Preface

While there are a plethora of preferential trade agreements that have been negotiated and then implemented since the multilateral international trade architecture was put in place with the establishment of the General Agreement on Tariffs and Trade in 1947, there has been nothing to rival the ambition of the India–European Union trade agreement that is currently being contemplated. India is a market of a billion–plus people. The 27 member countries of the European Union now comprise a market of five hundred million people. Joining these two markets in a meaningful preferential trade agreement would encompass a fifth of the world's people. That joint market would also contain some of the poorest people to be found on the globe – on the streets of Mumbai or Kolkata – as well as some of the richest – in Mumbai or London. The technology in use in the joint market runs the entire gamut from the futuristic jet engine manufacturing plants of Rolls Royce to agricultural tools that have not changed over three millennia. While the European Union remains a work in process as the twelve new countries that have been added in the last decade are still being fully integrated into the single market, in many ways the Indian federation also remains a work in progress with a constant ebb and flow of influence between the regional focus of the states and the central governments. Hence, while the European Commission and the Indian government will undertake the negotiations, many governments will want their concerns heard. Democracy is an important common trait. English is the lingua franca of modern business in both markets. For all of these reasons, an India–European Union trade agreement will be relatively unique. Any one of these attributes of the prospective joint market could justify the writing of a book.

International trade economists must look beyond the fascination that comes from contemplating such an ambitious endeavour, towards the practicalities of structuring an agreement and the governance institutions that will make it function in a way that will bring the benefits expected from trade liberalization and market integration. Liberalizing trade always imposes costs of adjustment on some individuals and sectors of the economy. There must be benefits that accrue to the societies that can justify imposing those costs. The worst case would be large costs being incurred with little to show for it. The first step is to examine the challenges that are likely to be associated with melding two very large but vastly different economies. The current experience with preferential trade agreements is of only limited assistance in this process. Preferential trade agreements tend not to be entered into by countries with greatly differing economies. The only major preferential trade agreement to include a large developing country is the North American Free Trade Agreement which joins Mexico's developing economy with the developed economies of the United States and Canada – but even the relatively large Mexican market is dwarfed by the combined population of the US and Canada. India is a market that is orders of magnitude larger. The EU has struggled with how to bring the developing Turkish economy into its ranks. Of course, an India–European Union trade agreement will have a much smaller ambition than that associated with full accession to the EU. If the India–European Union trade agreement is, however, to be more than a photo-opportunity, how to deal with the development gap between the two countries must be near to the top of the trade policy agenda.

Further, until recently India was following its third way agenda comprised of heavy doses of socialism, protectionism and Indianization – the latter accomplished through stringent limits on foreign investment. As a result, the Indian economy, as well as developing, has been relatively closed. Hence, an India–European Union trade agreement will have to contemplate particularly severe adjustment costs as the Indian economy opens to European goods, services and investment. On the other hand, the European Union will have to deal with the spectre of low wage competition in some of its most sensitive sectors.

Of course, as with any trade agreement, the devil will be in the details. Hence, we wished to look in more detail at some of the sectors that are likely to be the most difficult to deal with in an agreement. Textiles and clothing as well as footwear and leather will be crucial in the negotiations – they are sectors where India has a comparative advantage, and where countries such as Italy have important industries that are bolstered by protection from international competition. Our book attempts to both look at the big picture – and it is a very big picture – as well as to delve down into selected sectors to provide a snapshot of the complexity of the issues

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