Chapter - III

ECONOMIC RELATIONS

1. India and Federal Republic of Germany:

German economy was totally destroyed during the World War II. Whole cities were to be rebuilt, entire industry re-established and economic life totally reconstructed. For bringing German industry and economy to its pre-war position foreign help was surely required. The circumstances in the Federal Republic were quite favourable to such a reconstruction. Germany's skilled manpower and potential resources of scientific and industrial proficiency were inherent advantages. Yet, without large-scale assistance from the USA, German progress perhaps could have not been so rapid in achieving the status of a highly productive and proficient industrial nation. The programme of technical and capital aid for other countries launched in 1956 by the Federal Republic is a proof of the success of its post-war economic reconstruction. Since then the Federal Republic has provided some DM 1500 million in technical aid and about DM 12,700 million in capital aid, within the framework of international economic cooperation, for the assistance to economically under-developed

nations. More than DM 4,500 million of this sum has been made available to India. This amount will go up to more than DM 5,000 million if the assistance given to India from the German private sector and various German Organisations is also taken into account.²

At first Indo-German cooperation in strengthening India's economy tended to be concentrated on capital aid, that is, on selected undertakings financed by long-term credits at interest rates which could be progressively reduced. The greater part of the DM 4,400 million capital aid granted to India has been for projects that have since been completed and which represent internationally recognised milestones of progress; Kourkela, Neyveli and Undravati, to name only a few of the most renowned. Lately the technical aid has been constantly gaining in relative importance. Technical aid is equivalent to direct transfer of specialised know-how from one country to another to achieve this purpose, the Federal Republic makes available trained teaching staff and also delivers the necessary materials, including appropriate machinery and other technical equipment. Bonn and New Delhi have agreed that Indian contribution to its counterpart and its share of the costs is to provide in the Indian currency.

This arrangement is one of several, designed to ensure that the technical assistance enterprises evolve into truly Indian-India supervised and India-owned operations. Some examples of Indo-German co-operations in the realm of technical aid are the technical training centre in Madras, the training workshop in Skhla to provide advanced training for technicians, a centre in Calcutta to plan and foster professional training outside the school room, and a school in Bânglora for the training of masters in various industrial techniques. ³

Economic cooperation between India and the Federal Republic of Germany is closer than generally realised even in knowledgeable circles. It rests on three pillars: aid, industrial collaboration and trade. In terms of aid extended to India, Germany is second only to the United States; in industrial collaboration, Germany ranks third, as also in trade for a longtime it has held the third place. ⁴

German aid has been extended to the whole of the developing world, but India has been able to secure the lion's share. 35 percent of all official bilateral loans and 10 percent of all technical assistance grants have gone to

³ Ibid. p. 19.
India. Or to give the absolute figures, German aid authorised to India between 1957 and 1969 amounts to Rs. 5,000 million (exchange rate 1 DM = Rs. 2.02). To this amount one has to add the substantial German aid channelled to India through multilateral agencies. Thus Germany up to 1970 contributed Rs. 1,816 million to the International Development Agency (IDA). Since India received 47 percent of all IDA loans (Free of interest, maturity 50 years), the Federal Republic of Germany can claim credit for another Rs. 900 million of aid received by India. Moreover, in September 1969 Germany authorised Rs. 8650 million and India utilised Rs. 7630 million. 5

German development assistance to India began as a project aid when in 1958 a loan of Rs. 1,237 million was extended for financing the first stage of the Bokaro Steel Plant. Since that time emphasis has been shifting more and more to non-project aid in accordance with India's changing needs. Thus, of the aid of DM 250 million committed in 1969 only 16 percent was project aid as the following table shows:

Composition of German aid authorisations to India in 1969.

(IDM = Rs. 2.02)

<table>
<thead>
<tr>
<th>Type of Aid</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project aid</td>
<td>DM 40 million</td>
</tr>
<tr>
<td>Commodity aid</td>
<td>DM 70 million</td>
</tr>
<tr>
<td>Loans to development banks</td>
<td>DM 15 million</td>
</tr>
</tbody>
</table>

5. Ibid. pp. 82-83.
Loans for purchases of capital goods DM 15 million
Debt relief DM 81 million
General liquidity assistance DM 20 million
Total DM 250 million

The credit have a maturity of 30 years including a grace period of eight years and carry interest of 2.5 percent (against 9 - 10 percent interest which long-term loans in 1969 cost in the German capital market).

I. Industrial Collaboration

Upto 1969 the Indian Government approved 3,010 collaboration agreements between India and foreign firms, 463 or 15 percent of these agreements involved German participation. Of the 463 Indo-German joint ventures approved upto 1969 about 350 have so far gone into production. A third of them involves German financial participation, in addition to technical collaboration. Since 1948, when West German investments amounted to only Rs.1 million, the flow of German private capital to India has been steadily growing, German direct and portfolio investment rose to Rs.29 million in 1955, to Rs.309 million in 1965 and Rs.617 million at the end of March 1967.6

Indo-West German industrial collaboration has formed expression in the establishment of a number of important industries in India. The setting up of a steel plant at Howkela in 1957 marked the beginning of Indo-German cooperation in the industrial sphere. West Germany ranks as the third largest foreign investor in the country. On March 31, 1968 the total German capital investment in India was estimated at £1.300 million constituting about 1.2 percent of Germany's total overseas investment and 3% of her investment in the developing countries. By such an investment, West Germany had made a substantial contribution to India's economic development. In the public sector it has assisted in addition to steel plant at Howkela, the establishment of a most modern electrical factory in Bangalore, the Kargali and Swang Coal wash rice, the Neyveli complex and several power stations. She was also assisted in converting the Bhadravati steel works into a first major alloy steel producer. In addition, many private industrial units have received technical collaboration from West Germany.

From 1957 onwards, the number of West German foreign collaborations approved by the Government of India has steadily increased. The following figures indicate this:

7. P. R. Anand, 'India's Trade with West Germany' in Commerce, op. cit, p.39.

* Appendix - 7.
2 in 1957, 6 in 1958, 13 in 1959, 58 in 1960, 67 in 1961, 42 in 1962, 48 in 1963, 68 in 1964, 44 in 1965, 41 in 1966, and 24 in 1967. Thus the total number of West German collaborations approved by the Government of India from 1957 to the end of 1967 comes to 413. This is exceeded by the UK with 757 collaborations and the US with 484; the Federal Republic holds the third place. In fact, the largest foreign investments of some of these concerns like Siemens and Hoechst are in India. This list as prepared by the Indo-German Chambers of Commerce covering schemes sanctioned until March 1967, accounts for a total number of 319 collaborations, approximately one-third of which involved financial participation while the rest were technical collaborations. The total German investments abroad were DM 12,501 million (approximately US $3.1 million) as in March 31, 1968. In India, too, though the number of West German collaboration was large, capital investment was not corresponding in magnitude. In Dec. 1965, West German business investment in India stood at Rs. 24 million; it increased to Rs. 120 million by Dec. 1962 and reached Rs. 245 million by March 1965. On March 31, 1968, the total German private capital investment in India was estimated at Rs. 390 million.

Mr. Mollbruch, Joint Secretary of the Department of Economic Affairs, who visited India, stated that German investments in India...
constituted 1.2 percent of Germany's total overseas investments and 3 percent of her investments in developing countries.  

To the wary German investor, India offers a substantial measure of security through bilateral inter-governmental agreements. The Governments of India and of the Federal Republic of Germany have an agreement which provides adequate protection to German investors against non-business risks. Besides, there is also an agreement between the two Governments for avoidance of double taxation. The most attractive feature for the foreign industrialists is, no doubt, the massive and growing Indian market. And the best advertisement for investment in India is the experience of concerns which have invested and are operating in India. What is important, after all, is not what ministers, officials, or publicity agencies say but what is actually done by the country itself. India as a field for investment is by now well known to German industrialists since more than 300 German firms have joint ventures of different kinds in the country till 1970. Because of the Indo-Pakistan conflict and the two droughts accentuated by the structural recession in the German economy, there has

been a slackening in German interest in India which, however, is now coming to an end.9

The economic policy of the Indian Government encourages German investors to initiate joint ventures in India specially those which are export oriented. There are several industrial branches where a transfer to India is of advantage to both the countries. Also there has been made a start to operate joint ventures in third countries for which there exists a great potential.10

The delegation of West German industrialists and bankers who toured India for two weeks in January 1970, described the investment climate in this country as favourable. Led by Dr. H. J. Abs, Chairman of Duitsche Bank, the group, comprised of president and board members of Germany’s leading industrial enterprises and banks: Siemens, Krupp, Volkswagen, Daimler-Benz, Ob. Bosch, B. Einstahl, Otto Wolff, Rekonstruktion Loan Corporation, Commerze Bank, and D esdner Bank. The industrialists were equally impressed by the industrial capacity, India was able to set up over the last 13 years, the modern technology and the amount of skilled labour available. The overall impression of the delegation seems to have been that despite certain difficulties and even with a slow economic growth rate, India over the next 10 years will become

9. Ibid. p. 5.
a very serious and valuable partner for industrialised countries and eventually be in a position to strongly compete with them.  

West German industries in India are mainly active in three fields which also indicates the pattern of future investment: steel and heavy engineering, electrical goods and electronics, chemical and pharmaceutical industries. 

Germany’s largest manufactures of electrical goods with 260,000 employees and a turnover of 10,000 million DM (Rs. 20,000 million) was Siemens India (Bombay). Siemens India in the year 1969 achieved a turnover of well over Rs. 200 million. It has a staff of 40,000 out of which only 20% were Germans which proved the international orientation. Siemens Germany invested approximately Rs. 200 million DM (Rs. 400 million) abroad in the year 1970. 

Mysore Iron and Steel Ltd. negotiated with the West German Government for the necessary financial assistance for the establishment of an alloy steel plant with the technical cooperation and assistance of German industries. The agreement was signed on February 8, 1965. The West German Reconstruction Loan Corporation agreed for a loan of DM 60 million (Rs. 120 million) and very soon a contract was signed between MIAL and DeNAG of West Germany for the supply of plant and

11. Haubold, EFKI 'German Investment in India' in DAGLI, VADILAL ed. India and Germany p. 140.  
12. Ibid. p. 141.  
equipment totalling DM 31.39 million for the manufacture of 77,000 tons per year of alloy and special steels. AEG-Telefunken and DFF of West Germany have been awarded a contract for the supply of electrical equipment and furnaces to the value of DM 14.95 million and DM 6.77 million respectively. To ensure consistency of high quality products, a laboratory for chemical analysis has been planned with the assistance of Alusuisse and Arbon, Bohler and Brothers Ltd. of Vienna, Austria, who have earned a worldwide reputation for the manufacture of special steels, have been appointed as consultants. One of the significant features of the project is the maximum participation of Indian engineering industries. Of the total estimated value of Rs. 270 million for the alloy steel project and Rs. 44.4 million for the expansion of electric pig iron furnaces, less than 50 percent, Rs. 130 million and Rs. 24.4 million respectively, comprise foreign exchange expenditure. M/s L was the first steel plant in India which has exported technical know-how to a neighbouring country, Ceylon. 14

As already noted German collaborations with Indian industry were mainly of two types: purely technical and technical-cum-financial. Under purely technical collaborations, the German

firm gave the Indian partner know-how in some form or other (dawning, know-how, patents, trade marks etc). In technical-cum-financial collaboration, besides know-how, the German firm had also some financial interest in the joint venture. This was in the form of direct capital investment, or by way of supplying plant, machinery or participation in the equity capital by way of receiving equity shares in consideration of the know-how or other services made available. By far, the majority of Indo-German collaboration in the chemical field were technical collaboration. Out of the 35 collaborations, 60 percent were technical collaborations and 40 percent financial-cum-technical collaborations. This was so in the case of the newer sophisticated industries such as the chemical and chemical based industries. India's technical base was as yet slender and the technological gap was correspondingly wider. Indo-German collaboration was made a significant contribution towards bridging this gap. The major areas covered by Indo-German joint ventures in the chemical industry were the following:\footnote{15}  

1. Chemicals:

Sulphuric acid and superphosphates, hydrogen peroxide, formic acid, acetates, carbonate, citrates, phosphates, sulphates, acetic acid, glacial and ester solvents.

\footnote{15} 'Collaborations in chemicals' in \textit{Commerce}, op.cit. p.38.
2. Pharmaceutical:

Antibiotics (Chloramphenical), antidiabetics (tolbutamide), procaine hydrochloride, alkaloids, laboratory reagents, vitamin C, vitamin B6, sorbitol, surgical adhesive plasters etc.

3. Paints and pigments:

Insulating synthetic enamel, organic pigment powders, emulsions, synthetic resins, binder materials, ultromarine blue.

4. Plastics:

High density polyethylene, expandable polystyrene, PVC compounds etc.

II. Indo-German Chamber of Commerce:

Established in 1956 in Bombay, the Indo-German Chamber of Commerce is functioning through five offices situated in Bombay, Calcutta, Delhi and Madras in India, and Dusseldorf in Germany. The Chamber was set up with a view to promoting Indo-German cooperation in all fields of industry and trade.

The achievements and success of the chamber can best be judged from the message sent by the Prime Minister Mrs. Indira Gandhi, on the occasion of the tenth anniversary of the Chamber. 16

The concrete sympathy shown by the Government and industrial houses of the Federal Republic in a wide range of projects in our country from the giant steel plant in Kourkela to the fruit farms in the Kulu Valley— is a fine example of International cooperation. The Indo-German Chamber of Commerce, on which are represented the premier organisations of Industry and trade of both countries, has played a particularly useful part in promoting the cooperation.

The activities of the chamber extended to all fields which directly or indirectly concern Indo-German trade relations and industrial cooperation. The chamber has to follow the trends of the economic relations and, where it seems called for, to make representations to the authorities on both sides. Members as well as other enterprises approaching the chamber have to be kept informed about the conditions, regulations, customs duty, taxation, company law, etc. Addresses of exporters, manufacturers and dealers are supplied to inquiring parties. The Chamber also has a panel of arbitrators for setting disputes.

Membership of the Chamber is open to companies and firms resident either in India or in the Federal Republic of Germany. Over the years, the membership has increased steadily and up to 1970 more than 500 members were enrolled with the Chamber. These members are served with up-to-date information through circulars and also by means of individual letters. Strict impartiality is observed in all actions of the Chamber by having a Committee consisting of nationals of the two countries in equal number.
and by rotating the office of the president and Vice-President between German and Indian nationals.¹⁷

Two major fields of activity have become prominent in the course of the 15 years of its establishment. The first is the wide field of industrial collaboration. Such a collaboration has always to be seen from two sides, the Indian and the German, and consequently the points to be clarified and the problems to be solved may sometimes become rather complicated. The Chamber has in all these years tried to assist the parties on both sides in every possible way; for example, establish contacts for the purpose of industrial collaboration and advice on matters there with, such as market conditions, statistical data, mediation in cases of misunderstandings, assistance in dealing with authorities, policy matters, availability of labour, materials, transport and other facilities, etc. The chamber has found that normally there are hardly any real, basic discrepancies in the aims of the parties. The difficulty mainly arises from not sufficiently understanding

¹⁷. Ibid. p.77.
the other party's position or from facts outside the control of the parties. The assistance of the chamber does not come to an end with the signing of an agreement. Many questions and problems turn up once a scheme is implemented or production has commenced, and the chamber helps in solving them.

The second major field is the export promotion. The Chamber tries to enhance German interest in Indian goods and to find suitable customers and, on the other hand, to help Indian exporters. Offers and inquiries are circulated and other information is made available to interested parties.  

Indo-German Chamber of Commerce which has now completed a quarter century of its existence has been doing commendable work, for promoting trade and economic cooperation between the two countries. But its efforts to develop closurities between West Germany and Eastern Region of India deserve to be more widely known and appreciated.

2. India and German Democratic Republic

A significant by-product of the Indo-East German trade relations was the inflow of technical know-how that has helped to diversify the Indian economy, and this despite the fact

18. Ibid., p.77.
19. Venkateswaran, R. J., 'East India and West Germany' in Eastern Economist, vol.78, No.6, Feb 12, 1982, p.400
that there was no agreement on technical and scientific cooperation between the two countries. It was perhaps not as well known as it should be that the end of 1968, over 60 licences and contracts for collaborations with Indian firms had been concluded by East Germany in both private and public sectors. Notable among these were enterprises for the manufacture of typewriters, textile machines, gas purifying materials, textile printing machines, wire mesh, high tension aluminium power cables, machines tools, house service meters and technical felts.

According to the overall structure of the GDR economy in 1970 an important part of their total exports to India was accounted for by machine tools and products of metal working and processing industry. Besides this fertilizers, chemicals, raw films were exported to India. Fertilizers are an important item for India. The GDR, therefore, was supplying about 65 percent of India's total imports of potash fertilizers.


GDR imports from India till the year 1968 mainly consisted of items like jute manufactures, coffee, tea, spices, oilcake for animal feeding, mica and products of new industries such as machine tools, pumps, batteries, iron fittings and textile machinery.²²

The Government of India and the Government of German Democratic Republic entered into an Agreement on November 5, 1958 to extend trade between the two countries. On the same date, Mr. E. Sonneise, Commercial Counsellor and Trade Representative of East Germany in India, said that his country was prepared to buy goods worth Rs. 100 million every year.²³

The above arrangements provide for an increase in the exchange of commodities for the following year on a balanced basis. The German Democratic Republic will specially supply to India machinery tools, polygraphic machinery, products of precision of the mechanical and optical industries, electrical equipment, textile machinery, as well as fertilizers, films and a number of other raw materials and equipment.²⁴

---

²² Ibid. p.38.
²³ The Times of India, New Delhi, November 6, 1958
²⁴ Ibid.
The Payment Arrangements have been modified to provide for a Central Clearing Accounts so that the rupee earned by export of goods from the German Democratic Republic were utilized for the import of Indian products. 25

On December 28, 1963 an agreement was concluded between India and the German Democratic Republic to continue the existing Trade and Payments Agreement for 1964 by enlarging the volume of goods to be exchanged between the two countries. As a result of this arrangements, the total turnover of trade both ways was expected to go up to Rs. 350 million by the end of 1964. 26

An Agreement was signed by Mr. S.P. Patel, Chairman of the State Trading Corporation, on behalf of India and Mr. J. Elstner, Director General of the Foreign Trade Corporation, Jergban-Mandel, Berlin on behalf of East Germany, on January 29, 1966 in New Delhi that East Germany will supply India's present imports of potash fertilizers within the next three years. Speaking on the occasion Mr. Patel said that the fertilizers to be supplied under the Agreement would cost about Rs. 75 million. India was also negotiating with East Germany for the supply of about 50,000 tonnes of ammonium sulphate. 27

25. Ibid.
27. The Times of India, New Delhi, January 30, 1966.
India imported 112.9 million marks worth of goods from East Germany and exported 103.1 million marks worth to East Germany in the year 1966.

The total foreign trade turnover between India and GDR in 1966 was of the order of Rs. 500 million bothways, with imports and exports balancing. In the year 1967, the German Democratic Republic exports fertilizers to India worth Rs. 100 million. India exports 10,000 tonnes of ferro-manganese, worth Rs. 8 million to the German Democratic Republic. Both the countries signed an agreement in Berlin on November 14, 1967 expanding their exchange of goods and extending the basic Trade and Payment Agreement of 1964 to 1968. And in the year 1969 the two countries have a total trade turnover about Rs. 700 million.

I. Imports of Essentials

India's import from GDR consist mainly of fertilizers, potash, dexters and other agricultural machinery, rolled steel products, special steels, X-ray films and other photographic materials, laboratory and scientific instruments, chemicals, finishing travelers, and ships. Of these, fertilizers constitute the largest single item of imports accounting
for about 40.7 percent. In terms of India's total imports of fertilizers from all sources, the supplies from GDR amount to about 35 percent. Similarly, in India's imports of potash, the share of GDR comes to about 65 percent. It was important to note the GDR was one of the world's largest producers and exporters of potash. 28

The experience of GDR as well as of other countries has shown that the concession of inter-governmental agreements on economic, scientific and technical cooperation and in other fields was complementary to foreign trade relations. 29

During 1970 GDR has also emerged as a supplier of ship and India concluded contracts for the import of 14 ships from GDR, worth about 3,500 million for the Shipping Corporation of India. Payments for this were to be made over a period of 10 years. Therefore, besides effecting savings in foreign exchange, the added tonnage as a result of import of ships from GDR would facilitate expansion of freight earning as well. 30


30 Babu, V. Vithal, op. cit, p. 122.
The Scindia Steam Navigation Co., Ltd, had placed order with East Germany for purchase of eight ships totalling 1.5 lakhs dwt of which the first ship arrived in January 1970 and the remaining ships had been delivered at the rate of one ship every three or four months and completed the delivery of all ships by 1972.  

Shipping Corporation of India Ltd (an undertaking of the Government of India) also entered into a contract with the ship builders of the GDR for the delivery of six more most modern liner cargo vessels amounting to a total value of Rs. 250 million. This contract was the largest single deal negotiated between India and U.S.S.R. so far. It was also reported to be the largest single order placed so far by any Indian shipping company.

II. Non-Traditional Items:

As regards non-traditional items, India was exporting nearly Rs. 20 million worth of engineering goods to the E.D.R. as against Rs. 90 million to all the East European countries.

---


in 1968-69, Dr. H. V. Shrootha, Regional Chairman, Engineering Exports Promotion Council, was hopeful that in the years to come India should be in a position to export nearly 500-600 million of engineering goods to the Comecon region out of which the share of GDR could be Rs. 100 million. But he recognised that a study will have to be made as to which of Indian engineering goods were suited to the East European economy. 33

The GDR had envisaged an increase of 60 percent in industrial output by 1970. Greater emphasis was laid on production of chemicals, engineering goods, steel, electricity and other raw materials required by it. This also provides an excellent opportunity to India to boost up her exports of light and heavy engineering goods, in addition to other non-traditional items. 34

III. Indian Agency

In view of the fact that international collaboration will be further strengthened and that GDR too, will adhere to the principles of international trade as discussed by UNCTAD, it is certainly to be hoped that through new ways and methods trade between India and GDR will develop further and that

India's newly developed industry will in further find a stable and expanding market in the GDR for its product as India's traditional items did.  

The GDR concludes a great part of her exports and import contracts with trade partners from all over the world every year at the traditional Leipzig Fairs. Therefore, India's participation in the Leipzig Fairs and her exhibition of top quality goods as well as high level commercial activities during the days of the Fair were of decisive importance to economic relations. Leipzig as a venue of world trade and high ranking representations from all over the world offers a wide range of possibilities to promote and deepen further Indian trade and economic relations.  

Experience has proved that the existence of a Trade Representation in the partner's country is of great importance for the extension of economic relations. The trade Representation of GDR in India as well as its Regional Representation in Bombay, Calcutta and Madras render valuable service towards this end. Good possibilities for the extension

35. Arnold, op. cit., p. 38.
36. Ibid., p. 38.
of economic relations especially the promotion of Indian exports to the GDR would open, if India established an official government representation in the GDR capital which could also be in a position to study the condition of the GDR market and to explore all possibilities of economic relations between India and GDR. 37

IV. Scope for Expansion

In spite of the fact that there was no agreement on the technical and scientific cooperation between India and GDR till 1969, there were numerous examples showing the delivery of technical know-how and economic assistance by the GDR to India. For instance with the collaboration of GDR firms, India was producing machines tools (HM), office equipment (Godrej), electrical equipment (Electric Construction and Equipment Co.), cables (Premier Cable Co.), welding electrodes (Arc electrodes).

There are still many possibilities for extending these economic relations between India and GDR. This concerns not only the number of items within the exchange of goods but the development of preconditions for extensive economic cooperation.

37. ibid., p.35.
38. ibid., p.38.
To assist India in the fast expansion of her merchant fleet, the shipbuilding industry of the GDR has provided so far a commercial credit worth $360 million within one year. The credit terms were very favourable for India. The credit was repayable in ten yearly instalments at a very low interest of 3.75 percent only. 39

The items of India's imports from GDR were of a very high import priority in India's development plans. The green revolution and the efforts to increase productivity in India's agriculture very much depend upon imports of fertilizers and agriculture machinery, especially the tractors. As trade with GDR is entirely financed through non-convertible rupee accounts, supplied of such high priority items to India by GDR have resulted in the saving of considerable amounts of free foreign exchange. In addition to this, bilateral nature of India's trade with GDR provided a good market for India's expanding exports. 40

One feels that the economic and trade relations between GDR and India are essential for the friendly relations between the two peoples. This initiative should result also in an over all in development and extention of their mutual relations.