CHAPTER -2- REVIEW OF LITERATURE

In this chapter, an attempt has been made to have an insight in the earlier studies made in relation to India - European Union trade. The studies pertaining to European Union’s trade with India are as follows:

_Dharma Kumar_ in his book discussed the problem of India’s trade with EEC (European Economic Community) using coefficient of commodity concentration and Tinbergen rate of discrimination for the period 1948 to 1964. The study with common market of EEC (six members) had shown that share of imports from India to the total imports of EEC was almost negligible. The share was just 1.3% in 1948, and it further declined to just 0.4% in 1964. The study also revealed that main export barriers to Indian goods were due to the rate of discrimination on Indian exports levied by EEC.

A study by _The Export Times_ indicated that among EEC members, West Germany and U.K were the main trading partners of India and that India’s imports from EEC was of goods which were required for the economic development, whereas exports mainly constituted of primary goods like tea tobacco, spices, leather, mica, iron ore etc. The study also compiled the agreements of India with individual EEC members.

_A.Madhavan and K.K.Bhargav_ in their study analysed India’s and EEC’s mutual benefit through trade. The study pointed out that EEC (then a nine member regional group) had less than half of India’s

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29 Kumar, Dharma (1966): India and the European Economic Community, Asia Publisher House, Bombay, pp 32-57.
population. The study pointed that though India's population at the time of study was 625 million and that of EEC 260 million, there was a reverse trend in GNP of the two. As per the study, for EEC India is not a very significant trading partner as India has less then 1% of EEC’s global trade.

*H.S.Chopra*\(^2\) did a theoretical study which says that out of nine members of EEC, four major economies are West Germany, France, Italy, and Britain and that West Germany’s annual trade transaction during 1973 to 1976 was 50% more than that of Britain. The article viewed that India does not hold position in the priority trade collaborates of EEC and that though from 1974 to 1976 India's trade with the nine members of EEC showed 38% growth, still India's trade share in EEC's global trade from 1973 to 1976 declined from 0.57% to 0.53%.

*Andre Sapir*\(^3\) in his article focused on manufactured exports from India to European Community (EC) for the years 1970 and 1980. The article calculated “market penetration rates” (ratio of imports to apparent consumption) in first part by taking 2 digit ISIC data and calculated Revealed Comparative Advantage (RCA) in second part by taking 4-digit level ISIC data. The study found that not only India’s share in EU’s trade is insignificant but also ‘Market penetration rate’ by India in EU market is low. He concluded that India has Revealed Comparative Advantage in exports of unskilled labour intensive products of textile and leather. Nevertheless, India could not gain ground in processed labour intensive products because of its own industrial trade policies.


V.R. Panchamukhi\textsuperscript{34}, in his article calculated Balance of Trade and India’s percentage share in imports of EEC in the year 1971 and 1980. It compared productivity of India, U.K, Germany, France, Japan, and Brazil in selected commodities. Four measures taken to calculate productivity were a) Value added per capital, b) Value added labour, c) Output per unit material cost and d) Output per unit of capital. He also calculated RCA of India’s export for the years 1970 and 1980. The study found that Balance of Trade for India in the study period was negative and that India’s share in the EC market from 1970 to 1980 has remained almost stable at 0.28%. The study also found that RCA is lesser in the commodities where domestic and tariff assistance is higher and that productivity levels of India in comparison to that of EEC members is very low.

P.K. Raghupathy\textsuperscript{35} in his article took export and import of India to and from EEC in the financial year 1988-89. He took out the percentage share of product group in total trade. As per the study, highest percentage share was of Gems and Jewellery followed by Agricultural based products and Engineering goods. The study also threw light on ten nations of eastern block of Europe, their GDP, and per capita income during that period. The author viewed that Eastern Europe can be a lucrative market for Indian exports.

Dr. M.V.B. Rai\textsuperscript{36} in his paper talked about trade trends between India and EEC during 1980-1988. He said that India’s share in imports of EEC increased over the decade by 0.6%. The study gave certain suggestions to meet the challenges of ‘EEC-1992’ like

technology improvement, maintaining quality and setting up joint ventures and looking for potential sectors.

Shanti Jagannathan\textsuperscript{37} in a comprehensive study took the database of 1980 to 1990. The study was divided into two parts. First part of the study compared the performance of India’s exports with the average performance of all non-EC Countries and developing countries. The second part dealt with sectoral analysis of the implications of European integration on India. Non-traditional industrial sectors, which had shown quantum leap in exports, were taken up. The author found that in spite of remarkable growth rate of India’s exports to EC, India has been facing increasing trade deficit along with negligible share in EU’s total global transactions. The author suggested to change both business strategy and government policy for the promotion of sectors studied.

N. Parthasarathy\textsuperscript{38} in the article took the export and import data of years 1958, 1970, 1980, 1984 and 1987-89 to study the percentage share of India in EEC’s export and import. From the main products, which constituted the 71.6% of India’s export to EEC, he took 12 products for wider study. It was found that diamond, cotton, manufactures, leather, footwear, carpets, marine products, coffee tea and spices have shown reduction in their shares during the years mentioned. Only garments have shown the increase in share in the years mentioned above. He suggested that India should look for suitable polices to access EEC market.

\textsuperscript{37} Jagannathan Shanti (1993): EC and India in the 1990s towards Corporate Synergy, ICRIER, Indus Publishing Company, New Delhi.
Bibek Debroy 39 in the theoretical paper mentioned that though EEC’s reaction to India’s liberalisation effort during 1985-89 is not very loud due to the work of unification of ‘Europe-92’, it still has shown some positive initiatives like agreeing to remove trade restrictions gradually, allowing Indian banks to establish branches in Europe and allowing Indian companies to open subsidiaries and enter into joint venture agreements. These benefits were however on the condition that India should provide access to its textile products market.

Charan D.Wadhva and Soumya K.Mitra 40 in their paper mainly studied three aspects, i.e. rational of ‘EC-92’, concern of developing countries towards ‘EC-92’ policies and trends in India-EC trade. The study says ‘EC-92’ will provide a degree of economic leadership to Europe in the world and further says that developing countries are concerned about adapting new harmonized standards of EEC. As per the study, one-fourth of India’s total exports went to EEC in year 1988-89 and since 1981-89, top ten products constituted 68.6% of total exports. Moreover, the study pointed that top ten manufactured products are labour intensive products. The study further suggested exploring Greece, Ireland, Portugal and Spain for Indian products and services as these countries stayed unexplored.

O.P. Sharma 41 in his article focused on impact of EEC’s policy on India. Looking at import composition of 1987-89, he concluded that there are three major areas: a) agriculture, b) textile and garments,

and c) engineering goods and electronics. The study says that by 1992, abolishing of tariff barriers and harmonization of standards among EEC members will increase the size of the EEC market and that investment policies coupled with changing demand patterns of EEC will lay opportunities for countries like India. However, the study cautioned that India’s success will depend on meeting the quality standards of EEC.

*Rajesh Mehta*\(^2\) in his study analysed the impact of European market on India’s export with the help of standard tools like trade creation, trade diversion and terms of trade. He calculated the trade projection of India for 1993-96. He took data from 1970-92 to calculate trade balance of India with EC. Author had taken the explanatory variable like income and price effects that influence the structure of trade. He found that formation of ‘Single European Market’ will result in higher trade creation then trade diversion for India. He estimated that India’s export can grow by 1.1 percent from the level of 1991-92 in EC market.

*Taranath P.Bhat*\(^3\), in his paper analysed the possible impact on India of unification of EEC into single European market in 1992. The study says that unification of EEC will open opportunities for India because as the market unifies, industrial standards will be harmonized, Common Agricultural Policy (CAP) will be modified and VAT and Excise duty will be unified. The study also said that, for better gains, India too will need to change its policy, like liberalizing FERA (Foreign Exchange Regulatory Act), Copyright and Patent laws in accordance with EEC.


D.K.S. Bora and N.K. Sahai in their paper took the cross section data of five years from 1973-1992 to calculate Balance of Trade (BoT) of India with EC. It was found that though BoT is in favour of EC, India still has scope of reducing the trade deficit. Unification of market may increase the scope for primary and agricultural products of India in the community.

K.K. Bhargav and Ross Masood Husain studied two regional groups of different blocks of the world. Their study focused on two broad themes: experiences of the European Community as it evolved over the years into a full fledged European Union and relevance of European Community for South Asian countries. The study examined the possibilities of trade expansion of EEC with SAARC which includes India as its member. As per the study, SAARC does have a scope in the EU market.

Atul Sarma, Gerrit Faber and Pradeep Kumar, in their book did a study on India–EU trade during 1976-1993. They used Revealed Comparative Advantage (RCA), Relative Export Share (RES), commodity geographical concentration indices, complementarities index, similarity index, and Constant market share analysis. The study revealed the prospects of India’s trade with EU during period (1983-93). As per the estimate of RES and RCA; three products, that is leather, textile and pearl, enjoyed the highest advantage. The study also found that large numbers of products are price elastic and that India’s trade during the said span was mainly concentrated in only few products like textiles, leather, and pearls (includes diamonds). The study found that India’s trade is primarily directed towards only two

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countries, UK and Germany, who accounted for nearly half of India’s trade with EU.

G. Sundraam47 in his study based on trade statistics from 1980-1993, revealed that during the said period EU’s bilateral trade with India has expanded faster than that with other countries excluding China and Malaysia. The study pointed that the two-way trade between India and European Union inflated during the decade (1980 to 1990) due to liberalisation effort in mid eighties but growth of imports was higher than the exports and the same resulted into huge trade deficit on India’s part.

H.S.Chopra and Swapan K.Bhattacharya48 in their paper studied trend of India’s trade with EU, US and Japan. They calculated the export and import percentage of total trade during 1980-96. The study found that EU remained India’s largest trading partner in the above mentioned period and that though India’s trade share in EU is increasing, the share is still very less.

Sada Shankar Saxena49 in his article examined the factors which may influence India’s trade with EU in the immediate future. The factors mentioned were; 1) increasing demand for quality safety and health features, and 2) EU compelling India to cut down its export subsidies as per GATT norms. The study pointed that single European market may reduce cost of transport and services, which will be beneficial to Indian exporters and that European firms may transfer technology and R&D to India. However, the study cautioned that demand for high standards by EU, may cause difficulty for India.

Herve Jouanjean\textsuperscript{50}, Director of WTO affairs at the European Commission, in his study discussed the issues of EU with India. According to him, India does have reservations against EU. However, in spite of India’s reservations against EU, he expressed optimistic outlook towards trade of EU with India.

Ganti Subrahmanyam, S.V.S. Dixit and Arindam Roy\textsuperscript{51} in their work have studied EU-India in light of future impact of evolution of single currency ‘EURO’ and European Monetary Union. They calculated percentage share of India’s exports in EU’s imports during 1980-95 and studied India’s Balance of Trade with EU during the same period. The study found that India faced continuous trade deficit throughout the period except for once in the year 1990. The Study says that Indian exports to EU are price elastic, which essentially means that quality improvement or price cut may increase the demand significantly. The study pointed that the price and quantity risk faced by India’s exports and imports due to exchange rate fluctuation will be minimized by the emergence of single currency Euro.

V.K. Bhalla\textsuperscript{52}, in his paper threw light on India’s ‘New Economic Policy’ and its impact on foreign trade. The paper focused more on foreign direct investments and it showed that during the period 1991 to 1996 foreign direct investment inflows from EU to India have increased. The study also quoted views of leading industrialists of Western Europe on India’s new face and opportunities opened after liberalisation. Focusing mainly on the new avenues opened up (by

\textsuperscript{50} Herve, Jouanjean (1998), ‘India, EU pluck out thorns from trade issues’, Commentary Interviews, Special Chat Archives, November 19.


\textsuperscript{52} Bhalla.V.K (1998), ‘Building global competitiveness and advantage prospects for India-EU collaboration’, India and the European Union-In to 21st century, in H.S.Chopra (Ed), Indian council of world affairs.
New Economic policy) in India, the study advocated partnership of India with EU to develop a global market.

_Indra Nath Mukherji and Biswajit Nag_53, in their study observed the aggregate trade behaviour of selected products during 1990 to 1994 for India and during 1990 to 1995 for EU. The study showed that EU accounted for more than one-fourth of India’s exports and imports and that during above period, India’s export to EU had shown a higher growth rate as compared to export to rest of the world. The study further showed that though there is no significant change in export and import composition to and from EU; there still is a modest shift in India’s export structure in favour of more value-added manufactured goods. The study also revealed mismatch between India’s export and EU’s import demand for the selected products. As per the study, the top EU imports in value terms comprise boilers, machinery, fuel etc in which India’s share is negligible.

_Kalyan Raipuria_54 in his article found the trend in India’s export with European Union countries during the period of reforms and correlated the exchange rate change with the observed trends in Indian exports.

_Vibha Mathur_55 in her book analysed rate of growth of individual commodity groups by taking data from 1973 to 1993 and using Regression analysis as the analytical tool. The study found that India’s share of exports in EU’s imports still remains less than 1% and India faced trade deficit from 1978-79 to 1989-1990. The study also

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found that nearly two third of India’s export to EU consist of only three product groups namely leather and leather goods, textile and textile articles and pearl and precious stones. She used index number technique and found that export of India to EU grew by six times during the study period.

*A.N. Ram*\(^{56}\) in his paper revealed a few theoretical observations for the period 1995-1999. He concluded that in India's trade with EU there are many daunting challenges like: cases of antidumping were increasing against India, health sanitary and quality standards are very high in EU and that regulations and business practices in EU are somewhat confusing etc. However, the study also mentioned that opportunities do exist for India in some of the areas where EU is moving away from labour intensive sectors.

*Dr.A.Q.Khan and Mohammad Faiyaz*\(^{57}\) in their article studied about the significance and influence of EURO in trade and especially in context of India. According to their study, after introduction of EURO, the cost of delivering goods by India to EU will cut down nearly to half of existing costs because of which Indian goods will have more competitive advantage. The study also points that India can carry over its quota to another member if it remains unutilized for one member and that introduction of EURO will reduce fluctuation in exchange rate, which in turn will help in reducing speculations and uncertainties. The authors also calculated percentage share of India in EU’s export, import, and the trade balances for the years 1960, 1970, 1980, 1990, and 1995-1998. They found that India’s export to EU has increased from 1960 to 1998.


Shakuntala Mahawal, in the article discussed the role of EU in international cooperation and developmental assistance by EU to developing countries. As per the study, despite the fact that the EU was the largest player in many regions, it faces delays in distributing the aid. The study focuses on EU's financial help only and points to the fact that over the past fifteen years, the European Union’s external assistance has acquired a global reach with 128 beneficiary countries which includes India. The biggest beneficiary in Asia of EU’s NGO fund is India with Euro 100 million budget for the year 1994.

Soumy Kanti Mitra, in the article expressed his view that the depth of the European Union’s need for cooperation with India is shown by EU not delaying matter of economic cooperation further because of pokharan II.

D.K. Giri in his book has analysed India–EU trade from 1983-1992. He took the sectoral data in both quantity and value terms and studied the percentage share of product of India and other selected developing countries in imports of EU. The study concluded that traditional sectors have higher share in India’s exports whereas technology exports, engineering exports and electronics have almost negligible percentage in total exports. The study says that India’s exports to EU face hindrance due to EU’s policies of discrimination and protectionism and that India's role is marginal in EC’s global trade.


Nimmi Kurian\textsuperscript{61} studied the non-tariff barriers during 1991-1998 along with the yearly percentage change of exports from India to EU. Percentage share of EU members in India’s total exports to EU was calculated and it was found that Indian exports registered a growth in the above mentioned period. The study also found that 81.9\% of exports from India are directed to only four EU members namely, Belgium-Luxembourg, Germany, Italy and United Kingdom.

O.P. Sharma\textsuperscript{62}, in his study took the period from 1991 to 1995 to study sector wise as well as product wise rate of growth of imports and pattern of imports of EU from India in manufactured products. The study revealed that increment in India’s share in imports of EU from 1991 to 1995 is mainly because of the manufactured products sector. Excluding major exports like chemical, leather, textile etc, miscellaneous manufactured article constituted almost 71\% of total exports of manufactured goods from India to EU. The study also found that during 1991-95, imports from India grew at compounded growth rate of 13.1\% per annum as compared to 7.2\% compounded growth rate from intra-EU and 2.4\% compounded growth rate from extra-EU imports.

Dietrich Kebschull\textsuperscript{63} in the paper examined the role of EU as a market for India’s exports. Trend of imports and exports of EU from India for a decade (1991-2000) has been analyzed. The study found that the EU has been India’s largest trading partner during the

aforesaid period and that India’s exports to EU have grown faster than India’s export to rest of the world. Since 1988, Indian exports in general grew at a rate of 11 percent while Indian exports to EU grew by 15 percent. The study further pointed that in spite of this, India accounted for just 1.3 percent of total EU imports. Comparative study of EU and USA’s trade with India was also done and it was revealed that EU has been a bigger importer of Indian goods. The study however concluded by saying that Indian exports to the EU have been coming under increasing restrictions because of anti-dumping/anti-subsidy actions as well as other non-tariff barriers relating to technical and sanitary standards. The study suggested that to counter above restrictions, India needs to improve its technological capabilities and quality standards.

S. K. Bhattacharya in the theoretical article threw light on the trade prospects in the new millennium. According to the study, both India and EU shall deepen their trade economic cooperation.

A.N. Ram in his article pointed that there is untapped potential in EU. Discussing India’s partnership with EU, besides political agenda, importance of trade has also been emphasized. The study in brief talked about few of joint declarations by India and EU. As per the study, EU has numerous and often-confusing regulations and business practices and EU’s practice of high restrictive trading agreements, tariffs and non-tariff barriers makes it difficult for a non-EU member to penetrate into EU market. As per the study, EU laws are not very transparent and the growing number of anti-dumping cases against India gives a backward jolt to India’s trade. Taking up

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EU’s view towards India, it is mentioned that EU sees India as having restrictive, protected, complex business and bureaucratic, unethical and non-transparent practices, and a country of delays with political uncertainties and having highest tariff rates in the world. The study concludes that despite above deterrests, EU with a population 400 million is the largest economic entity in the world, and with its eastward expansion, opportunities become even more larger which, India can tap. The study suggests that Europe is vacating labour intensive, traditional and low intermediate technology sectors and India can fill this gap by entering these labour intensive industries.

Gajavelli V. Swamy66 looked into trade aspect of India and EU in light of emergence of EURO. As per the study, EURO will open up new opportunities in trade and investment for non-member countries and that the cost of foreign exchange risk monitoring and hedging will be reduced by use of single currency. The study further says that, EURO will enhance sales, procurement opportunities, price transparency and will create a lucrative investment destination. The author concludes that though EURO will make European firms more competitive, the larger size of markets will give greater market access and open up new opportunities.

M.G. Basavaraja67, in his study took into account impact of EURO on India-EU trade and mentioned that Indo-EU bilateral trade has shown significant upsurge in 25 years (1975 to 2000). He further pointed out that Indian exports in general grew at a rate of 11% per annum while Indian exports to EU were more dynamic with a growth

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66 Swamy, Gajavelli V (2003), ‘European Union, the Euro and India-An Economic and Business Analysis’, M.G. Basavaraja (Ed), World trade Organisation: Regional trading arrangements and India, Serial publications, New Delhi, pp 303-327
rate of 15% per annum. The study says that with emergence of EURO, a single monetary policy will come into existence and this will encourage and give opportunity to India in dispersing its trade to all the members of EU. The study also points that on EU’s front, non-tariff barriers cause a serious threat to Indian exports and further suggests greater administrative reforms in India as a prerequisite to enhance India’s trade with European Union.

O.P. Sharma\(^{68}\) in a theoretical study studied various non-tariff barriers like health and quality standards which are faced by India’s exports to EU. The study concluded that India faces infrastructural bottlenecks and that Indian exports could gain in non-traditional markets and non-traditional commodities. In addition, the study pointed out that though India’s trade was confined mainly to U.K. and Germany, joining of ten new nations to EU will decrease the transaction cost of India’s exports and will give opportunity to India in a larger market.

O.P. Sharma\(^{69}\) in his study identified different factors, which hampered and facilitated Indian exports to EU. He studied the trend of export and imports between India and new EU members during 2001-2003. The study opinioned that, though the ten new countries to be added to EU in May 2004 are small comparatively, India’s trade prospects will still be brightened with the accession of these countries. The author gave a brief description of non-tariff barriers on India’s leading exports to EU. The study also says that EU is significant trade partner for India as it is the market for 30% of India’s exports.

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Jean Joseph Boillot\textsuperscript{70} studied the impact of EU enlargement on India’s trade and the various barriers faced by India in exporting to EU during 2002-2003. The study also looked for the opportunities in Eastern Europe based on FICCI survey. According to the study, India’s new potential lies in the field of Information and communication technology, Biotechnology, Tourism, Entertainment and Urban infrastructure. The study also says that enlargement of EU may cause increase in intra-EU trade and may cut down the opportunities for other countries including India.

Above mentioned studies broadly point to following aspects:-

1. Though EEC/EU has grown from a group of six member countries to a group of fifteen member countries in the study period of above studies, still India’s export share in import of EEC/EU has not shown a significant change.
2. India’s trade to the regional group EEC/EU has generally stood at around one-fourth of India’s total trade.
3. India’s trade with EU generally has a trade deficit.
4. The recent turning of European Union into “Fortress Europe” with expansion of fifteen-nation trade union to twenty-five nation economic union and then to twenty seven nation economic union may throw new challenges to Indian traders accessing EU market.

The present study differs from the studies mentioned in this chapter in the following ways:-

1. Time series data has been taken of 26 years i.e. from 1980-2005.

2. Revealed Comparative Advantage and Intensity of Trade Index has been calculated both for exports and imports with each EU member country on data taken at 2-digit, Standard International Trade Classification (SITC) level, revision 2.

3. Study is done on all 27 members of EU.

4. The study presents, both for exports and imports, for each product in which there is comparative advantage, the percentage share of intra-EU trade in five-year gaps from 1980-2005.