CHAPTER I
INTRODUCTION AND RESEARCH METHODOLOGY

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1.1 Introduction:—

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. On the contrary, a country may produce more of those commodities in the production of which it has a greater or comparative advantage, and may not produce or may produce smaller quantities of those in the production of which it has greater or comparative disadvantage. The commodities which a country produces at an advantage it exports, while those in producing which it has greater disadvantage it imports. This happens under what in economic terms is called the law of Comparative Cost or Advantage. Similarly; it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

To be more specific, from time immemorial individuals have traded with one another. Different personal skills and specialism are result in differing personalities to produce. The hunter does not attempt to make his own shoes. Instead he concentrates on hunting trading part of his capture with the cobbler. Such specialization of function is an accepted part of life, even in the most primitive of economies and provides the basis for exchange or trade.

As economies become more sophisticated, and production more capital intensive, the scope for specialization increases. So too does the scope for trade merely individuals, may specialise in a particular line of production. The development of international trade is similar. Different countries may concentrate on the production of different commodities, exchanging their surpluses with each other.

1.2 Meaning of Foreign Trade:—

The term “trade” is commonly understood to mean exchanges of goods, wares or merchandise among people. It comprehends every species of exchange or dealing in goods. Trade may be internal or external. By internal or domestic trade is meant
transaction taking place within the geographical boundaries of a nation or region. It is also known as intra-regional or home trade. External or international trade, on the other hand, is trade among different countries or trade across political frontiers. International trade thus refers to the exchange of goods and services between one country or region and another. It is also sometimes known as inter-regional or foreign trade. Briefly, trade between one country and another is called “international” trade; and trade within the territory (Political boundary) of a country “internal” trade.

Classical economists believed that there was a fundamental difference between home trade and foreign trade. They pointed out that labour and capital move freely within a country but not between different countries. Thus, international immobility of factors was the basic criterion accepted by the classical economists for the emergence of international trade. Moreover, different national policies, different monetary systems, different political units and artificial barriers like tariffs and exchange controls involved in international trade distinguish it from domestic trade.

By the term trade is meant mercantile transaction or exchange of goods and services among people or associations of people. When exchange of goods and services may take place between two individuals of different countries or between two firms or companies between two countries or between governments of any two countries, such trade transaction is called international trade. The famous economists Hexture and Ohlin said, “International trade is an Economic solution of commodity of disproportionate factors between different countries.” When Hexture and Ohlin said, the theory of International trade that they define the meaning of international trade in their book Inter regional and International Trade in 1933 Friedrich List said, “Domestic trade is among us, international trade is between then and us”. In contrast to international trade is what is called or referred to by Bertil Ohlin as, ‘inter-regional’ or ‘inter-local’ or ‘domestic trade’ or ‘internal trade’ The concept of inter regional trade may be clarified here. For example India is divided into several geographical regions such as, southern region, northern region, western region, trade between or among these different regions of India is called, ‘inter-regional trade which is another name for internal or domestic trade.

It may be pointed out here that economists like Bertil Ohlin and G.A. Haberler expressed the view that there is no fundamental differences between, ‘International
Trade and Inter-regional Trade and if there is any difference between the two according to them, the difference is only degree and not of kind.

On the other hand, the classical economists like Adam Smith and David Ricardo opened that there are some fundamental differences between inter-regional trade and international trade. And therefore, the English Classical School provided a separate theory to explain international trade, known as the theory of Comparative Cost Advantage.

1.3 Distribution between Domestic Trade and International Trade:-

Following are the distinguishing features of international trade. These features may be said to distinguish international trade from domestic or internal or inter-regional trade.

1.3.1 Immobility of factors of production:-

The Classical School favoured formulation of a separate theory of international trade on the ground that while in a country factors of production like labour and capital are freely mobile as between different areas or regions of a country as also among different occupations in the country, these factors of production are immobile between countries entering into international trade.

This would mean that wage and interest differentials in a country produce almost immediate response from various factors of production like labour and capital which tend to move from areas where they are relatively high and this movement goes on until wage rates and other factor-prices attain the same level eliminating all the differentials. This means within a country factor movement go on taking place fairly, quickly until in the case of different countries, there is no such free mobility and movement of factors of productions from a country of relatively high factor prices. This immobility of factors of production among countries is due to reasons like differences in languages, cultural and social environment differences in customs, in climate desire to live among family members and close friends, fear of the unknown surroundings in foreign countries heavy travelling expenses and above all restrictions imposed by different states on the movements of labour and capital into their countries.

1.3.2 Geographical and Climate Differences and Differences in Natural Resource Endowments:-

Different countries have different climatic conditions that favour production of
certain commodities and not of other commodities, for example, the climate of Bangladesh is favourable to production of raw jute, of Sri Lanka that of tea, of Brazil that of coffee, of Cuba that of sugar and so on. Because of the peculiarities of geographical and climatic conditions, no country is in a position to produce all the commodities it needs. Thus geographical and climatic conditions favour specialization of certain other commodities.

Nature has endowed different countries with different types of natural resources. Thus the Middle East countries are rich in crude oil but lack adequate fertile agricultural lands to produce necessary food grains. Australia on the other hand, has abundant supply of agricultural land, while England, having abundant capital suffers from relative scarcity of land. Each country tries to produce those commodities in the production of which factors which are abundant with them play a major role. Thus Australia specialises in the production of agricultural commodities like wheat, wool all of which require relatively more land and in return of their export, import from England commodities like manufactured goods and machinery in the production of which capital play a major role relative to land. Thus differences in natural resources determine to a great extent the line in which each country is going to specialise and export goods and in the return what commodities the country is going to import.

1.3.3 Differences in Market conditions:

Markets in different countries of the world are separated or distinguished by differences in languages, tastes and fashions, systems of weights and measures and so on. This is not so in the case of markets in a country for example, right hand driving cars manufactured in India, may not be sold in the United States where there is left hand driving, readymade garments which Indian manufacturer make and in a position to sell in the domestic market may be unable to sell their goods, say in South American countries where clothes of bright colour and of different fashions are generally preferred. Machinery manufactured on the basis of inches and feet may not be in demand in countries where decimal systems of weights and measures is adopted.

1.3.4 Different currency systems in different countries:

While in the case of a single country like India, there is only a single currency systems where Indian rupee is a legal tender which is accepted in all parts of India for trading purposes, that is not in the case when international trade in involved, for goods imported from England, West Germany, France, the United States and Japan, Indians
are required to make payments in terms of pound sterling, marks, franc, US dollar and yen respectively. It should also be noted that since the abandonment of the gold standard in 1930s, rates of exchange between Indian rupee and above foreign currencies often go on changing creating complicated problems in the sphere of international trade, “when monetary units of different currencies are not subject to gold conversion, exchange rates may vary by much greater amounts than those under gold standard. Calculations and execution of monetary exchange transactions incidental to international trading constitute costs and risks of a kind that are not ordinarily involved in domestic trade”.

Another difficulty is that whereas some currencies like US dollar, mark, yen, etc. are easily convertible into any other currency, there are some currencies which are not convertible into other currencies which are referred to as hard currencies. This naturally creates problems in the field of international trade, especially for those countries with soft currencies. Also according to Kindleberger, different countries adopt and follow different monetary and foreign exchange policies and “It is this difference in policies rather than the existence of different national money which distinguishes foreign trade from domestic trade.”

1.3.5 Higher Transport Costs:-

Compared to local, domestic or inter-regional trade among countries involves heavier transport costs because of vast distances over which goods are to be transported.

1.3.6 Different Political Systems:-

In the case of domestic or inter-regional trade, all the trading units belong to the same political unit and all the domestically trading people, though speaking different languages and differing in caste and religion, share a common sense of belonging to the same nation and common concern for the welfare of country and its people and are prepared to make necessary adjustment in the national interest. But in the case of trade between two independent countries, the question of common loyalty does not arise and the basic idea behind international trade is to gain as much as possible from the other trading partner. In the case of international trade, a country may not at all mind, under certain circumstances, harming the country to gain its national and political objectives. As Friedrich List pointed out in his National Systems
of Political Economy published in 1841, “Domestic trade is among us; international trade is between us and them”.

1.3.7 Different International Trade Policies:-

In the case of domestic trade, the nation concerned follows a single national trade policy in respect of commerce, taxation, export, imports, tariffs and so on. There is thus a single national policy affecting domestic trade.

But in the case of international trade participating countries may and adopt and follow different national policies in respect of exports, imports, capital inflows and outflows, exchange controls, quota fixation and putting various barriers on the movement of goods and services from one country to another. Also in the case of international trade there may be laid down elaborate customs procedure, packing arrangements and requirements giving detailed information regarding contents of the packages all having unfavourable impact on the movement of goods from one centre to another in the same country is much faster than the case of international trade. Thus while international trade is characterised by different national trade policies, in the case of domestic or internal trade there is just one commercial policy for the entire country.

1.3.8 Problem of Balance of Payments:-

An important feature that distinguisher international trade from internal or domestic trade is the problem of balance of payments, the point can be illustrated with an example. A developing country like India needs, say from the United States, a number of capital goods and essential industrial raw material. All these imports from the United States must be paid for by India’s exports of goods of equal value as that of imports. But it is possible that the United States may not want to purchase goods from India to the extent that would enable India to make full payment for all the imports, from the United States. India begins to face the problem of adverse balance of trade and payments vis-à-vis the United States. India can temporarily meet this deficit between the value of imports and exports by borrowing from the United States will have to be paid back with interest and this payment will have to be made in US dollars which India can earn only by exporting more goods to the United States. But as already noted, the United States may not want all the exports from India which India is eager to send to the United States. The deficit between India’s imports from the United States and India’s exports to that country may be filled by using the
reserve of US dollars which India may have built in the past. But if the deficit occurs again and again, such reserves are bound to get exhausted sooner or later forcing India to borrow from the United States. Thus with a view to correct adverse balance of trade and payments, India may be forced to adopt policies such as restricting imports from the United States or adopt policy of devaluation or quota fixation of imports from the United States and so on. All such restrictive trade policies would raise a host of complex problems in the sphere of India’s international trade. Such problems of balance of trade and payments do not arise in the case of internal or domestic trade.

On account of the above characteristics or features which distinguish international trade from internal or domestic trade, the English Classical School formulated a separate theory of comparative cost advantage to explain the phenomenon of international trade.

Each country tries to increase the availability of goods and services to its people through purchase from other countries. Similarly it tries to sell its surplus production to other countries. Buying of goods from other countries is called import and selling of goods to other countries is called export. Both export and import taken together constitute foreign trade of a country. Thus foreign trade can be defined as trade between countries. However, foreign trade not only involves sale and purchase of goods but also sale and purchase of services like shipping, insurance, banking, consultancy services etc. Trade is the more important item of economic transactions between countries. Trade or total trade is made up of transactions in goods or exchange of goods or purchase and sale of goods between countries. Imports of goods consumed in one country, has been bought from another country. Exports of goods produced in one country and sold to consume in another country. The sum total of exports and imports is called total trade.

It means there are two types of foreign trades, import and export.

1.4 Import:-

If the seller is abroad (cross the borders) and the buyer is in the home country, trade is known as import trade. Scientifically; the term import can be define are as follows.

Goods or services that are produced in another country and sold to home country, these include merchandise trade (like cars) and services (like transaction or interest on loans and investments).
1.5 Export:-
When the seller is in the home country and the purchaser is abroad the trade is known as export. Goods or services that are produced in the home country and sold to another country, these include merchandise trade (like cars) and services (like transaction and interest on loans and investments). what is import for one country is export for another country and vice versa. Foreign trade can be divided into two more types according to visibility;

1.6 Visible and Invisible:-
Visible trade is one which can be seen. I.e. Trade of goods, merchandise transfer or exchange of goods is visible, while, exchange of services between the purchaser and seller are invisible.

1.7 Importance of Foreign Trade:-
Foreign trade includes both exports and imports. The importance of these imports and exports for a country are as follows. Importance of Imports:-
Imports are of great importance for any country in the following ways.

1.7.1 Help in Development of the Economy:-
Capital goods like machinery and equipments are required for industrial development. Industrial development also depends upon infrastructural facilities like power, transport etc. agriculture also requires machines like tractors, harvesters etc. for faster growth. Fertilizers, pesticides etc. play a key role in agricultural development. A developing country does not have different resources or knowhow to produce such goods or even if it is producing these goods, the production may not be sufficient. This deficiency can be made by importing these goods. Thus, imports can increase the productive capacity of a country.

1.7.2 To Meet Shortages:-
Imports can fill the gap between domestic and domestic supply of essential goods like food, cooking oils etc. for example, in early years after independence there was food shortage in our country, so large quantities of foodgrains like wheat and rice were imported. Even now our country does not produce vegetable oils enough to meet our requirements. Hence their import continues.

1.7.3 Imports for Better Living Standards:-
The developing countries may not be producing non-essential goods like luxury and semi-luxury items such as television, motorcars, washing machines etc.
The rising income levels in the developing countries create demand for such goods. A country can get these goods from other countries.

1.7.4 Improving Quality of Production:-

The import of goods may help in improving the quality of domestic production. When faced with competition from foreign goods, the domestic producers try to improve the quality of their products. By doing so, they can effectively compete with foreign producers. For example, import of electronic goods into India has contributed a lot in improving the quality of similar Indian goods.

1.7.5 Importance of Exports:-

Exports are important in the following ways:

1.7.5.1 Help in Growth of the Economy:-

Exports help in the growth of the economy in the following ways:

1.7.5.2 Exports help in Increasing Production:-

Exports help in selling surplus production. For example, in India demand for tea is less than its potential production. If we had not been exporting tea, our total production of tea would have been smaller. Thus export to European markets has helped us to expand our tea production.

1.7.5.3 Exports helps in employment and income generation:-

Exports increase the size of the market and this encourages more production. Larger production involves greater use of man-power. Thus more people get jobs and greater employment and income is generated.

1.7.5.4 Expansion of related industries:-

Expansion of one industry helps in the expansion of their industries. For example, when exports result in expansion of an industry, it also creates greater demand for packaging, transporting etc; and thus leads to the growth of these sectors.

1.7.5.5 Overall increase in demand for other goods:-

Exports generate more income and employment in the economy. Expansion of income leads to greater purchasing power in hands of people who in turn spend this income on goods produced in the economy. This increase in demand for goods causes on increase in production, income and employment. In this way the growth of the economy takes place.

1.7.5.6 Better utilization of resources:-

Exports increase the scale of production and thus help in the use of modern
technology. This results in better use of resources which, in turn, leads to more production with same resource and lower cost of production. Use of modern technology also helps in improving the quality of goods.

1.7.5.7 Source of Foreign Exchange:-

Exports are an important source of earning foreign exchange. (Foreign exchange means foreign currencies). Any country needs foreign exchange to pay imports. This foreign exchange can be earned through exports.

Foreign trade is highly beneficial to a country, as it increase the amount and variety of the objects on which revenue may be expanded, and affords by the abundance and cheapness of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.

Foreign trade plays a vital role in the Indian economy. As the country need to import diverse products so foreign trade is extremely important to the country. India exports vast number of products and also imports an equal amount of other products. On the eve of Independence in 1947; foreign trade of India was typical of a colonial and agricultural economy. India was a supplier of foodstuffs and raw materials to the industrialised nations particularly England and an importer of manufactured goods. This dependence on foreign countries for manufactures did not permit industrialisation at home; rather as a result of the competition from British manufactures the indigenous handicrafts suffered a serve blow.

With dawn of independence the colonial pattern of the trade had to be changed to suit the needs of a developing economy. An economy which decides to embark on a programme of development is required to extend its productive capacity at a fast rate. For this imports of machinery and equipments which cannot be produced in the initial stages at home are essential. Such imports which either lines of production or enlarge capacity in the other lines of production are called developmental imports. For instance, imports required for the setting up of the steel plants, the locomotives factory and the hydroelectric projects are of a developing country which sets in motion the process of industrialisation at home requires the imports of raw materials and intermediate goods so as to properly utilise the capacity created in the country. Imports which are made in order to make a full use of the productive capacity are
called maintenance imports. These imports are vital for a developing economy as many of the industrial projects are also held up for lack of maintenance imports for a developing economy, the developmental and maintenance imports sets limits to the extent of industrialisation which can be carried out in a given period. Besides these imports a developing economy is also required to import consumer goods which are in short supply at home during the period of industrialisation, such imports are antiflationary, because they reduce the scarcity of consumer goods, one example of such imports is the food grains imports in India in the post independence period which helped to arrest the rise of prices at home. Over the last 60 years, India’s foreign trade has undergone a complete change in terms of composition and direction. The exports cover a wide range of traditional and nontraditional items while imports consist mainly of capital goods, petroleum products, raw materials, and chemicals to meet the ever-increasing needs of a developing and diversifying economy. For about 40 years (1950-1990), foreign trade of India suffered from strict bureaucratic and discretionary controls. Similarly, foreign exchange transactions were tightly controlled by the Government and Reserve Bank of India. From 1947 till mid-1990s, India with some exceptions always faced deficit in its balance of payments, i.e. imports always exceeded exports. This was characteristics of a developing country struggling for reconstruction and modernisation of its economy. Imports galloped because of increasing requirements of capital goods, defense equipments, petroleum products and raw materials. Exports remained relatively sluggish owing to lack of exportable surplus, competition in the international market inflation at home and increasing protectionist policies of the developed countries. Beginning mid-1991, the Government of India introduced a series of reforms of liberalise and globalise the Indian economy. Reforms in the external sector of India were intended to integrate the Indian economy with the world economy. India’s approach to openness has been cautious, contingent on achieving certain preparations to ensure an orderly process of liberalisation and ensuring macroeconomic stability. This approach has been vindicated in recent years with the growing incidence of financial crises elsewhere in the world. All the same, the policy regime in India in regard to liberalisation of the foreign sector has witnessed very significant change. Traditionally underdeveloped countries like India had been the exports of foodstuffs and raw materials. As economic development proceeds the raw material exports generally decline because
of their demand increases at home to meet the requirements of growing domestic industries. With fast growing population the surplus of food grains available for exports either dwindles or is turned into a deficit. Consequently, a developing economy is required to find new markets in which it can sell its manufactures. The developed nations can help the process of industrialisations in an underdeveloped country by reducing trade barriers and accepting its consumer goods and semi-manufactured goods, foreign aid is important for an underdeveloped country but trade is more significant.

After Independence, Indian foreign trade has made cumulative progress both qualitatively and quantitatively. Though the size of foreign trade and its value both have increased during post-independence era, this increase in foreign trade cannot be said satisfactory because Indian share in total foreign trade of the world has remained remarkable low. In 1950 the Indian share in the total world trade was 1.78% which came down to 0.6% in 1995. According to the Economic Survey 2004-2005 this share per centage of 0.6% continued in years 1997, 1998 and 1999, very slightly increased to 0.8% in 2003. Currently India is the 31st leading exporter and 24th leading importer in world merchandise trade which clearly indicates that India failed to increase its share in the total world trade. Along with rapid increase in our exports, their composition has also undergone significant changes. Data reveal strengthening of our export competitiveness in some directions and its weakening in some others. We have been able to add to our export competitiveness in several farm products, handicrafts and readymade garments. There has also been a commendable increase in the share of re-exports. In contrast, shares of certain traditional exports like tea and coffee have decreased. Our merchandise trade is still tied to traditional geographical regions.

Foreign trade of a country reflects the changing composition of its economy. It also plays an important role in its economic growth and performance. History of foreign trade of India since Independence is a saga of several revolutionary changes. It is representative of the transformation of its economy from a primarily agricultural one to one of the most industrialised ones in the world. It reflects its technological progress as also its deep-rooted weakness and rigidities. The pattern and direction of our foreign trade also represent, in more ways than one, a basic shift in our economic policy and thinking. Simultaneously partial success in meeting the challenges posed by her commitments to the building of a free and fair world trade regime, as also the
hurdles created by some countries in the achievement of this objective.\textsuperscript{10} Foreign trade contributes to growth and development of a developing country by offering to it. Specialise in certain areas of production to gain access to acquire latest technological know-how. Foreign trade in India, particularly since independence, has offered these opportunities in an ample measure. A number of significant changes in the various spheres of the international trade of India are discernible.

1.8 General Information of European Union

The European Economic Community (EEC), also known as European Common Market (ECM), European Community (EC) and European Union, is by far the most successful of the regional economic integration schemes. In 1951 six European states signed the Treaty of Paris forming, the European Coal and Steel Community (ECSC), which began operating in 1952.\textsuperscript{11} An arrangement involving the abolition of import duties on cross-border movements of coal and steel within these countries, while imposing a common external tariff on supplies of these products from the rest of the world.\textsuperscript{12} Two further communities were subsequently set up: the European Atomic Energy Community (Euratom) and the European Economic Community (EEC).\textsuperscript{13} The EEC, originally comprised six nations, in a treaty signed in Rome on March 24, 1957. The treaty is known as Treaty of Rome.\textsuperscript{14} On January 1, 1958 six countries inaugurated a change in commercial policy which is dramatic even in a world characterised by revolutionary changes in social forms.\textsuperscript{15} The EC was formed on 1 January 1958 after the signing of the Treaty of Rome. This sought to establish a common market, by eliminating all restrictions on the free movement of goods, capital and persons between member countries. By dismantling tariff barriers on industrial trade between member and by imposing a common tariff against non-members the EC was to become a protected free-trade area or ‘customs union’. The formation of a customs union was to be the first step in the creation of an ‘economic union’ with national economic policies harmonised across the member countries.\textsuperscript{16} The Treaty of Rome required every member country\textsuperscript{17} to:

1. Eliminate tariffs, quotas and other barriers on intra-community trade;
2. Device a common internal tariff on imports from the rest of the world;
3. Allow the free movement of factors of production within the community;
4. Harmonise their taxation and monetary policies and social security policies;
5. Adopt a common policy on agriculture transport and competition in industry;
The founder members of the community were France, the Federal Republic of Germany, Italy, Belgium, the Netherlands and Luxembourg.\textsuperscript{18}

Regional Economic Cooperation’s is of recent development particularly after World War. The international as well as regional cooperation’s has been reported by the member countries to avoid the obstacles and problems of international marketing. One of them is European Economic Community (EEC). Previously, the European countries were facing several problems of tariffs, trade and protection. They decided to join hands to eliminate and avoid these problems. They signed a treaty in 1958 in Rome bringing together Germany, France, Luxembourg, Belgium and Netherlands to form the community known as European Economic Community (EEC). It is also known as European Common Market (ECM). It has made progressive unification of the national interest. A common anti trust law was passed. It was decided for removal of internal agricultural duties. External customs duties were suspended and replaced by variable import Levis. The movement of capital, alignment of taxes developing a community policy on competition and restrictive practices were adopted by the member countries.\textsuperscript{19} The European Union is a regional organisation consisting of 27 European countries. It has been established on the existing European Communities set up by the Treaty of Paris (1951) and Rome (1957). Further it is supplemented by amendments, the single European Act (1986), the Maastricht Treaty on European Union (1991) and the treaty of Amsterdam (1997). The European Union (EU) originated as the European Coal and Steel Community (ECSC) with the signing the Treaty of Paris, in 1951. The Maastricht Treaty popularly known as the Treaty on European Union (TEU) of 1991, further, revised the earlier treaties, and envisaged a union in economic and monetary and political system\textsuperscript{20}. The ultimate goal of the EU is “an ever closer union among the people of Europe, in which decisions is taken as closely as possible for the citizen”.

After centuries of warfare between empires and states, why did European countries create the most comprehensive set of international institutions of all time? We can offer five main reasons for why traditionally aggressive countries choose to work together\textsuperscript{21}. The first three are primarily economic; the others are more political and military in nature.

1. Rebuilding war-torn economies was seen as impossible without cooperation.
2. Lower barriers to trade would help economies grow.
4. Preventing the spread of communism from within and from without.
5. Preventing Germany from starting world war.

1.8.1 Objectives of European Union:–

Following are the objectives of European Union.
1. Regional development.
2. Encourage industrial integration with the Union.
3. Encourage growth of small and medium size enterprises.
4. Implement a common foreign and security policy.
5. Regulation of competition.
6. An agricultural common market.
7. Common social and economic policies.
8. Development towards a political union.

What’s in a name of European Union? The evolution of the EU and the subsequent advances over the years to greater integration is reflected in the name given to the EU itself. Originally, the EU was referred to as the “Common Market”, “European Economic Community” or simply “European Community”. These names reflected the overwhelming economic focus of the EU. After the Maastricht Treaty took effect in 1993, people began using the term, “European Union” because of the progress the Europeans had made in advancing economic cooperation. This term particularly reflected aspirations of giving the EU a more political and security focus. For example, the Maastricht Treaty talks of “an ever closer union” of peoples in Europe.

1.8.2 Enlargement of the European Union

Enlargement of the European Union is the process of expanding the European Union (EU) through the accession of new member states. This process began with Inner six, who founded the European Coal and Steel Community (ECSC) in 1951. Since then, the EU’s membership has grown to twenty seven with the most recent expansion to Bulgaria and Romania in 2007. Currently, accession negotiations are underway with several states. The process of enlargement is sometimes referred to as European integration. However, this term is also used to refer to the intensification of cooperation between EU member states as national government allow for the gradual centralizing of power within European institutions. In order to join the
European Union, a state needs to fulfill the economic and political conditions, which require a stable democratic government which respect the rule of low, and its corresponding freedoms and institutions. According to the Maastricht Treaty, each current member state and also the European Parliament have to agree to any enlargement.

1.8.2.1 First Enlargement of European Union

In the first enlargement, three countries were joining the European Union. These countries are as follows:

Denmark, Ireland and United Kingdom, these three countries were applied on 31st July 1961, Denmark applied on 10th August 1961 and United Kingdom applied also on 10th August 1961 but their application was failed. These countries secondly applied and then their application was accepted. Denmark and Ireland applied on 11th May 1967 and their application acceded on 1st January 1973. United Kingdom applied on 10th May 1967 and it was acceded on 1st January 1973.

After joining these three countries into European Union the first Enlargement took effect on January 1, 1973, and increased the Union from six to nine member states.

1.8.2.2 Second Enlargement of European Union

The second Enlargement involved one country, which applied in 1975, and the country is Greece. Greece applied on 12th June 1975 and became the 10th Member of the European Union on January 1st 1981.

1.8.2.3 Third Enlargement of European Union


Their accession raised several difficulties and it took six years of negotiations to solve them. The Treaties between the 10 member states and Spain and Portugal providing for Spanish and Portuguese accession were signed in Lisbon and Madrid on 12th June, 1985. The Treaties were verified by the Parliaments of the member states and the applicant countries. Spain and Portugal duly became the eleventh and twelfth members of the Union on 1st January 1986.
1.8.2.4 Fourth Enlargement of European Union

The most recent enlargement of the European Union took place on January 1st, 1995, when Austria, Sweden and Finland became members of the union. These three countries signed the Treaty of Accession at the European council summit in Corfu held from June 24th to 25th, 1994. Austria had applied for membership to the Union on July 17th, 1989. Sweden had applied on July 1st 1991 and Finland had applied on March 18th 1992. Subsequent to the signing the Treaty Accession, national referenda held in Austria, Finland and Sweden had ratified the decision to join the European Union. With Austria, Finland and Sweden joining the Union the number of member states rose to fifteen (15), on 1st January 1995.

1.8.2.5 Fifth Enlargement of European Union

As seen above, the Union has been enlarged four times since its foundation and its membership has risen from six to fifteen in January 1995. This Enlargement involved ten countries, therefore this enlargement is known as large and most important. These ten countries are as follows, Cyprus, Czech Republic, Estonia, Lithuania, Hungary, Latvia, Malta, Poland, Slovakia and Slovenia. This enlargement is also known as Eastern bloc enlargement. Cyprus applied for membership of EU on July 3rd 1990, Czech Republic applied on January 17th, 1996, Estonia applied on November 24th 1995, Hungary applied on March 31st 1994, Latvia applied on September 8th 1995, Malta applied on July 3rd 1990, Poland applied on April 5th 1994, Slovenia applied on June 10th, 1996. These ten countries included into the European Union, the number of member countries of EU rose to twenty five (25).

1.8.2.6 Sixth Enlargement of European Union

The sixth enlargement involved two countries, Romania and Bulgaria, who were not ready to join in 2004. These countries faced some restrictions. The lack of progress in some areas such as the judiciary led to further restrictions, such as EU funds they would normally receive, until they fully complied. With Bulgaria and Romania joining the Union in 2007 the number rose to twenty-seven (27).

European Union consist twenty-seven (27) member countries. The Union enlarged by six times and consist twenty-seven countries into EU.
Table No 1.1

Successful applications of Member Countries of European Union

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<tr>
<th>Sr. No.</th>
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</tr>
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<td>8.</td>
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<td>1st Jan, 1973</td>
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<td>1st Jan, 1995</td>
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<td>1st May, 2004</td>
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<td>22.</td>
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<td>24.</td>
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<td>25.</td>
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<td>10th June, 1996</td>
<td>1st May, 2004</td>
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<tr>
<td>27.</td>
<td>Romania</td>
<td>27th June, 1995</td>
<td>1st Jan, 2007</td>
</tr>
</tbody>
</table>

Source: Statistics related to enlargement of EU.

Above mentioned that EU had six enlargements, Denmark, Ireland and United Kingdom join the Union in 1973 that was the first enlargement. Greece joined in 1981, the second enlargement. Portugal and Spain become member in 1986 the third enlargement. Austria, Finland and Sweden join the Union in 1995, the fourth enlargement. From Cyprus to Slovenia, ten countries join the union that was the fifth
and large enlargement and finally Bulgaria and Romania joined the union in 2007 was the sixth and recent enlargement.

1.8.3 Member States of the European Union

European Union is any one of the twenty-seven (27) sovereign states that have acceded to the European Union (EU), since its inception in 1951 as the European Coal and Steel Community (ECSC). From an original membership of six states, there have been six successive enlargements, the largest occurring on 1st May 2004, when ten states joined. The EU is currently composed of twenty republics, six kingdoms and one grand duchy. Bulgaria and Romania are the most recent Member states, joining on 1st January 2007. Negotiations are also under way with a number of other states. The process of enlargement is sometimes referred to as European integration. However, this term is also used to refer to the intensification of cooperation between EU member states as national laws. Before being allowed to join the European Union, a state must fulfill the economic and political conditions generally known as the Copenhagen criteria, defined at the 1993 Copenhagen European Council. These basically require that a candidate Member State must enjoy a secular democratic system of government, together with the corresponding freedoms and institutions, and respect the rule of law Copenhagen criteria require a stable democracy which respect human rights and the rule of law; a functioning market economy capable of competition within the EU; and the acceptance of the obligations of membership, including EU law. Evaluation of a country’s fulfillment of the criteria is the responsibility of the European Council. Under the terms of the Treaty on European Union, enlargement of the Union is conditional upon the agreement of each Member State approval by European Parliament.

Each state has representation in the institutions of the European Union. Full membership gives the government of a member state a seat in the council of the European Union and European Council. When decisions are not being taken by consensus, votes are weighted so that a country with a greater population has more votes within the Council than a smaller country (although not exact, smaller countries have more votes than their population would allow relative to the largest countries). Similarly, each state is assigned seats in Parliament according to their population. However, members of the European Parliament have been elected by universal suffrage since 1979 (before which they were seconded from national parliaments),
rather than being appointed by governments. Governments do however appoint one member each to the European Commission, the European Court of Justice and the Court of Auditors.

Historically, larger member states were granted an extra commissioner. However, as the body grew, these rights have been removed and each state is represented equally. Yet the largest states are granted an Advocates General in the Court of Justice. Finally, the governing of the European Central Bank is made up of the governors of each national central bank. The larger states traditionally carry more weight in negotiations, however smaller states can be effective impartial mediators and citizens of smaller states are often appointed to sensitive top posts to avoid competition between the larger states.

The founding treaties state that all member states are individually sovereign and of equal value. However the EU does follow a supranational system (similar to federalism) in European Community matters, in that combined sovereignty is delegated by each member to the institutions in return for representation within those institutions. Those institutions then empowered to make laws and execute them at a European level. If a state fails to comply with the law of the European Union it may be fined or have funds withdrawn. In extreme cases, there are provisions for the voting rights or membership of a state to be suspended. On issues outside the European Community less sovereignty is transferred, with issues being dealt with by consensus and cooperation. However, as sovereignty still originates from the national level, it may be withdrawn by a member state who wishes to leave. Hence, if a law is agreed that is not to the linking of a state, it may withdraw from EU to avoid it. This however has not happened as the benefits of membership are often seen to outweigh any negative impact of certain laws. Furthermore, in real politic, concessions and political pressure may lead to a state accepting something not in their interest in order to improve relations and hence strengthen their positions on other issues.

1.8.4 Geography of the European Union
The territory of the EU consists of the combined territories of its 27 member states. The territory of the EU is not the same as that of Europe, as parts of the continent are outside the EU, such as Iceland, Switzerland, Norway and European Russia. Some parts of member countries are not part of the EU, despite forming part of the European continent. Several territories associated with member states that are outside
Table No. 1.2

General information of EU Countries

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Common Name</th>
<th>Official Name</th>
<th>Accession</th>
<th>Area(km²)</th>
<th>Capital</th>
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<td>1st Jan 2007</td>
<td>238391</td>
<td>Bucharest</td>
</tr>
</tbody>
</table>

Source: Statistics related to EU member Countries

Geographic Europe is also not part of the EU. Some overseas territories are part of the EU even if they are not geographically part of Europe such as, the Azores, the Canary Islands, French Guiana, Guadeloupe, Madeira, Martinique, Reunion, Saint Barthelemy and Saint Martin.

The European Union primarily occupies a large portion of Western and Central Europe, covering 4422773 square kilometers (1707642 sq mi). It extends northeast to Finland, northwest to Ireland, and southeast to Cyprus and southwest to
Iberia, it represents the seventh largest territory in the world by area. Although most of the European Union is on the European continent, the combined member states land borders with 21 nonmember states for a total 12441 kilometers (7730 mi), the fifth longest border in the world. The landscape, climate and economy of the EU are influenced by its coastline, which is 69342 kilometers (43087 mi) long. The EU has the world’s second longest coastline after Canada. Bordering the Atlantic Ocean, Mediterranean Sea, Black Sea, Baltic Sea and Adriatic Sea, European Mountain ranges include the Alps Carpathian Mountains, Balkan Mountains and Scandinavian Mountains with the tallest mountain in the Union being Mont Blanc. Several overseas territories and dependencies of various member states are also part of the EU. Including overseas territories of member states, the EU includes most types of climate from Arctic to tropical. Metrological averages for the EU as a whole are therefore not meaningful. The majority of the population lives in areas with a Mediterranean climate (southern Europe), a temperate Maritime climate (Western Europe), or a warm summer continental or hemiboreal climate (in eastern member states).

The European Union is home to more global cities than any other region in the world. Over 16 cities with populations over one million inhabitants, counted in its city proper. Densely populated regions that have no single core but have emerged from the connection of several cities and are now encompassing large metropolitan areas are Rhine-Ruhr having approximately 7 million.

1.8.22 Economy of the European Union:-

The economy of the EU combines of 27 member states. Since its origin, the EU has established a single economic market across the territory of all its members. The economy of EU, economies of member states, Economic growth Energy resources, Trade, Unemployment, Industries, Agriculture, Tourism, Companies etc. The European Union is an association of 27 independent member states. The Administration of the union has a Parliament, a civil service and a judiciary that is distinct from those of the member states. The Administration of the European Union has three elements to its governments: In Addition, the European Court of Justice is founded from the budget of the Administration. All three take a part in setting the annual budget. The budget for a year, or a period of years, is determined in advance, but final calculations of payments required from each member state are not completed
until after the budget year is over and information about revenue and expenditure is available.

1.8.23 Economic and Monetary Union of the EU:-

In economies, a monetary union is a situation where several countries have agreed to share a single currency amongst them. The European Economic and Monetary Union (EMU) consist of three stages coordinating economic policy and cumulating with the adoption of the euro, the EU’s single currency. All member states of the European Union are expected to participate in the EMU. Sixteen member states of the European Union have entered the stage and have adopted the euro as their currency. The United Kingdom, Denmark and Sweden have not accepted the third stage and the three EU members still use their own currency today.

The three stages of Economic and Monetary Union are as follows:

**Stage 1: 1 July 1990 to 31 December 1993**

On 1 July 1990, exchange controls were abolished, thus capital movements were completely liberalised in the European Economic Community. The Treaty of Maastricht in 1992 establishes the completion of the EMU as a formal objective and sets a number of economic convergence criteria, concerning the inflation rate, public finances, interest rates and exchange rate stability. The treaty enters into force on 1 November 1993.

**Stage 2: 1 January 1994 to 31 December 1998**

The European Monetary Institute is established as the forerunner of European Central Bank, with the task of strengthening monetary cooperation between the member states and their national banks. On 16 December 1995, details such as the name of the new currency (the euro) as well as the duration of the transition periods are decided on 16-17 June 1997, the European Council decides at Amsterdam to adopt the stability and growth pact, designed to ensure budgetary discipline after creation of the euro, and a new exchange rate mechanism is set up to provide stability above the euro and the national currencies of countries that haven’t yet entered the euro zone. On 3 May 1998, at the European Council in Brussels is, the 11 initial countries that will participate in the third stage from 1 January 1999 are selected.

**Stage 3: 1 January 1999 and continuing**

From the beginning of 1999, the euro is now a real currency, and a single monetary policy is introduced under the authority of the ECB. A three-year transition
period begins before the introduction of actual euro notes and coins, but legally the national currencies have already ceased to exist.

On 1 January 2001, Greece joins the third stage of the EMU. The euro notes and coins are introduced in January 2002. On 1 January 2007, Slovenia joins the third stage. On 1 January 2008, Cyprus and Malta join the third stage and on 1 January 2009, Slovakia joins the third stage of the EMU.

1.8.24 Euro:-

The euro is the official currency of 16 of 27 member states of the EU. The states, known collectively as the Euro zone, are: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The name euro was officially adopted on 16 December 1995. The euro 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 is managed and administered by the Frankfurt-based European Central Bank (ECB) and the Eurosystem. As an independent central bank, the ECB has sole authority to set monetary policy. All euro coins have a common side, and a national side chosen by the respective national authorities. The euro is divided into 100 cents. In official contexts the plural forms of euro and cent are spelled without the s, notwithstanding normal English usage. Otherwise normal English plurals are recommended and used. All circulating coins have a common side showing the denomination or value, and a map in the background. The coins are issued in €2, €1, 50 cent, 20 cent, 10 cent, 5 cent, 2 cent and 1 cent denominations. In order to avoid the use of the two smallest coins, some cash transactions are rounded to the nearest five cents in the Netherlands and in Finland.

The designs for the euro banknotes have common design on both sides. The design was created by Robert Kalina. Notes are in €500, €200, €100, €50, €20, €10, €5. Each banknote has its own colour and is dedicated to an artistic period of European architecture. The front of the note features windows or gateways while the back has bridges. Some of the highest denominations such as the €500 are not issued in all countries, though they remain legal tender throughout the Euro zone. A special euro currency sign (€) was designed after a public survey had narrowed the original ten proposals down to two. The European Commission then chose the design created
by the Belgian Alain Billiet. The official story of the design history of the euro sign is disputed by Arthur Eisenmenger, a former chief graphic designer for the EEC, who claims to have created it as a generic symbol of Europe. Inspiration for the € symbol of itself came from the Greek epsilon (€) a reference to the oracle of European civilisation and the first letter of the word Europe, crossed by two parallel lines to certify the stability of the euro.

The euro was established by the provisions in the 1992 Maastricht Treaty. In order to participate in the currency, member states are meant to meet strict criteria such as a budget deficit of less than three per cent of their GDP, a debt ratio of less than sixty per cent of GDP, low inflation, and interest rates closed to the EU average. The rates were determined by the Council of the European Union, based on a recommendation from the European Commission based on the market rates on 31 Dec 1998. They were set so that one European Currency Unit (ECU) would equal one euro. The European Currency Unit was an accounting unit used by the member states; it was not a currency in its own right. They could not be set earlier, because the ECU depended on the closing exchange rate of the non-euro currencies that day. The currency was introduced in non-physical form at midnight on 1 January 1999, when the national currencies of participating countries ceased to exist independently. Their exchange rates were locked at fixed rates against each other effectively making them mere non-decimal subdivisions of the euro. The euro thus becomes the successor to the European Currency Unit (ECU). The notes and coins for the old currencies, however, continued to be used as legal tender until new euro notes and coins were introduced on 1 January 2002.

Currencies of member countries of EMU, which were converted into euro, are as follows:

Austrian Schilling, Belgian franc, Dutch guilder, Finnish markka, French franc, German mark, Irish pound, Italian lira, Luxembourgian franc, Portuguese escudo, Spanish peseta, Greek drachma, lira, Slovak koruna.

1.8.25 Foreign relations of the European Union:-

Although there has been a large degree of integration between European Union member states, foreign relations is still a largely inter-governmental matter, with the 27 members controlling their own relations to a large degree. However with the Union holding more weight as a single block there are at times attempts to speak
with one voice, notably on trade and energy matters. Foreign relations of the EU with most countries out of the world, for example, India, China, Russia, USA, Pakistan, Iran, South America, Kazakhstan etc.

1.9 Foreign relations of the EU with India:-

India was one of the first countries to develop relations with the Union, signing bilateral agreements in 1973, when the United Kingdom joined. The most recent cooperation agreement was signed in 1994 and an action plan was signed in 2005. As of April 2007 the Commission is pursuing a free trade agreement with India.

There was controversy in 2006 when the Indian Mittal Steel Company Sought to take-over the Luxembourg based steel company, Arcelor. The approach met with opposition from France and Luxembourg but was passed by the Commission who stated that they were judging it on competition grounds only. The European Union and India agreed on September 29, 2008 at the EU-India summit in Marseille, France’s largest commercial port, to expand their cooperation in the fields of nuclear energy and environmental protection and deepen their strategic partnership. French President Nicolas Sarcozy, the EU’s rotating president, said at a joint press conference at the summit that EU welcomes India, as a large country, to engage in developing nuclear energy adding that this clean energy will be helpful for the world to deal with the global climate change. Sarcozy said the EU and Indian Prime Minister Manmohan Singh pledged to accelerate talks on a free trade deal and expected to finish the deal by 2009. The Indian Prime Minister was also cautiously optimistic about cooperation on nuclear energy. “Tomorrow we have a bilateral summit with France. This matter will come up and I hope some good results will emerge out of that meeting,” Singh said when asked about the issue. Singh said that he was “very satisfied” with the results of the summit. He added that EU and India have “common values” and the two economies are complementary to each other. European Commission President Jose Manuel Barroso, also speaking at Monday’s press conference, expounded the joint action plan on adjustments of EU’s strategic partnership with India, saying the two sides will strengthen cooperation on world peace and safety, sustainable development, cultural exchanges. Reviewing the two sides in developing the bilateral strategic partnership, the joint action plan reckoned that in policies, dialogue and cooperation have enhanced through regular summits and exchanges of visits and that in economy, mutual investments have increased dramatically in recent years, dialogue in
macroeconomic policies and financial services has established and cooperation in energy, science and technology and environment has been launched. Under the joint action plan, EU and Indian would enhance consultation in world peace keeping mission, fight against terror and non-proliferation of arms, promote cooperation and exchange in developing civil nuclear energy and strike a free trade deal as soon as possible France which relies heavily or nuclear technology, is a major exporter of nuclear technology, is expected to sign a deal that would allow it to provide nuclear fuel to India. Trade between India and the 27 nation of EU has most successful and doubled from 2000 to till now. With further expansion to be seen “We have agreed turnover of 100 billion euro within the next five years” Singh told reporters. A joint statement issued at the end of the summit said the EU and India would work to reach an agreement on climate change by the end of 2009.

The Union is also keen to improve relations with other oil producing countries in order to diversify away from Russia, towards this end it is attempting to court central Asian nations\(^30\). However there is concern about building relations with countries that have poor human rights records.

**1.10 Importance of the study:**

In recent some years when UK join the Union in 1973, India’s trade relations with EU in a position of growth. EU is now a major trade, major import and export partner of India. EU gives to India more opportunities for improve its exports to EU. Therefore it is necessary to done study of the subject “India’s Trade Relations with European Union”. Thus we select this subject for the study.

**1.11 Objectives of the study:**

The main objective of this study is “to study the India’s trade relations with European Union”. Other important objectives of the study are as follows:

1. To study the India’s foreign trade policies pertaining to European Union.
2. To study the structural changes in India’s trade with European Union.
3. To study the trends in balance of trade of India with European Union.
4. To analyze the trends India’s balance of payments with respect to European Union.
5. To make necessary suggestion for improve India’s trade relations with European Union.
1.12 Research Methodology:

This research presents special attention on India’s trade relations with European Union. The nature of the thesis is explorative and analytical. For this purpose we have used secondary data. The study is based on only secondary data. In this study we have selected the period of 1990 to 2005.

The required secondary data in the study, compiled from various books, journal, articles and various websites. Such sources are Economic Survey of India, Directorate General of Commercial Intelligence and Statistics (DGCI&S), and fact book of World Trade Organization (WTO), RBI Reports, International Monetary Fund’s data (IMF), India –EU Annual Report, Records of Government of India Ministry of Commerce and Finance etc. For the purpose of analysis of this research topic, we have taken various tables which mentioned this study. Such as, import table, exports table, exports or imports by commodity with EU member countries etc; and by using these tables we analysed the data of exports or imports of India with European Union, for that purpose we were used simple statistical tools, per centage. In the all tables of the study we indicate per cent share into the brackets, for giving per cent shares we take following formula:

\[
\text{Per cent Share} = \frac{\text{Export or Import Value}}{\text{Total trade}} \times 100
\]

1.13 Chapter scheme:-

The present study is an attempt to understand the “India’s trade relations with European Union”. The study focuses on foreign trade relations of both EU and India. This study consist six chapters. The review of chapter of the study is as follows:

**Chapter No.1: Introduction and research methodology**

This chapter is the introductory and research methodology also consists into this chapter. This chapter consists of total introduction of this topic from what is meant by foreign trade to all information of European Union and information of India’s trade relations with European Union.

**Chapter No.2: Review of literature**

This chapter deals with the review of related literatures on the concerned research topic. This chapter presents an extension to the existing studies and makes an attempt to review the important studies on India’s trade relations with European
Union. The material is available in the form of books, essays, surveys, case studies and especially on the various websites on internet.

Chapter No.3: India’s trade relations with European Union

This chapter includes statistics related to India’s trade relations with European Union. This chapter takes up India’s exports to European Union and India’s imports from European Union in the fifteen years period, 1990-2005.

Chapter No.4: Comparison of India with European Union

This chapter includes comparison of India with European Union; Comparison of geography, economy, and currency, foreign trade etc. comparison is must point of this study because under the title of European Union, 80% countries are developed, therefore India should be taken detailed look on its trade with European Union. Presently the exports of India are one fourth of its total exports to the world.

Chapter No.5: India’s structural changes with European Union and its foreign trade Policy

This chapter consists of structural changes of India’s foreign trade with respect to European Union, and policies of EU which gives more opportunities to improve foreign trade of India with European Union.

Chapter No.6: Findings and Suggestions

This chapter is the final chapter of this study. This chapter includes major findings and suggestions of this study.

Summary:-

International trade is a most important factor for the Economic Development of a country. In this chapter we introduced the meaning of foreign trade, distribution of foreign trade and domestic trade, importance of foreign trade, general information of European Union like: enlargement of EU, objectives of EU, member states of European Union, geography, economy of EU and then discuss about the foreign relations between India and the European Union.

References:-

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8. www.easternbookcorporation.com

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