growth to respect the environment and be sustainable for future generations.

India represents the only large and growing emerging economy in Asia where the EU remains the leader both in external trade and foreign investment flows. European businesses cannot afford to ignore the opportunities in one of the most dynamic markets in the world with a growth rate second only to China’s. With GDP growth at 8% and foreign investment up 40% to € 6 billion, India is on a path to become a global economic heavyweight. India’s great advantages in the market place are that it has a large pool of educated and skilled, English speaking workers. This has provided a launch pad for service specialisation and also contributed to the growing consumer market. There are therefore opportunities for European firms in terms of investment including collaboration with Indian partners whether through outsourcing or joint ventures, trade in intermediary products as well as access to a market for consumer goods.

India has one of the youngest populations in working age (more than 50% of the population under 25) and this situation is predicted to continue: in 2020, the average Indian are estimated to be 29 years old, compared to age 45 in Europe. This will provide the Indian economy with a ready supply of competitive labor for years to come. Secondly, India’s role at the cutting edge of innovation and research provides a technological edge for many industries, such as in the pharmaceutical, creative or information and communication technology sectors. India’s imminent transition from being a major business process outsourcing destination to a knowledge process destination is part of this trend.

The EU represents the largest market in the world with a GDP of € 10,800 billion in 2005 home to nearly half a billion consumers, with a high average level of income (GDP per capita of € 23,377). It constitutes a single market where internal borders have been abolished between 27 countries allowing goods and services, people and capital to move freely, which has helped to make it the largest global destination for foreign investment. The enlargement of the EU and the introduction of the Euro have further improved the climate for trade and investment. Europe’s economy combines a strong industrial base with a knowledge based economy founded
on a skilled workforce and a high level of investment in research and development. Internationally, the EU’s strength lies in creatively, innovation and quality.

The EU considers that open markets are a powerful stimulus to competition, innovation and productivity growth. In fact, the EU is one of the most open markets in the world, including for Indian exporters. In 2004, 77% of India’s exports to the EU entered either duty free or at a reduced tariff rate, thanks predominantly to EU’s autonomous policy, known as the Generalised System of Preferences (GSP).

5.8.2 Trade in Goods:-

A reduction of trade barriers can bring progressive improvements in trading conditions with the objective of promoting growth, employment and sustainable development. Bilateral Free Trade Agreements (FTA) aim to eliminate tariffs between the parties on substantially all trade and thus provide opportunities for current and potential exporters to develop their business and diversify the export base.

The HLTG discussed the principles behind any possible future FTA between EU and India and concluded that any bilateral agreement should be WTO compatible and build upon the outcome of the DDA negotiations. It was further determined that:

- The ambition is to achieve elimination of duties on 90% of tariff lines and trade volume within 7 years of the entry into force of the agreement;
- Modalities for the treatment of sensitive products would be agreed including review clauses and partial liberalisation.

The HLTG concluded that there was potential interest in elimination of duties in bilateral trade in light of the complementary of EU and Indian economies.

5.8.3 Trade in Services:-

The HLTG analysed the importance of the service sector to both the EU and India and considered the negotiations of a FTA in services. There was unanimity on the principle that any such agreement should build upon the outcome of the DDA, to which both partners are fully committed, and that any agreement should be compatible with GATS. In concrete terms, the parties concurred that any agreement should:

- Ensure substantial sectoral coverage measured in terms of number of sectors, volume of trade and modes of supply. No mode of supply should be excluded;
- Provide for the elimination of substantially all discrimination between the parties.
The HLTG concluded that there was a potential interest in an ambitious free trade agreement. Nonetheless, both parties recognised the sensitivities of certain service sectors.

5.8.4 Trade Facilitation:

Trade facilitation is an important topic in the development of international trade. It promotes transparency, cuts red tape and simplifies trade procedures, saving, both time and money for business. Moreover, procedural barriers in export markets can be a particular burden of SME’s. In addition, trade facilitation measures can reinforce security and promote higher customs revenues and a better investment climate. Cooperation in this area therefore, has considerable potential to improve supply chains and trade logistics between the EU and India’s thereby enhancing trade flows.11

Consequently, the HLTG advocated that the EU and India develop provisions on trade facilitation within any possible future bilateral trade agreement, as a complement to a future DDA Agreement. They should also complement the activities foreseen in the EU-India customs cooperation and Mutual Assistance Agreement. Discussions could cover reinforced co-operation with the aim of developing a joint working programme and initiatives in the customs field, the modernisation of customs, simplified procedures, supply chain security, automation the role of customs in enforcing IPR, and other modern challenges in customs work. Trade facilitation means also finding the right balance between ensuring a secure business environment and strengthening and facilitating legitimate trade.

Summary:-

This chapter concluded information about the India’s structural changes with European Union and its foreign trade policy. This chapter also imparts product-wise analysis of India’s exports or imports with respect to European Union. Discussion about the GSP scheme of European Union also given more importance; because of this scheme India tries to improve its exports to the European Union.
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