



62/82

THE EUROPEAN COMMUNITY AND INDIA

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OCTOBER 1982

313/X/82 - En.

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THE EUROPEAN COMMUNITY AND INDIA

Introduction : An evolving relationship

The 20-year old relationship between the European Economic Community (EEC) and India is evolving rapidly. But it remains based on trade, the European Common Market being, after all, India's major trading partner. In addition to their attempts to expand their two-way trade, the EEC and India are actively promoting the economic cooperation aspect of their new Agreement signed last year (1), on the basis of closer collaboration between European Community and Indian firms.

An important step in this direction was the Conference on international contracting and sub-contracting, held in Paris in 1980. The success of that Conference has encouraged both sides to organize in three European cities this November seminars on specific industrial sectors. These seminars will be followed by an EEC/India Industrial Technology and Investment Conference, to be held in New Delhi in January 1983. The aim of the Conference is to bring together the senior executives of European and Indian firms.

The New Delhi Conference will mark a fresh stage in Indo-EEC cooperation: the two sides will continue their commercial cooperation but it is to be reinforced increasingly by industrial cooperation.

This extension in Indo-EEC cooperation was foreseen some three years ago when negotiations for the new 5-year cooperation agreement were envisaged. It has since been written into the commercial and economic cooperation agreement which was signed in June 1981 and came into force on December 1st, 1981. Under Article 5, for example, the EEC and India have undertaken to promote industrial and scientific cooperation and the transfer of technology. This is to be on a "long-term" basis and through "a fuller utilization of each other's material, manpower and technological resources".

Did the authors of this provision of the agreement have in mind a statement made by one of the founding fathers of modern India, Jawaharlal Nehru, who declared: "It is science and technology which has made other countries prosperous, and it is only through the growth of technology that India shall become a wealthy and prosperous nation" ? As the country's first prime minister, Mehru actively encouraged the scientific research which has enabled India to design and largely build such sophisticated tools as a nuclear power station and space satellites.

The early stages

It is hardly surprising, therefore, that the EEC and India should have entered the 1980s determined to extend their cooperation "across the whole range of commercial and economic endeavour..." (The words appear in the

(1) Agreement for Commercial and Economic Cooperation between the European Economic Community and India.

Preamble to their 1981 Agreement). But the decision followed from the relationship which began in 1962, when India established diplomatic relations with what was then a Community of six West European nations (Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands).

India was primarily concerned at that time with safeguarding its access to the U.K. market once Britain had joined the EEC. It is significant that the collapse of the 1961/63 negotiations for Britain's entry did not mark the end of India's relations with the Common Market. On the contrary. In 1964 the Community suspended at zero its tariffs on a major Indian export - tea in bulk - and on certain spices and East India kips.

This was followed by a bilateral agreement on jute and another on coir. At India's request the EEC opened duty-free quotas for its exports of silk and cotton handloom fabrics and handicrafts. When the Community introduced its generalized system of preferences (GSP) in 1971, it expected India, which has played a key role in the negotiations leading up to the UNCTAD resolution on generalized preferences, to be one of its principal beneficiaries.

By 1972 trade relations between the EEC and India had developed to the point where both the EEC and Britain felt the existing network of bilateral and other arrangements, especially the GSP, could be counted on to safeguard India's exports to the U.K. market. As a result, Community action was limited to the Joint Declaration of Intent (JDI) which the EEC issued jointly with Britain in 1972. The Declaration proclaimed the Community's "will to strengthen and extend its trade relations" with India (and other developing countries in Asia) and to examine with them "such problems as may arise in the field of trade with a view to seeking appropriate solutions."

There is no doubt of the political significance of the Joint Declaration of Intent. The half dozen JDI countries enjoy a special status in the Community's relations with the developing countries.

They are in an intermediate position between the "associated" Lomé Convention countries and other developing countries because of their historical links with the U.K.; their close relationship with the EEC, built up even prior to Britain's entry; and the number and extent of special trade preferences and sectoral agreements linking them to the Community.

India's special role

In a sense, the JDI countries owe their special status largely to the efforts of India. The EEC included them in the network of sectoral arrangements it had concluded with India; and the Community's commercial cooperation agreement with New Delhi in 1974 was the first of a whole generation of such agreements. Similarly, the 1981 commercial and economic cooperation agreement is serving as the inspiration for the new generation of cooperation agreements which is replacing the earlier agreements.

India's success was partly a question of timing; it was among the first countries in Asia to recognize the importance of the nascent Community. But in acceding to India's request for a closer economic relationship the EEC was also responding to the country's somewhat unique position in the Third World. Its large population - 680 million inhabitants according to the 1981 census - and a land area roughly twice that of the 10-nation EEC make India a giant among developing countries.

India is also a major industrial power, producing a wide range of manufactured products for both the home market and for export. It has a work force which is rapidly acquiring the skills needed to develop the most technologically advanced industries - petrochemicals, electronics, nuclear power, aircraft, communications, to name but a few.

The fact that India is also one of the poorest countries in material terms, with an estimated per capita income of \$ 190 (as compared with an average of \$ 212 for the other low-income countries in the Asia/Pacific region) only serves to underline the country's enormous potential for growth. The fact that India believes in the importance of economic growth for the all-round development of its population has encouraged both the EEC and individual Member States to support its development projects with financial and technical aid. India in fact is the largest single beneficiary of the Community's own programme of development assistance for the "non-associated" states.

Trade opportunities

The Community, as the world's largest trading block, clearly has much to offer India. In 1980 its imports from countries outside its frontiers amounted to ECU 272 billion (US \$ 378 billion) and represented 24% of world imports (as compared to \$ 241 billion and 15% for the United States). If intra-Community trade were to be included, their total imports would amount to ECU 520 billion (US \$ 728 billion), representing nearly 40% of world trade.

The following Table shows the evolution of Indo-EEC trade in 1973 (the year Britain joined the EEC) and between 1976 and 1980 (1).

Development of trade between the EEC and India
(in million ECU* and U.S. Dollars)

		1973	1976	1977	1978	1979	1980
EEC - Imports	ECU	663	1,421	1,650	1,612	1,831	1,799
	\$	806	1,573	1,873	2,045	2,503	2,501
EEC - Exports	ECU	688	1,140	1,395	1,856	2,006	2,298
	\$	832	1,254	1,584	2,370	2,750	3,200
Trade Balance	ECU	+25	- 281	- 256	+ 244	+ 176	+ 499
	\$	+26	- 319	- 289	+ 325	+ 247	+ 694

(*) The ECU or European Currency Unit is a "basket" unit, based on a certain quantity of each Community currency. It offers a better measure of EEC trade flows than the U.S.\$.

Source: Statistical Office of the European Communities, Luxembourg.

(1) For technical reasons 1981 statistics are not yet available.

India's share of the Community market is small; it has less than 1% of the total. Nor is it an important market for the Community, whose exports to India are less than 1% of its total exports. Even so, the EEC's exports to India rose by 285% between 1973 and 1980, and those of India to the Community by 210%.

This was an encouraging development, given that an estimated 25% of India's total exports are to the EEC, as compared to some 12% to the United States, 13% to the Soviet Union and the OPEC countries and 10% to Japan.

Within the Community, the U.K. remains the major market for Indian goods, with just over 7% of India's total exports (in 1980). But its share has been declining, while that of the Federal Republic of Germany has been rising. It stood at just under 6% in 1980.

The EEC is India's major supplier; in 1980 its imports from the Community represented 26% of its total imports, as against 18% from the oil-producing countries (largely because of the 1979/80 rise in oil prices). Within the EEC, Britain and the Federal Republic of Germany each account for about 6% of the country's total imports, which is roughly comparable to Japan's share of the Indian market (7%) but considerably less than that of the United States (14%).

Agricultural products account for approximately one-quarter of the Community's total imports from India, and consist mainly of tea, oilcakes, unmanufactured tobacco, coffee and crude vegetable materials. Manufactured products account for the rest, but are heavily concentrated on a relatively small number of products or product groups. They include textiles (cotton and jute fabrics, clothing and carpets); leather; diamonds and a range of metal manufactures.

The Community's exports to India consist mainly of machinery of all kinds, transport equipment, chemicals and other manufactured products. They also include foodstuffs and vegetable oils. Some of these shipments are under the EEC's food aid programme, while others represent commercial transactions.

Textiles

India is a major supplier of textiles and clothing to the EEC; it ranks third in fact among the Community's "low-cost" suppliers.

The following Table shows the evolution of imports from India since 1973:

EEC: Imports of textiles, clothing and floor coverings from India
(in million ECU and U.S. dollar)

		1973	1975	1976	1977	1978	1979	1980
Total textiles	§	170,2	195,4	388,3	493,9	554,5	771,8	932,0
	ECU	138,2	157,4	347,3	432,8	435,1	563,0	669,4
of which								
Yarn	§	14,0	10,5	24,5	28,4	19,9	26,1	28,1
	ECU	11,4	8,5	21,9	24,9	15,6	19,0	20,2
Textiles: fabrics and made-up articles	§	93,2	77,2	147,0	179,2	187,4	255,7	307,3
	ECU	75,7	62,2	131,5	157,0	147,1	181,6	220,7
Carpets	§	24,6	35,2	50,9	77,1	111,6	153,7	179,3
	ECU	20,0	28,4	45,5	67,6	87,6	112,1	128,8
Clothing	§	38,4	72,5	165,9	209,2	235,6	336,3	417,2
	ECU	31,2	58,4	148,4	183,3	184,9	245,4	299,6

Source: Statistical Office of the European Communities.

The items covered by the Table accounted for 55% of EEC imports of manufactured products from India in 1980. Clothing exports, including handloom and folklore items, recorded one of the fastest growth rates; between 1975 and 1976 they even jumped by 127% in value, thus placing India in a very good position for the 1982 negotiations under the Geneva Multifibres Arrangement for a renewed bilateral agreement between India and the Community.

Although the continued recession has had an unfavourable effect on demand, the Community hopes to maintain the access rights secured so far. However, the uneven utilization of textile quotas since 1977 suggests that Indian exporters should concentrate on all possibilities offered to them in this field.

Utilization by India of its 1980 Community quotas

Item	Utilization (as percentage of quota)
Cotton yarn	23%
Cotton fabrics	60%
T-shirts	96%
Women's blouses	69%
Men's shirts	50%

The fact that quotas are expressed in volume rather than value means they are unaffected by inflation. What is more, India can increase its earnings by selling products with higher added value.

Textiles addendum on last page

How India benefits from the GSP

As mentioned earlier, the Community's imports from India amount to less than 1% of the total. There is a tendency in India to blame tariffs and other barriers in the EEC for this state of affairs. But countries with large home markets, such as India, export a smaller proportion of their GNP than countries with small domestic markets. In any case, India has maintained her share of the Community market, despite growing competition from other developing countries. Thus between 1973 and 1979 her exports amounted to 0,8%, although they slipped to 0,7% of Community's imports in 1980 (because the sharp rise in oil prices raised the Community's import bill).

This is a considerable achievement, given that the Community's imports rose by 203% (in value) between 1973 and 1980. Much of the credit must go to India's manufacturers and exporters. Credit is due also to the Community's GSP scheme however, and in particular a succession of measures such as to implement the pledge given in the Joint Declaration of Intent and the EEC's Tropical products offer in 1977.

The EEC has in fact used the GSP both to offset, as far as possible, the loss of Commonwealth preferences to India (and other Asian countries) and to help her build up her exports to EEC countries other than the United Kingdom. Since 1971 the EEC has transformed out of all recognition the product coverage in the agricultural part of its scheme: products brought in of particular interest to India include items such as packaged tea, castor oil, prawns and shrimps, hilsa fish, spices and saffron, shellac. A major concession to India was the decision to include flue-cured Virginia-type tobacco in the GSP, the quota of which the volume has moreover been progressively increased from 30 000 MT to 61 200 MT to-day.

Even so, the trade statistics for 1980 suggest that Indian exporters did not utilize the GSP scheme as effectively as they might have. Their total exports amounted to \$ 2,501 million that year, of which \$ 670 million (or 27%) in any case entered the Community duty-free. Most of the remaining exports, amounting to \$ 1,650 million, were covered by the GSP and entitled, therefore, to either duty-free entry or, in the case of agricultural products, lower tariffs. However, Indian exporters took advantage of the GSP for only half this amount (i.e. \$ 820 million).

The GSP utilization rates for 1981 are awaited with interest. This is because when the Community agreed at the end of 1980 to extend its GSP scheme for a further 10-year period it also undertook a fundamental revision of the arrangements for preferential imports of industrial products. The new scheme offers greater security to beneficiary countries through the individualisation of the preferential amounts in place of the former system of global controls which pitted all developing countries against each other. This has been made possible by the simplification of the scheme through reducing the former four categories of control to two: sensitive or non-sensitive - with the majority of them falling in the non-sensitive category and subject, therefore, only to statistical monitoring. Imports of sensitive products originating from the most competitive suppliers are tightly controlled by means of individual country quotas. Imports from all other countries are subject only to individual ceilings, which are not allocated among the Member States. However

in identifying competitive suppliers particular concern was taken by the EEC to avoid damaging India's interests: as a result she is subject to only one quota, compared with 31 applicable to South Korea and 24 to Hong Kong.

India was already a major beneficiary of the Community's GSP scheme in 1980. The hope is that its exports will have taken full advantage of the greatly simplified scheme introduced in 1981.

Promoting India's exports

Tariff preferences in themselves are not enough; exports, especially of new items, must be promoted, often vigorously. The Community therefore operates a programme of technical and financial aid designed to help developing countries undertake trade promotion.

India has received the largest allocations under the EEC's trade promotion budget. The Community is contributing some \$ 2 million over a 3-year period for the Indian Trade Centre, which was formally opened in Brussels in February 1980 by Vice-President of the European Commission, Wilhelm Haferkamp.

The Centre's activities are aimed at promoting India's exports to the EEC. They are directed by Indian advisors and the sectors covered include engineering products; electronics; leather and leather goods; jute and coir products; textiles and agricultural products.

The trade promotion programme also includes visits by trade missions, the organization of workshops and seminars and Indian participation in European trade fairs and exhibitions. A programme for mica development, begun in 1981, was continued in 1982. A survey of the market for engineering goods in Greece, Spain and Portugal was planned for 1982, as were trade missions covering handicrafts, on the one hand, and electrical machinery and computer software on the other.

Indian manufacturers have always been attracted by trade fairs; provided the fairs are carefully chosen, they offer a quick and effective way of reaching buyers from all over the Community (and from other industrialized countries). In 1982 Indian firms expected to display amongst other products, hardware, leather and electronic products in specialized fairs and to take part in four workshops (on cigarette production, leather, jute and coir).

From commercial to industrial cooperation

As mentioned earlier, the new commercial and economic cooperation agreement made it possible for the EEC and India to cooperate more effectively across the whole range of economic endeavour. The Commission organized seminars on problems and prospects of Indo-EEC relations for the first time in the four main cities of India: Bombay, New Delhi, Calcutta and Madras, in January 1982, which brought together Indian businessmen and industrialists, leaders of the chambers of commerce representing the Community Member States in India, and members of the Commission Delegation.

The formation of a Council of EEC chambers of commerce in India was initiated within the framework of the seminars at a meeting with leading members of bi-national chambers in Bombay, presided over by Vice-President Haferkamp.

The European Commission, which represents the Member States on the Joint Commission set up under the new agreement, has joined forces with the Indian Investment Centre to promote business of cooperation, especially amongst small and medium size enterprises.

The new agreement positively encourages such initiatives, for it commits the EEC and India to foster economic cooperation in all fields of mutual interest. To this end they can take steps to promote industrial cooperation, including the transfer of technology, and mutually beneficial investments.

The moment is ripe for moves in this direction, given the efforts of the Indian Government to open the doors further to foreign investment and to associate foreign firms more closely in the country's industrialization. The decision of the Joint Commission gives European and Indian investors and industrialists the opportunity to explore together the possibility of entering into joint ventures, licensing and other business arrangements for the development and manufacture of automotive components; electronic and computer equipment; telecommunications equipment and engineering plastics.

Several hundred senior executives, representing European and Indian business, industrial and financial enterprises are expected to take part in seminars to be held in three European cities between November 2 and 9, 1982 and in the EEC/India Industrial Technology and Investment Conference, which has been timed to meet in New Delhi during the All-India Engineering Fair in January, 1983.

Steps to scientific cooperation

The new agreement also offers a firmer legal basis for technological and scientific cooperation. It provides for joint programmes of research and development and specifically refers to cooperation in the fields of energy sources and conservation, energy-related technology and environmental protection and improvement. A joint coal gasification study was begun in 1978 with some \$ 100,000 provided by the European Commission. In this connection, scientists from both sides visited existing facilities in the EEC and India.

A joint working group on science and technology, which first met in New Delhi in January 1982, discussed how best to implement the provisions of the new commercial and economic cooperation agreement. It was hoped that arrangements could eventually be made to exchange both information and scientists, organize seminars and workshops and carry out R and D programmes jointly. The areas which, in the view of the working group, offered scope for cooperation included energy, biological sciences, environmental protection and electronics/information technology (telematics, audiovisual techniques and computer software).

Community aid for India

Given the sheer size of the Indian economy, it is hardly surprising that the Community's relations with that country are seen largely in economic and more specifically commercial, terms

Even so, India is the largest single recipient of Community aid to "non-associated" countries. If the sums involved are small in relation to the aid extended bilaterally by individual Member States, the EEC's aid programmes are more varied, covering as they do trade promotion; disaster relief; training programmes; food aid and financial support for rural development projects, including those implemented by non-governmental organizations.

Most of the aid is provided under (1) the Community's food aid programmes and (2) its expanding programme of project aid to the "non-associated" developing countries in Asia and Latin America. Food aid goes largely to

support Operation Milk Flood, an ambitious project which seeks to help some 10 million families through the increased production and marketing of milk. Under Operation Flood I, the EEC made available, mainly through the World Food Programme, some 126,000 tonnes of skimmed milk powder and 42,000 tonnes of butteroil, valued by the WFP at just over \$ 150 million in 1975.

Operation Flood II is on an even larger scale. Its overall cost has been estimated at \$ 550 million, of which roughly half is to be met through the sale of Community food aid. Starting in 1978, the EEC is to supply some 186,000 tonnes of skimmed milk powder and 76,200 tonnes of butteroil over a 6-year period. The estimated cost to the Community (including transportation charges) has been put at ECU 500 million.

The EEC's contribution to Operation Flood is regarded by the European Commission as a prime example of how food aid can be used to promote long-term rural development. What is more, it represents a multi-annual commitment in food aid in conjunction with the World Bank.

Project aid is provided under the so-called "non-associate" programme. It is in the form of grants and is focused on rural development. India's share currently amounts to some 20% of the total; in 1981 it came to ECU 43 million.

In the last two years, the EEC has tried to ensure quick disbursement of its project aid. Since 1979, for example, the bulk of the aid has been used to supply fertilizers worth some \$ 35 million annually. The "counterpart funds" (i.e. funds collected by the sale of the fertilizer by the Indian government) have been used by the Indian government to finance rural development projects, including the construction of warehouses for the storage of food-grains. Finally, it is worth mentioning that India has provided training to other developing countries under some Community-financed aid programmes.

In summary, India receives the largest amount of Community aid of any recipient country now worth approximately \$ 100 million per year.

Conclusions: The need for a political dimension

From even so brief a survey, the conclusion which emerges is that the Community's relations with India are both extensive and continuously evolving. They could be more intensive, however, given the economic and political importance of the two sides.

The new commercial and economic cooperation agreement represents an advance on the earlier agreement, and therefore offers the EEC and India the legal framework in which to extend and intensify their relations. Given the size and variety of India's industrial plant and its pool of scientific manpower - one of the largest in the world - the scope for industrial, scientific and technological cooperation obviously is considerable.

Implementation of the new agreement could be held back, however, because of the slow progress within the Community itself towards a common industrial policy, for example, or a common policy on investment promotion and protection in the developing countries. On the other hand, one should not forget that India-EEC economic cooperation is complementary to activities between individual Member States and India, which are extensive in some cases and certain to continue.

However, given the growing interdependence between Member States, increased cooperation between European and Indian business interests would lead, in all probability, to demands for a reinforcement of relations at the Community level. In view of the Indian tendency to encourage economic and commercial links in a political context, a more intensive relationship may require a recognition by the two sides of the need to give their relationship a political dimension.

TEXTILES ADDENDUM

The present textile agreement will expire by the end of 1982.

Following the renewal of the Multifibre Arrangement (MFA) the Community had to negotiate new bilateral agreements with the major supplier countries including India.

After long-lasting negotiations a new bilateral textile agreement was initialled on 27 September. It satisfies the Indians because it offers them a security of access to the Community market and improvement of this access not only in quantitative terms but also in qualitative terms (the pattern of quotas is now more adherent to actual trade and future potentiality of development).

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