

INFORMATION

EXTERNAL RELATIONS

THE EUROPEAN COMMUNITY AND INDIA

92/75

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INTRODUCTION

When consisting of six members the European Community's formal links with developing countries were concentrated on its African and Malagasy associates and its partners around the Mediterranean Basin. Apart from agreements covering trade in specific products and food aid allocations the Community had no contractual relations with Asian countries east of Iran.

British accession to the Community, however, brought the EEC into closer involvement with the independent developing Asian Commonwealth countries and their neighbours in South and South East Asia.

Until the end of 1972 India, Pakistan, Bangla Desh, Sri Lanka, Malaysia and Singapore were all enjoying trade preferences on the British market under the Commonwealth Preference System. This system is being wound up progressively following on British accession to the Community. Although the value of these preferences had fallen over the years owing to successive tariff reductions negotiated in the GATT, these countries held that they stood to lose from a combination of new disadvantages from the elimination of the remaining preferences and the progressive alignment of British tariffs on the Community's tariff system.

The Community is taking a number of steps to improve the commercial position of these countries. First the EEC's Generalized Scheme of Preferences (GSP) provides free entry to the Community market for finished and semi-finished industrial goods and for a widening range of processed agricultural products exported by all developing countries. Moreover, agreement was reached by the parties to the negotiations for British membership that should other problems arise for the Commonwealth countries concerned these could be dealt with under bilateral negotiations foreseen in the "Joint Declaration of Intent" (JDI), annexed to the Treaty of Accession. The text of this declaration reads in part:

"Inspired by the will to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia (Ceylon, India, Malaysia, Pakistan and Singapore), the European Economic Community is ready, from the date of accession, to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions, taking into account the effect of the generalized tariff preference scheme and the situation of the other developing countries in the same geographical area."

The first stage in the implementation of the JDI took effect on 1st January 1974 and was designed to overcome problems recognised as likely to follow from the process of aligning the two tariff systems which began on that date. As foreshadowed in the JDI, most of the measures taken were within the Generalized Scheme of Preferences (GSP). Of particular interest to the Indian sub-continent was improved access for footwear and sports goods and for a number of agricultural products including tea and Virginia flue-cured tobacco. In addition the quotas for duty-free imports of silk and cotton handloom fabrics and of other handicraft products of cottage industry were doubled.

The Community does not regard these initial measures as a final fulfilment of its obligations under the JDI. Rather is the Declaration seen as a continuing commitment. Further tariff concessions were made at the beginning of 1975, and the range of items admitted duty-free under the handicrafts scheme was extended. Furthermore the tariff quota for tobacco was substantially increased and expressed in quantitative terms (30,000 tons) to prevent its erosion through inflation.

The Community is, however, aware that it is not always possible for developing countries, relying entirely on their existing economic structures and administrative resources, to utilize the GSP to the full extent theoretically open to them. In this context outside assistance can be helpful in providing at least some of the market information and contacts with importers that are lacking, and even in furnishing some stimulus towards internal economic adjustments

likely to lead to better export performance.

The difficulties facing most developing countries in making full use of the GSP became evident to the Community before the Scheme had been long in operation. It was natural, therefore, having regard to its commitments under the JDI, that the Community would seek to work out ways of assisting actively these countries to overcome these difficulties in order to extend and strengthen mutual trade relations.

In addition therefore to organising seminars in these countries on the utilization of the GSP, the Community developed the concept of the Commercial Cooperation Agreement. Unlike the traditional type of trade agreement, the CCA does not consist primarily of an exchange of tariff concessions but instead authorises and provides the machinery for consultation on commercial problems and trade promotion activities and for transmitting information about import opportunities and market requirements in the Community and about the investments needed by the partner country to develop and diversify its trade. Such agreements would thus be adjusted to the economic position of each country and would aim at making a long-term contribution to each one's economic development. The mainspring of each agreement should be a Joint Commission to ensure its proper functioning and to make recommendations on: measures to promote the harmonious development of trade, the elimination of tariff, non-tariff and quasi-tariff barriers, and measures to remedy the disturbances which might arise in the trade between them.

The first such Commercial Agreement was concluded with India in December 1973, and came into operation on 1st April 1974. The EEC-India Joint Commission which it established has met twice since then and has already initiated a useful programme of cooperation linked with trade. Negotiations for a similar agreement with Sri Lanka have been successfully concluded and it will probably be signed in the very near future. Negotiations for Commercial Cooperation Agreements along similar lines with Pakistan and Bangla Desh are in progress.

The two other countries, Malaysia and Singapore, have indicated that they would favour a closer relationship with the Community through the Association of South-East Asia Nations (the ASEAN) to which they belong.

The purpose of this note is to provide data on the economic and trading position of India, and particularly on the development of her relations with the Community. Notes on the Community's relations with the other J.D.I. countries will appear in due course.

THE INDIAN ECONOMY

India is much the largest of the six J.D.I. countries, with a population nearly four times as great as the other five together. It has an area of over 3 million sq.km., a estimated 1974 population of 581 million and a population density of 178 per sq.km. The GNP is \$ 63.6 billion (1973) and close to \$ 110 per head of population. The Fifth Development Plan (1974-79) aims at a 5.5% annual increase in GNP. Reserves (gold, foreign exchange and special drawing rights) stood at \$ 1.219 mn in March 1973.

India's economic progress has been uneven. National income growth has barely kept pace with the increase of population. The growth in per capita income over 1960 to 1972 was only 1% per annum.

Although agriculture accounts for about half the GNP, India has a strong and diversified industrial base which is expanding fast, with production up 53% over the decade to 1972.

Some indicators of production (1972)⁽¹⁾.

Agricultural production

Weat	26.5 million tons
Rice	57.9 " "
Maize	5.3 " "
Millet	9.1 " "
Sorghum	7.8 " "
Potatoes	4.7 " "
Cotton	1.13 " "
Tea	454,000 tons
Tobacco	409,000 "

Livestock numbers

Cattle	176,750,000
Sheep	4,780,000

Industrial production

Coal	74.7 million tons
Oil	7.5 " "
Pig Iron	6.7 " "
Crude Steel	6.2 " "
Electricity	63,616 mn Kwh
Iron Ore	22.1 million tons
Cement	15.7 " "
Woven Cotton Fabrics	8,024 " metres
Cotton Yarn	972,000 tons
Petroleum Products	17.7 million tons

TRADE

India's main exports are jute goods, cotton textiles, leather and leather goods, engineering products, animal feedstuffs,

(1) Source: UN Statistical Year Book.

tea, iron ore and precious stones, agriculture accounting for about one third of exports. The main imports are petroleum, machinery, iron and steel, transport equipment, fertilizers and chemicals.

India's total world trade (\$ million)

	Exports	Imports	Balance
1960-61	1,386	2,393	-1,007
1971	2,032	2,417	- 385
1972	2,479	2,236	+ 243
1973	2,958	3,146	- 188

Source: European Communities Statistical Office (ECSSO).

Though precise figures are not yet available India is known to have incurred a severe foreign trade deficit in 1974 despite greatly increased exports. The increase in oil and other basic commodity prices (e.g. fertilizers and wheat) accounts for this deterioration: it is estimated that the import bill has increased by \$ 1.5 billion without any quantitative increase. India would in 1975 be enjoying a comfortable trade surplus were it not for higher oil, fertilizer and food prices which are estimated to be costing India an extra \$ 2.5 bn a year in 1975.

Japan is now India's main export market, having in 1973-74 overtaken both the USA and the USSR. However the importance of the EEC and the Gulf countries in export markets is increasing.

Trade with the EEC

In most recent years India has run a trade deficit with the Community and it is expected that the deficit will have run to a higher level in 1974. Although as a proportion of her total trade Indian trade

with the Six has been growing, the share of her trade with the UK has been falling. During the period 1969-73, it is true, imports from both the Six and the UK doubled; but exports to the Six rose by 110% against only 42% to the UK. Nonetheless, of the countries of the Nine the UK is still much the most important single partner.

Indian trade with the EEC (Nine)
§ million

	Exports Total to 9	To the UK	Imports Total from 9	From the UK	Balance
1969	468	257	432	147	- 36
1971	489	267	660	332	- 171
1972	543	269	747	338	- 204
1973	722	364	838	326	- 116

Source: ECSO.

Community exports to India consist almost entirely of manufactured products: machinery, iron and steel products, transport equipment, electrical machinery, fertilizers and chemicals. Of India's exports to the Community in 1973, however, primary products still represent almost half of the value. The main agricultural products were tea, animal feeds and tobacco; semi-finished and finished manufactures were headed by leather, textiles and gems and jewellery.

INDIA - EEC RELATIONS

The Comprehensive Approach

An Indian diplomatic mission was accredited to the Community in January 1962. Within a year, following the opening of negotiations

for British membership of the Community, India asked for a comprehensive trade agreement with the Community. Such an agreement would have aimed at improving the trade balance with the Community and providing compensation to India for possible export losses to the UK resulting from the ending of Commonwealth Preferences.

The ending of the negotiations interrupted this comprehensive approach for a decade, but arrangements were made to meet certain problems at first on specific products, later on a sectoral basis.

Arrangements for products and sectors

During the period 1963 to 1969 the Community gave tariff concessions for a number of products about which concern had been expressed by India. These included tea, tropical woods, certain spices and East India Kips. These concessions have not been consolidated in GATT but in the case of several of the more important of them the Community has entered into a commitment not to revoke them without consulting India.

Following an undertaking made in the GATT during the Kennedy Round negotiations, the Community has since 1971 had non-discriminatory zero-tariff quotas for handicrafts, handloom silk and handloom cotton fabrics in favour of developing countries. Agreements were concluded with India in March 1971 under which she qualified to benefit under these Schemes. The quotas are decided annually by the Community and amount today to 10 million UA for handicrafts and 2 million UA for each type of handloom fabric.

In 1969 the Community and India concluded sectoral agreements on jute and coir products. These agreements provided for the implementation of the partial tariff suspensions offered under the Kennedy Round and the removal of quota restrictions in certain member countries; in return India accepted self-limitation of her exports at an agreed level and with an agreed rate of annual increase. These agreements expired at the end of 1972.

Further agreements were signed on 17 December 1973 providing for reductions under the GSP in the duties on jute and coir products by 40% from 1 January 1974 and by a further 20% from 1 January 1975. While these agreements are juridically separate from the Commercial Cooperation Agreement signed on the same date, the work of the mixed committee set up to supervise their implementation was transferred to the Joint Commission under the Commercial Cooperation Agreement (q.v.).

Furthermore in March 1971 the Community concluded an agreement with India on cotton textiles within the framework of the GATT Long-Term Arrangement on International Trade in Cotton Textiles (LTA). This agreement was due to expire in September 1973 but was extended de facto to end-1974. The LTA has now been replaced by the Multifibre Arrangement which sets up general rules for trade in textiles of cotton-man-made-fibre and wool, the details being left to bilateral agreements. New bilateral agreements are therefore being negotiated by the Community with India and other important textile exporting countries. As a move towards the elimination of restrictions, the Community is ready to increase its imports of cotton textiles from these countries on the understanding that they will apply voluntary export restraints on only nine items.

Generalized Preferences

The Joint Declaration of Intent assumed that the GSP instituted by the Community in July, 1971 would provide a solution to most problems of Indian access to the Community market. Indeed, India is reckoned to be in fifth place in the list of beneficiaries from the Community's GSP under which zero tariffs apply to imports of all manufactured goods from developing countries, including textiles, subject in principle to quantitative ceilings in certain sensitive cases. The GSP System has been improved every year, since its introduction, and this process will continue provided other developed countries will share the burden.

In conformity with the Joint Declaration of Intent, the Community availed itself principally of measures under the GSP in its efforts to solve the problems which might have faced Indian exports after the start of the British tariff alignment at the beginning of 1974. Products for which concessions were made included footwear, sports goods, prawns and shrimps, packaged tea, coconut oil and cashew nuts. However the most important measure was the inclusion of Virginia flue-cured tobacco in the GSP - the first unprocessed agricultural item to be included in the Scheme. The concession was a reduction of the duty to 50% of that payable by developed countries for the first 30 million UA worth of this tobacco imported from developing non-associated countries. As the concession was primarily intended to preserve India's share of the UK market, it was decided to allocate 80% of the quota to that market. The favourable effects to India of this concession are evident. From a recent annual level of exports to the UK of between 16,000 and 20,000 tons of Virginia flue-cured tobacco, India's 1974 exports reached a figure of 29,000 tons. Additionally the tobacco manufacturers in the other Member States were, through the inclusion of this type of tobacco in the GSP, made aware of its availability from India. In consequence, exports to the rest of the Community rose from a negligible earlier level to about 8,000 tons in 1974. To prevent erosion of the quota as a result of rising prices, and partly to satisfy increased demand for Indian tobacco, the quota for 1975 was fixed in quantitative terms at 30,000 tons, which represents a very significant increase.

The Commercial Cooperation Agreement

As most of the tariff concessions which it had sought in connection with its original request for a comprehensive trade agreement had in the meantime been granted, India in a new demarche in 1972 proposed an agreement the main purpose of which would be the promotion of trade cooperation. The Council of Ministers agreed in principle in December 1972 on the opening of negotiations with India for a Commercial Cooperation Agreement. These negotiations began on 13 April 1973 in Brussels.

The five-year agreement between the EEC and the Republic of India was signed on 17 December 1973. The procedures for entry into force of the agreement were completed on 27 March 1974 and it came into operation on 1 April of the same year. The Joint Commission is the cornerstone of the Agreement. It has wide terms of reference; it supervises the development of reciprocal trade, it studies and prepares actions to overcome barriers to trade, both tariff and non-tariff, and it is responsible for promoting economic co-operation linked with trade. The Community and India are represented in the Joint Commission at the level appropriate for the points on the agenda. The Commission is empowered to examine the possibilities and make recommendations on the employment of all available means, besides the GATT Most Favoured Nation clauses and the Generalized Scheme of Preferences, to stimulate trade in products important for India.

The India-Community Agreement is the first of its type and is regarded as constituting a model for future relations with developing countries, with which the Community has established no special connections.

The first session of the EEC-India Joint Commission took place in Brussels on 27-28 May 1974. It was inaugurated by Sir Christopher SOAMES and Professor D.P. CHATTOPADHYAYA, Indian Minister of Commerce. The second session took place in New Delhi on 16-18 December 1974. Among the subjects dealt with were India's desire that the Community should eliminate the duties on jute and coir products by 1977 and increase the duty-free quotas on handloom and handicraft products. The diversification and promotion of Indian exports to the EEC and economic co-operation were also discussed. A third session is scheduled for October 1975 in Brussels.

Aid, including Food Aid

The Community has taken special account of India's difficult economic situation in the allocation of bilateral aid from the "Cheysson Fund". From the first tranche of \$ 120 mn India received \$ 50 mn and the Commission has proposed that she should get \$ 25 mn from the second

tranche of \$ 67 mn. In addition, a substantial part has been or will be allocated to India from the United Nations Emergency Operation Fund to which the Community contributed \$ 30 mn of the first tranche and has proposed to contribute \$ 33 mn of the second tranche. The same can be said for the bilateral emergency aid allocations of the Member States.

In addition to 700,000 tons of wheat being sold to India in 1974/75 on a preferential basis, India's food requirements have also been taken into account in deciding the Community's Food Aid Programme in the present year. Around 40% of total aid in cereals (i.e. about 300,000 tons) have been allocated to India, to be financed equally by the Community as such and the Member States. In addition the Community is giving India supplies of powdered milk under direct grant, and butter oil through international organizations.