

## 16.9 KEY WORDS

**Merchandise Exports:** Exports of only goods is included in merchandise exports.

**Merchandise Imports:** Imports of only goods is included in merchandise imports.

**Capital Intensive:** Capital intensive means where more capital and machinery than labour is involved.

## 16.10 ANSWERS TO CHECK YOUR PROGRESS

A3 (i) True (ii) False (iii) False (iv) True (v) False

B3 (i) True (ii) True (iii) False (iv) True (v) True

## 16.11 TERMINAL QUESTIONS

1. Describe the economic structure and foreign trade of USA.
2. Describe the composition and direction of USA's trade with the world.
3. Describe the trends in Indo-US trade. Explain the composition of India's exports and imports with USA.
4. Why do you think US is an important trading partner for India, but India is not an important trading partner for the US. Discuss with the help of India's trade with USA.
5. What are the major constraints in Indo-US Trade and how can they be overcome.
6. Do you think that the Economic Reforms initiated by Government of India have helped in strengthening India-US trade relations. Discuss.

## UNIT 17 EUROPEAN UNION AND CIS COUNTRIES

### Structure

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### 17.0 OBJECTIVES

After studying this Unit, you should be able to

- analyse the significance of the European Union (EU) and Commonwealth of Independent States (CIS) countries in India's foreign trade.
- explain the commodity composition of India's exports to and imports from the European Union and CIS countries.
- analyse the trend in India's exports to the two groups of countries.
- evaluate India's strengths and weaknesses vis-à-vis its competitors in the European Union market.
- formulate the strategies to promote exports to the two groups of countries.

### 17.1 INTRODUCTION

As you must be aware that the European Union is one of the important player in the world economy. It is also an important trading partner of India. While the European Union's importance arises not only from the fact that it is the single largest trading partner of India but, more importantly, from the fact that it throws up the challenges and opportunities of dealing with a regional economic grouping. The importance of CIS countries arises from another angle, i.e. dealing with newly independent countries and building up external trade relations. In this Unit, you will learn India's overall trade position with the two groups, the performance of major product groups in these overseas markets, the nature and extent of competition faced in these markets and the possible strategy measures to improve India's performance in EU and CIS.

### 17.2 AN OVERVIEW OF EUROPEAN UNION

The seeds of creation of an "United Europe" were sown during 1952 with the establishment of the European Coal and Steel Community (ECSC) among Belgium, France, the then West Germany, Italy, Luxembourg and the Netherlands. The objective was common utilisation of the coal and steel resources of the member countries. The European Common Market (ECM)

and the European Atomic Energy Community (Euratom) among the "six" followed with effect from 01 January 1958, the former with the objective of moving towards a common market in all the factors of production and the latter, for promoting common efforts for the growth of nuclear industries in the region. The three groupings later merged to form the European Economic Community (EEC) which was subsequently changed to the European Community (EC). Another treaty established the European Union (EU), with effect from 01 November 1993, wherein the scope of cooperation among member countries was enlarged to include common security, foreign, economic and monetary policies including introduction of a single European currency, development of common citizenship and close cooperation in justice and home affairs.

At present the EU comprises 15 member countries as follows:

- The original six founder members of the ECSC and Euratom i.e. Belgium, Luxembourg, France, Italy, Netherlands and Germany (the former German Democratic Republic joined in 1991 with the reunification of Germany).
- Denmark, Ireland and UK which joined in 1973
- Greece which joined in 1981
- Portugal and Spain which joined in 1986; and
- Austria, Finland and Sweden which joined in 1995.

Besides, Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia have formally applied for full membership of the European Union. The requests of Turkey and Morocco for membership have been rejected. However, Turkey formed a customs union with EU during 1996.

11 of the 15 member countries of EU excluding Denmark, the UK, Greece and Sweden have joined the European Monetary Union (EMU). As part of EMU's work schedule, a currency, the Euro has come into existence with effect from 01 January 1999. The exchange rates of the currencies of the 11 countries have been converted into Euro at given ratios and foreign exchange operations in the Euro have also commenced with effect from 01 January 1999. Till end 2001, the new currency will be traded between banks in electronic form. Euro coins and notes will be introduced on 01 January 2002 and, with effect from July 2002, Euro will be the only legal tender in the EU and the individual national currencies will cease to exist. The four member countries of EU which have, as yet not joined the Monetary Union, due to certain political and economic reasons, are expected to join EMU in due course.

### 17.3 EU'S TRADE RELATIONS WITH THIRD COUNTRIES

European Union is an important contributor of world trade. Let us discuss EU's trade relations with major countries.

**Mediterranean countries:** The EU has entered into association/cooperation agreements with 12 Mediterranean countries which provide for duty free access, in the EU markets, for the industrial products of most of the countries and tariff concession for some agricultural items. Turkey and Cyprus have formed customs union with the EU. The objective is to establish a free trade area between the EU and the Mediterranean countries by 2010.

**Central and East European Countries:** 10 countries of Central and East Europe have signed "Europe Agreements" with the EU, which entitles the former countries for full membership of the European Union. Under the "Europe Agreements" the Central and East European countries are given "associated status" which enables them to get free access for their industrial products in the EU markets.

**EFTA:** The European Union and the European Free Trade Area (EFTA) members — Iceland, Norway and Liechtenstein — have joined together to form the European Economic Area

(EEA) which provides for free movement of goods, services, capital and people between the two groupings.

**ACP Countries:** Under the Lome Convention, EU provides free entry to 99.5 per cent of the items originating in 70 countries of the African, Caribbean and Pacific countries in its markets.

**South America:** 14 Latin American countries have specific regional and trade cooperation agreements with the EU.

EU has been extending tariff concessions to the manufactured items of developing countries under the Generalised System of Preferences (GSP) scheme since 1971.

**India:** Economic and trade relations between the EU and India have been governed by different agreements signed by the parties from time to time. India and the Union signed a Commercial Cooperation Agreement in 1973. A Joint Commission was set up in 1974 with a view to finding out means of expanding and diversifying Indo-EU (then EEC) trade in 1981. India and EU entered into an Economic and Commercial Cooperation Agreement with the objective of not only raising the level of Indo-EU trade but also of promoting new relations in the industrial field through industrial cooperation, transfer of technology and scientific cooperation. The 1981 agreement also paved the way for the opening of a permanent EU Commission Delegation in New Delhi. On 20 December 1993, India and the Union signed a new Cooperation Agreement on Partnership and Development. The Agreement aims at increasing and diversifying trade and investment, intensifying and diversifying economic cooperation, cooperation focussed at poverty eradication and sustainable use of resources and raising the profile of political dialogue. EU's economic cooperation programmes encompass a large number of sectors including trade, industry, infrastructure, banking, tourism and information technology.

India has been a beneficiary country of EU's GSP Scheme since 1974. The GSP utilisation rate of India is estimated to be over 70 per cent — second only to that of Peoples Republic of China, among the beneficiary countries.

### 17.4 EU — INDIA TRADE

India is not a significant trade partner of the European Union. Look at Annexure 1 which shows EU trade with India. India's share in extra-EU imports has been less than 1.5% during the nineties. It may, however, be noted that the data provided in Annexure 1 contain imputed figures for the year 1993 when the membership of the Union was less than 15 and, to that extent, comparison between 1998 and the earlier year is subject to limitations. However, it can be safely maintained that India's share in extra-EU imports has been less than 2 per cent. It will also be noted from Annexure 1 that even if EU imports from ACP countries are excluded, India still remains a minor supplier to EU.

India's status as a market for EU products is no better, with the share of India in extra-EU exports not exceeding 1.6 per cent during 1993-98. Among non ACP countries also, India is not a major market for EU products. Look at Annexure 2 which shows EU trade with India.

EU, on the other hand, is a major trading partner as far as India is concerned, Annexure 3 shows India's trade with EU. The European Union countries account for slightly more than one fourth of India's global exports and imports. Among the EU countries, UK, Germany, Belgium, Italy, France, Netherlands, Ireland and Spain are the major markets, in that order for Indian products, while the major suppliers have been UK, Belgium, Germany, Italy, France and Netherlands, while, understandably, Luxembourg is the least important market and supplier.

The main items exported by EU to India are: machinery & parts, unworked precious and semi-precious stones, iron & steel and articles thereof, optical, measuring, controlling and other scientific instruments, organic chemicals and aircrafts and parts. The main items that are

imported by the Union from India are: apparel, diamonds, cotton, cotton yarn & fabrics, leather, woollen and silk carpets, coffee, tea, spices, leather goods, footwear, marine products, boilers, machinery and parts, edible nuts (mainly cashew kernels), organic chemicals, man-made fibres and rags. The above items account for close to 70 per cent share in the Union's total imports from India. Data on extra-EU imports and imports from India of the above groups of items (at two-digit level) during 1996 and 1998 are given in Annexure 4.

### 17.5 GENERAL IMPLICATIONS

The integration process within the Union is expected to bring about improvement in the standard of living of the citizens. This would mean increased demand for items, particularly consumer goods and, in sectors in which domestic production in the Union does not exist or is inadequate and in personalised items where the consumer choice plays a major role, Look at Annexure 1 which shows EU trade with India. Look at Annexure 1 which shows EU trade with India imports from the outside world are expected to grow. Past evidence shows that, notwithstanding the fact that intra-EU imports have grown from 33 per cent of the total EU imports during 1958 to more than 60 per cent during 1998, extra-EU imports, by themselves, have increased by nearly 29 times from ECU 24 billion in 1958 to ECU 709 billion during 1998. If this trend in extra-EU imports continues, third countries can hope for significant growth in demand for some of their items.

While a more prosperous Europe, with the possible further lowering of the levels of protection might mean, on the one hand, greater opportunities for exports, it also means increased competition for Indian products from both within the Union and outside, on the other. It is in this context that the possible expansion of the Union and the linkages with East European countries, ACP countries, EFTA countries and the other countries in Mediterranean etc. have to be viewed. Geographical proximity and common history and culture confer an advantage on the suppliers in East European countries over Indian exporters in the European Union market.

The integration of a number of individual markets into a single unified market, with a uniform policy and uniform set of standards and procedures and with no restriction on the movement of goods, services, capital and people within the region will mean acceptance of a product in all the European Union countries. Once the product has been legally imported into a member country on the basis of a certificate issued at the first point of importation, it may open up opportunities hitherto limited to the markets of some member countries. This would also mean, on the negative side, that once a product has been rejected at the first point of importation, it will not be possible to gain entry into any other member nation. Thus, the Indian corporate sector, to take advantage of the large sized market in Europe, must use relatively more convenient entry points with which they had built up contacts in the past to enter the Union.

Integration of individual markets into a large sized unified market might also mean large sized orders in respect of certain items. The extent to which India will be able to take advantage of the enlargement of the order size will depend considerably on the capacity of the Indian trade and industry to reorient its production, management and marketing strategies suitably. Evidence is available to the effect that the business community, both within and outside Europe, has responded to this challenge by bringing about mergers and acquisitions. There are likely to be large "European" orders in respect of standardised and homogenous items of functional nature. Such large orders can be executed if only the problems of supply inelasticity are sorted out and the management and marketing strategies are suitably reoriented. These call for action both at the policy level by the Government of India and at the organisational level by the Indian firms.

The above analysis was confined to examining the general implications, on India, of the integration of individual European countries into a full fledged European Union. What follows is a productwise analysis taking into account the Union's major items of imports from India.

### Check Your Progress A

- 1) Enumerate major markets for India among EU countries.  
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- 2) Enumerate major items exported by EU to India.  
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- 3) State whether the following statements **True** or **False**?
  - i) The European Common Market (ECM) came into existence on 01 January 1958.
  - ii) The total membership of the European Union, as on 01 January 1999, was 12.
  - iii) EU-India trade relations are not governed by any formal agreement.
  - iv) India's share in extra-EU trade is insignificant.
  - v) The share of intra-trade in EU's total trade is more than that of extra-trade.

### 17.6 COMMODITY WISE ANALYSIS

India's main exports in these three groups comprise T-shirts, under garments, blouses, jerseys, pullovers, skirts and shirts. India's share in extra-EU imports of both apparel and knitted and crocheted items is not only insignificant but has declined during 1996-98. Though some specific product categories of garments imported from India have been subject to quotas under bilateral textile agreements concluded from time to time, the quota level in the Union for these items has been reasonably high. India's exports of the items covered under these groups are limited to a narrow range of items, mostly cotton based casual wear. Intra-EU trade is higher than Extra-EU imports in the case of knitted and crocheted items while in the case of clothing, EU imports from outside the bloc are more than intra-EU imports. Notwithstanding the fact that there is a strong garment industry in the Union, India should attempt to exploit the enlarged Union market effectively since the European industry is known to be orienting itself to high-fashion items.

Discontinuation of Multi Fibre Arrangement (MFA) is likely to benefit the Indian industry, but this benefit will be available to other supplying countries also. Again, till such time as MFA is completely phased out, allocation of quotas for the European Union as a whole as against countrywise quotas may work in India's favour; however, this benefit will also be available to other supplying countries, imports from which are regulated by quotas.

Among the third countries, developing countries, particularly China, and developed countries such as Switzerland are major suppliers. Another factor that merits consideration is the increasing supplies by ACP countries. EU's imports from ACP countries of all items under the group have grown significantly in recent years. The cotton and textile sectors in the ACP countries have received financial support, under different Lome Conventions, from the Union.

**Diamonds:** The second most important group of imports from India is represented by pearls, precious and semi-precious stones and the share of the country in the extra-EU imports of

this group has grown marginally during 1996-98 though, in terms of current value, imports from India have grown from ECU 852.6 million to ECU 1133.8 million during 1996-98. The main export items of India in this group is diamonds. The Union is also the major source of supply of raw diamonds to India, which are processed and re-exported. South Africa, Russia, Israel, USA, Switzerland and China are the major third countries competing with India in this product in the EU market. Though Extra-EU imports are three times more than intra-EU imports, there are also a number of suppliers within the Union, UK, Italy, Germany and Belgium, in particular. ACP countries are also major suppliers of this group of products to the Union. Notwithstanding the severe competition, India's exports of diamonds to EU are expected to grow due to the rise in disposable income among the European buyers and the skills acquired by the Indian craftsmen in processing diamonds.

**Cotton and Manufactures:** European Union's imports of raw cotton, cotton yarn and fabrics from India have declined in terms of value and share in extra-EU imports between 1996 and 1998, while in terms of value at current prices total imports of EU from third countries have grown during the period. Imports of the manufactured items falling in this group are regulated under the bilateral Textile Agreement by specific quotas for specific items. The decline in the share of India in extra-EU imports of the items belonging to this group indicates, perhaps, the regulation of raw cotton exports by means of export quotas by India. Though the textile industry in the Union is one of the largest in the world accounting for substantial exports, and marginally higher intra-trade than extra-EU imports, the decline in its relative share in global production and employment coupled with the rise in textile consumption with EU and the concentration of the domestic industry on high value-added items indicate good prospects for Indian items. In this sector also, the industry should gear itself up to face the challenges that will be posed after MFA is scrapped and textiles are brought under free trade and with modification in the GSP scheme of the Union.

As mentioned earlier, almost all the EU countries are involved in intra-trade, with Italy, Germany and France leading the rest. Among the third countries, Switzerland, Russia, Egypt, USA, Pakistan, China and Indonesia are the main suppliers. Besides, as in garments, ACP countries are stepping up their share of the EU market in cotton fabrics. The shape of the future commercial and economic relationship of the EU with India on the one hand, and, with ACP countries, on the other, will also influence the performance of the Indian textile and garment sector in the EU market in the coming years.

**Leather, Leather Manufactures and Footwear:** Notwithstanding the growth in EU's imports from India, in respect of two of the three groups of items between 1996 and 1998 the share of India in extra-EU imports has declined in respect of all the three groups during the period. This is a sector where there are substantial domestic supplies, with Italy, Spain, Portugal, France, Germany and UK having strong supply bases. In two groups viz leather and footwear, intra-EU trade is more than extra-EU imports. The ACP countries are emerging as significant suppliers in leather, in particular bovine leather, leather of Indian goat or kid and sheep and lamb skin leather. India faces competition from third countries such as Brazil, Pakistan, China, South Korea, Taiwan and Thailand and East European countries particularly in footwear and leather goods. Due to developments such as the demand in EU countries overstepping domestic supplies, the problems of environmental pollution posed by the domestic industry, the shortage of hides and skins within EU and the relative cost advantages enjoyed by certain third countries vis-à-vis EU in labour-intensive sector, supplies from third countries to the Union are not likely to be affected to any significant extent, in the near future. There is, however, a possibility that countries like Spain, Portugal and Italy might try to expand their share of the EU market in the finished leather goods. Should this happen, while, on the one hand, the competition for India in the leather goods sector will become more severe, it is also likely to throw up opportunities for supply of finished leather to feed the expanding leather goods industry in the Union, on the other. The nature of the future GSP regime of the Union will also influence the prospects for India's leather and leather goods in Europe.

**Carpets:** India is the major supplier of carpets to EU and it will be noted that, among all the product groups imported by EU from India, carpets have the highest share in extra-EU imports and this share has grown during 1996-98 notwithstanding the drop in the Union's imports from third countries during the period. Competition for India in this sector comes,

among third countries, mainly from China, Iran and Morocco in the case of woollen carpets, and China and Turkey, in the case of silk carpets. Moreover, Belgium within the Union has a strong carpet industry followed by Netherlands and Germany. Intra-EU imports of carpets are two times extra-EU imports. The rise in incomes in EU, consequent to greater integration, is expected to lead to increased demand for carpets. A more prosperous Europe will also mean increased competition from third countries not only from the present major suppliers but also from other countries such as Pakistan and Afghanistan. The Indian carpet industry should gear itself up to face the challenge by diversifying in favour of not only higher unit value items but also of new and exclusive designs, which are likely to be demanded in future. Establishment/usage of warehouses at appropriate points for off-the-shelf delivery should form part of the marketing strategy to gain increasing share in this market.

Another development of recent origin, which will have significant impact on India's capability to promote carpet sales not only in Europe but practically all over the world relates to deployment of child labour in the carpet industry. Appropriate steps need to be initiated to convince the overseas parties and the concerned organisations that the stipulations in this regard are being adhered to by the Indian carpet sector.

**Coffee, Tea and Spices:** Imports of this group of items from third countries grew significantly between 1996 and 1998. Though imports from India, in terms of current value, have grown by as much as 94.6 million ECU, the share of India in extra-EU imports has declined during the period. The main items that are imported from India by EU in this group include coffee, tea and pepper. While Europe is dependent on outside world, particularly developing countries, for meeting practically its entire requirements in these items, Kenya and some other ACP countries have stepped up their exports of all the three items in recent years. They have also availed of the financial support provided by the European Union for development of production and stabilization of export earnings in these products. Moreover, they enjoy tariff benefit in the EU market in respect of coffee. The countries other than ACP countries that offer competition in the market include Colombia and Brazil in respect of coffee, Sri Lanka and Indonesia in respect of tea, and Indonesia, Malaysia and Brazil in respect of pepper. Though demand for these items in Europe is expected to grow, the challenges that India has to face in the market will arise from increased competition from ACP countries in particular and stricter application of health and sanitary standards.

**Marine Products:** This is one group of items which should cause concern for India. There has been more than 50 per cent decline in India's share in extra-EU imports of items falling under this group during 1996-98, and by as much as 57 million ECU in terms of current value, notwithstanding more than 2 billion ECU growth in the Union's imports from third countries. The major item exported by India to the Union in this group is frozen shrimps. The seafood market in Europe has grown substantially in recent years and the competition for India in this sector comes mainly from Norway, Iceland, Poland, Russia, USA, Canada, Chile, Argentina and Thailand besides ACP countries such as Senegal. The ACP countries, which enjoy tariff advantage over India in the EU market, have been offering severe competition to India in this product-group. The fisheries sector in the ACP countries has benefitted under the Lome conventions through financial support for development and exploitation of fishery resources, for higher processing and for stabilization of export earnings. Besides, the EU countries can, by agreement, operate their fishing vessels in ACP waters. There is substantial intra-EU trade in marine products with Denmark, Netherlands, UK, and France being the major suppliers. The developments to be considered by the Indian industry in this sector should include: (a) increased competition from some of the EU countries (b) increased competition from third countries including ACP countries, (c) uniform and stricter implementation of health regulations and packaging and labelling laws throughout European Union (d) major seafood firms in EU joining hands for large-scale operations, (e) limitations faced by India due to concentration of its supplies in one product-group, viz. shrimps, and (f) the relatively inelastic supply base of the country.

**Edible Fruits and Nuts:** EU's extra imports, and imports from India as well as India's share in extra-EU imports have all remained more or less stagnant between 1996 and 1998. Cashew kernel is India's main item in this group, and in this item, India holds a monopoly share in EU imports from third countries. The competitors for India are Brazil, Mozambique and Kenya. Though there is no domestic production of cashew within Europe, Mozambique and Kenya

are ACP countries and these countries can step up production with technical and financial support from EU as well as by bringing about improvement in the process of collection of raw nuts. Cashew is also entitled to support under STABEX. While the integration process in the Union might lead to rise in demand for cashew kernels, India should be prepared to face increasing competition not only from ACP countries but also from outside suppliers like Brazil, which is known to have built up a vast and competitive export base by bringing large areas under the crop and through effective by-product utilisation. Besides, the supply inelasticity faced in this sector by India due to raw cashew shortages, the strict health, sanitary, packaging and labelling regulations imposed by the Union and the substitutability of cashew by other edible nuts may pose challenges to the Indian cashew industry.

**Engineering Goods:** EU's imports of engineering goods from India are not significant. Boilers, machinery and parts is the single largest group of engineering items imported from India. In this group of items, the share of India in extra-EU imports was not only a meagre 0.3 per cent during 1998, this share has declined between 1996 and 1998 and, in terms of value also, imports from India have dropped by 46 million ECU during the period. This should be viewed against the background of the growth in extra-EU imports of the items of the order 32 billion ECU during the period and the size of imports from third countries, which was more than 110 billion ECU during 1998. Supplies from India of other product-groups such as iron & steel, vehicles & parts, optical, scientific and other instruments, electrical machinery and tools, implements and base metals are limited. There is however, no doubt, that the Union offers, due to increased industrial activity, good prospects for a number of engineering items.

This is a sector where not only the value of Extra-EU imports is the maximum and is very substantial but the competition in the EU market is also, perhaps, the toughest. Not only does the competition emanate from EU countries themselves but also from a number of third countries including USA, Japan, Canada, Australia, China, South Korea, Taiwan, Hong-Kong, Israel, Brazil, Thailand, Singapore, Philippines, and Mexico. India's strategy to raise the level of engineering exports to Europe should take into account the following developments within the Union; (a) harmonization of standards (b) use of improved technology (c) increasing volumes of production and automation (d) improved buying power to European firms (e) economies of scale and improved productivity and (h) vacation of certain areas due to environmental reasons and rising labour costs and other economic reasons.

**Organic Chemicals:** This is another segment, where India has not been able to take full advantage of growing imports in the EU. Notwithstanding the more than 4 billion ECU growth in the value of the European Union's imports of organic chemicals from third countries between 1996 and 1998. India has remained a marginal contributor to the huge import market. Imports from India, in terms of value, have grown by just about 100 million ECU during the period, while its share in EU's imports from third countries has declined marginally. Though there is substantially more intra-trade than extra-trade in organic chemicals, considering the huge quantum of imports from third countries, there appears to be scope for India in these items in the European market. However, India has to content with severe competition, particularly from developed countries and EFTA countries though there appears not much of competition from the ACP countries.

**Man-made Staple Fibres:** This is another group where India has not been able to take full advantage of EU's growing market for third country supplies. Though imports of man-made staple fibres from India into the European Union have grown between 1996-98, imports from third countries have grown faster leading to a marginal decline in India's share in extra-EU imports. The major competition in this product group comes from the developed countries, including the EU countries themselves and imports from ACP countries is negligible. Considering the strong supply base built up by India in this sector, it should be possible to step up exports of man-made fibres to the European Union.

**Rags:** This is a group of items where India's performance in the European Union market has been creditable. Imports from India grew from EU 322.4 million in 1996 to ECU 431.7 million during 1998. Simultaneously, the total market size in EU for imported rags has also grown significantly during the period. This is also a group where there is more extra trade in EU than intra-trade and the main suppliers are developing countries other than ACP countries. India should be able to take advantage of the booming imports of these items mainly because there

is no manufacturing involved in these items and the demand is entirely due to the fact that they are worn clothing.

## 17.7 CIS — BACKGROUND

The period 1985-91 is of historical importance to the Centrally planned economies, in particular to the former Union of Soviet Socialist Republics (USSR). This period witnessed a movement towards restructuring of the former state controlled economy in the USSR, with the commencement of the reform process characterised by "Perestroika" and "Glasnost". Though the reform process meant, in general, reduction in state control, increased democratisation of elections, more involvement of the people in state affairs, trade reforms, trade union rights etc., the period also registered economic slow down. Finally, USSR disintegrated into 15 independent states. Eleven of the 15 states joined together and founded the Commonwealth of Independent States (CIS) on December 21, 1991. Subsequently, one more country i.e. Georgia, also joined the CIS. All members of the CIS have been internationally recognised as independent countries and have been accorded Union Nations (UN) membership. The USSR ceased to exist with effect from January 1992 and Russia as a country has succeeded the former Soviet Union and has also inherited the former Soviet Union's seat in the UN Security Council. The members of CIS are: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

## 17.8 INDIA-CIS TRADE RELATIONS

India had enjoyed, since the first half of the 1950s, excellent economic and trade relations with the former USSR, till the beginning of the 1990s. Trade between the two countries was conducted under trade and payment agreements concluded from time to time. The agreements provided for balanced trade and bilateral clearing arrangements and the accounts were maintained in non convertible Indian rupees. Under such an arrangement not only did India-USSR trade grow substantially, but precious foreign exchange was conserved on both sides and each country was able to find market difficult to sell items in the other country. The disintegration of the Soviet Union meant end to the system of managed trade and exposure to competitive environment. After reaching a peak during 1990, India-USSR trade dropped dramatically in the next year.

After the collapse of the Soviet Union and the emergence of the CIS countries, trade relations between India and the countries were reworked. Agreements/Protocols on trade and economic cooperation have been signed between India and most of the CIS countries. These agreements provide for trade in freely convertible currency, counter trade, barter trade or any other internationally recognised form of business cooperation and the prescribed clearing mechanism provided for the same.

## 17.9 INDIA-CIS TRADE

India-CIS trade which was of the order of Rs.13,500 crores per year during 1996-97 and 1997-98 declined sharply by more than half during 1998-99 mainly due to steep fall in India's import from the region. As a result, India which was running a huge trade deficit during the first two years, registered as surplus during 1998-99, as will be seen from Table 17.1.

Table 17.1: India-CIS Overall Trade

Year	Exports from India	Imports into India	Trade Balance
1996-97	3200	10328	- 7128
1997-98	3671	10143	- 6472
1998-99	3479	2829	+645

Source: DGCI&S, Calcutta.

The Russian Federation, among the CIS countries is the single largest trading partner of India. Russia accounts for nine-tenths of India's exports to and imports from CIS countries. Apart from Russia, Kazakhstan, Ukraine and Uzbekistan are the only three other significant markets for India while Russia, Ukraine and Kazakhstan are the three major sources of supply. Look at Tables 17.1 and 17.2 which provide major country-wise data on India's exports to and imports from the CIS countries. It will be noticed that no steady trends is noticeable in India's trade—either in exports or imports—with the CIS countries barring exports to Kazakhstan, which are grouping rapidly. It will also be noted that the sharp import decline during 1998-99 has been accounted for, almost entirely, by Russia.

Table 17.2: India's Exports to CIS Countries (Major Direction-wise)

(Value: Rs. crore)

Country	1996-97	1997-98	1998-99
Russia	2880	3306	3038
Ukraine	160	218	145
Uzbekistan	29	65	53
Kazakhstan	16	32	162
Total (including others)	3220	3671	3474

Source: DGCI&amp;S, Calcutta.

Table 17.3: India's Imports from CIS Countries (Major Source-wise)

(Value: Rs. crore)

Country	1996-98	1997-98	1998-99
Russia	9832	9396	2221
Ukraine	433	578	530
Kazakhstan	45	157	40
Total (including others)	10328	10143	2829

Source: DGCI&amp;S, Calcutta.

The major items of export from India comprise readymade garments, tea, coffee, rice, drugs & pharmaceuticals, plastic & linoleum products, textiles, leather goods, spices and cosmetics, while the main items of import have been non ferrous metals, iron & steel, newsprint, fertilizers, machinery, chemicals, raw silk, raw wool and gold & silver.

There is high level of intra-trade among the CIS countries. In the case of most of the countries, Russia is the main trading partner in regard to both imports and exports. Russia apart, the EU countries, Turkey, China, USA, Japan, East European countries and Iran are the other trading partners of the group.

## 17.10 CHALLENGES AND OPPORTUNITIES

The challenges and opportunities facing the Indian exporter in the CIS countries have to be viewed in the light of the historical trade links that India had with these countries, the impact of the reforms that are being followed in the countries, the geographical distances between India and the countries, the resource base of the countries and the state of infrastructure in both India and the countries. It is true that there is considerable demand for developmental and consumer goods in the CIS countries. But shortage of foreign exchange, under-development of the financial sector, logistical difficulties etc. pose challenges. In order to cater to these markets, identification of specific sectors and suitable strategies are needed to facilitate the trade.

## Check Your Progress B

- 1) Enumerate major commodities exported to EU—from India.

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- 2) Enumerate major items of exports to CIS from India.

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- 3) State whether the following statements are True or False.

- The highest share in extra-EU imports among goods exported by India to the EU is claimed by carpets.
- There are no quota restrictions in the EU market on textiles and garments imported from India.
- Trade between India and the former USSR took place under special trade and payments agreements concluded from time to time.
- The single largest trading partner of India, among the CIS countries, is Ukraine.
- Intra-trade among CIS countries is very low.

## 17.11 LET US SUM UP

European Union is just one evidence of the changes that are taking place in the international economic environment. Emergence of economic groupings/trade blocs in almost all parts of the world has become a reality today. Global trade in future will perhaps be conducted more among trading blocs than among individual countries. The developments that are taking place and are likely to take place in the Union's external relations in future will also affect India's trade with the European Union and other countries. These include expansion of membership of the Union and special relationships with other countries/regional groupings.

As far as CIS countries are concerned though there is, as yet, no formal trade bloc among the countries, it must be remembered that there is considerable degree of inter-dependence among the republics which is reflected in their substantial intra-trade. The countries, till they reach a certain level of development, would like to avoid dislocations in their economic activities to the extent possible and hence will continue largely to trade with one another. Russia is a very major power within the region and, in fact, most of the intra-trade in the region is accounted for by Russia. Another factor that is of great relevance in this regard is the Treaty on Economic Cooperation entered into by the CIS countries during 1993, which is expected to lead to closer economic links, including trade links, among the countries.

Under the above circumstances the strategy of the Indian corporate sector should revolve round taking maximum advantage of the positive developments in the European Union and CIS countries — Clear identification of products that will continue to be imported in substantial quantities from third countries in these regions will have to be made and appropriate strategies will have to be worked out to promote exports of these items to these regions.

**17.12 ANSWERS TO CHECK YOUR PROGRESS**

A 3 i) True ii) False iii) False iv) True v) True

B3 i) True ii) False iii) True iv) False v) False

**17.13 TERMINAL QUESTIONS**

- Trace the developments that are taking place in the European Union which will have impact on the main items exported from India.
- Explain the major commodities exported from India to EU markets.
- Do you think that EU is the most important market for India. Discuss. Substantiate your answer with the help of various commodity analysis.
- Considering the present developmental stage of the CIS countries, suggest a suitable strategy to promote exports from India to the countries.

Annexure 1: EU (15)'s Trade with India

Imports								Value: ECU Billion
Year	Total	Extra EU	From ACP Countries	From Countries Other than ACP	From India	India's Share (%) in Extra EU imports	India's share (%) in EU imports other than ACP	
1993	1237.9	470.2	15.6	454.6	6.2	1.32	1.36	
1996	1604.5	581.5	22.2	559.3	8.6	1.48	1.54	
1998	1885.1	709.3	21.3	688.0	9.8	1.38	1.42	

Source: Eurostat

Annexure 2: EU (15)'s Trade with India

Exports								Value: ECU Billion
Year	Total	Extra EU	To ACP Countries	To Countries Other than ACP	To India	India's Share (%) in Extra EU exports	India's share (%) in EU exports to countries other than ACP	
1993	1269.2	471.4	17.3	454.1	6.5	1.38	1.43	
1996	1675.1	625.1	18.6	606.5	9.9	1.58	1.63	
1998	1966.7	729.6	22.5	707.1	9.5	1.30	1.34	

Source: Eurostat

Annexure 3: India's Trade with EU (15)

Value: ECU Billion						
Year	Total Exports	Extra to EU	EU's share (%) in total exports	Total Imports	Imports from EU	EU's share (%) in total imports
1990-91	324965	93590	28.8	430968	133600	31.0
1994-95	823380	229124	27.8	887052	223382	26.3
1998-99	1416035	381137	26.9	1760986	435035	24.7

Source: DGCI &amp; S, Calcutta

Annexure 4 : Major Imports of the European Union (15) from India

Value: million ECU

European Union and CIS Countries

HS Code	1996			1998		
	Extra-EU Imports	Imports from India	India's share (%) in Extra-EU Imports	Extra-EU Imports	Imports from India	India's share (%) in Extra-EU Imports
62	19053.9	1028.0	5.4	22689.8	945.7	4.2
71	21619.2	852.6	3.9	26980.3	1133.8	4.2
52	4070.2	408.3	10.0	4418.0	390.3	8.8
41	2907.9	176.9	6.1	2877.3	166.1	5.8
57	1377.2	312.6	22.7	1358.2	328.9	24.2
09	4604.6	251.0	5.5	6502.5	345.6	5.3
42	4214.5	591.8	14.0	4817.1	600.9	12.5
64	5918.0	345.7	5.8	6995.4	376.6	5.4
60+61	12189.1	545.9	4.5	16101.4	670.6	4.2
03	6253.2	167.0	2.7	8347.3	110.0	1.3
84	79294.6	406.7	0.5	110987.1	360.2	0.3
08	7486.4	151.5	2.0	7349.2	154.8	2.1
29	14437.2	354.7	2.5	18586.2	455.2	2.4
55	2001.6	195.5	9.8	2244.7	206.7	9.2
63	2544.7	322.4	12.7	3274.4	431.7	13.2

Source: Eurostat