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An Empirical Analysis of Trade and Investment Flows between India and European Union During 1980 to 2001: Problems and Prospects

ABSTRACT

The economic relations of India and European Union (EU) started in 1962 when EU was at the nascent stage of its economic development. However, the contemporary Indo-EU economic relations have increased manifold with expansion of EU size and its increasing importance in the global trade market. EU and India stand to gain from strengthening mutual economic relations for a number of reasons. India aims to complete its economic reform process, diversify its trade basket, and broaden the direction of its foreign trade. Similarly, the EU's interest lies in increasing its shares of world trade and worldwide investment which have reduced in the past two decades. India and EU hold historical economic linkages since a long time and their future path of joint economic progress is gaining momentum; as both are working hard for realization of a Free Trade Agreement (FTA) expected to be signed in near future.

The EU is India's single largest trading partner in both exports and imports and this trend has been growing over the years. The erstwhile European Economic Community, which started with six countries, has now become an enlarged Union of twenty seven nations. An enlarged European Union appears with plenty of opportunities for India. It means more demand for Indian goods and services in the European market. Recent years have witnessed a shift in regional economic cooperation strategy from multilateral to regional and bilateral cooperation agreements. Here, the study of Indo-EU economic relation particularly the trade and investment is a reflection of the above-mentioned.

In the present study, we have analyzed the effect of liberalization policy of 90s on trade and foreign direct investment inflows between India and EU, the various forms of trade protectionist measures practiced in Indo-EU trade and the future prospects of the trade between India and EU. However to limit its scope, this has been confined to the area of trade and Foreign Direct Investment (FDI) inflows aspects of both India and EU

only.

The various aspects of Indo-EU trade have been discussed in literature in different ways. However no methodical attempt has ever been made to forecast the future trade systematically with statistical forecasting techniques. Similarly in case of FDI analysis no organized attempt has ever been made to study the behavior of the determinants of FDI inflows from EU to India using quantitative analysis technique. This study intends to make a modest attempt in this direction.

From analytical point of view, the present study deals with analysis of trade performance, trade barriers and foreign direct investment flows between India and EU. Nowadays, a large amount of trade statistics is available from different sources. However, there is a need to select and analyze suitable trade and investment data with suitable analyzing tools. Here, we have employed two different techniques for analyzing Indo-EU trade and trade forecast, and suitable technique each for analysis of trade barriers and FDI inflows in Indo-EU trade. For the purpose of examining the trade and FDI inflows with the help of the technique mentioned above, we have used the data of 'Direction of Trade Statistics' (DOTS) published by International Monetary Fund (IMF), TRAINS data jointly published by UNCTAD and World Bank Authority, FDI data published by Director General Commercial Intelligence & Services (DGCI & S), Government of India, Kolkata .

The broad findings of the study are:

- (a) India's exports and imports with EU have been growing over the years and the impact of trade liberalization policies of 1990s on Indo-EU trade is positive.
- (b) Certain Indian products which, enjoys the comparative advantage in EU market are subjected to increasing trade protection measures by EU.
- (c) The Gross National Product (GNP), level of investment to GNP (domestic capital formation), the degree of openness of the economy, the exchange rate stability, the debt position of the country and the change in GNP level in explaining the pattern of FDI inflows are some important determinants of Foreign Direct Investment flows between India and European Union during the period 1980-2001.
- (d) The future prospects of Indo-EU future trade are brilliant.