EEC 1992—STRATEGIES AND IMPLICATIONS FOR INDIA

REENA CHADHA

In 1992, European Economic Community (EEC) is expected to become a common unified market. The euro-vision of the common market started with signing of Paris Treaty establishing the European Coal and Steel Community (ECSU) in 1952. This idea took concrete shape with the signing of the Treaty of Rome in 1967 which established the European Economic Community—[EEC]. This treaty at the same time also gave birth to the European Atomic Energy Community—[EURATOM]. The Rome Treaties and the Paris treaty form the constitution of the European Community. As a consequence of these treaties, the member countries agreed to reduce domestic tariff for intra communiy trade. Although in practice tariff barriers almost disappeared, in reality they assumed different formats, whereby members countries introduced a host of non tariff barriers like lengthy certification procedures and provision of subsidies to domestic industries to rule out a viable competitive environment..

Several demands were made in the past to unify Europe into a closely knit association of European states. These efforts included establishment of the OEEC, latter the OECD. NATO and the Council of Europe.

The European Community is 34 year old today. It is unique association of free and equal nations. It was founded by six countries in 1957 namely Belgium, France, FRG, Italy, Luxembourg and Netherlands. The Community grew to nine in 1973 with accession of Denmark, Ireland, United Kingdom and then to ten countries in 1981, wih Greece joining the Community. In 1986, the community became Europe of Twelve with the accession of Spain and Portugal.

In 1992, Europe is to form an integrated market by removing all border controls between the Twelve members of the European Community. This can be interpretd as the last and the most important step in a series which started four decades earlier with the formation of the ECSC in 1952. This last step is to bring about the removal of all obstacles to cross border trade in goods and services and to the free mobility of capital and entrepreneurship including human capital of professionals.

The realization of the Single Market which would lift all physical, technical and fiscal impediments to free tariffc, is Europe's answer to the challenges of Japan and the U.S.

Significance of EEC

The developments in EEC are bound to have a tremendous impact on the World. EEC today is the world's largest trading bloc. While accounting for 1.6 percent of world area and 6.5 percent of world population, the EEC's share in world trade and world gross domestic product is close to 37 percent and one fourth respectively.

The EEC is a foreign trade oriented economy. Its economic growth thus depends upon the foreign demand for its products.

EC in its trade outside the Community relies on the developing countries for its largest share of both exports and imports. In 1987, for example, 40 percent of its total imports came from developing countries : the U.S. supplied 16 percent and Japan 10 percent. Its export trade presented a similar, pattern. More than 40 percent of the Community's trade went to the developing countries, 20 percent to the U.S. and 4 percent to Japan.

For India, EEC is its largest trading partner, and industrial/technical collaborator. Nearly 8.7% of India's trade with Europe is concentrated in EEC countries(1). India's exports to EEC constitute nearly 25% of our global exports. Similarly Indian imports from the EEC account for nearly one third of our global imports. Moreover, imports from EEC have expanded at a much faster rate than India's global imports. If one looks at India's trade with EEC, we find that India has an unfavourable balance over the period 1980-81 to 1988-89. India's trade deficit with EEC has been consistently building in this decade to reach a maximum of 52% in 1987. The reason for this growing trade gap is the difference in the technological developments between India and the EEC countries. India has always been an importer of industrial technology from these countries. India's chief imports from EEC countries include non-electric machinery, rough diamonds, iron and steel, pearls and stones, organic chemicals, electrical machinery, fertilizers, etc.

An analysis of these imports clearly show that msot of these imports are of essential character. Therefore, the only available strategy for India is to generate commerical exports to Europe in order to overcome the trade deficits. It must be emphasized here that EEC is significant for India because a major proportion of its developmental imports is from the EEC countries and India cannot do without its support system. India is a developing economy through new technology and basic industries. Hence, EEC is of great importance as a primary source of technology and industrial goods.

India has been an exporter of low-technology products, though manufactured, to the EEC. The main product categories exported by India to the EEC are apparel, leather, tea, floor coverings, diamonds, cotton fabrics, pearls, precious and semiprecious stones, coffee pharmaceuticals, marine products, tobacco, jute and coir products, engineering and electronic goods.

However, India's share in EEC's trade is very small. Indian exports constitute only a minor part of EEC's total imports. Over the period 1981-89, imports from India have been within the range of 0.30% to 0.40%. Again, for EEC, India is not a major export destination. Exports from EEC to India have been within the range of 0.60 to 0.70 percent over the relevant period. Inspite of India not being a major exports destination, its trade deficit with EEC has been consistently building in this decade.

The existing commodity composition of trade between India and EEC countries is influenced by differences in resource endowments and technology development. EEC countries and India are quite dissimilar in their resources endowment and in their recent patterns of growth and development. India's potentials are in terms of basic endowments of natural resources and manpower. European countries, on the other hand have a greater stock of physical and human capital. Among the EEC countries, in terms of technology levels, Belgium has concentrated mainly in medium and low technology levels while, U.K., France, West Germany, Italy have made considerable progress in high technology areas. The technology factor is an important influence in enlarging scope for exports from India of manufactured goods to EEC countries.

In addition to being a large and growing market for India's exports, EEC offers one of the best markets in terms of payment assurances. In the context of increasing external payments difficulties of developing countries Indian exporters need to diversify their markets. The absence of sovereign risk in EEC countries endows these markets with viable business diversification opportunities for Indian exporters both in the short and long run.

The most important event that is going to take place in the near future is the economic integration of the economies of the European Community in 1992. This event envisages the establishment of a large market without any trade barriers of about 320 million people of the 12 European Community countries, namely Belgium, Denmark, France, Greece, Germany, Netherlands, Luxembourg, Portugal, Spain, U.K., Ireland and Italy.

These countries will be converted into a single integrated market where commodities, labour and capital will circulate freely without being hindered by border customs and tariffs.

EEC 1992 will unleash upon the world a market of 320 million people, with an annual GDP of $ 2.7 trillion, exports of $ 680 billion, and imports of $ 708 billion. Europe without frontiers is destined to be an event of far-reaching significance for the world economy.[2] A major objective of EC unification is to remove intra-EC impediments to trade in goods and services, and to improve mobility of labour and capital alongwith a reinforcement of Community-level policies. The European integration programme is not only bound to bring about a major economic revolution in Europe, but also in the trading and business environment outside Europe.

In the light of this background the implications and strategies relating to India must be analyzed.

Implications for India

The unification of the EEC pressages both positive and negative effects on developing countries, and especially India.

Positive Effects

On the positive side, the removal of barriers is expected to lift Europe out of the current recessionary state and accelerate growth rate of the region.

In the wake of the growth opportunities being offered by an enlarged European market, the process of mergers and acquisitions in the corporate sector have gained momentum. The unification programme is expected to generate an additional US $ 200 billion over the decade[3].

It has been estimated that as a result of the total "unification", the potential economic gain to the EEC as a whole would be in the region of ECU 200 billion or more at 1988 prices, which would be five percent of EEC's GDP[4].

The Cecchini Report commissioned by the EEC expects trade to go up by $ 250 billion during 1987-92 and at a higher pace thereafter[5]

The removal of national barriers will increase competitiveness tremendously. Manufacturing which is currently fragmented between different countries of the EC, will be rationalized, and there will be increased specialization on the basis of comparative advantage. The resulting economies of scale will lower the unit costs of production in Europe, This in turn will reduce the cost of machinery and equipment largely imported from the EC by developing countries.

The Commission has estimated that the reduction in unit cost on doubling the scale of production would be 30 percent in electronics and micro-computer components, 25 percent in industrial gases, and 20 percent in aerospace[6]

Economic integration in the Community, it has been estimated, will deflate consumer prices by an average of six percent and will boost output, employment and living standards[7].

As European industry becomes more cost effective, competition will increase. Indian industries like engineering and textiles need to align themselves to the new cost structure in Europe. It must be noted that comeptition in the internal market would also favour an increased recourse to direct investment and shifting of processing work in low wage countries outside the Community. This is one area in which India can reap some benefits, provided our trading houses can make their presence in Europe.

The abolition of non-tariff trade barriers and the adoption of Europe-wide common standards, and the possible suppression of national Voluntary Export Restraints, will make it easier for third-country exporters to enter the European market.

For the Indian exporters, it will mean that they now have to adhere to only one set of standards, instead of standards of 12 different countries. This is bound to reduce the cost of marketing Indian products to the EC. It has been estimated that doing business in 12 separate national markets curently increases marketing costs by 7 to 15 percent. The creation of a single large market will also reduce information costs for the exporters. Consequently, once the barriers come down foreign goods in theory, will become cheaper. Homogenity in product standards throughout the Community should greatly simplify the export process. Non-Europeans after 1992 will no longer have to deal with a multiplicity of health and safety standards and other technical barriers in the 12 EC Member countries. Once inside an EC market, foreign products will be allowed to circulate freely in other Member States.

A more prosperous and greatly enlarged Europe will provide many opportunities for growth of Indian exports to the EC. Of immediate relevance will be the beneficial effect on textiles exports to the EC. There will be Single EC quota instead of the separate quotes for each member-country under Multi Fibre Agreement. (MFA) The current rigidity in the transfer of non-utilized quotas from one country to another will be completely eliminated. This will allow Indian exporters to match the supply on the basis of internal demand in each of the member countries.

Similarly, India will be in a better position to ensure a fuller utilisation of GSP quotas for textiles and non-textile products in the EC markets as a whole.

The current practice of fragmenting the GSP quota among the EC members in a fixed ratio for different products, resulting in their non-utilisation upto a certain extent will be eliminated under the single market scheme.

The unification of Value-added Tax [VAT] and excise duties, and removal of border restrictions will provide beter opportunities for Indian products such as tea, coffee, tobacco, dyes, chemicals, carpets and engineeing items, which are currently rendered non-competitive in some EEC states because of a relatively higher incidence of VAT and oher local restrictions."

Opening up of the public procurement systems will provide new opportunities for Indian enterprises to undertake sucontracting for the supply of some essential inputs.

Modifications in the Common Agricultural Policy (CAP) will open up new avenues for agro-based products in European markets. India happens to be a predominantly agricultural economy in which agriculture is a source of livelihood for about 70 percent of the population. Agriculture is and will remain the priority sector in India's development. India has the potential to export to world markets, provided developed countries allow market access through trade liberalization in the global agricultural market, and remove non-tariff barriers.

The current trends in European industry of branching of ancillary units based outside Europe would also offer opportunities for India. India will be able to obtain resources from European invesment banks which will finance restructuring of European industry outside Europe.

The unified market is expected to encourage EC firms to collaborate jointly, promote industrial ventures, and increase foreign direct investment in developing countries.

EEC 1992 provides an opportunity to India to broad base its linkages with the European industry. European integration means higher rate of growth, greater competition and higher demand. This in turn means that the EEC countries will be compelled to establish meaningful business linkages for processing work outside the EEC.

Further, certain industries can no longer be operated in EC countries due to pollution control laws and other environmental reasons. India can obtain technology and investment in these areas and set up industries with buy-back arrangements.

The completion of the internal market will lead to stronger macro-economic policy-coordination within the EC and this will improve the predictability of EC policies in the eyes of the Third World. Moreover, the saving of resources currently expended on administering trade barriers can be diverted to developing countries as aid or concessional credit.

Negative Effects

Against such a positive outlook, there are also apprehensions and fears that the unification of the EC may not hold great advantages for Third World countries.

One fear is that the level of protectionism instead of going down, may actually increase. Europe may now become "fortress Europe" This fear has been substantiated by the fact that intra-EEC trade has increased tremendously.

For instance, in 1981 intra-EEC exports was 52.7 percent of its total exports. However, by 1987, the share had gone up to 58.5%. Similarly, in imports the EEC dependence on each other increased still at a higher rate. As against 48.5% in 1981, intra-EEC imports was as high as 58 percent[8].

These fears of protectionism are further substantiated by the fact that EEC is losing faith in the GSP. Moreover, since 1987 EEC has been tightening its rules of origin and local control regulation.

Although, within the EC countries there will be no barriers, it does not automatically follow that EC will be more open with the outside world. The intra-EC liberalization could be matched by a reinforcement of external protection[9].

With the European Integraion of 1992 "a new business climate is being erected where performance and success will be only measured by efficiency, timely response, goods and services availability at optimum value, and where competition increasingly will continue to be order of the day[10].

The key word here is competition : Indian exporters will face competition not only from oher international exporters, but also from the producers of the 12 Member States. India to take advantage of the large integrated market of 320 million people, its goods will not only have to be low cost, but also of superior quality and conforming to international standards. Whether Indian exports can maintain their meager market share in the face of such competition is a big question mark.

The harmonisation of technical and industrial standards within the EC is seen as a benefit to the exporters. But there is a possibility the EEC standards may be so high that Indian manufacturers may have difficulty in meeting them.

It is also worth emphasizing that EEC is the most discerning market as far as the quality of products is concerned and hence importers do not expect any deviation from the set specifications for the products. Therefore, if Indian exporters have to reap the benefits of a large integrated market, they must develop products which conform to EEC standards.

European trade policies might reinforce the oligopolistic nature of international trade in order to exploit economies of scale. This would make it difficult for the Third World country firms to penetrate the EC market.

Another apprehension about European integration is that EC might concentrate its investment on its member countries at the expense of foreign direct investment abroad.

The accession of countries with lower GDPs into the EEC, like Spain and Portugal, entail some re-orientation of aid funds. These funds earlier meant for LDC's will now be used in favour of the poorer regions of the EC in order to bring down internal disparities. The EC funds are also likely to be diverted to East-European economies because of the natural affinity of language, culture and heritage with them. The flow of foreing direct investment to the Third World will also be affected by the rush of US and Japanese Cos into Europe.

It is expected that due to the improved accessibility to the EC market under the PHARE programme, under which 23 Western nations and Japan (the Group of 24) have undertaken to help Poland and Hungry to ensure a smooth transaction to the market economies, Polish and Hungarian textiles and clothing exports to the EEC should rise substantially this year and the next. The rise is a result of quota increases agreed by the EC in March this year, and could be as much as 23 percent in case of Poland and 13 percent in that of Hungary[11].

As far as subcontracting and relocation of industry is concerned, the EEC now favours Eastern Europe along with Tunisia and Morocco over third countries.

Europe of 1992 is synonymous with competition. This means that third world exporters will face competition not only from other international exporters but also from the domestic producers of the 12 Members States. According to Dieter Frisch, the EC's Director-General for Development, "the more competitive the developing country, the more it will benefit from the Single EC market. But it is unlikely that the Third World and particularly India can meet the requirements. India does not possess the necessary infra-structure and services to supply goods at competitive rates.

In the Indian context, the effect of European unification on major exportables to the EEC has been both positive and negative. However, most of the exports having a bright future in the EC belong to those indusries which have been vacated by the EEC on health grounds or pollution control reasons, such as chemicals, dyes, etc. EEC is also offering opportunities for exports of a number of rubber based products and glassware. But these opportunities have arisen simply because the production of these products in EEC has been stopped due to polluion problems. In the light of this fact, India will pay a very heavy price in terms of health to enjoy the export opportunities offered by the European integration.

Strategies

The Indian industry has to evolve a strategy to meet the emerging challenge posed by the integration of the European Economic Community. It is about time that various industrial sectors and the exporting community make a deeper study of the impact of a single market in Europe and devise strategies as to how Indian industry could meet the challenge.

There has been one such study made by the Exim Bank on some of the engineering, electronics and software exports. The study has suggested three strategies; Strategy I deals in competing wih the developed countries. Strategy II deals in competing with both developed countries and Newly Indusrialized Countries (NICS). And Strategy III involves competing with NICs only including entering new markets. Strategy I is for those products in which India's share of the European market, as compared to other NICs is high. Here India is not facing competition from NICs but from the developed countries. In these areas Indian exporters need to gear themselves to compete effectively from products emanating from the developed countries.

The straegy suggested here includes (i) in-depth market research to bring out product characteristics of imports coming from developed countries. On the supply side (ii) Indian suppliers may need o be identified for their potential to meet standards specifications and quality of developed country's products (iii) Technology gaps in Indian indusry may also need to be identified (iv) In addition, Indian exporters may need to do product adaptation to meet specifications and standards of the EEC (v) Appropriate liaison may have to be built up with the import agencies in the EEC market so as to facilitate bulk exports from India.

Strategy II has been evolved for those products in which India's share of the NIC market is low. In operational terms, this strategy may mean competing with NICs so as to build up a larger share for India in the EEC market. In addition, India may have to design market entry for the products coming from India.

It is suggested that in the case of products where India has negligible market presence (i) Indian exporters may consider financing market-entry studies in the relevant markets in order to understand the market potential, type of consumer demand, nature of competition, distribution channels and trade practices. (ii) In addition, a study to understand the competitive behavior of NICs, need to be undertaken. This may be done in two parts. One segment may concentrate on doing market research regarding NIC competitiveness in the European market, the other segment may carry out a study of NIC producion/policy support available in their parent countries (ii) Moreover just like in previous strategies, relevant Indian companies may have to go in for a liberal dose of technology import in order to match product concepts desired in the European Market.

The strategies suggested by the EXIM Bank were for certain engineering products and electronic and computer software. But these strategies can be translated for most of the product groups. Apart from these specific strategies, there are certain moves which India must make before it is too late. India should establish a solid foothold within the Community as soon as possible-before protectionist measures crystallize.

Collaborations

Major change is in the air within the banner of 1992. Indian companies must begin to act now, and they must act with continuing vigilance. Other countries such as US, Japan and even Korea have found a solution to the single market. They have set up industrial units to take advantage of the EEC markets. India should also explore the possibiliies of establishing joint ventures in some promising sectors from the point of view of getting access to exports.

Sub Contracting and buy back Arrangements

Government should allow Indian companies to buy into European companies on a selective basis as this would help in marketing and selling in EEC under established brand names.

However, in order to facilitate setting up offices or companies in EEC or acquiring manufacturing and trading companies (ii) it is necessary to liberalise FERA (Foreign Exchange Regulation Act). A proposal has already been made to the Government for a three way approach to penetrate into Europe. Firstly, suitable linkages for marketing and services should be developed with people of Indian origin in countries such as the UK. Non-Resident Indians (NRI's) who are settled in the EEC are a tremendous reservoir of talent available to the industry.

The second approach is that of buy back of products by the European companies produced in India by the European collaborators with the Indian companies. Indian companies should examine the possibilities of subcontracting, which is increasingly being resorted to by European countries. The third approach is to buy small and medium European firms.

Competition

In an integrated European market India is bound to encounter greater competition. Companies within the EEC will move to countries within EEC like Spain, Greece and Portugal which are comparatively cheaper. We have to increase our production capacities to achieve economies of scale.

Image

Indian industry needs to create an image that we can be dependendable suppliers of quality goods at the right price. Quality is of prime importance. The consumer is willing to pay a higher price provided he is assured of quality. Indian exporters need to improve upon the testing and quality control facilities and rigorously adhere to inspection norms.

Overseas Marketing

Overseas marketing has been one of our main areas of weakness. This requires consierable effort from both the Government and the Indian industry.

Shipping

Economical and convenient shipping services have to be provided to exporters to adhere to their delivery commitments. Direct air-freight services should be considered for high-value items. This will reduce the transit time to four or five weeks as against eight weeks which is the transit time between Calcutta and European Ports.

Warehousing

In the absence of proper warehousing facilities in EEC, considerable time is lost in meeting the requirements of these markets for Indian goods. Off the shelf delivery should be provided to remain competitive in these markets.

New European Technical Standards

With EEC of 1992 becoming a reality, Indian industry will no longer have to deal with a 'mosaic' of standards but with a set of Common European Technical Standards. The Bureau of Indian Standards needs to be reoriented, and we must adjust to these standards quickly.

Product Liability

Product liability as a measure of consumer protection against the use of faulty products is growing in importance in the EEC market. The Government of India should ask the Indian insurance companies to provide necessary and adequate product liability insurance for Indian exports at reasonable prices.

Market Information

Marketing information on latest developments are vital for indusry to remain competitve. Steps should be taken to provide exporters with the latest trends and fashions of consumer items in EEC countries. These include items like leather manufacture products, garments, jewellery items, etc.

Publicity

Consumer oriented publicity camaigns should be stepped up to boost export of Indian goods in EEC countries.

In some areas like jute, coir etc. our exports may suffer as a result of production of cheaper synthetic substitutes for natural products. In such areas we must highlight the benefit of natural products over synthetic substitutes.

Trade Fairs

Participating in specialised trade fairs should be actively pursued. The Trade Development Authority, which has an office in West Europe can also play an important role in boosting India's exports with the help of market studies and product identification.

The Indo-EEC Joint Economic Commission and similar commissions with the individual EEC countries have also an important role to play in promoting Indian exports.

The Council of EEC Chambers in India has been doing its bit in bringing together businessmen of EEC countries and India from 1982. It has been actively involved in disseminating trade related information between India and EEC. It has been sponsoring seminars and conducting studies on matters of common business interests to India and EEC.

Language

If Indian exporters are to do business successfully, they must learn and understand one or more major languages, out of the 9 spoken in the EEC, other than English.

The Community has a complicated system of quota resrictions and ceilings under the aegis of its GSP. Tyese quotas and ceilings vary from product to product and also depend upon the country of origin. Any company planning to enter these markets needs to retain trade counsel in this regard.

Patents

Changes in Community laws relating to Intellectual Property Rights, designs, Copyrights and patents would also have implications which need to be taken into account.

Market Development

Integrated market development of selected engineering products from the stage of product design to marketing tie-up should be drawn up and implemented.

Software and Electronic Exports

Indian software and electronics exports are poised for great success in the EEC. This market should be fully exploited.

Service Integration

There is bound to be a lot of demand for services wih the integration of the EEC into a single market.

Given that there is no dearth of skilled manpower in India, be it engineering, accounting or computer consultancy it should make a concerted effort to get a piece of the 'action' from 1992. The business service with the greatest export potential is the computer service industry. The 15 billion ECU computer consultancy market as opposed to management consultancy or accountancy is more or less culture and region free. India should make an all out effort to establish a presence in the growing EC market before the shutters are drawn past 1992.

Spain, Portugal, Greece-New Markets

Among the EEC countries, we have not paid much attention to Portugal, Spain and Greece. We should develop our exports to these three countries and enter into joint venture projects with them. Engineering, construction and pharmaceutical sectors have substantial markets in these countries.

Strategy for Beneficial Trade

The EEC of 1992 has thrown up both challenges and opportunities. According to George Taucher, Professor of Business Administration at IMEDE in Lausanne, the opportunities will come most easily to companies that have adopted their business to a Europe-wide philosophy in the absence of which many will cease to be competitive. Thus, if India is to reap the benefits of the Single Market, it must reformulate its exports strategy in terms of a European strategy. This overall strategy for increasing exports will need to be supplemented by product specific and country specific action plans.

The message for prospective Indian exporters is that in order to be successful, their products will have to meet strict competitive standards in terms of price, quality and delviery in one of the world's most sophisticated markets. Those able to meet this challenge will be in a position to reap substantial rewards.

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