CHAPTER V
CONCLUSION

The end of the Second World War saw the global system polarized into two power blocs, each dominated by a super power. The dividing line between the two adversarial blocs ran through the heart of Germany, so that the Elbe river constituted the eastern frontier of the FRG as well as of Western Europe. Thus, Germany became a prized area between the two rival sub systems.

Since independence, India has sought to become an industrial power, not by the pursuit of "high tech" for its own sake, but by an incremental strategy of using its resources, both human and material through technology for higher production, higher consumption and a distribution, which is not skewed between the rich and the poor. Thus, India adopted socialistic pattern of society, which sought to control technology imports, as well as develop and promote indigenously available technology. Only a few foreign collaborations which were advantageous to India's economy were allowed, keeping in mind India's development objectives and requirements. The Federal Republic of Germany (FRG) was one of the few countries to whom India turned for assistance as the emphasis on industrialisation grew over the years.

The early establishment of diplomatic relations between India and the Federal Republic of Germany, created a friendly climate and firm foundation for a healthy partnership. On the economic front, the sudden spurt in the volume of imports from Germany, triggered by the delivery of plant and machinery for the first stage of Rourkela
steel project brought in its wake the first surge of Indo-German joint ventures and established Germany as one of the leading technology partners for the industrialisation of India. The early tie-ups between Daimler Benz and Telco and the establishment of MICO-BOSCH were characteristic of this period, but at the same time a large number of medium-sized German firms ventured out successfully to set up joint ventures in India. This booming "Grunderzeit" of Indo-German economic relations lasted well into the mid-sixties. From about 1966 foreign exchange shortage and a consequent policy of self-reliance started to show their negative repercussions. Trade stagnated and the increasingly stringent Foreign Exchange Regulation Act regulations led to a lessening of industrial collaborations.

Moreover, by relying on extensive trade and exchange controls, India created an inward and sheltered economy. It thus, not only failed to profit from the rapidly expanding world trade that others, especially in the Far East exploited to great advantage, but also lost out on the benefits that foreign investments could bring to developing countries. Indian goods, too, due to lack of competition from foreign products in the domestic market lagged behind in technological upgradation. Besides, the emphasis was more on capital goods rather than the consumer goods. The sheltered markets for domestic producers also skewed incentives for the home market and against exports. This situation took its toll on Indo-German relations as well and it was only in the mid-eighties with the introduction of reforms by the Rajiv Gandhi government that the relations between the two countries picked up momentum once again. This is clearly evident in the impressive show with which German industry presented itself at the
TECHNOGERMA ’88 exhibition in New Delhi. Indian exporters started to create an impact in the German market and established themselves as the second largest group of exhibitors from Asia at German trade fairs.

This expansionary phase of the eighties, however, lacked a solid foundation and almost came to a grinding halt in 1991. Faced with an extreme foreign exchange shortage and a huge internal deficit, the Indian government clamped down heavily on imports and expenditure while simultaneously launching an intensive programme of economic reforms.

Unification brought with it a number of dramatic and external challenges. A key task was of reorganizing and integrating East Germany’s centrally planned economy, which was on the verge of bankruptcy, with the highly industrialised and successful market-oriented economy of West Germany. Initially, due to this monetary union in January 1990, there was an economic crisis in eastern part of Germany, but now after almost a decade, the German economy is experiencing an upswing in both parts.

There is no doubt that a United Germany in the changed world scenario, with its commitment towards central and eastern Europe and in a single European market is a different proposition for India from what it has so far been. This is likely to have important implications for Indo-German trade in future.

In Unified Germany buying from India is itself becoming a fashion and interest is beginning to transcend the traditional goods of yesterday. To that extent there are chances of trade creation. However, for other requirements, such as machinery, chemical products, iron and steel, crude oil, textile and leather garments, etc., there is every
possibility of eastern Germany turning towards other countries or to West Germany itself. Trade flow from West to East Germany has increased considerably since unification and includes commodities such as machinery, automobiles, chemical products, iron and steel, groceries and agricultural products, crude oil, textile garments, etc.

Thus, the biggest repercussion of these changes in Europe for India is that not only does India face competition from countries like Hong Kong, Pakistan, South Korea and China because of their low prices in key export items but from Germany itself. Moreover, based on excellent contacts, know-how as well as being a neighbour, Germany has a competitive advantage in trade with the countries of Central and eastern Europe which were once the prime markets for Indian goods. Thus, new realities in Europe would result in Indian export facing greater competition. As a result, India will have to struggle hard to maintain her share not only in Germany’s eastern part but also in Poland, Hungary, Czechoslovakia and the erstwhile USSR.

Economic reforms since 1991 have led to a substantial growth in Indo-German economic co-operation. Trade and industrial cooperation between the two countries has doubled. While majority of German industrialists and exporters expressed relief over the reforms in import licensing system and reduced import tariffs, other foreign collaborators expressed concern over the stability and continuity of the process.

Another indicator of Germany's continued interest in India is that India continues to rank first in Germany’s cooperation with developing countries and Germany continues to rank second in the number of foreign collaborations of Indian companies.
Germans are also well aware of the fact that if they completely divert their strategies, away from the newly industrializing countries of Asia and Latin America, they will lose out on new markets to their competitors, especially Japan and the US. The economic reforms introduced in 1991 have been an important reason for the growing interest in setting up joint ventures in India. Along with making it easier to set up and manage joint ventures, the reforms have had a favourable influence on the overall economic development of the country. The best growth opportunities are seen in the services sector and automobiles and components, as well as in the field of general industrial machinery.

The number of agreements in operation in 1996 were 1,550 and out of this the number of joint ventures in operation was 502. Reasons for a joint venture from the German side are a long-term plan of collaboration, support received from a local partner and acquiring a greater say in management. Moreover, the trend among the German firms since the economic reforms of 1991 is clearly towards having a higher equity participation in the new joint ventures to be set up. In case of a number of already existing joint ventures, the German collaborators have raised their shareholding, almost half of them opting for an absolute majority. The number of joint ventures with equal share holding has also gone up. This has been a significant development for Indo-German collaborations in the 1990s.

It seems that India has not availed of all the technological expertise available in Germany to secure a more accelerated growth of its economy. At the same time, it seems as though German companies have not fully appreciated India as a partner. There
has been an increase in trade between India and Germany over the years. However, when compared with the trade figures of China and other newly industrializing countries, India’s performance is not very encouraging. The total trade turnover between India and Germany is around DM 9 billion. The total number of active collaborations is 1,550, out of which around 502 are joint ventures in which there is German investment. These include both big and small joint ventures. Germany also occupies the second position in industrial collaborations with India. This looks impressive to many, but considering Germany’s potential and India’s needs there is a much wider scope.

One encouraging trend is that Indian exports have witnessed a qualitative shift from raw materials to manufactured and semi-manufactured goods. This shift is more evident in the conventional goods sector whereas in the sophisticated goods sector, there is tremendous scope for improvement and augmentation of exports. For instance, while engineering goods exports to Germany, the European Community and other developed countries earlier comprised raw materials like pig iron, base metal and ferro alloys, etc., they now largely consist of semi-manufactured and manufactured products. They now include primarily mechanical and electrical machines and electronic appliances followed by road transport equipment and precision instruments. Moreover, consumer items like sewing and knitting needles, stoves, cookers etc. are also being exported.

India has always evinced a greater interest in acquiring know-how from Germany and cooperating with German partners for its expansion and modernization programmes. This stems from the basic belief that Germany has some value systems in respect of quality and reliability. Indian companies have preferred Germany over other foreign
collaborators not only because of their frankness, efficiency, guarantee of successful implementation but also because of the desire to have a long term co-operation with the German firm, followed by a desire to introduce new products and technology.

Despite the generally investment favourable climate, the total volume of capital invested by Germany in India is not high. The number of Indo-German collaborations and joint ventures are sizeable. But both in terms of investment and exports India accounts for only a small portion of overall German Foreign Direct Investment and global trade. There is substantial scope for reinvestment of profits and also for making fresh investment. This could be both in existing lines of business, as well as in new areas. Other reasons for the low level of investment of India are that the majority of German collaborators bringing in their new technologies into India are small and medium sized and also the fact that they offer technical products and not consumer goods.

In the past Indo-German joint ventures have been in areas influenced by the development policies of the Indian Government. A majority of Indo-German firms thus manufacture capital goods like electrical parts, power equipment, machine tools, machinery for steel plants, mining, automobiles, textile machinery, chemicals and so on. They represent only some of the areas where Indian companies would like to have foreign collaborations. Arising out of the new priorities, a large number of high-tech areas in the consumer goods industry are opening up new vistas in the Indian markets where German inputs would be most welcome.

The German industry has also done work in updating existing manufacturing establishments and introducing new technologies. India is now poised for major
technological upgradation even in basic infrastructural areas and core sectors such as steel, power equipment and machine tools.

There is no doubt that India's economic reforms have helped its engineering goods exports to become competitive in global markets. The full convertibility of the Indian Rupee in the near future combined with reduction in customs duties and compensation of losses have created an optimistic climate for the German businessmen and a number of German firms have expressed interest in establishing new investment links in India. This development is considerably visible in the spate of joint ventures between the two countries in the 1990s.

However, there has been a hesitant appreciation of the investment climate in India from not only a number of German investors but also other foreign collaborators. While many German expatriates working in India find the reforms hitherto to be quite positive, there is still a considerable number who have only a limited awareness of the extent of the policy changes. Intensified market competition, lack of infrastructural facilities especially in power sector coupled with transport problems and the heavy-handed attitude of the beauracracy are seen as major obstacles to investing in India. The Indian government on its part must introduce further reforms especially in its labour policies, laws on ownership and use of land and real estate must be loosened and there is the need for removal of statutory restrictions in some industries.

India today has a large industrial base, diversified in products, location and ownership. The contribution of the industrial sector to the Gross Domestic Product has
doubled over the years and not many countries can boast of such a wide-ranging base for the engineering industry.

As discussed earlier, Indian technical goods exports to Germany in the 1990s both in terms of both share and value have been steadily increasing and they are moving into the ranks of major items whereas traditional items such as gems and jewelry are being left behind. For example, in period from January - December 1998 engineering goods with exports worth DM 652 million constituted the largest export commodity from India to Germany. On the other hand, there has been a downtrend in India’s import of engineering goods from Germany which is a result of not only domestic compulsions but also due to an increase in the cost for German machinery which was a result of strong DM in 1996. In consequence, Indian industry turned to other markets for buying machinery and Germany’s share as a supplier declined.

Moreover, when India’s engineering goods’ exports share in total German engineering goods’ imports is seen, it forms a very small percentage. Therefore it is imperative to evolve an integrated strategy, which should aim at enlarging the production base and strengthening marketing effort for generating higher exports. Such a strategy is required not only for earning additional foreign exchange but also for injecting qualitative changes and confidence into this area, so that it can face the present international environment which is undergoing drastic changes.

Indian exporters of engineering goods have not been able to adapt fully to the demands of the new markets in terms of quality, price, delivery schedules and range of goods. For example, not only Germany but the markets world over are accustomed to
tight delivery schedules and competitive prices and these are the two main areas where Indian exporters are unable to compete with the other countries despite providing goods of a superior quality.

With the integration of the European market, certificates such as ISO 9000 have become essential prerequisites as the EC member countries have become more demanding. In order to meet these new challenges arising from German and European unification, Indian exporters need to re-orient their marketing strategies and improve product quality. Modernization and technological upgradation along with competitiveness are some of the other requirements for increasing exports.

In unified Germany, India will have exercise greater caution about “product” and “marketing management”. In keeping with the harmonized standards and specifications set by the European Community, productivity will have to be enhanced by scale expansion and by reduction of cost and prices. Low value added goods will have to be replaced by higher value added products with innovative designs. Indian industry needs to spread the concept of total quality management (TQM). It is the assurance of quality that can give an edge to competitiveness and individual firms need to be persuaded to realize the benefits of producing to standards. Adherence to environmental laws is another area where Indian exporters must pay attention. These environmental standards, especially in case of exports to Germany and other EC member countries, must be distinguished from product standards adopted as a rule for reason of controlling risks to public safety and health. The German buyers give a lot of weightage to the fact that imported products must comply with product standards applicable in Germany.
marketing strategies, aggressive promotion of better quality products, a competitive commercial intelligence system along with a constant feedback mechanism from customers will have to be adopted.

Some other measures that can be taken up in the long run to increase Indo-German trade and collaborations include setting up of joint ventures or acquisition of companies in Europe for manufacturing and distribution, establishments of warehouses to ensure off-the-shelf supplies and encouraging buy-back arrangements and export oriented industries through transfer of technology to invest in India. In fact there are a number of German firms covered in this study which produce not only for the Indian market, but also for re-export to Germany or for the international production network of the German firms. These firms benefit from the favourable cost structure, the large number of suitably qualified workers and specialists, and from the generally high motivation and work morale. Incorporation in the legal form of an Export Oriented Unit secures relief from import duties and exemption from income-tax for five years.

With the new policy initiatives of the Indian Government, there are a host of new areas where Indians and Germans can start working together. The industry-wise break-up of joint ventures show that there is a higher than average demand in industrial machinery and automobile sectors. Both these sectors, being a strong core of German industry, are of special significance to development and modernisation of the Indian economy. With nearly a third of the total number firms in industrial machinery sectors form the largest group among the Indo-German joint ventures. Keeping in view the increasing demand for motor cars and commercial vehicles, firms in the automobiles and
components sector foresee substantial scope for expansion and more than average profits in the near future. A concept which is fast picking up is outsourcing, which has been highly and successfully adopted in the case of the automotive industry. Today, India’s automotive industry not only exports 12 percent of its output to both developed and developing countries but OEMs such as General Motors, Daimler Benz, Mitsubishi and Daewoo have started sourcing from India. Organizations like ITT Automotive of Germany, Volvo of Sweden, Dana and Textron of USA are examples of large component manufacturers exploring possibilities of new partnership with Indian component manufacturers.

International concerns have discovered India as an important future market for cars and commercial vehicles. With an annual growth rate of 25 percent the total number of vehicles sold in India in 1994 reached two million. The entry of large concerns in the Indian market offers numerous small and medium-sized ancillary units in Germany the opportunity to serve the large firms through local production in India and also to gain international experience. Sales possibilities emerge not only with supplies of components, but also through production of replacement parts, through erection of service stations, etc.

A major boom in establishment of such new joint ventures, which shift labour-intensive services to India, is further expected in the coming years. Favourable to such shifting are the low wages and related labour costs equal to only 15 percent-20 percent of the German levels, the large number of excellently educated specialists, and the possibility of easily data transmission to Germany. In the case of the engineering
industry, another advantage is a total cost analysis of employment of engineers, e.g. for planning and designing of products or machinery. Several industrial firms, which initially permitted local engineering services only for the Indian market, have in the meantime shifted their international development work to India. In many areas of industrial machinery the competition has increased, especially from firms from East Asia and the USA. Apart from the already strongly contested areas like textile machinery, construction equipments or machine tools and ancillaries, there are excellent market opportunities for special purpose machinery. Numerous medium-sized German companies have gained a world market position as suppliers of special purpose machines, and can further improve their position with local production of the machines in India.

The range is wide, from special machines for the packaging industry to accessories for the large textile industry in India.

Another area where India and Germany can work together in the future is turnkey projects which the two countries can undertake not only in India but in other countries as well, this would involve more than a single agency to do the job. For example, for the execution of a ball bearing manufacturing unit, one would need to care for:

- supply of plant and machinery, which can be provided by the German partner.
- civil engineering for factory and office buildings. This can be done by the Indian side.
- erection of plant and equipment and commissioning of the plant can be done by the Indian partner under the supervision of the German partner and finally.
- training by German experts of Indian personnel to finally run the plant.
These turn-key projects will help not only in enhancing Indian engineering exports but would also help India to acquire technology from Germany. Some other areas where such projects can be undertaken include power projects, pharmaceuticals and chemical plants and infrastructural development.

Another important sector of the engineering industry where both India and Germany seem to be doing well is the machine tool industry. The international success and excellent reputation of German machine tool industry, based on precision, quality, long service of its products and its ability to satisfy individual customer requirements, earns it one of the top positions amongst machine tool manufacturers.

In contrast, Indian machine tool manufacturers have a long way to go before they can create a niche for themselves in the international machine tool market. Although, Indian machine tools' industry was one of the first sectors of the Indian industry to show positive effects of India's reforms of 1991 but it still faces a number of problems. These include poor quality of machines, lack of performance reliability, leakage of hydraulics, lack of safety measures, poor aesthetics, failure of electric and electronic parts and poor after sales services. Like the other sectors of the engineering industry, this sector too requires a lot more than just reforms to become competitive in the global market.

A major problem which the machine tool exporters not only in India but in the countries worldwide face is that of COCOM restrictions as machine tools are regarded as dual-use goods. However, in the nineties with the collapse of communism and the unification of Europe, these restrictions no longer exist in their full form. But certain
country specific restrictions especially in case of Germany still exist and create difficulties for Indian machine tool manufacturers.

Besides these restrictions, environmental laws which include the condition to use environmentally, compatible and recyclable packaging materials, safety norms, meeting delivery schedules and maintaining quality standards are some of the pre-requisites which Indian machine tool exporters must adhere to while exporting not only to Germany but to other EC member states as well.

There is no doubt that Germany has contributed substantially to India’s success in the export front. There has been, right from the beginning a constant flow of technology through industrial collaborations and this has always been accompanied by large flow of investments. This trend continued in the 1990s as well and though Germany itself is at present struggling to adapt itself to the changes in the world economy especially with international division of labour getting more intensive and complex as time goes on, remorseless price – competition demanding the mobilisation of all productively resources, technological changes demanding rapid adjustments and traditional occupations facing threat, yet the German spurt of exports to India has given to India an equally impressive boost in new investment and technical cooperation products.

India is likely to emerge as an important economic power in 21st century. There is not going to be a reversal of economic reform. With varied natural resources, a large pool of scientists and engineers and a large growing domestic market, India offers numerous economic opportunities. India is receiving greater attention from German firms as a profitable location for direct investments. Possibilities of large sales in
mammoth domestic market and a favourable cost structure in the manufacturing and service sector are leading to greater Foreign Direct Investment in India. Moreover, in contrast to other Asian countries, India offers the advantages of a Western orientation, English language and a relatively high educational level. German firms, therefore, are increasingly using their Indian collaborations as a spring-board for an entry in other Asian markets.

Over the past five decades, Indo-German cooperation has witnessed significant progress, but India still lags behind most dramatic success stories of German economic cooperation in Asia. India ranks 29th in the export of goods to Germany and Germany ranks 5th in terms of investment in India. However, on the threshold of the 21st century, there are good prospects for substantial growth in Indo-German trade, joint ventures and industrial collaborations. To recognise the dangers and realise the opportunities, to try and chart out the course at the beginning of the new millennium is what is required. There is a lot more that the world’s largest democracy and one of the world’s most formidable industrial powers can do together.