CHAPTER – V
CONCLUSION

German unification in 1989 and the launch of India’s economic liberalization reforms in 1991 have created new framework conditions for Indo-German bilateral relations. Delicensing, deregulation and reforms of Foreign Direct Investment were the crux of new Indian liberalization which promoted greater interaction with German industries. Major changes in the Indian import duties facilitated a spurt in the import of capital goods from Germany and thereby increasing the interaction with German industries both in terms of investment in technical collaboration and financial assistance.

The unification of Germany introduced a new and dynamic environment in political and economic sector for United Germany. The unification of Germany which resulted in incorporating East Germany was politically admirable but economically it proved to be a burden to the Germans. The whole structure of the former East Germany had to be changed for attaining compatibility with the western part of Germany. The Monetary Union of the two Germanys and the exchange rates on equal par with West Germany’s DM had problems which was not appreciated by the Bundesbank. It was purely Chancellor Kohl’s political decision rather than economic calculations in awarding West German Mark on equal par with the East German currency. The transition of the state owned economy to privatization through Treuhandanstalt was successful. Though the
unemployment figures went up following the unification, United Germany has evolved measures of better industry and labour relationship to avoid any kind of unprecedented labour strikes. Thus, United Germany in the process of transforming and integrating eastern part of Germany has also tried to identify priority areas and regions of the globe that would serve its economic interest. The German policy makers have given high priority to Asia-Pacific region for greater economy and trade interaction. Nevertheless, the German Policy makers are aware that they have competition from both Japan and US who are in the region much before Germany. Besides US and Japanese competition, Chinese market is also formidable. Therefore, the German policy makers were not abandoning the market where they are challenged by US and Japan and in Asia they have advanced India in their priority list for greater interaction. India does figure as a double advantage, not found in many other Asian countries, of having a large rapidly growing home market. India's robust and well-balanced administrative, legal and democratic political structure are a major plus point for long-term cooperation.

In the course of 31 years before German unification, there have been times when the growth rate of India's exports to Germany plunged as low as minus 23 percent in 1967 and again it rose to an unprecedented level as high as 55 per cent in 1976.

The German exports to India too were rather irregular. The growth rate had reached high points of plus 38.9 per cent in 1956, 37.5 per cent in 1957, 35.1 per cent in 1965, 29.8 per cent in 1974, 63.9 per cent in 1981 and
28.8 per cent in 1985. On the negative side, growth rates have plummeted to as low as 27.8 per cent in 1968. Inspite of these erratic short-term movements in the last few decades, the overall development was marked by steady growth in both directions of trade.

Indian exports to Germany in 1986 were also seven and a half times as much as they were in 1956, while German exports to India were only four times as much in 1986 as compared to 1956. This clearly shows that the export rate from India to Germany were accelerating almost twice as fast as the export rate in the reverse direction, which gave hope that the Indian trade deficit with the Federal Republic could eventually disappear.

The cumulative volume of trade also shows a trend of virtually uninterrupted growth. The total volume of trade reached its peak in 1985 when it was valued at almost DM 5 billion. It crossed the DM 2 billion mark in 1978, the DM 3 billion in 1981 and the DM 4 billion in 1984. From 1969 to 1981, the total volume of trade increased continuously. After 1981 the total volume of trade had been on the rise, with only one exception in 1983, when it dipped very slightly before again continuing on the upward trend.

Since unification and more so since India's economic liberalization, Indo-German trade has grown faster than the earlier period. India's exports to Germany has grown with an enormous speed, much faster than the supplies to the other countries. In DM terms, they made a quantum jump from 1.6 billion in 1987 to DM 2.8 billion in 1992. In
1991, India’s export reached a surplus of DM 377 million in trade with Germany for the first time in the history of Indo-German trade relations.

Another significant point to be observed is that the loss of small former GDR market was already compensated by the strong German import demand-pull after the unification. However, it may also be observed that still 80 per cent of Indian exports to Germany consisted of garments, textiles, leather products, jewellery and some food products. In 1993, Indian exports to Germany crossed 3 billion mark without much change in the export items identified. In 1994, Indian exports not only increased but there was one major change in the items of exports essentially auto components for German auto industry. Transmissions, axles and other crucial auto parts made in India were used by German auto industry for their new range of heavy vehicles. In 1995, Indian exports to Germany had almost touched DM 4 billion. It is significant to note that the traditional sector of Indian exports to Germany had been low and had even negative growth in 1995. The technical exports to Germany continued to make progress. Auto ancillaries maintained 20 per cent increase and crossed DM 100 million in 1995, while the electronic sector achieved a 31 per cent increase (DM 61 million). Pharmaceuticals export to Germany gained ground and were up by 45 per cent at DM 53 million. It may be noted that the figures quoted above in terms of increased percentage is in relation to 1994 figures and the percentage is not in relation to the content, volume and items of exports. Therefore, it is affirmed here that although the items of technical, electronic
and pharmaceuticals exports have gained as items of exports but not replaced or overtaken the traditional items of exports to Germany as identified earlier.

The Indian imports from Germany soon after the economic liberalization was higher amounting to 2.8 billion. This was 18.7 per cent more than the figure of 1990.

Indeed there was a trade deficit against India in the year 1991. All this indicates that Indian liberalization programme initially benefitted German exports to India. The major items of German exports to India had been raw material, refined potassium fertilizers, chemical products and machinery. In 1992 also there was a small rise in Indian import from Germany which contributed once again to the trade deficit for India. While there was a decline in the import of raw material from Germany, import of fertilizers, machinery, chemical products and pharmaceuticals increased by 18% from the figure in 1991. In 1993 import from Germany was less than the exports of India to Germany. Moreover, the total trade between India and Germany both ways touched DM 6 bn. In 1994, import from Germany declined against the backdrop of delayed investment decision. However, in 1995, export from Germany increased more than 1994 figure touching new heights of almost DM 4 billion. Import of iron and steel goods from Germany which had dipped in 1994 increased shortly. Moreover, India’s machinery import from Germany increased touching almost DM 2 billion in 1995. Thus, in 1995 the two way Indo-German trade crossed DM 8.175
billion. The figure is more than DM 5 billion when the Indian economic liberalization were undertaken in 1991.

Indo-German trade increased to DM 8.607 billion in 1997, but declined in 1998 to DM 8.101 billion, with Indian exports reaching DM 4.2 billion and Indian imports amounting to DM 3.9 billion. After three consecutive years, i.e., 1995-97, when India had an unfavourable trade balance, in 1998 India had a trade surplus of DM 356.2 million. In 1997 Germany was the second largest supplier to India, providing 7 per cent of Indian imports and the fourth largest buyer absorbing 6 per cent of Indian exports.

The composition of trade has not changed significantly over the years. The bulk of Indian imports continue to consists of machinery, chemicals and pharmaceuticals, vehicles, and iron and steel. Indian exports to Germany comprise cotton textiles and garments, leather and leather goods, carpets and rugs and chemicals. Over more than the last four and a half decades, Indo-German industrial cooperation has built up a solid base, from which further expansion can be expected. Even in difficult times, German trade and investment is characterized by steady, if unspectacular growth.

Steadiness and reliability have been the outstanding features of Indo-German economic relations over the decades. No wild swings typical of so many other partnership, adorn the graphs of Indo-German trade or industrial
cooperation. Instead, there is a steady trend-line, sometimes steeper, sometimes flatter, but always up.

The reasons are not far to seek. German investors, particularly of the "Mittelstand" (the medium-sized family firms which constitute the bulk of German partnerships with India) are a conservative lot. They are cautious and tenacious in pursuing perceived opportunities and they stick to their proven fields of excellence like machine and machine tools for every conceivable type of industry, electrical engineering, instruments and appliances, automobile ancillaries and in the big league-chemical and pharmaceuticals, automobiles, steel and heavy engineering. These are the branches which have dominated Indo-German partnerships, practically from the beginning and which continue to rule the roost today.

German business recognizes the tremendous potential of India as the second largest market in the world, with a growing, highly educated, urban, consumerist middle class numbering around 200 million. The Indo-German collaboration, joint venture and investment agreements had a new phase and escalating trend since the unification. Broadly, this greater collaboration and joint ventures could be attributed to the transformed environment both in India and in Germany. The Indian economic liberalization and reforms provided greater opportunity and conducive environment and attractive economic returns for German investors. On the German side, the unification to a transformed and integrated the East German economy with West German economy and the principles of normal market economy started
taking shape in prioritizing overseas investments for better economic returns. Thus, soon after unification there is a greater number of Indo-German collaborations, joint ventures and investment. In statistical terms as shown in Table 3 in the year 1991, there were as many as 157 Indo-German collaborations and joint ventures. This figure although was less than the figure of pre-unification year of 1986, was a precursor of greater collaborations that were to follow in the succeeding years to come. Indeed, the 1992 statistics reiterate this aspect when the figure 201 collaborations and joint ventures are taken into account. This figure is not only more than the record figure that was achieved in 1986, the content of collaborations and joint ventures too are significant. These collaborations and joint venture figures increased every successive year reaching the record collaboration and joint venture agreement totaling 252 in 1995. In 1996, total number of collaboration and joint venture reached a record figure of 269, while the number decreased to 254 in 1997. 1998 recorded a low figure of 193 collaborations whereas in 1999 and the year 2000, the figure just crossed the 200 figure with 1999 recording 208 and the year 2000 recording 201 respectively.

German approved investments in India doubled every year for three consecutive years since 1991. They increased from Rs. 418.9 million in 1991 to Rs. 15.4 billion in 1996. Approved German investments in India jumped 40 per cent in 1997 to Rs. 21.5 billion. They amounted to Rs. 4.216 billion in just the first six months in 1998. Approved German investments in
India in 1996 was DM 760 million. German investments reached a peak of Rs. 21558 million in 1997 and in the succeeding years, the figure dipped to Rs. 8538 million in 1998, and Rs. 5938 in the year 2000 with an exception in 1999 when the figure increased to Rs.11430 million (as per the figure in Table 2).

Another feature of the Indo-German collaboration and joint venture had been during the period under review is financial investment. Each financial assistance came either as part of the technical collaboration or modernization of the existing collaboration. It may be significant in observing that the financial investment agreements also increased simultaneously in relation to the increasing Indo-German technical collaboration. Based on the figures in Table 3, it may be observed that in 1991 there were 35 financial agreements and this increased every successive year and thereby reaching a total of 159 financial agreements in 1997. What is significant is that in the last five years financial agreements were more than technical assistance.

It is found that there is a wide discrepancy between the number of sanctioned collaborations and those in operation, because of the following reasons: Technical collaborations are sanctioned only for a limited period of 8 to 10 years at a time. Many agreements of earlier years have expired in the meantime. Also, it is pertinent to recall that not all Government sanctions lead to effective agreements. Some of the sanctions simply lapse without implementation of any agreement, either because the parties cannot concur
on the precise terms and conditions, or because the changed economic circumstances, render it unprofitable to implement the projects. About a quarter of all the sanctions are thus infructuous, and another 10 per cent of the sanctions represent merely extension of existing agreements.

The constancy of German investment patterns in India show itself in the regional preferences as well. Nearly 30% of the joint ventures and 40% of the technical co-operations are located in the Bombay-Pune area, with Delhi-Faridabad following in second place. Together, the two areas have attracted almost 60% of all Indo-German cooperations and this pattern is more or less repeated every year. This shows, among other things, that the much vaunted incentives for backward area development have offered little attraction for the German investors, who instead, opt for industrial centres with proven infrastructural facilities and the availability of trained manpower.

Indo-German industrial cooperation has been virtually unaffected by the debate about the pros and cons of foreign investment because there have hardly been any contentious issues like hostile takeovers or majority stake tussles. Between the typical German Mittelstands-Partner and his Indian counterpart the time-proven division of labour that has developed is that the German side looks after the technical aspects of the cooperation while the Indian partner is in charge of management and sales. This established pattern has gone a long way in creating a harmonious atmosphere between the
partners and must at least be partially responsible for the preference Indian industrialists have expressed for German collaborators.

In the international debate about investment opportunities in India, many of the arguments revolve around labour laws, transparency of investment conditions and problems with the State Governments and customs. At the practical level however, there are just two dominant problem areas affecting investment from the Mittelstand: infrastructure bottle-necks and administrative hurdles. Where these are being addressed, investments will flow.

The situation is different with regard to firms dependent on public finances for their market. This is the very important area of infrastructural projects and here, the level of frustration is substantial. Some projects, taken up in good faith, had to be abandoned with resultant heavy losses.

Finally, there is the consumer goods industry, where German firms have only made a hesitant entry, though, in the European context, Germany is quite strong in this field. This sector suffers from a certain disillusionment after the initial euphoria. Foreign and Indian firms alike had to discover that the middle-class market is not quite as infinite as assumed in the goldrush and that the Indian consumer is very price conscious and not easy to reach.

It is strange that computer software industry which has a high profile and export oriented results with other countries like US finds a very negligible export to Germany to be recorded.
Coming back to the mainstay of German firms in India, they have discovered that the most practical way to deal with the problems encountered in setting up a new venture is step by step approach, not rushing in with huge investments but building on success and growing steadily.

It is interesting to note that trade during pre-unification years was mainly concentrated with former FRG. However, the post unification scenario presents a totally different picture. The total trade of the two Germanies combined is still less compared to the other countries like the USA. Bureaucratic hassles and formalities have been the major constraints of Indo-German trade ties. Greater attention is needed from the Indian government to reduce these legal formalities, so as to achieve the desired volume of trade with Germany.

Let us also briefly mention the raison d'etre of environment in Indo-German trade trends. Any industrial estate is inter-depended with the community and relays on it for human and material resources, services and trade. The eco-industrial estate promises sustainable development. Industry, environment and the communities do not have to be in conflict with each other and they can flourish together.

Appropriate and effective environmental policies may differ between countries, but one cannot deny that, today, environmental protection and the conservation of natural resources has emerged as a key national priority. As discussed earlier in Chapter IV, Germany and the EU on the whole have introduced legislations for the same e.g., Bedarfsgegenstaende Verordnung
and Verpackungsverordnung relating to Commodity Goods and Packaging respectively. Though the legislation was implemented, Germany did not completely withdraw pigments from the legislation, because some pigments are “partly soluble” and can therefore split off banned amines. Unfortunately test data for most pigments are not available and also no specific limit of banned amines is described. Considering this development regarding EU legislation, it is rather uncertain whether this amendment will ever come into force. If it does, India is but likely to suffer as no test methods for detection are available in India. Options therefore, would lie on the fact to develop devices for amine detection which would in turn prove to be financially pressing on the Indian economy.

Whereas the Packaging Directive calls for a general minimization of hazardous substances to the environment in packaging, the purpose of the CEN standard seems to be reduce this requirement only to a limited number of intentionally added substances which need to be labeled with the symbol “N”. This would mean to disregard many potentially dangerous chemicals from the onset. In other words, it is allowed to use this substance despite all environmental concern.

Besides, while the environmental legislation is not favourable to India, the environmental legislations in India are in a rudimentary stage, and the German industries benefit from this. Disposing of packaging waste have been given high priority in Germany on the Indian exports, but similar
legislation in India does not apply to German exports. Therefore, the Indian exports suffer in terms of pricing and environmental regulations.

One of the most important goals of the eco-industrial estate development is the continuous environmental improvement in harmony with the society and the economics. The application of industrial ecology requires changes in the way members of the industrial community view their interactions with others and it may also require substantial investment in managerial talent, training and infrastructure.

Keeping this in mind, the GTZ or German Technical Cooperation has initiated a project for development of Eco-Industrial Estate in the state of Andhra Pradesh. The estate developer, the Andhra Pradesh Industrial Infrastructure Corporation (APIIC), the technical advisory agencies, namely Central Pollution Control Board (CPCB) and Environment Protection Training and Research Institute (EPTRI) are collaborating partners in this initiative.

In this direction, the activities include the supporting development of highly effective industrial shared waste management, waste generation, and also in identifying and promoting the alternative cleaner technologies. Another objective is the assistance for a communities' strategic plan for reducing the total waste stream, in terms of residential, public, commercial and industrial waste. Furthermore, the development of an environmental information system is envisaged with a database of all the industrial
operations and waste generations including spatial extents of the respective industries in the estate.

Besides within the framework of the InWEnt project on "Energy and the Environment", 15 engineers were selected every year for training in Germany until July 2003; 30 engineers have been trained and returned to their respective power stations. The 15 participants of the third round came back at the end of July 2003.

It was observed that during 2002 tremendous effort and improvements were introduced to the power stations of Punjab by the former trainees. The improvements included reduced heat rate, oil and coal consumption, and resulted in considerable savings of 460 million Rupees in one year at the power plants in Ropar, Lehra Mohabat and Bhatinda. In September 2003, InWEnt held a follow-up seminar in New Delhi for the 45 engineers who were trained in Germany.

In fact, from June 1 to 4, 2004, Germany hosted the international conference for renewable energies, called renewables 2004, as was announced at the World Summit on Sustainable Development in September 2002 in Johannesburg.

The conference renewables 2004 charted the way towards an expansion of renewable energies worldwide. As per the information provided by the Secretariat of the International Conference for Renewable Energies, Bonn (email:info@renewables2004.de), it will also keep up the momentum generated by the coalition of like-minded countries for
promotion of renewable energy (known as the Johannesburg Renewable Energy Coalition). More than 1,000 participated in Bonn, among them official government delegations with ministers responsible for energy, environment and development, as well as representatives from the UN and the other international organizations, non-governmental organizations, civil society and the private sector.

Renewables 2004 addressed the lead question: How can we substantially increase the proportion of modern renewable energies in industrialized developing countries? The conference laid focus on policies for active support of renewable energies. In particular, the conference threw light on themes such as advantages, benefits and potential of renewable energies; strengthening financing for renewable energies from all sources; building capacity knowledge and institutions.

This undoubtedly was the most important event for sustainable development for players in the field in India and Germany, and other parts of the world.

In addition, the World Mining Congress and Expo 2003, with the theme “Mining in the 27th century-Quo Vaid?” was held in New Delhi from November 1-5, 2003. This is the second time that India had been given the responsibility to organize the five day congress, which was the first mega event for the mining industry in this millennium. The earlier congress was organized in India in 1984.
President A.P.J. Abdul Kalam inaugurated the congress. He emphasized the need for developing a total management solution to attract more foreign investment in the mining sector as well as the improvement of safety standards. Over 1200 participants from more than 36 countries including Australia, Canada, China, Finland, Germany, Ghana, Iran, Italy, Japan, Poland, Russia, South Africa, UK and USA attended the event. As per the information provided by Mr. Rajesh Nath, Director of the Office of the German Engineering Federation (VDMA), mineral rich states of India such as Chattisgarh, Gujarat, Madhya Pradesh, Goa, Jharkhand, Karnataka, Orissa and Tamil Nadu participated by involving their concerned organizations and industries.

The conference gained importance in the light of the recommendations of the Johannesburg World Summit on Sustainable Development that accepted the resurgence of coal with cleaner mining and utilization technologies.

Besides mining, the leather manufacturing industry is of strategic importance for India's economic and social development with export earnings reaching about Euro 2 billion during April 2000 till March 2001. The biggest export market is Germany, which absorbs almost 16% of Indian supplies in this sector. Growth and further development of Indian leather products to Germany are, however, seriously endangered by the strict German environmental legislation, which normally is also taken over by other European countries. German laws and regulations prohibit/ restrict the
use of certain chemicals, which traditionally have been used in the Indian leather industry. To support the leather manufacturing industries and to adjust them to the requirements of international competition, the Indian Ministry of Commerce has established the Footwear Design and Development Institute in Noida for which assistance in terms of a testing laboratory is provided by the German Federal Ministry of Economic Cooperation and Development (BMZ).

Besides providing financial and technical assistance to many projects in India, Germany has also co-operated in major environmental projects in India, to cite an example, is the Hazardous Waste Management in the state of Karnataka, wherein focus will be laid on Waste minimization and abatement efforts in the generating industries as well as recycling and reuse of waste. It is reiterated that all the projects between India and Germany are taken care by the GTZ and the IGEP. Indo-German Export Promotion Project (IGEP) is a joint trade promotion programme. The project started in April 1988. Its objective is to increase India’s export earnings. The target group consists of Indian private small and medium sized companies. The most import target markets are Germany and other member states of the European Union. The Deutsche Gesellschaft fuer Technische Zusammenarbeit or GTZ is a federal corporation with a development policy mandate to improve the standard of living and prospects of people in its partner countries worldwide, and to conserve the natural resource base on which life depends.
To conclude, India has topped the list of German development cooperation and continues to be a partner of choice. International statistics give an accumulated figure of 7.66 billion Euro. In 2002 December, India and Germany agreed on a volume of 277 million Euro for 2003. The volume of activities of the German Investment and Development Corporation in India has even grown to such an extent in the last years that it is now the highest worldwide.

In the post-cold war era, India has emerged as a far more pragmatic power, more willing to serve its fundamental economic and trading interests and less inclined to inject moral values into realpolitik. It is poised to emerge in the early 21st century as a far more important and influential power in the Indian Ocean region and even globally. In its search for new markets, sources of collaborative ventures, investment, and advanced technology, the west has moved much higher in the scale of priorities of Indian foreign policy. Most Western nations have shown greater attraction for the huge Indian market, which had not hardly been affected by the Asian financial crisis. However, India attaches special importance to developing ties with the Federal Republic of Germany – the largest foreign investor and trading partner of India in the EU and the richest and strongest democracy in Europe, which will exercise greater influence in shaping the policies and priorities of the European Union in the future.