Chapter - IV

TRADE RELATIONS

1. Trade and Payments Agreements in International Trade Policy

In the heyday of gold standard before the First World War, the system of multilateral trade and payments was accepted as the most efficient mechanism of international commerce. This was based on a belief that the trading countries would derive the maximum advantage from international specialisation, which alone ensured the optimum allocation of world resources. The maximisation of world welfare, therefore, necessarily meant free trade and free multilateral settlements of accounts. These conditions, it was thought, would provide the choice of buying from the cheapest sources and selling to the dearest markets. 1

The delicate mechanism of international trade and payments, based on multilateral trade and convertibility, was set at naught by the developments that followed the First World War and the great depression of 1929-33. All the attempts in subsequent years to resurrect the gold standard proved unsuccessful, as the favourable conditions for the operation of the delicate mechanism of gold standard were no longer prevalent.

On the other hand, the nexus of such a delicate system, which was already tottering, completely broke down. A real conflict did not, however, develop until the depression of the early thirties when trade with its interlocking and integrating multilateral trading channels broke down and drastic import restrictions were introduced by several countries.²

Import restrictions, exchange restrictions and clearing agreements became the norms of the day. These were motivated by three objectives: (i) easing foreign payments difficulties caused by the shrinkage of export markets; (ii) protecting domestic industries and agriculture from the effects of depression; and (iii) ensuring employment. The emergence of import restrictions and exchange controls was justified on the ground that domestic economic stability and maintenance of full employment should be subservient to the stability of the exchange value of the currency and balance of payments.³

India's Foreign Trade is based on bilateral trade and payments arrangements. It is not a new phenomena. India had a bilateral trade agreement with UK even during the World

². Ibid. p.2.
³. Ibid. p.2.
War II, which continued in the post war period.

The developments in India's foreign trade till the period 1955/56, had been by and large, similar to those during the pre-independence period. These were: (i) a small share of foreign trade in the national income; (ii) heavy concentration of exports in a few commodities resulting from inadequate industrialisation; (iii) adverse trade balance; (iv) consumer goods constituting an important segment of imports for lack of heavy investment programmes; and (v) geographical concentration of exports and imports. 4

The quantitative importance of foreign trade in national income had been small. The share of exports of goods and services in the national income had been fluctuating between 5 and 8 percent. The corresponding fluctuations in the share of imports of goods and services had been within a range of 6 to 10 percent. In terms of its contribution to India's development needs, international trade played a more important role than these figures indicate, for imports provided the much needed capital equipment and technical know-how. 5

4. Ibid pp.11-12.
The period 1951/52-55/56, continuously experienced an import surplus. Exports did not grow as fast as imports, and on an average financial aid only 83.4% of total imports. The commodity composition of exports and imports was almost the same as in the forties. A few commodities such as jute textiles, cotton fabrics, coffee, spices and leather continued to dominate India's exports.⁶

INDIA'S OVERALL BALANCE OF TRADE, 1951/52-1955/56

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IMPORTS</th>
<th>EXPORTS</th>
<th>TOTAL BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>97003</td>
<td>73294</td>
<td>-23709</td>
</tr>
<tr>
<td>1952-53</td>
<td>70159</td>
<td>57712</td>
<td>-12447</td>
</tr>
<tr>
<td>1953-54</td>
<td>61020</td>
<td>53049</td>
<td>-7971</td>
</tr>
<tr>
<td>1954-55</td>
<td>65634</td>
<td>59243</td>
<td>-6391</td>
</tr>
<tr>
<td>1955-56</td>
<td>67684</td>
<td>57632</td>
<td>-10252</td>
</tr>
</tbody>
</table>

SOURCE: Office of the Economic Advisor, Govt. of India.⁷

⁶ Chishti, op. cit. p. 12.
⁷ Ibid. p. 12.
2. Prospects For West Germany

The Indo-German trade relations entered a new era with the independence of India in August 1947, and official termination of war against Germany. Before the World War II trade relations between Germany and India, which at that time also included Pakistan, were comparatively important for the foreign trade of both countries.

Germany adopted clearing agreements, on the one hand, to boost exports, and exchange controls and other measures to restrict imports, on the other. This was fostered by the political belief that the German people would be nourished by the products of the German soil.

Germany followed a policy of clearing agreements with a number of countries, which would find no alternative markets for their exports. Under this system, payments for imports into Germany were made to the clearing account in German marks, which could be utilised only for making payments for German goods.

The use of trade and payments agreements as an instrument of trade was not confined to Germany alone but was used on a wider scale by other countries of Europe also. Thus these

10. Ibid., p. 3.
agreements governed not only trade within the European countries but also between the countries of Europe and the rest of world. In addition to clearing agreements, bilateral treaties were signed. These practices were further strengthened during the World War II. Under the exigencies of the war and with the collapse of the German clearing system, bilateral trade and payments agreement came into wider usage than before.\textsuperscript{11}

India being a member of the British Commonwealth of Nations, did half her foreign trade with the countries belonging to the commonwealth i.e. previously with Great Britain.\textsuperscript{west} Germany, however, ranked second in imports and third in exports. In 1936/37 Germany still supplied about ten percent of India’s import requirements, and took off over five percent of the Indian exports. Thus Germany was, apart from Britain, by far the most important European business partner of India. She supplied India in the first place with machines and mechanical equipment, but also with textiles, glass, ceramics, metal goods bought and other consumer goods, while she chiefly, raw materials such as jute, cotton, hides and skins, besides manganese, mica, tanning materials and dye-stuffs, lacquers and resins as well as oil seeds from India.\textsuperscript{12}

\textsuperscript{11} Ibid. p.3.
\textsuperscript{12} Chamanlal, op. cit, p.141.
It is not fair to expect any country, not the least a developing country like India, to expand her trade in the face of such a heavy imbalance year after year. (The average annual deficit during the First Plan was of the order of Rs. 240 million which rose to Rs. 920 million during the Second Plan. During the Third Plan period, the average deficit was marginally lower at Rs. 870 million. Turning Rs. 1370 million in 1966-67, Rs. 1220 million in 1967-68, Rs. 930 million in 1968-69 and Rs. 540 million in 1969-70). The natural reaction of New Delhi to such soaring deficit was to meet it by cutting down imports from West Germany. From Rs. 1900 million in 1966, India's imports came down to Rs. 1590 million in 1967, Rs. 1150 million in 1968 and Rs. 1000 million in 1969. As a result, the trade deficit also narrowed down to less than Rs. 550 million in 1969. This was certainly not an ideal situation, especially when both New Delhi and Bonn were anxious to expand their trade relations. It was however, an inescapable outcome, India was obviously anxious to finance her imports primarily through her export earnings and as such some sort of balancing in trade was necessary with all countries. 13

Germany claimed that her indirect imports from India exceeded considerably her indirect exports. In particular, it has been argued that although India's trade deficit in direct was Rs.930 million in 1968-69, she had a surplus of as much as Rs.360 million in indirect trade. The net deficit on a combined basis, it was argued, was only Rs.570 million which was more than covered by German aid disbursement through bilateral and multilateral channels. 14

The second argument often advanced by the German side that foreign aid in real terms (rather than in monetary terms) could be transferred only through a trade deficit. Such argument however suffers from an over-concentration on the trade deficit and ignores completely the larger question of expanding the two way trade. This question was important because Indian imports from Germany can grow only when there was an almost parallel growth of exports to Germany. 15

The Indo-German trade has a long history. It was only at the beginning of the fifties that Germany emerged as one of the India's principal trade partners. India in 1951 had

15. Ibid. p.viii.
* Appendix = 5.
launched the first of her Five Year Plans and with it her
demand for capital goods was to grow steadily and rapidly.
West Germany, on the other hand, at the same time had recovered
from the breakdown of her economy after the war and could
offer her high quality goods at competitive prices. 16

As India has made the industrialisation of the country
the aim of the Five Year Plan published on June 9, 1951, she was
interested in the first place in investment goods, and not so
much in consumer goods, the importation of which as far as
they were non-essential was being restricted deliberately. 17

Most of all, India required, apart from whole plants,
agricultural, electrical and textile machines, but transport
material, such as engines, etc. were also in great demand.
Generally import restrictions for machines were removed so
that nearly all kinds of machines could be imported under the
open General Licence without special formalities. Besides,
India's requirements of machines, both regarding replacement
for the old machines formerly imported from Germany and for
the new industrialisation programme, were so large that the
German machine industry probably would have good prospects of

16. Seitz, Konrad: Indo-German Economic Cooperation: A
17. Chamanlal: Germany Reborn, p. 141.
doing business with India. Germany was, however, to meet with strongest British and American competition in this field.\textsuperscript{18}

The volume of trade between India and Germany reached its highest level in 1928 when Germany alone received goods from India for 711 million RM (Reichs Marks) (five percent of the total German imports). In the thirties trade between the two countries declined by about 75 percent owing the world depression and the introduction of preferential duties for members of the commonwealth. In the war years Germany lost her position on the Indian mark t completely, and after 1945 old trade relations could be resumed only slowly.\textsuperscript{19}

The trade of west Germany with India did not take a favourable turn until the war was terminated by India (January 1, 1951). The quotas fixed in the trade agreement on July 4, 1950 were exceeded. This trade agreement which provided deliveries of machines and metal goods, iron and steel, chemicals, instruments and appliances and for a small amount, non-ferrous metals on the German side and deliveries of food and agricultural products, hides and skins, textiles, chemicals, mica, manganese and fibres and bristles on the Indian side** was

\textsuperscript{18} Ibid; p.141.
\textsuperscript{19} Ibid; p.142.
\textsuperscript{*} Appendix - 1.
\textsuperscript{**} Appendix - 2.
extended until the end of the year. Negotiations were conducted at Bonn for some weeks to negotiate another prolongation, and the drawing up of new lists of goods for another year. Above all things Germany wanted concession for the export of the iron wire, sheet metal goods, certain metal goods and of products of wood, paper, leather, glass and plastic industries. 20

In the first eight months of 1951 the Federal Republic could already supply India with German products for 144 million German marks—nearly five times more than in the same period of the previous year. On the other hand she was able to buy in India only for about 74 million German Marks (1950 = 35 million DM). 21

Negotiations for renewal of trade arrangement between India and Germany were conducted in New Delhi on November 5, 1952. It resulted in the signing of agreements of discussions on commercial relations between two countries.

Q.N. Sukhthakker, Secretary Ministry of Commerce and Industry, signed on behalf of India Government and Doctor Van Scherpenberg, leader of German trade delegation, signed on behalf of the Government of the Federal Republic of Germany. 22

The revival of trade between Germany and India since the war has been as spectacular as the revival of the German economy. It first originated in 1947 with small orders which were subject to the approval of the military government and subsequently were handled by the joint export-import agency, an Allied organization which sponsored overseas trade of occupied Germany. Indian commodities were again in demand, but the pattern of the trade had considerably changed both because of the partition of India on one hand and the division of Germany on the other. 23

Both India and Germany are struggling to find an equilibrium in their economy. Both have to work hard to raise their living standard. There is abundant good will on both sides to work together. There are no apparent obstacles in their way to cooperate solving problems of common interest. It can be safely said that if politicians do not plunge the world into another war India and West Germany will become best partners in trade, aid and development. 24

3. Trade and Payments Agreements with East European Countries:

Trade agreements between India and the East European countries originated from their earnest desire to expand their trade.

24. Ibid., p. 147.
with each other. The agreements constitute a single instrument consisting of trade and payments arrangements. Their duration is three to five years.26

All the agreements prior to 1951 had a clause stating that payments relating to commercial and non-commercial transactions between India and East European countries were to be effected in Indian rupee or pound sterling.26

Since 1951, new payments arrangements have been concluded. According to the payments clause in all the agreements since 1959, all payments of commercial and non-commercial nature between India and the other agreement partners are to be effected in non-convertible Indian rupees. Only in the case of the USSR, it is stated that all payments for commercial and non-commercial purposes will be effected in Indian rupees.27

In all agreements, the contracting parties have agreed to give the "Most Favoured Nation Treatment" to each other in respect of customs duties and other local charges. And there will be no other restrictions. However, this does not apply to the concessions or advantages, which will be accorded by the either government to contiguous countries with the purpose

27. Ibid, p.6.
of facilitating frontier trade, preference and advantages accorded by India to any third country and existing on December 2, 1953 or in replacement of such preferences as existed prior to 1947 and any such advantages that India grants to one or other developing countries.28

The two governments of the contracting parties normally express their willingness to assist in arranging for business contacts in various fields. It is, of course, understood that the resulting contracts, if any, will be made directly between the two parties concerned. It is also stated that they would provide all the facilities for encouraging trade between the countries.29

Prior to 1955, India's trade with East European countries was quite insignificant. Imports amounted to Rs.33.9 million in 1953-54, while exports were of the order of Rs.70.9 million. In 1970-71, imports and exports reached the level of Rs.2258 million and Rs.3617 million respectively, i.e. a growth of 636 percent in the case of imports and 510 percent in the case of exports. This phenomenal expansion of Indian trade in this region becomes more evident when compare it with the rather low annual rate of growth, viz, 6.8 percent of total

Indian trade during this period. India's trade with other major trading partners like the United States of America and the United Kingdom grew at a much lower rate when compared to the rate of growth of Indian trade with the East European countries. For instance, India's exports to developed market increased much less. While exports to the USA doubled during this period, export to the UK registered a marginal increase of only 12 percent. It is, of course, evident that the high rate of expansion of trade with the East European region is partly accounted for by the low level of India's trade with this region in 1953-54. Table II shows India's imports and exports to the East European countries during the period, 1953/54-1970/71.

**TABLE II** INDIA'S TRADE WITH EAST EUROPEAN COUNTRIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>339.0</td>
<td>17345.5</td>
<td>22657.9</td>
<td>22320.0</td>
<td>30957.0</td>
<td>28366.0</td>
<td>22582.0</td>
</tr>
<tr>
<td>Exports</td>
<td>709.7</td>
<td>14527.1</td>
<td>22646.8</td>
<td>22494.0</td>
<td>26651.0</td>
<td>30767.0</td>
<td>36166.0</td>
</tr>
<tr>
<td>Balance</td>
<td>+370.0</td>
<td>-2818.4</td>
<td>-11.1</td>
<td>+274.0</td>
<td>-4306.0</td>
<td>+2407.0</td>
<td>+13564.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Economic Adviser to the Government of India, Basic Statistical Material relating to Foreign Trade. 30

In terms of relative share, this region's importance to India had been growing during this period. The share of these countries in exports grew from 0.9 percent in 1953-54 to 22.9 percent in 1970-71 while their share in imports increased — from 0.4 percent to 17.9 percent in 1969-70, but slightly declined to 14 percent in 1970-71 as shown in table III.

**TABLE - III**

PERCENTAGE OF SHARE OF EAST EUROPEAN COUNTRIES IN INDIA'S EXPORTS AND IMPORTS IN SELECT YEARS.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953-54</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>1957-58</td>
<td>4.3</td>
<td>3.7</td>
</tr>
<tr>
<td>1960-61</td>
<td>7.5</td>
<td>3.9</td>
</tr>
<tr>
<td>1964-65</td>
<td>11.6</td>
<td>11.4</td>
</tr>
<tr>
<td>1969-70</td>
<td>21.9</td>
<td>17.9</td>
</tr>
<tr>
<td>1970-71</td>
<td>22.9</td>
<td>14.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Economic Advisor to the Government of India, *Basic Statistical Material relating to Foreign Trade.*

The share of East European countries in India's export trade of major commodities, which was negligible in 1955, has increased tremendously. The East European countries have been emerging as important suppliers of many commodities. 32

4. Prospects for East Germany:

In the two decades, fifties and sixties, the trade between the socialist block and the developing countries has emerged as a very dynamic factor in world trade. India has been foremost among the developing nations in forging active and growing trade relations with the socialist countries. From a mere Rs.86 million in 1953 to Rs.4967 million in 1968 is indeed impressive growth. 33

The history of Indo-GDR Trade Relations which started in 1954 shows definitely favourable results. From the modest figure of Rs.22 million in 1955, first year of official trade relations between the two countries within the framework of the first Trade Agreement entered into on October 16, 1954, the turnover increased steadily. 34 In 1958 when the turnover already amounted to Rs.76 million a Supplementary Agreement was signed in 1956 and it was laid down there that all payments for the future exchange

---

32. Ibid., pp.20-21.
33. "India-East Germany, Expanding Trade Relations", in Capital Calcutta, November 6, 1969, p.800
of goods as well as payments for non-commercial purposes have to be made in Indian rupees only. That was the time when the rupee payment for the trade between the GDR and India came into existence. 35

From that time it has been possible for India to finance all imports from the GDR on the basis of its exports earnings to that country. This gave momentum to the Indian exports on the one hand, and on the other hand, it prevented any chronic imbalance of payment.* On the basis of these trade and payments agreements, the trade turnover had increased steadily. 36

In December 1959, a new long-term trade and payments agreement had been concluded between the two countries. Under this agreement the trade turnover increased from Rs. 225 million in 1960 to Rs. 371 million in 1963. The agreement signed in New Delhi in September 1964 brought about another increase of turnover to Rs. 421 million in 1967. In January 1969, long-term trade and payment agreement was signed for the first time by government delegations of both sides. According to this agreement which served as the basis of their economic relations the turnover of Rs. 440 million in 1968, was expected to

---

Due to bilateral trade and payments agreements, India’s trade with East Germany has risen from a negligible Rs.1.37 million in 1953 to Rs.434 million in 1968, with imports moving up from Rs.1.72 million to Rs.225 million and exports to East Germany increasing from Rs.0.15 million to Rs.209 million. The expansion in trade has been accompanied by progressive diversification and a steady increase in the share of non-traditional items. The principal items of imports from East Germany are fertilizers, tractors and other agricultural machinery, printing machinery, rolled steel products and special steels, x-ray films and other photographic materials, laboratory and scientific instruments for educational and research institutions, organic and inorganic chemicals, etc. In 1968, fertilizers and raw materials constituted 40.7 percent, machinery 24.7 percent and rolled steel products 15.8 percent of India’s imports from East Germany. During 1969 East Germany has also emerged as a supplier of ships—contracts have been concluded for the import of ships valued at Rs.500 million. On the export side, the principal items of primary products were, de-oiled cakes,

37. Ibid. p.1067.

* Appendix - 13.

** Appendix - 3.
jute manufacturers, tanned hides and skins, cashew kernel, iron ore, tea, coffee, coir yarn, tobacco, mica and black pepper. Manufactured items include cotton textiles, knitting machines, aluminium ingots, radiators, wire ropes, dry and storage batteries, textile machinery, linoleum, etc.** 38

The growth of Indo-GDR trade has been quite remarkable over the past 15 years. However, the volume of trade between the two countries reached a substantial size only during the 1960's and more particularly from 1965 onwards. In the early fifties trade with GDR, was only two percent of India's total trade with the East European countries. By 1968, this has gone up to eight percent. In 1970, GDR became the fourth largest trading partner of India in the region of Eastern Europe, next only to the USSR, Czechoslovakia and Poland.*** Considered from the side of GDR, India was her second largest trading partner amongst the developing countries, only after the United Arab Republic.39

Indo-GDR trade was entirely governed by the bilateral trade agreement entered into between the two governments. The first agreement between India and GDR was signed in 1954, providing for trade exchange for a period of 10 years. A second trade

** Appendix - 4.
38. "India-East Germany, Expanding Trade Relations" in Capital, Calcutta, November 1969, p.800.
*** Appendix - 9.
agreement was, therefore, signed on September 12, 1964, with provision for periodical extensions up to January 31, 1969. On January 23, 1969, a third agreement was signed, and this was to remain in force up to the end of the year, i.e., December 31, 1971. For the trade protocol for 1970, letters were exchanged between India and GDR on October 26, 1969, in Berlin. 40

In 1970 an office of India’s Trading Representative in GDR was, established. GDR established its Trade Representative’s office in India quite some time ago. 41

In 1970, India was exploring immediate export possibilities for cast iron products, small files, shock observers, electoral portable drill machines, textiles, spares and accessories, switches, wagons and refrigerators. The 1969 shopping lists between the two countries provide for the two-way exchange of goods to the extent Rs. 730 million. The future thus holds out hopeful prospects of the steadily increasing level of trade exchanges. But a steady expansion of bilateral trade requires evolution of a long-term perspective and intensive exploration of possibilities and growth points in the two-way trade exchanges. This, in turn, demands free and frank and in depth

40. Ibid. p. 122.
41. Ibid. p. 122.
discussions of the various issues involved. This was precisely what the sponsors of the seminar on "Indo-GDR Economic Coopera-
tion" had in mind. The seminar was held in October 1969 in Bombay and presided by Mr. Manubhia Shah, had been jointly
sponsored by the Indian council of Foreign Trade, All India
Manufacturer's Organisation, Indian Institute of Foreign Trade
and the Chamber of Foreign Trade of the German Democratic
Republic. Deliberations at the seminar point to the vast scope
for expanding the trade between the two countries and quite a
few suggestions have been made by the participants to the
seminar on how to go about the job.  

Non-Traditional Increase:

India's exports to GDR consist of both primary products
as well as manufactures, tanned hides and skins, cashew kernel,
tea, coffee, coir yarn, tobacco, mica, black pepper and iron
ore. Of these, deoiled cakes constitute the largest single
item.  

Over the past couple of years, however, the proportion of
non-traditional items in India's exports to GDR has increased
from 21.9 percent in 1966 to 35.5 in 1968. The trends in the
proportion of traditional and non-traditional items of India's

42. "Indo-East Germany, Expanding Trade Relations" in Capital
Calcutta, November 6, 1969, p. 801.

43. Vithal. op.cit, p. 122.
exports to GDR are given in table No.IV.  

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRIMARY PRODUCTS</th>
<th>MANUFACTURED GOODS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>78.1</td>
<td>21.9</td>
</tr>
<tr>
<td>1967</td>
<td>68.5</td>
<td>31.5</td>
</tr>
<tr>
<td>1968</td>
<td>64.5</td>
<td>35.5</td>
</tr>
</tbody>
</table>

GDR being a fast growing economy, undergoing increasing degree of sophistication, provides ample opportunities for exports of simple manufactures from India. The main items of manufactures, in India's list of exports to GDR have been, knitting machines, dry and storage batteries, flanges, wire ropes, faders, aluminium ingots, printing machinery, textile machinery, linoleum and cotton textiles. Exports of engineering goods to GDR, have increased considerably over the past four to five years. From the modest level of just Rs.3.5 million in 1964, India's exports of engineering goods to GDR have increased to Rs.18.4 million in 1968. The Leipzig Industrial Fair, regularly organised by the GDR in which India had been a regular and leading participant, have proved to be a very useful channel for introducing Indian engineering products in GDR markets.

---

44. Ibid. p.122.
I. Role of State Trading Corporation in Indo-GDR Trade:

The State Trading Corporation has been playing an important role in India's trade with East European countries, including the GDR.

The imports of STC from the GDR have steadily declined, while exports have increased as shown in the Table V.46

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IMPORTS</th>
<th>EXPORTS</th>
<th>IMPORTS</th>
<th>EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>STC Trade</td>
<td>India's Trade</td>
<td>%age</td>
<td>STC Trade</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>1/3</td>
<td>3</td>
</tr>
<tr>
<td>1966-67</td>
<td>91.53</td>
<td>209.1</td>
<td>43.8</td>
<td>4.21</td>
</tr>
<tr>
<td>1967-68</td>
<td>34.31</td>
<td>215.7</td>
<td>39.1</td>
<td>4.9</td>
</tr>
<tr>
<td>1968-69</td>
<td>73.61</td>
<td>205.3</td>
<td>35.8</td>
<td>4.9</td>
</tr>
<tr>
<td>1969-70</td>
<td>55.80</td>
<td>243.2</td>
<td>22.8</td>
<td>10.87</td>
</tr>
</tbody>
</table>

**IMPORTS:**

The State Trading Corporation handles import from the GDR in two parts:

a) direct imports; and b) indirect imports.

---

The direct imports of STC from the GDR consist of mainly muriate of potash, fertilizers, caustic potash and agricultural tractors. With the transfer of imports of muriate of potash and fertilizers to the Minerals and Metals Trading Corporation, STC's imports from the GDR was substantially reduced during 1970-71. Imports of these main commodities during 1967-70 is given in Table No. VI. 47

<table>
<thead>
<tr>
<th>TABLE - VI</th>
<th>STC'S IMPORTS (ITEM WISE)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(US. million)</td>
</tr>
<tr>
<td></td>
<td>1967-68</td>
</tr>
<tr>
<td>Muriate of potash</td>
<td>46.46</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>25.17</td>
</tr>
<tr>
<td>Caustic potash</td>
<td>3.00</td>
</tr>
<tr>
<td>Tractors</td>
<td>-</td>
</tr>
</tbody>
</table>

In addition to the above mentioned direct imports, fairly, large imports also arranged by STC on "stock and sale" basis through its business associates. In such

47. Ibid. p. 281.
imports, STC issues licence to its business associates who in many cases were also the agents of the GDR suppliers, enabling thereby efficient after-sale-service to the actual users. The total values of such licences received by STC from the Government of India during 1967-70 for various items on "stock and sale" basis are as in table VII. 48

TABLE - VII

<table>
<thead>
<tr>
<th>YEAR</th>
<th>VALUE (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68</td>
<td>70.73</td>
</tr>
<tr>
<td>1968-69</td>
<td>60.70</td>
</tr>
<tr>
<td>1969-70</td>
<td>59.74</td>
</tr>
</tbody>
</table>

The main commodities imported on "stock and sale" basis were printing machinery, photographic goods, ball, roller and tapper roller, bearings, machine tools, welding machines, electrical and electronic measuring instruments, cinematographic films, various chemicals, harvester combines

48. Ibid. p.262.
and optical instruments. On "stock and sale" imports STC controls the final sale price to the actual user, while after sale and repair service was being given by its business associates.49

Exports

On exports side, STC's main trade with the GDR had been in cotton textiles, jute goods, machine tools and knitwear. In 1970, STC has been able to introduce in the GDR market non-traditional items like radiator, storage, batteries, locks and padlocks etc. Exports of some of the major items during 1967-70 have been as shown in table VIII.50

<table>
<thead>
<tr>
<th>TABLE - VIII</th>
<th>(Rs. million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1967-68</td>
</tr>
<tr>
<td>Textiles</td>
<td>3.20</td>
</tr>
<tr>
<td>Footwear</td>
<td>0.18</td>
</tr>
<tr>
<td>Engineering goods</td>
<td>0.05</td>
</tr>
</tbody>
</table>

49. Ibid. p.282.
50. Ibid. p.283.
It would be interesting to note that Indian Chappals were becoming very popular in the GDR market. The quality was considered to be extremely good and price fully competitive. There was very good scope for selling Indian chappals of the design required by the GDR. In 1970, leather chappals exports of STC aggregated to about one million rupees. It was understood that these chappals were sold in the GDR within a couple of weeks from the date they were put on sale in the shops.51

It is a well known fact that STC had put India on the world map of exporters of rolling stock. As a result of its successful exports of railway wagons to Hungary and South Korea - and that too of a substantial value and against competition of developed countries - many countries including the GDR have been attracted to look to India for their purchases of railway wagons.52

The State Trading Corporation had found the GDR market to be very prospective not only for traditional items but also for the difficult-to-sell items. However, India has to

51. Ibid. p.283.
52. Ibid. p.283.
face competition from developed countries, specially from Western Europe. With the necessary infrastructure built in India for the manufacture of more sophisticated items, it would be possible to enter the GDR market without much difficulty.\footnote{53}

The GDR trade was mainly confined to Comecon countries accounting for about 80 percent of its total trade. The balance was with the non-Comecon countries. However, preference was given by the GDR to countries like India and the UAR with which it had bilateral trading agreement.\footnote{54}

It could be said that India's trade with the GDR has reached the take-off point and with further development of industries in both the countries, close trade contacts already developed will be further strengthened.\footnote{55}

II. Future of Indo-GDR Trade

The foreign trade policy of GDR in 1970, has undergone some important changes:

1. Foreign trade rights, until recently a monopoly of imports and export agencies operating under the direct supervision of the Ministry of Foreign Trade, have now been

\footnote{53}{Ibid. p. 283.}
\footnote{54}{Patel, op. cit. p. 283.}
\footnote{55}{Ibid. p. 283.}
granted to a large number of industrial firms. It is envisaged that about — 50 percent of GDR’s foreign trade will come under this category.

2. Like Hungary and Czechoslovakia, GDR has also abandoned the official rate of exchange for her currency. A wide range of 'currency multipliers' has been introduced to the official rate, more realistic and applicable to foreign deals. 56

To encourage exports to certain markets, the multiplier value was increased above one, thus allowing the exporter to earn more Ostmarks (GDR currency unit) per each dollar or pound earned, than would be possible at the official rate of exchange. Similarly, in order to restrict imports, the value of the multiplier was decreased. 57

Basically the expansion of trade in future between the two countries will depend on India’s success in marketing manufactured goods in East Germany just as the East Europeans are finding that the growth in their trade with the West is linked to the latter’s willingness and ability to absorb

56. Vithal, op.cit, p.123.
57. Ibid. p.123.
simple manufactures from the socialist countries. But Mr. H. Pflaum, Trade Commissioner of the GDR in Bombay in 1969, did well to underline that this country still depends on traditional items for 70 percent of its exports and that East Germany some items finds it difficult to obtain the traditional products even though willing to buy them. By implication he was pointing his finger and rightly too—India's neglect of building up exportable surpluses in the traditional items in her enthusiasm, for exports of non-traditional goods. This is a criticism with which India's jute, tea and other traditional industries, which are constantly pleading with the Government to look sympathetically into their problems, will readily agree. 58

It is necessary, however, for India to recognise the limitations inherent in a trade agreement based on the principle of balancing of imports and exports. India can extend its export provided it can increase its import from East Germany. This was a point which was raised in the statements made at the seminar held in Bombay in October 1969, by the East German participants such as Mr. R. Murgott, President of the Chamber

of Foreign Trade of GDR, Mr. H. Sachse, Commercial Counsellor of the GDR and Mr. Pflaum. Mr. Sachse, for instance, conceded that East Germany could possibly buy more of non-traditional goods from India but he said, the balance of trade considerations forced the GDR in deciding on imports according to priorities. In his view, the problem was not so much of marketing as that of planning involving incorporation of the principle of division of labour. Mr. Pflaum sought to underline the same point by drawing attention to how East Germany had changed its programmes of manufacture of motor batteries and hand-knitting machine because of availability of good products from India. 59

Obviously, many issues will arise in the context of the further growth of the trade between the two countries. These will need careful consideration and this is why the seminar welcomed the opening of a Trade Representation of India in GDR on October 4, 1969, the 20th anniversary of the Republic. Mr. Ranganathan, who has been posted as Indian Trade Representative, should find himself a busy man. 60

59. Ibid. p. 702.
60. Ibid. p. 702.