CHAPTER I

INDO-GERMAN RELATIONS, 1949-1990

ADVENT OF INDO-GERMAN COLLABORATIONS

Historical links between India and the Federal Republic of Germany (FRG) date back to the sixteenth century and to eminent Germans like Goethe, Max Mueller, Schopenhauer and Paul Mueller Deussen all of whom are affectionately remembered in India. Some of them also introduced Indian religion, culture and tradition to the western world. Trade between the two countries, however, did not pick up till the nineteenth century and the relationship between the two can be truly analysed only after the Second World War with the birth of the Federal Republic of Germany in 1949.

Both Germans and Indians have recent experiences of nationalism and the world of modern political confrontation. Consequently, they have striven for new horizons in a technologically determined future. The Indians have expanded small beginnings tremendously, while the Germans have built a war destroyed, and dismantled industry. Both made a fresh start in the technical, industrial and economic spheres, the beginnings of a reconstructed state were as recent in that country having had centuries of colonial rule as in the other country which had a few brief years of military supremacy.¹

¹ Walter, Leifer, India and the Germans: 500 Years of Indo-German Contact (Bombay, 1997), p. 271.
The 1950s saw the two countries in a somewhat similar situation. Germany’s economy was totally shattered and its fate was sealed in the hands of the four allies (America, Great Britain, France and Soviet Union), was divided into two - the Federal Republic of Germany (or West Germany) and the German Democratic Republic (or East Germany). On the one hand, a large part of land was irretrievably lost and on the other, millions of refugees poured into a truncated West Germany. The economic recovery of FRG in such adverse conditions is an achievement unparalleled in history.

At the same time, India was recovering from the trauma of foreign domination, which had left behind teeming millions in abject poverty. Moreover, the dilemma of partition brought along with it refugees in large numbers. India also inherited from its colonial heritage a weariness of foreign capital, which made the new Government of independent India adopt a closed economy. Thus, the Indian Government’s decision to strive for industrial and economic development based on the latest available technology but under stringent controls on Imports, made India look towards countries like Germany which were ready to supply their latest technologies without interfering in India’s internal affairs. Thus, the first Trade Agreement on a non-colonial pattern was signed in 1950 between the two countries. 2

For several years after attaining independence, India followed a policy of not recognising either of the two states in a divided country (for e.g. North Vietnam, South Vietnam, North Korea - South Korea). However, in case of West Germany, India was

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the first country to end the state of war, on 1 January 1951 - months before Britain, France and the U.S. did - as also the first to accord formal recognition to the Federal Republic when, towards the end of 1951, the Allied High Commission allowed Bonn to exchange diplomatic missions with other countries.

It was only after Federal Chancellor Willy Brandt came out with his policy of Ostpolitik, that the Indian Government raised the level of their representation in the German Democratic Republic, the Trade Representations of the two countries were raised in August 1970 to Consulates-General and it was only in October 1972 that the Ambassador from GDR presented his credentials to the Indian President. However, the diverging geo-political and security interests between India and West Germany left little room for convergence in political relations. While India, following Prime Minister Jawaharlal Nehru's non-alignment policy was concerned with balancing its relationship with the two Super Powers and the newly independent countries of Asia and Africa with special attention focused on its neighbours in South and South-East Asia, Germany was more interested in attaining a permanent place for itself amongst the Western capitalist democracies and its membership of the European Community and North Atlantic Treaty Organisation (NATO).

India had all along realized that West Germany, being a front-line State bordering on the Soviet bloc and dependent for trade and security on the United States, would have to pursue a foreign policy which, in the ultimate analysis, would reflect American interests and concerns. Prime Minister Nehru's views towards Europe were also somewhat biased towards Paris and London. He was much more closer to
Charles de Gaulle than to Chancellor Konrad Adenauer. Yet, though highly critical of the South East Asian Treaty Organisation (SEATO) and Central Treaty Organisation (CENTO), Nehru never criticised the Germans for their membership of NATO.

A cordial relationship between the two countries also remained intact because of the fact that FRG not being a member of the UN, at that time, did not have to take a stand on controversial issues where American global policies clashed with India's regional interests. 3

The 1970s can be characterised as a decade of lean relationships between India and the Federal Republic. The image created of India by Nehru in the international arena was shattered for a number of reasons:

(i) Indo-China war in 1962 followed by an inconclusive war between India and Pakistan in 1965.

(ii) The Indian National Congress' tilt towards the left after its break up in 1969.

(iii) The growing Indo-Soviet friendship was looked upon with suspicion. The Federal Republic, expressed misgivings over the reference to the German question in the Indo-Soviet communique of 16 July 1966.

(iv) The National Emergency in 1975 adversely affected Western opinion.

(v) The euphoria about China also influenced the West including the Germans and concern was expressed over the Federal Government's guarantee to a consortium of European firms proposing to set up a steel plant in China.

(vi) West Germany, now a member of the United Nations and represented in the other international fora, tended to reflect the American stand.

During 1966-67 India showed its anxiety over the sale of Sabre jet aircraft to Iran, which, India found was diverted to Pakistan.

Moreover, India’s policy of import substitution, high taxation and protective duties, made India opt out of the world market and industrial collaborations.

Championing the cause of the Third World, India also clashed with the Western powers in the struggle for a New International Economic Order, the restructuring of the post-war Bretton woods economic system. The international situation was also not favourable. The Yom Kippur War followed by the oil crisis, a wave of anti-Americanism in the Middle East, the Iranian crisis, Soviet intervention in Afghanistan, feverish re-armament of Pakistan as a frontline State, the onset of a second and even more vicious Cold War between the two Superpowers and rapid deterioration of Indo-American relations, made America’s allies, like the Federal Republic of Germany, a little more cautious towards India lest they should offend American susceptibilities. Despite the cautious attitude of West Germany towards India, there were still points of convergence. For example, regarding the Palestine question and the Bangladesh crisis in 1971, when West Germany was in broad agreement with India’s policy of diplomatically persuading the international community to bring pressure on Yahya Khan, to find a political solution rather than a military solution of the problem.

Despite many divergences in their approach to the international affairs, a political equilibrium was maintained between the two countries and this was reflected in the exchange of State visits by their governmental leaders. This includes Jawaharlal Nehru (1956), Morarji Desai, Indira Gandhi and Rajiv Gandhi in their Prime Ministerial
capacities. From Germany, official visits were paid to India by Federal Presidents Heinrich Luebke (1962) and Karl Carstens (1981) and Federal Chancellors Kurt George Kiesinger (1968) and Helmut Kohl (1983, 1986). The growing importance of India was reflected in Chancellor Kohls’s policy statement in 1987, when he declared that his government was “determined to broaden our economic and cultural exchange with India, to intensify our political dialogue and to continue our development cooperation, wherever possible.”

The political dialogue during this period, however, was almost non-existent and it was the economic and technological development which maintained a link between the two countries. As an agricultural land, special attention was given to agricultural projects under the Indo-German technical cooperation programme and revolutionised farming and increased prosperity in Mandi, Almora, Nilgiris and Kangra. Scientific and technical cooperation was extended to geo-seismic research, rocket technology and oceanology.

From the late 1970s India was looking towards Western Europe as an alternative source of arms supply to reduce its dependence on the Soviet Union, important deals were struck with Britain and France. From the Federal Republic of Germany, India acquired four T-1500 series submarines manufactured by the Howaldtswerke Deutsche Werft (HDW) of Kiel in 1986-87, two were delivered into the Indian Navy and two were supplied in kit form which were later assembled at Mazgaon Docks.

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4 Ibid., p.172.

Other development projects include thermal power stations at Sanghrauli, Korba, Ramagundam and Farroka; Kapurthala railway coach factory and a railway spring factory, Modi ply-tyre factory; rural water supply in Madhya Pradesh benefiting 700 villages; housing project of HUDCO and environmental projects etc.

INDO-GERMAN ECONOMIC RELATIONS

During the 1950s and the 1960s, as India’s economic relations with outside countries developed and became more balanced, there was a quick recognition of the great potential for mutually beneficial economic cooperation between West Germany and India.

Starting from a level of practically zero in the immediate post-war period, trade between India and Germany reached a turnover of about DM 1 billion by 1962. The 1960s witnessed a continued growth in commercial exchanges. These were years of exploration, testing each other’s markets, each others’ capacities and each others’ industries and technological capabilities. There was still uncertainty in each about the policies of the other. India wanted more rapid access to the growing markets of the Federal Republic, while in West Germany there were perhaps corresponding uncertainties about India’s policies.

The German side also had concerns about procedural requirements in India about what they perceived as inordinate delays in granting of approvals. On the positive side, was India’s untapped, vast potential market - its diversity and sophistication, its large pool of trained manpower and its growing ability to absorb and adopt modern technology.
A result of these mixed feelings reflect themselves in the survey of development of Indo-German trade since 1956, which shows a highly irregular pattern. In the course of 31 years of trade from 1956-1986, there have been times when the growth rate of India’s exports to Germany plunged to minus 23 percent (in 1967) and then again rose to an unprecedented level of 55 percent (in 1976). By 1986 they were almost seven and a half times as much as they were in 1956.6

Along with the half-hearted attempts at liberalisation by the Indian Government in the late 1970s and early 1980s, it was Britain’s entry into the European Economic Community (EEC) in 1973 which provided this fresh impetus to Indo-German trade in the 1980s. Britain was required by Community rules to progressively adopt the Common External Tariff (CET) to all imports coming into U.K. other than those from the EEC countries. This led to the withdrawal of all concessions available to the Commonwealth States which included India. Thus, India had to think of supplementary markets in other large countries within the EEC such as France, West Germany and Italy.

An important point to be taken into consideration in analysing India’s trade relations with West Germany is the impact of the two hikes in oil prices, first in 1973 and second in 1979. These oil prices did affect the price structure of commodities, exported by OPEC, the industrialised as well as the developing countries. With the rise in oil prices, the industrialised countries, because of their superior bargaining position, were in a position to raise the prices of their exports, in some cases higher than the rise in oil

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6 Ibid., p. 186.
prices and in others lower than that. In addition, they also resorted to the fuel saving devices and alternative sources of fuels. The result was a slump in the demand for oil resulting in a down trend in the oil prices. However, the prices of the goods exported by the industrialized countries did not fully respond to a down trend in the oil prices. This in turn resulted in turning the terms of trade in favour of the industrialized countries.

On the other hand, the developing countries have a lower bargaining power due to their needs of development and consequential import of capital goods as well as import of oil for their transport sector. The result has been a lower price rise of goods exported which are mostly raw materials and semi-manufactured goods. The terms of trade has turned against these countries. Therefore, the volume in trade analyzed here even in US dollar term needs to be seen in the context of these changes, price structures of capital goods, raw materials and fuel inputs.

The growth in India's trade with the major countries of the EEC including Germany, continued through the 1980s. By 1984-85 West Germany became the number one supplier for India within the EEC and its foremost market within the community by 1986-87. ¹ (See table 1.1 and 1.2). On India's part, it was among the least important trading partners of Germany. In 1985, India received 3.42 percent of German exports to developing countries while India contributed 1.58 percent of German imports from all developing countries. (See table 1.3).

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Indo-German trade figures reveal a steady increase in exports from 1971-72 to 1980-81. This was primarily due to the marked improvement in the market accessibility for India’s export products in the market of FRG, as a result of the introduction of the GSP scheme in the EEC in July 1971. In addition, the Indo-EEC Commercial Cooperation Agreement signed in 1974, provided a further boost to India’s exports to FRG. However, the scope for the new openings for India’s exports to FRG tapered off after 1980-81. This stagnation was a result of the pressure exerted by domestic inflation, unemployment and the recessionary trends in the world economy which led to the gradual erosion in the import demand in the FRG.8 It was only in 1984-85 that exports from India once again picked up, reaching an impressive level of Rs. 4,552 million and recording a growth rate of 23 percent over the preceding year.

As for imports from FRG, there has been a steady increase over the entire period. The liberal import policy followed by India from April 1978 combined with the opening up of Indian market from 1981 onwards, resulted in a significant increase in imports from FRG. A positive feature of imports from Germany was that it was mostly increase in terms of machinery and equipment which helped expansion of industrial production capacities and thereby augmented domestic supplies as well as export potential to a certain extent.

Regarding the balance of trade, India has been from the very beginning facing a persistent deficit in her trade with the Federal Republic. From a modest figure of Rs. 815 million in 1976-77, India's trade deficit with FRG increased to a high level of Rs. 8,071 million in 1984-85 and it far overshadowed the record level of exports of Rs. 4,552 million attained for the same year. The negative trade balance which increased consistently during the 1980s, however, had one exception, in 1982-83 when the trade gap declined by about Rs. 1 billion over the previous year. This reduction was caused not by an increase in exports (exports, in fact, declined) but by more than Rs. 1 billion decline in imports from Germany. 9 (See table 1.4).

The West German Charge d’Affaires while speaking in Delhi in 1970 did not consider a trade deficit in itself to be bad: “It must not be overlooked that aid in real, rather than in monetary terms can only be transferred via a trade deficit. If trade is balanced... there can be no net aid in real terms. As long, therefore, as India considers capital import to be useful for speeding up development, it has to plan for a trade deficit equal to the desired amount of net aid.” 10

The persistent large trade surplus in favour of Germany began to decline after 1988. Along with the development in volume of exports after 1985 there has also been a gradual metamorphosis in its composition i.e. one can perceive India’s gradual

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10 Appadorai and M.S. Rajan, India’s Foreign Policy and Relations (New Delhi, 1985), p. 402.
development as an exporter of finished goods to Germany. Whereas in 1956, raw materials accounted for 42.4 percent of the total exports to West Germany, in the 1980s their share fell to 5 percent. In contrast, the share of finished goods of which barely DM 1 million worth was exported in 1956 shot up to 34 percent or almost DM 500 million in 1980s.11

As far as the Foreign Direct Investments are concerned, Germany because of its pre-occupation with its own reconstruction was a late comer and it was only in the 1960s that the German firms started to invest abroad on a large scale. With the biggest share of foreign investments directed to other industrial countries and only a smaller portion going to developing. “In 1980, Germany ranked third in total foreign assets behind the USA, and Great Britain followed by Switzerland, Japan, the Netherlands and France. The share of German foreign direct investments in developing countries in total foreign investment is around 25 percent.” Whereas in other OECD countries this share which was equal for all in 1980 except for Japan (55%) and France (35%) has been more or less constant, in West Germany, the share of investments in total FDI has been declining since the mid 1970s and in 1984 German firms invested only DM 1.4 billion in the developing world. This was only 15 percent of all German investments abroad.12

11 Indo-German Chamber of Commerce, “30 Years of Indo-German Chamber: 30 Years of Co-operation”, Indo-German Economy (Bombay), 30th anniversary issue, 1956-86, 14-20 March, 1986, p.19.

The main reason behind the reluctance of German investors' to invest in developing countries was the fear of investing in the highly indebted Latin American states, which had been the principal host countries of German investors in the past. Coupled with this was West German industries' pre-occupation with meeting the challenges of intensified international cooperation and investing in their own industry to upgrade their technologies. As far as India was concerned, the direct investment of German firms in India between 1980-1990 was extremely poor, especially so when compared to India's size and population.\textsuperscript{13} Germany's direct investment in Brazil, for example, was 28 times larger than that in India. India's share increases, if only investments in industry are considered. The sectoral pattern of German FDI in India show that major investments have been in the manufacturing sector. Other important sectors such as commerce, credit and insurance and mining have been completely ignored. This means German foreign direct investment has not been of diversified nature and is only concentrating in manufacturing sector. In 1980, in the manufacturing sector the chemical industry with a share of 34 percent formed the biggest segment, followed by transport with 21 percent of the total investment of German firms in India's manufacturing sector. Electronics came far below with a mere 14 percent. However, this trend changed considerably by 1989 with the electronics industry emerging as the largest segment with a share of 36 percent, whereas the chemicals declined to 7.1 percent and

machinery from 18 to 6.2 percent. (See table 1.5). What has been emerging is that during the 1980s, there has not been any expansion with regard to German foreign direct investment inflows in real or relative terms, but there has been an increase in one segment at the cost of others, for example, electronics expansion has been possible at the cost of chemicals, machinery and transport equipments. Hence, these trends have not been in the right direction.

Although German private investment was negligible averaging Rs. 4.5 million annually, it was German technical assistance which proved valuable in the modernisation of Indian Industry. Some of the main projects were Nayveli Lignite Corporation, for setting up a model Apprentice School and for Pellitization on survey of iron ore deposits, prototype development at Okhla, Foreman's Training at Bangalore and Tool Rooms at Ludhiana, Aurangabad, Ahmedabad, Indore and Lucknow which helped upgrade tools, skills and management techniques.

Indo-German cooperation had lost momentum of the 1950s and 1960s and it was barely 14 percent of German financial aid to the developing countries, direct or through multinational agencies, 5 percent of technical assistance and less than 2 percent of German private investment that was directed to India, a country exceeding the population of Latin America and Africa put together. Thus, until the mid 1980s Indo-German economic cooperation remained far below German capacity and resources of India's needs and absorptive capacity.

German private investment continued to show a marked preference for the European Economic Community, USA, Canada, South Africa and select countries in the
Third World with market economies, liberal policies towards foreign-owned subsidiaries and lesser bureaucratic delays, like the Latin American states, Nigeria, Hong Kong and Singapore.  

Commenting on the causes of the relatively small scale of German private investment in India, the then Ambassador of the Federal Republic of Germany G. Dichel to India said, “Along with its official aid, the German Government has always endeavoured to encourage private investment. However, the fluctuations of Indian policy in regard to foreign investment have created growing uncertainty among German industries. Whether to get engaged in India, and they have been concentrating their interest on other developing countries.”

Trends in Indo-German collaboration from 1981 to 1989 show that while the total financial collaborations for India recorded a rise of 3.38 percent between 1981-1989, they went up by 2.71 percent between India and Germany. In the case of technical collaborations, India’s total technical collaborations recorded a rise of only 1.24 percent. In case of technical collaborations between India and Germany, they rose by 1.23 percent.

By 1984 the Indian Government realised that in order to keep pace with the technological development in the leading industrialised nations, they must promote the

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15 Appadorai and Rajan, n. 10, p. 401.
import of know-how, particularly in the form of licensing agreements and joint ventures thereby enabling their own industry to develop.

The Federal Republic of Germany has made significant contributions in this regard. Form 1957 to 1989 the Indian authorities approved around 13,000 Indian-foreign cooperative agreements (licensing agreements and Joint-Ventures) of which just under 20 percent were with German partners. By 1989 Germany topped the list of India’s industrial collaborators.

The industry-wise pattern of Indo-German collaborations shows a continuing concentration in industrial machinery and parts. Electrical machinery and equipment occupy second place. Third, vital industry has been chemicals and pharmaceuticals and next comes the instruments and engineering services.

This sectoral distribution of Indo-German industrial collaborations, as well as the Foreign Direct Investments clearly indicate that they have been influenced by the Indian Government’s industrial policy objectives. Since inflows of foreign technical know-how, in particular those concerned with capital investments, have only been approved in sectors in which production or technology of domestic industries were underdeveloped, these sectoral structures essentially reflect the priorities of India’s policy on industrialisation.

An important contribution in the increase of Indo-German collaborations was made by the projection of India as an industrially vibrant nation to the German business community through international trade fairs held in the Federal Republic. Coupled with this was the positive feedback to the large number of seminars and workshops on India
which drew participation from both the countries. Undoubtedly, the Hannover Fair in 1984 and the Technogerma '88 in India, in which India and Germany were partner countries respectively, were the most successful mediums of conveying the message to the world that India, which was essentially viewed as a backward, over populated land, plugged out of the modern world was now moving towards a new role of an advanced industrial power. The interest amongst the German buyers was of uttermost importance especially so, when engineering products in the early 1980s accounted for barely 5 percent of India’s export basket. A “Fast-Track Channel” an informal group was also set up in July 1988 in order to expedite approval of Indo-German collaboration proposals.

Data on regional pattern of Indo-German collaborations for the year from 1987 to 1989 show that two sets of cities namely Bombay/Pune and Delhi/Faridabad have been sharing the major portions of collaborations. Other important cities are Madras, Calcutta, Gujarat and Bangalore. This shows that Indo-German collaborations have been concentrating on those regions which are considerably developed with good infrastructure facilities.

A Bundesverband der Deutschen industrie delegation visited India in November 1980 and published their preliminary report on the visit. The report argued that the Indian investment climate was better than believed. According to the report:

a) The overall economic and political significance of India in the East Asian region should be rated very highly. In addition, among the Third World countries, this country occupies a prominent position.

b) As a country with a population of about 650 million, India represents to German industry great long-term possibilities as well as a serious challenge... As compared to the total German foreign trade and investments abroad, the bilateral economic relations with India (in terms
of both the trade volume and investments) appear to have been disproportionately limited so far.

c) A number of German firms (until now mainly large concerns), which have their own production facilities in India for long, have referred to their own favourable experiences. For them India has proved to be a reliable partner for co-operation. Besides reasonably good profits, ...India offers good scope for manufacture of labour-intensive products under sub-contracts or job-work arrangements. It was also pointed out by some firms, that the possibilities for financing of projects on favourable terms are much better in India than in many other countries of the third world (like Latin America). Co-operation with public sector enterprises was also considered to have been encouraging, although it was in a few cases somewhat complicated as compared to dealing with private sector firms. As for business with the public sector, its reliability was highlighted prominently.

d) The considerable administrative problems (time consuming licensing procedures and general bureaucratic hurdles) continue to render establishment of subsidiaries in India somewhat difficult. Once these are overcome, however, the Indian market is considered much more attractive and accessible than the markets in the neighbouring countries in Asia.

e) General Assessment: The members of the delegation were all of the opinion, that the conditions for business co-operation in India were altogether much better than they were reported to be. The negative criticism expressed in some quarters was not fully justified. In particular, having regard to the availability of well qualified engineers and scientists as well as the relatively high level attained by the engineering and machine-building industries, there are possibilities for useful division of labour between the two countries in what may be called as the "area of soft-ware". The costs of soft-ware preparation in India are only about 25 percent of the corresponding costs in Germany.\(^1\)

\(^1\) Indo-German Chamber of Commerce "Collaborations", Indo-German Economy (Mumbai, 1981), no. 2, p. 23.
The IFO institute, Munich, also carried out a detailed survey in 1982 investigating German firms' motives for direct investment in the Third World. As far as motivation to invest in India was concerned, the survey indicated that the attitudes of potential investors were rather negative. (See Table 1.6). Among the 21 most important countries, India ranked sixth (5 countries being judged worse, 15 better). But there was another set of 10 constraining factors considered generally less important than the 7 mentioned in the table. However, these may still have an important weight. If the 10 generally "less important" factors are taken together, India ranked number one among all developing countries. Some of these less important factors are choice of locality, environmental policy, choice of technology, product regulations, marketing and export, risk of nationalizations and others. The primary motive of German firms to invest in India, has been the securing and expansion of sales in the domestic market, that could not be supplied through direct exports due to India's protectionist export policy. This motive induced foreign firms to substantial concessions to India's Investment policy.

For example in the majority of joint ventures, German firms held minority share in equity. So much so that when the Foreign Exchange Regulation Act (FERA) was passed by the Indian Government in the early seventies, the German investors were less

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18 The survey Included 233 firms and 542 different direct investment decisions in 56 developing countries. India was represented with 22 cases.

19 Christian Pollak and J. Riedel, "German Firms' Strategies towards industrial collaborations with the Developing Countries" in H.S. Schonerr, A. Galli and A.J. Hallbach, eds., IfO Forschungsberichte (Muenich, 1984), pp. 36-43.
affected by the ceilings on foreign equity participation, as only a few of them held majority shares at that time.

Another example of Indian Government's attempt to reduce foreign capital participation was to transform major loans from Government Banks into equity shares. The government tried to decrease the number of foreign personnel in joint ventures, by restrictively allocating residence premise. Thus, only a few German experts and managers resided in India and most of the joint ventures did not employ more than one German. 20

India's Industrial policy was aimed at the development of backward regions. Infrastructural prerequisites for industrial projects, however, were often non-existent in these regions, and it was difficult to attract qualified experts and management personnel to a remote factory.

The affiliated companies of German firms in India have had diverse experiences, depending on their branch, size and location. Some of the larger firms having themselves firmly established in India, were able to negotiate a preferential treatment in regard to Indian administrative policies, particularly in cases of high technology projects, where foreign capital participation of more than 50 percent is negotiable. However, not all potential German investors were aware of the possibilities to negotiate and they mentioned the ceiling of 40 percent on the foreign share as the main reason for not investing in India. Smaller German firms, which did not have established definite

20 Wiemann, n. 12, pp. 6-8.
agreement were confronted with considerable problems. They had to keep adjusting to new negotiating partners, as management personnel in government enterprises are often scuffled around according to political influences. Moreover, they have to face many problems preventing efficient manufacturing in India like irregular energy supplies, interruption of raw material supplies, unskilled workers and strikes.

The main negative repercussion of India's restrictive policies is that it helped, though indirectly, to increase the technology gap not only between India and the developed countries but also between India and other developing countries. India's technological capacity was sufficient enough to utilize imported technologies with success but, on average, not sufficient to advance these technologies into distinguishable new products, thereby providing foreign firms with favourable conditions for cooperation. Even if, at the point of negotiations regarding cooperation, the latest technology was offered, the licencsee can presume that before the expiry of the cooperation agreement, the gap between the Indian partner's level and the rapidly advancing technological development in industrial countries will increase.

Some of the factors in favour of Indo-German collaborations besides the ones mentioned in the BDI report, which made West Germany top the list of India's foreign collaborators in 1990 with 134 sanctioned collaborations are:

(i) There are not much strings attached to the share, sale or transfer of technology by the Germans to India. Invariably these are very short term and encourage investments. It is because of this that German companies are preferred by the Indian firms as their partners. Siemens India, Bayer and Bosch IFB are just a few examples to justify this contention.

(ii) The technology transfer encompasses complete or gradual indigenisation, thus suiting more to Indian needs. This is not true for other countries like...
the U.S. for instance which are either restrictive on their terms or else enforce strict conditionalities, thus making adaptation of technology much difficult. It is here that the Germans score over their counterparts. They have a great flexibility for adaptation and specially tailor the design of machines and other items to suit to the Indian clientele. It is because of these reasons that India's share in imports from Germany are substantial.

"The experience of existing foreign companies in India has been encouraging on the whole, as revealed by their high rate of profitability. Their shares command a high price in the stock market and any fresh issues made by them are generally over subscribed. There is no constraint on the remittances of dividends. The Indian Government has an unblemished record of honouring agreements and nationalisation of foreign companies is extremely rare. In a few cases where this has taken place, compensation has been paid." 21

Moreover, India's record of honouring its international commitments both in terms of allowing repatriations of profits, dividends and royalties as well as meeting interest payments and other debt servicing payments is well known. Once a collaboration has been guaranteed there has never been any discrimination between foreign and Indian parties. 22

There has been another dimension to the economic cooperation between India and the FRG and this is FRG's liberal attitude both in providing concessional financial flows


to India as well as its attitude in helping to promote a liberal and positive attitude towards access into the FRG and the EEC markets for Indian export products. FRG's financial assistance from the days of Rourkela onwards have been extremely valuable and greatly appreciated in India. Total Official Development Assistance from FRG to India beginning in the late 1950s accumulated to DM 6.75 billion in 1988.

CHANGES AND RESPONSES

German Re-unification and its economic implications for Germany

The systemic changes that took place in the erstwhile Soviet Union and Eastern Europe giving rise to the most dynamic and live issues in modern European history in the form of German re-unification. With re-unification came a happy end to a 40 year division but also a difficult beginning to a united future. "Germany today is fascinating and disturbing; a picture of difficult transition, of unexpected and unresolved challenges, of re-thinking and re-structuring - in short of a delicate balance between triumph and crisis."23

The most outstanding problem has been the economic merger which took place on 1st July 1990. It is for the first time in recent history that two completely different and contrary economic systems were merged together.

It was no surprise that many had the expectation that putting the third and the tenth strongest industrial countries together should create a formidable industrial power.

On the contrary, it soon became apparent that there would be at first more disintegration than rebuilding. Because of eastern Germany's relative economic backwardness, combining the two states indeed makes Germany not richer but - at least in the short term - poorer than the former Federal Republic. Output per head and productivity in what used to be East Germany were probably only 30 percent of the level in the West. Additionally, new Germany is socially and economically much more polarised than the old. Germany’s Gross national product has increased as a result of unification by around ten percent; unemployment has gone up, however, by around 100 percent. 24

The reasons for this were not as complex as the situation itself. The centrally planned economy of the Soviet type, based on state ownership, centralized control and one party dominance followed in the former GDR, was founded on certain ideologically inspired assumptions that included uninterrupted high growth rates and a creation of a new type of socialist man who would be devoid of socially undesirable features. The significance of these features lies not so much in their obvious naivete but in the consequences that followed which included the entire gamut of economic activity from planning and coordination to execution being carried out by the all pervasive organs of state apparatus. Moreover, as the planning mechanism in former GDR was edified as a progressive alternative to the spontaneity of the market mechanism, the role played by the later was severely limited. There was also an excessive pre-occupation with building heavy industry. Thus, after the Second World War, in GDR there was expropriation of small and medium sized firms and they are all nationalized. The emphasis on heavy

24 Ibid., p. 34.
industry was so much so, that those sums that in a normal market economy would constitute a part of the depreciated rate of infrastructural activities (human capital, housing fund, services) in the east European countries were regrouped and spent on fulfilling the priorities of industrialization and the other part - like education, unemployment benefits, retraining and resettlement benefits and outlays to preserve the environment, were never accumulated. As a result there was no technological upgradation, production sites, machinery and processes were outdated and no serious R&D. The government paid billions of subsidies to keep the goods affordable. Thus, there were not enough funds for investment. Progress was therefore extremely difficult to achieve for the state-controlled industrial sector.

Despite of all the propaganda about annual production targets having been more than achieved for over 40 years, the GDR was basically bankrupt... The shock of being confronted with international competition virtually overnight triggered an almost instantaneous collapse of the economy in the five new Federal States of former East Germany. The legacy of forty years of command economy and mismanagement had put up a facade behind which there was nothing substantial. 25

Since mid 1990, the economy of Eastern Germany has been rocked by three catalytic changes:

(i) Economic and monetary union exposed companies overnight to the rigours of international competition. At the same time, the currency conversion meant a drastic appreciation for companies which now had to compete in international markets. In terms of price, technology and

quality, the East German companies were totally unable to withstand the assault from the west.

(ii) Then, with only a slight time lag, these companies lost their traditional markets in Eastern Europe due to the fall of COMECON and the conversion of trade from the transferable rouble to convertible currencies and world market prices. The political decay in Soviet Union aggravated the situation still further. In 1989, these countries took 70 percent of the total exports of the former East Germany. The wage agreements negotiated for the new federal states completely cut off the growth of wages from increase in productivity. Whereas labour productivity, contrary to general expectations, actually declined after economic and monetary union, wages rose by nearly 65 percent in the period up to early 1991. At the beginning of 1990, income had been running at a mere 30 percent of the level in the West. In April 1992, they had already climbed to 47 percent.

In such circumstances, it was inevitable that industry should collapse and that took place in two phases. First of all, the shock of competition brought about a 50 percent downfall in production within three months of monetary union. The second economic crisis then followed in January 1991 after the collapse of the export markets in Eastern Europe. By Spring 1991, the level of production was only a third of that before the economic and monetary union. The situation in the capital goods industry was also under strain. The only successes till 1992 were recorded in those privatized companies which were able to invest immediately and thus, lost no time in starting with the production of Western products. However, there was a basic lack of marketable products and if they were available, the scale of vertical manufacture and the level of labour costs did not permit profitable production. The problems of restructuring of the East German economy were intensified by the fact that many industries are regionally concentrated. As a result, the economic survival of a whole region often depends on the fate of a single
state owned combine. Many factories in the former GDR were in such a derelict condition ecologically as well as technically that their continued operation would have been irresponsible. The transformation of industry needed to be carried out with painful adjustments to the labour market.

The problems of structural adjustment in the new federal states were further aggravated by the fact that employment in agriculture, mining and manufacturing was inflated by western standards. According to data available in 1989, 47 percent of all people employed in East Germany were working in primary and secondary sector compared to 37 percent in the West Germany. Whereas employment in the 'old' industries in the West (textiles, clothing, shoes, coal mining and shipbuilding) has been reduced by up to two thirds over the past 30 years, this did not happen in East Germany. A lot of ground, thus needs to be covered as part of the adjustment process and in much shorter space of time, than was the case in the West after the Second World War.

The German Government decided that it would be better to revamp the whole economy to make it competitive... A major task was given to a trust agency - The Treuhandanstalt - a public privatization agency. Its task was to privatize, re-organize or, if necessary, wind up and sell former state assets in the GDR. When the Treuhandanstalt was established in 1990 it assumed responsibility for some 8,500 combines with 45,000 factories and production plants, in fact, practically all of the former GDR's industrial assets. The Treuhandanstalt became the biggest economic unit in the world. 26

26 Ibid., p. 204.
From the outset, the Bundesverband der Deutschen Industrie (BDI) emphasized that the road to a successful reorganization is privatization. It is only when the entrepreneurs link their interest, their capital and their know-how directly with the fate of the enterprise that successful reorganization becomes possible. Treuhandanstalt also subscribed to this view and while privatization was initially slow, a lot of progress was made in 1991.

By the time of its dissolution at the end of 1994, the Treuhandanstalt had performed an impressive task. Through its pioneering work, privatising over 15,000 individual companies and company group members, re-privatising 4,500 companies and a further 25,000 “mini privatizations” of shops, restaurants, hotels, pharmacies and other small businesses and securing undertakings on the part of the purchasers to invest a total of 211 billion DM and guaranties on the part of the new owners to maintain 1.5 million jobs, the Treuhandanstalt can look back at its track record with satisfaction.27

The task however was not easy. Unlike in former West Germany, the firms in the East were not small or medium sized largely due to the expropriation policy followed by the State. Thus, in order to return to what is called a typically German industrial structure, it was necessary to return expropriated firms to their traditional owners and break up large concerns into smaller units so that it becomes easier for small and medium sized firms in Western Germany to invest in the new States. This was not an easy task as several small firms were merged into large units after they had been nationalized under

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27 Wolfgang Peiner, “Upswing East”, German Comments (Osnabueck), October 996, p.68.
the socialist government, as a result there were frequently several applications for
reprivatization for the same enterprises thereby making it difficult for privatization
agencies to establish the rightful owners. One of the first highly controversial decision of
Treuhandanstalt in Berlin was the closing down of the GDR vehicle manufacturing in
Esenach and Zwickau. The new owners, the Adam Opel AG and Volkswagen Group,
have established new plants that can be counted among the most modern in the world.
Daimler-Benz is also setting up a modern truck manufacturing facility near Berlin. Other
firms are also moving production to the new federal states, for example, the Heidelberg
Drug Company in the city of Brandenburg. 28

These examples demonstrate that the new eastern states do not only have great
economic development potential, but also a skilled work force that is highly regarded by
investors. Once projects have got past the initial planning and authorization stages, they
are leading to the construction of the most up-to-date factories and plants throughout the
new federal states.

In the early 1990s, the countries of the Organization for Economic Cooperation
and Development (OECD) went into a recession. In united Germany, however, there was
a distinctive boom, this was a result of the money received by the GDR citizens from the
Federal Government. The money was immediately spent on cars and other consumer
goods. The demand for goods was so high that imports to Germany increased
unexpectedly. However, this demand did not last and the Federal Republic went into

recession two years later than the OECD countries. During the demand from the former GDR, German industry had invested heavily in new production lines, had produced without looking at the costs and had become slow, uncompetitive, expensive and lazy.

The situation became worse when:

a) Trade with the former Eastern Bloc countries collapsed to a large degree. More than two thirds of the GDR's foreign trade had been conducted with COMECON countries. They were no longer in a position to order liberally.  

b) The world-wide recession reduced overseas demand particularly in those areas where Germany excelled: industrial equipment, machinery, luxury passenger cars, and engineering products.

c) After the heavy investment in production facilities within Germany there was no further need to invest in Germany. Basic industrial equipment was no longer ordered and many sectors of the German industrial landscape went into a dangerous recession. The situation was aggravated by a particular crisis in the European steel market where cheap steel imports from East European countries swamped the market partly at dumping prices.

d) The German wages were the highest in the world, the working hours the shortest, and the paid holidays the longest. No wonder that German goods were no longer competitive.

The Federal Government on its part has pumped in every year since unification an amount equivalent to US$100 billion - about 5 percent of the German GDP. That is politically not easy to achieve because these funds have to be collected from the Western states.  

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29 Stanchina, n. 30, p. 205.

30 Peiner, n. 32, p. 75.
But it was not the funds alone. Continuing exodus of Eastern Germans to the West in the months after 3 October emphasized the scale of the transitional difficulties. Moreover, there were other problems too. Millions of jobs were lost and over 80 percent of working people in the east today have a different job or no job at all in comparison to 1990... Many people in the east had expected monetary union and unification as a whole to bring about an immediate creation of living conditions and affluence of the level established in West Germany. This was an illusion. There was also the psychological difference which was well summed up by Detlev Rohwedder, the former head of Treuhand agency in charge of privatizing eastern German industry in 1990: "East Germany was not simply a poorer West Germany. The people there have different life-styles, different expectations. They are vulnerable. They need treating with sensitivity, tact and consideration." He added drily: "These are not virtues for which Germans have much of a reputation in the world." 31

The state of the economy in East Germany was also not very satisfactory:

"The rate at which the east German economy was catching up was slowing down clearly since 1994... Six years after unification the burden inherited from the planned economy of the GDR continues to affect the labour market. A large number of the 9 million jobs which originally existed have been lost due to competition. The unemployment rate is now around 17 percent and exceeds the rate in West Germany, itself relatively high, by eight percentage points... The industrial base is weak and endangered. The central pillar of the economy is not manufacturing but the trades and crafts. The contribution of manufacturing industry was only six percent in 1995. Only 3.8 percent of all employees for whom social insurance levies are paid were in manufacturing (in West Germany the figure is 9.1 percent)... The number of bankruptcies has risen steadily (1995: 5,874). In addition to a lack of marketable products, this development is primarily attributable to the poor equity ratio at many companies, a situation

31 Marsh, n. 28, p. 35.
which has grown worse in many areas. Many companies face obstacles to market entry: Marketable products often need to be developed; there is little confidence in product quality or the stability of business relations; potential customers also hold back in view of the uncertain future which East German companies face... Exports are underdeveloped: In 1995, East German exports accounted for only 3 percent of the total for Germany as a whole. The export rate in manufacturing industry was only 11.8 percent in 1995 (West Germany 29.5 percent)." 32

After nine years of extraordinarily high transfers of money, know-how, manpower and investment from West to East first results are becoming clearly visible. Today, Eastern Germany has emerged as Europe's fastest growing region Production and Orders are increasing in all sectors... The construction of modern production plants progressing, investment per employee and per resident are higher than in Western Germany... The overall picture in the East is not yet totally bright but the sun is clearly rising over the horizon.33

However, the situation does not only demand economic policy measures. The two sides now bear a very great responsibility in Germany. Increases in income must be strictly related to increases in productivity. If wages and salaries increase too fast, this will also raise the threshold for readmittance to the labour market and thus make the numbers of those in employment rise more slowly than is desirable. Moreover, all those involved in determining the future economic framework must not make the mistake of only acting in accordance with proven West German patterns. The elimination of the various obstacles will be difficult and take time. That is why it is all the more important

32 Peiner, n. 32, p. 74.
33 Stanchina, n. 30, p. 206.
to take new paths and seek unconventional approaches so that obsolete structures are not maintained in the east and outmoded institutional mechanisms are not preserved in the west.

Germany’s domestic ailments are serious and unlikely to be remedied quickly. Yet they must be put into proper perspective. Germany is still a wealthy and productive country, and structural deficiencies may hamper its competitiveness but according to a BDI survey a national consensus is emerging to correct them. Restructuring East Germany is an immensely complicated and costly affair, but it also offers an opportunity to revitalize the Germany economy as a whole. There are silver linings on the economic horizon and the German trading state can expect to generally benefit once the world economy starts to expand again. There is no denying the fact that German reunification and the emergence of new states in Eastern Europe is having a significant impact on Indo-German relations. This impact, as in the case of other economic changes is a mixture of effects, the components of which will keep on changing over time.

GERMAN REUNIFICATION AND INDIA

German reunification disturbed India’s trade with eastern Germany by abolishing its subsidized barter trade system and that has created a market problem to German reunification, disturbed India’s trade with eastern Germany by abolishing India’s traditional export items. Another significant immediate effect of German unification has been the tremendous import demand of the German economy. Social policy as well as the monetary union of East and West Germany, implemented simultaneously with the
political unification process, led to a tremendous additional demand push which could not be met by the West German economy alone. As a result German imports increased considerably so much so that 1991 marked the first annual export surplus for India and Indian exports moved ahead to record a 10.36 percent increase over the previous year. United Germany, therefore, emerged as an important customer for Indian goods. This situation, however, was transitional, as Germany's import-export structures went under a medium-term adjustment process and by 1992 import as well as export rates returned to almost normal. However, the fact cannot be ignored that due to German reunification there has been a spurt of specific opportunities to increase exports to Germany, which over time will reduce to normal levels.

While the skeptics on the one hand hold that the spectre of unemployment, collapse of inefficient, heavily subsidized firms, higher interest rates in view of the gigantic restructural needs and consequently soaring budget deficits may lead to Germany becoming inward oriented, as it did in the early 1950s, after the Second World War. It is also asserted that Germany would have no time, resources or even the will to expand or sustain ties at least to the present level with the developing world and it might even cut back on investments and trade with countries like India.

Optimists, on the other hand, hold a contrary view they believe that the cost of unification is exaggerated and that inflation will only be marginal as the investment from Western industrialized countries and direct aid from Bonn "should help maintain the economy's momentum. East Germany's gross domestic product, in these conditions, is
predicted to grow at a rapid 7 to 8 percent annual rate from 1991 to 1995.\footnote{Deutsche Bank’s Report quoted in Fortune (New York), 2 July 1990, in M.S. Verma, “Indo-German Trade”, cited in K.B. Lall, H.S. Chopra, Thomas Meyer, eds., India, Germany and the European Community (New Delhi, 1993), p. 123.} If it so happens, there is bound to be a further rise in demand for consumer goods in unified Germany, which offers a good scope for countries like India.

Especially so when West German economy, itself depends for its survival, growth and diversification on the external sector and one out of four jobs in FRG still depends on its exports. Such an export-oriented economy, keeps it integrated to the outside world both for markets and materials. With re-construction, there is bound to be an increase in this dependence and the German economy will remain outward oriented. Speaking on the issue Konrad Seitz, the former West German Ambassador to India, remarked: “German industry needs partners also beyond Europe. It seeks these partners in North America and in Japan. And it seeks partners in the developing world.”\footnote{Federal Republic of Germany, Embassy in India, German News (New Delhi), May 1989, p. 9.} Allaying the fears on availability of foreign investments he has opined that there is enough capital available in Federal Republic of Germany for investing in the former German Democratic Republic, Eastern Europe as well as India.

In these changed circumstances it would be very significant to watch the German economy and prepare for the sectors that Germany may have to vacate to concentrate more in other areas where it has an edge in the united European market.
In an another interview granted by Dr. Helmut Haussmann, former Federal Minister of Economics, in Bonn before the formal reunification of Germany, said:

The close ties between our two countries may also be seen in their economic relations. Trade and industrial cooperation have achieved an intensity that never before existed. I welcome this development. At the same time, however, I see the potential for further intensification. In this connection, I am by no means only thinking of the opportunities for German companies to participate in the further development and modernization of the Indian economy by capable and sophisticated technology. I also see good possibilities for Indian companies in our markets. The unified Germany will move up to be the second largest importing country in the world. Just as the completion of the European market at the end of 1992, this will bring new opportunities for the Indian economy. Direct Investment by not only German firms but also of other countries in India was from 1980 - 1990 very low. The main reason being the economic policies followed by the Indian Government. The New Economic Policy however is well received but there have been hesitations as entrepreneurs want to “wait and watch” how these new policies work in practice.

With German reunification direct investment requirements for Eastern Germany are very high. To attract investment in Eastern Germany, promotional measures at all public levels - the federal, state and municipal level, and also services (credit, infrastructure, training, etc.) are being applied. Even EC support is being received. As a result, it is not surprising that direct investment potential of German firms in other areas has been tightened. But Germany strives mainly on exports and it cannot ignore the growing markets of Asia especially India where the market is opening up and new opportunities are being provided by adopting new economic policies. German investors

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feel that India has substantially improved its attractiveness for foreign investments through steps announced in its successive budgets since 1991. The German Government recognizes that "overnight transformation" of the Indian economy is not possible and that the change will involve a painful process. However, the importance of India is seen in the fact that it forms part of the most important economic growth region in the world at present." Commenting on the importance of India, former German Federal Economics Minister, Guenter Rexrodt stated: "Asia-Pacific is the most important economic growth region in the world at present, and India plays an important role among the players in the market. German industry must be present in this market in order to defend Germany's claim to being a dynamic industrial region also in the next century." Moreover, one must keep in mind that capital has no great national consciousness. It moves to places with the best conditions in the view of the investor. Therefore, the greater direct investment requirements in East Germany are no reason for German investors not to go to India if they believe that is worthwhile.38

INDIAN INVESTMENTS IN EASTERN PART OF GERMANY

When Treuhandanstalt, a government holding company to privatize the state-owned companies of the former GDR, began its job, there were responses from Indian


38 Karl H. Oppenlaender, "Implications of the European Common Market, German Unification and Change in Eastern Europe on Future Economic Development" in Chawla, n. 16, p. 22.
investors as well. Nearly 25 companies in the new German states have been taken over by Indians. This puts Indians among the top 10 investors in the former communist regions of Germany, where Switzerland, Austria, the United States of America, Sweden and some other members of the European Community figure among the other major investors. The Indians have also guaranteed thousands of jobs at the enterprises at a time when two out of every five jobs had been lost in the period after unification.\textsuperscript{39}

Theuringische Faser AG, a former GDR textile company was the first East German company which was taken over by the India-based Dalmia Group of Companies, thereby marking the beginning of Indian investment in the Eastern part of unified Germany. Since then, Indian investments in eastern parts of Germany have grown. (See table 1.7).

A delegation of the Indo-German Chamber of Commerce visited the former GDR and identified the following areas for Indian investment opportunities in East Germany:

- The service sector (hotels, restaurants),
- Construction industry,
- Software,
- Chemical and pharmaceutical industry,
- Machine tools and
- Trading houses.

On the other hand former GDR has identified the following trade possibilities with India:

\textsuperscript{39} Deepak Razdan, "Indian Inverting in Germany", \textit{The Hindustan Times} (New Delhi), 7 April 1994, p. 3.
a) Sale of products to India, e.g., machine tools and other items previously imported under “Rupee trade” arrangements;

b) Sale of raw materials and components to India on which India can add value and export to USSR and Eastern European countries under “Rupee trade” arrangements;

c) Sale of specific capital equipment which may become surplus as factories are revamped or replaced by new facilities.

The Government of India can identify certain commodities like spices, cardamom, pepper, tea, coffee and in cooperation with German government can create a line of credit and encourage exports. India is quite strong in the manufacture of handtools. Keeping in view the GDR’s strength in this field, perhaps Indian industrialists can strive for Indian-GDR joint ventures in this sector. 40

Germany’s Role in Eastern Europe and European Union: Repercussions for India

The systemic change in the USSR and Central and Eastern Europe resulted in the emergence of the three independent Baltic states, as well as other twelve independent Republics out of which eleven of them (excluding Moldavia) have set up a Commonwealth of Independent States (CIS) effecting radical changes in the map of Europe. The Germans are visibly alarmed by this ‘arc of crisis’ stretching from the Soviet Union through the Balkans into Central Europe. The resurgence and intensification of nationalist, religious and ethnic forces in Eastern Europe pose challenges for territorial adjustment and post war borders. The success of these fragile democracies depends on

their economic success, which in turn, depends on capital, technology and managerial skills. Without the flow of credits from the West, poverty and populism will tend to increase. The West has clearly shown an interest to make reforms in East and Central Europe a success, especially Germany because the failure of economic reforms will trigger off a wave of refugees. The (former) Federal Republic has already absorbed hundreds of thousands of former East Germans and ethnic Germans from East European nations. United Germany is bound to bear the major burden of the financial assistance required to facilitate the transformation of East European economies. The reason being not only wave of refugees but also the desire to tap new markets close by and the low cost of labour which for the time being is lower than in some developing countries.

Although the significance of exports to the entire East for West Germany’s economy (measured by their share in gross domestic product) has been as low as one percent. But this ratio has to be seen in a comparison with the US, where trade with the East generally remained negligible (below 0.1 percent). Politically more important was the fact that Germany’s share in the total Organization of Economic Cooperation and Development (OECD) exports to the East (including inter-German trade) reached 34 percent (and in case of East Germany 45 percent) in the eighties, compared to that of the USA with ten percent and of Great Britain with seven percent. By the middle of the

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42 Heinrich Vogel, “Germany’s Economic Relations with the East” in Stern, n. 28, p. 204.
90s, Germany accounted for nearly half of the European Union’s total trade with Central and East European countries. Total trade was DM 120 billion in 1995 (9 percent of total foreign trade) with German exports totaled DM 61 billion and imports DM 58.5 billion.

Already, Germany does substantially more trade with Central and East European countries than it does with either the United States, Italy, the Netherlands or Great Britain. The Federal Government estimates trade with Central and East European Countries (CEEC) to double by the year 2000 or reach an annual volume of DM 250 billion.

Similarly, German direct investment (FDI) which actually began in 1989 has also increased in these countries, Germany invested more (some DM 103 million) in the East European block than it had during the entire period since the Second World War. German FDI in the reforming nations rose to DM 2.9 billion in 1994 and DM 4.2 billion in 1995.43

This increased German interest in Commonwealth of Independent States (CIS) and newly emerging East European states has raised the question of Germany’s interest in the developing countries like India. However, the answer as to whether these changes in Europe will have an effect on Indo-German trade depends on how soon these countries are able to adopt a free market economy and what opportunities can they provide for other exporters. The fact, however, cannot be overlooked that once these countries complete their economic and political transformations, competition of markets will

strongly intensify and with European Community (EC) and Germany giving preferential treatment to this region, Eastern Europe will most likely be a very threatening competitor for exports to EC and Germany for India. For example, Romania in leather products and Hungary in textiles could become serious threats to India.  

The Federal Republic has been from the very beginning a consistent supporter of the concept of European integration and no other member country of the European Community is more strongly bound to the idea of European unity than Germany. Germany had its own interest in favouring European Integration as the Germans knew that without the approval of other European nations, unification would remain a distant dream. As the German Ambassador to India remarked, “Germany’s European Commitment was a pre-condition for gaining trust and confidence and for becoming again an internationally respected partner. Moreover, Germany’s economic interests were well served in the European Communities which represent 70 percent German export market... Only within the context of the European integration Germany could achieve its upper most political objective, its national reunification.  

Moreover, the European Community offered the prospect of economic recovery and prosperity by the opening up of new markets in the West for the exports of a revived, expanding German economy by promoting cross-border trade and stimulating economies of scale. Politically, membership of economic organisations enabled Germany to regain

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44 Verma, n. 39, p. 122.

45 Heinrich Dietrich Dieckmann, “Germany and Europe in the post Cold War era”, Europe Forum, Committee Room, SIS, JNU (New Delhi), 12 March 1998, p. 3.
national sovereignty and restore its international respectability.\textsuperscript{46} Besides this, the EU serves, "a triple function for Germany with respect to East Central Europe: it multilateralizes the political and economic cost of influence..., spreads the burden and responsibility for failure and reduces the potential for unilateralism.\textsuperscript{47} On the other hand, Germany’s role in the EC seems to be growing in two ways: (a) the country’s influence has increased noticeably since unification as seen in surprisingly smooth incorporation of the former GDR into the European Community and (b) Germany is seen as a bridge with the East. The German share in financial assistance, humanitarian aid and export credits overshadows the contributions of other member states of the European Union. Economically, it seeks to consolidate its privileged access to East European markets, having already emerged as the leading trade partner and major investor in most of its eastern neighbours. Culturally, it has launched a virtual offensive and sharply hiked its budget for the teaching of the German language. It is therefore natural for the Federal Republic to be the main spokesman, supporter and initiator of admission of many East European applicants in the European Union.

As far as the impact of Germany’s increasing role in the European Commission on its trade with India is concerned, it is quite clear that it is not directly interfering with India-German trade relations. The German economy has no doubt benefited from the


single market and the additional GDP growth created is bound to have a positive net effect on trade with third countries, which in turn means an increase in export potential for India. The fact, however, cannot be ignored that this increased potential will be accompanied by a higher intensity of international competition for market shares and so Indian exporters must gear up and improve standards and build up their quality to meet world market competition.

Germany’s direct investment within the EC is higher than anywhere else and two-thirds of total German direct investment occurs within the EC. The further integration will enforce pressure for more direct investment within the Community. This does not mean that India cannot provide incentives for German direct investors.

The reason for Germany and the EC to remain currently engaged in organising political and economic cooperation with Asia (in general) and India in particular can not be ignored. For one with the collapse of communism in the erstwhile Soviet block there is a lurking fear that the newly emerged Central Asian republics may eventually drift into an Islamic grouping of their own, which may receive moral and material support from the Gulf. The rise of fundamentalism, posing a new security challenge would have its implications for many a state across the Eurasian region and beyond. The formation of CIS bears no guarantee of a quick and automatic switchover to democratic pluralism and a free market economy. Besides, a strong and central power within the CIS, Russia continues to be not only a formidable nuclear power, but also trying to regain its lost status within and outside the region. So, for the EU as well as for Germany it is essential to develop its stronghold in Asia for which India is a best option.
Moreover, Germany and Europe need India and Asia. India is a growing market and with its new economic policies, provides ample profitable opportunities for trade and investments. There will be no global answers without India, representing one sixth of mankind. 48

The prospects of Indian exports on the other hand cannot be viewed independent of the EC framework. Among the external factors which hinder Indian exports to the EC are non-tariff barriers (NTBs). The forms that NTBs take are extremely varied, yet entire spectrum may be examined under three major categories, namely: quantitative restrictions (both on exports and imports), subsidies to domestic supplies (both on exports and imports) and costs imposed on imports.

On the basis of UNCTAD/GATT information on NTBs applied to Indian exports to the EC, 27 types of major NTBs have been identified.

Germany has a fairly comprehensive NTB schedule. The common tariff of the Community is also applied to FRG imports supplemented by “German Partial Customs Tariff” in respect to products like coal and steel. Application of NTB replaces freedom of trade with bilateralism and selectivity, managed trade replaces competition in the international market, the linkages described in the theory of free trade are replaced by those which are represented in the “Political Economy of Protectionsim”. Protectionist quotient varies from country to country. It is reported to be 12 percent for Germany. India has been a traditional exporter of textile products, including garments, and these

48 Heinrich Dietrich Dieckmann, n. 45, p. 6.
exports account for a large share of India’s exports to Germany. India faces competition from Hong Kong, Pakistan, South Korea and China because of their low price offers. Presence of quota restrictions (an instrument of MFA) in many products such as silk and cotton textiles, leather items and footwear, erode the advantage which India could have. 49

India, on its part, requires to firmly merge itself with the international market, it needs a permanent commitment in terms of production, delivery, quality, up to date technology and price competitiveness. Sticking to delivery schedules and maintaining quality has been a major problem with Indian exporters and matters become more serious when it comes to products like machine tools and other engineering components. There at stake are heavy penalties in terms of product liability in case accidents take place because of the defective parts and could even lead to blacklisting of the company. In this regard some effort has been made by the Indian Industry. Engineering products being the major items of export to the EC, the government, along with the Engineering Export Promotion Council (EEPC) has initiated some programmes to offer the Indian exporters assistance for upgrading the product technology and quality levels as well as developing the marketing techniques to penetrate the markets of Germany, France, Italy, the Netherlands and the United Kingdom within the EC.

Independence and self-reliance in the changing world scenario, where an economic race has taken over arms-race, requires the commitment to long term and enduring partnerships abroad by industry, finance and commerce. Government, political parties, industry, business, finance and labour have all to come together and understand and commit themselves to such a policy. Unfortunately, a nexus between these different groups is not very easy in India.

MAJOR ISSUES BETWEEN INDIA AND GERMANY

A new feature of the post-Cold War era reflected in the conduct of Western nations, which is a much higher degree of assertiveness. This can be seen in the area of development cooperation, between industrialized and developing countries and in the case of Germany, was well spelt out by Carl-Dieter Spranger, former Federal Minister for Economic Cooperation on 10 October 1991. Speaking about German development policy for the 1990s, he outlined five new policy criteria in an aid recipient country as pre-conditions to German economic aid: (a) respect for human rights, (b) popular participation in political decision making process, (c) certainty of rule of law, (d) creation of a "market-friendly" economic system, and (e) development orientation of Government activities." 50 If necessary we refer to human rights violation directly and insistently.

Respect for human rights, participation of the people in the decision-making process, and
good governance are preconditions for successful development.  

Recipients of German aid including India do not view with equanimity
Germany's making human rights practice in the aid-recipient country a pre-condition for
disbursement of aid. It is seen by them as a move by the German Government to impose
their own criteria of human rights, and an unwarranted interference in the domestic
affairs of the recipient countries.

In case of India, human rights has been a crucial issue, especially due to the
insurgency and terrorist activities in Kashmir, the Punjab and the states of Northeast.

The second major issue between the two has been the Nuclear Non-Proliferation
Treaty of 1968. In the post Cold War era with the disappearance of the Communist
threat, the West sees the uncontrolled proliferation of nuclear and other weapons of mass
destruction among the Third World countries, especially those having high political
instability or those having not very friendly relations with their neighbours, as the new
threats to the security of mankind. In the case of Germany although the country has the
cover of NATO nuclear umbrella, in itself it is not a nuclear power. With its emphasis on
the need for comprehensive disarmament in the fields of nuclear, biological and chemical
weapons Germany is in an ideal position to accelerate the on going arms control efforts.
The German Government has reduced its development aid to developing countries with

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51 Carl Andreas F. von Stenglin, "Germany’s New Asia Policy" cited in R.K. Jain,
n. 30, p. 176.
high defence expenditure (including major recipients like India) on the premise that there should be clear rewards for arms reduction and lower defence expenditures, which is more likely to succeed if linked to an incentive. India refuses to sign the treaty on the grounds that it is discriminatory as it prevents the non-nuclear States from developing technology even for peaceful economic purposes. It is in this context that the Non-Proliferation Treaty NPT issue has become an issue of concern between India and the countries of Europe especially Germany.

Protection of the environment, pollution poverty alleviation and sustainable development are grave issues that are currently moving to the centre of the stage and are also issues of concern between India and Germany especially so when Indian exporters are not much aware of Germany's Green Dot policy or strict environmental laws and as a result lose a substantial amount of trade. Moreover, since the Toronto G-7 Summit (1988), the Federal Republic has suggested a linkage between environment protection and debt reduction. Moreover, as Carl-Dieter Spranger, former Federal Minister for Economic Cooperation and Development in 1995 remarked, "Modern development policy is global structural policy. In other words, we cannot restrict our focus to a few countries or a few problem areas, rather we must address the whole spectrum of issues from poverty alleviation to technological cooperation. Together with others, we must

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work for better political, social, material and ecological prospects for the global community. It is only in this way that we can hope to counter global challenges such as population growth, environmental degradation, war and civil war, international crime and drug cultivation.” 53

CONCLUSIONS

Harmony of objectives and the willingness to move towards co-operation are the two essential pre-requisites for any collaboration to be constructive and successful. In the case of India and Germany the political as well as the economic co-operation has shown, over the years, an erratic movement.

After the Second World War, a war torn and divided Germany became somewhat inward oriented to re-construct its economy and on the international arena, FRG towed the American line especially due to its dependence on America for economic and security reasons.

India, on the other hand, tried to balance itself between the two Super Powers by adopting the policy of Non-Alignment. In order to achieve the goal of a high degree of national self-reliance, India adopted stringent policy controls and a closed economy. Thus, the Indian economy was cut off to a high degree from the outside world, import restrictions, licences, restrictive regulations on foreign exchange and heavy restrictions on foreign investments were intended to limit foreign influence on the Indian economy.

Under such circumstances it took some time for India and the Federal Republic to re-discover their past linkages and to enter into meaningful collaborations. It was only in the 1980s that the relationship between the two developed and by the second half of the decade the economic co-operation accelerated to such an extent that it helped India in upgrading its technology, creating manufacturing activities and generating employment for many. However, an important aspect of this partnership is that the trade between the two countries in Germany’s total trade with the rest of the world remains too small at 0.5 percent. In other words, Germany’s import from India constitute only 0.4 percent of its total imports worldwide and its exports to India are 0.6 percent of Germany’s total exports.

The advent of the new decade, brings with it a changed world scenario. These changes—the break-up of the Soviet Union and Eastern Europe, the re-unification of Germany, the European Monetary Union and the structural economic changes in Asian countries are bound to bring new opportunities in the form of new markets and will also bring new challenges.

It is the right time for both the countries to make a mutual effort to reduce the trade gap wherever possible. Considering the need for India to augment foreign exchange earnings through stepping up exports of the on-going products and the fact that certain production areas are being vacated by Germany, there is a vast scope for industrial and marketing cooperation between the two countries in developing export-oriented industries in India. Such collaborations may provide for buy-back arrangements by Germany as well as export to other countries.
A major hindrance in the way of increasing exports from India to Germany in particular and the EEC in general, is tariff, non-tariff and other restrictions such as the "preferential treatment" accorded to the developing countries, affecting countries like India, which is considered as a developed amongst the developing countries. These restrictions are not only a hindrance to Indo-German economic co-operation but to India’s economic co-operation with the other countries of EC as well. It is essential to review these restrictions in the emerging new world order.

To exploit these opportunities and to meet these challenges, which India will face from the developed as well as from the other developing countries, India needs to implement not only an economic reform programme with the objective of drastically improving her competitiveness on international markets which would make her economy more attractive to foreign investors and improve the flow of foreign assistance but it also needs to increase the export mindedness of its enterprise by participating in international fairs abroad and by organising more Fairs and seminars in India thereby providing a platform to the Indian exporters to advertise their product and also interact with the importers from abroad.

Moreover, such interactions are essential because many European including German importers have only limited knowledge regarding Indian import potentials. As a result, India’s small and medium scale export enterprises have difficulties in gaining entry to the German and European markets. Developing closer rapport with the German trade and industry could be greatly enhanced if buyers are regularly invited to visit India and interact with the Indian exporters.
It so appears that the much hype created over Indian tradition, culture and religion in the West particularly in Germany is restricted to the pre-Second World War era. Thereafter, the interaction between the two countries seems to be restricted to the limited participation of India in German trade fairs, West Germany’s participation in TECHNOGERMA ‘88 and the lone Festival of India held in the Federal Republic in the 1980s. India must begin to identify its partners in united Germany as well as in Eastern Europe, where it would be able to make contribution alone as well as through joint ventures in the world market. For this it must prepare a plan of action taking into account several factors, including (a) supply constraints, (b) sources of finance, internal and external, to meet its share of contribution, (c) the ability to meet time schedules for deliveries and construction and (d) its sources of technology.

This has to be accompanied by adjustment of export structures and improved competitiveness in world markets.
## TABLE 1.1

**INDIAN IMPORTS FROM MAJOR MEMBER COUNTRIES OF THE EEC, 1982-91**

(Rs. crore)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>831.4</td>
<td>1297.8</td>
<td>1937.9</td>
<td>2471.9</td>
<td>3477.4</td>
</tr>
<tr>
<td>U.K.</td>
<td>912.6</td>
<td>1018.8</td>
<td>1623.3</td>
<td>2400.6</td>
<td>2919.8</td>
</tr>
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<td>Belgium</td>
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<td>793.0</td>
<td>1089.8</td>
<td>2037.6</td>
<td>2717.5</td>
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<tr>
<td>Netherlands</td>
<td>248.7</td>
<td>364.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>France</td>
<td>425.6</td>
<td>358.2</td>
<td>669.6</td>
<td>821.6</td>
<td>1305.5</td>
</tr>
</tbody>
</table>

TABLE 1.2

INDIAN EXPORT TO MAJOR MEMBER COUNTRIES OF THE EEC, 1982-91

(Rs. crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Germany</td>
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<td>471.0</td>
<td>733.2</td>
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<td>U.K.</td>
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<td>670.1</td>
<td>700.1</td>
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<td>France</td>
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<td>208.9</td>
<td>271.3</td>
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<td>Belgium</td>
<td>213.4</td>
<td>185.6</td>
<td>342.5</td>
<td>885.9</td>
<td>1254.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>111.0</td>
<td>182.1</td>
<td>225.8</td>
<td>404.1</td>
<td>650.1</td>
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</table>

### TABLE 1.3

**SHARE OF INDIA IN GERMAN TRADE WITH DEVELOPING COUNTRIES**

*(in Percent to All Developing Countries)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.83</td>
<td>1.46</td>
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<tr>
<td>1980</td>
<td>1.88</td>
<td>1.37</td>
</tr>
<tr>
<td>1981</td>
<td>2.34</td>
<td>1.50</td>
</tr>
<tr>
<td>1982</td>
<td>2.15</td>
<td>1.53</td>
</tr>
<tr>
<td>1983</td>
<td>2.32</td>
<td>1.60</td>
</tr>
<tr>
<td>1984</td>
<td>1.75</td>
<td>1.62</td>
</tr>
<tr>
<td>1985</td>
<td>3.42</td>
<td>1.58</td>
</tr>
</tbody>
</table>

TABLE 1.4

INDO-GERMAN TRADE BALANCE, 1960-61 to 1986-87

(in million Rupees)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>1241</td>
<td>190</td>
<td>- 1051</td>
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<tr>
<td>1970-71</td>
<td>1075</td>
<td>323</td>
<td>- 752</td>
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<tr>
<td>1980-81</td>
<td>6938</td>
<td>3848</td>
<td>- 3090</td>
</tr>
<tr>
<td>1981-82</td>
<td>9478</td>
<td>3512</td>
<td>- 5966</td>
</tr>
<tr>
<td>1982-83</td>
<td>8314</td>
<td>3401</td>
<td>- 4913</td>
</tr>
<tr>
<td>1983-84</td>
<td>11229</td>
<td>3753</td>
<td>- 7476</td>
</tr>
<tr>
<td>1984-85</td>
<td>12891</td>
<td>4879</td>
<td>- 8012</td>
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<tr>
<td>1985-86</td>
<td>15437</td>
<td>5130</td>
<td>- 10307</td>
</tr>
<tr>
<td>1986-87</td>
<td>19336</td>
<td>7403</td>
<td>- 11963</td>
</tr>
</tbody>
</table>

Percent Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71/1960-61</td>
<td>- 13.4</td>
<td>+ 70.0</td>
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<tr>
<td>1980-81/1970-71</td>
<td>- 545.4</td>
<td>+ 1091.3</td>
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<tr>
<td>1986-87/1980-81</td>
<td>+ 179.1</td>
<td>+ 92.4</td>
<td></td>
</tr>
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</table>

a Provisional

Source: Government of India, Ministry of Commerce, Directorate General of Commercial Intelligence and Statistics (Calcutta), various issues.
### TABLE 1.5

TRENDS IN GERMAN FOREIGN DIRECT INVESTMENT IN INDIA'S MANUFACTURING SECTOR IN 1980 AND 1989

<table>
<thead>
<tr>
<th>Sector</th>
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<th>1989</th>
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<tr>
<td>Chemicals</td>
<td>69</td>
<td>100</td>
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<tr>
<td>Iron &amp; Steel</td>
<td>2</td>
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<tr>
<td>Machinery</td>
<td>36</td>
<td>43</td>
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<tr>
<td>Transport Equipment</td>
<td>43</td>
<td>-</td>
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<td>Electronics</td>
<td>29</td>
<td>134</td>
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<table>
<thead>
<tr>
<th>Most important restrictions &amp; conditions</th>
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<td>Greece (1)</td>
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<td>India</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Columbia</td>
</tr>
</tbody>
</table>

The following countries obtained an average rating (+ percent):

(a) India, Indonesia, Portugal;
(b) Indonesia, Portugal, Greece, Malta;
(c) Columbia, Tunisia, Brazil, Yugoslavia;
(d) Indonesia, Greece, Malaysia, Mexico, Tunisia, Spain;
(e) India, Spain, Malaysia;
(f) Brazil, Yugoslavia, Greece, Nigeria;
(g) India;
(h) Nigeria, Malta, Malaysia, Yugoslavia, Saudi Arabia, Brazil, Columbia,
    Greece, Portugal;
(i) Tunisia, Iran;
(k) Portugal, Columbia, Nigeria, Greece, Singapore, Brazil, India, Tunisia;
(l) Brazil, Venezuela.

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Description</th>
<th>Ownership Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Thueringische Faser Ag Schwarz Rudolstadt</td>
<td>Fibre plant with 3000 employees. Acquired by Dalmia Group Malaysia (Sanjay Dalmia). Dalmia will retain 1,200 employees and invest DM 150 million in the next three years. Deal finalized in October, 1991.</td>
<td>Dalmia Group Malaysia (Sanjay Dalmia). Dalmia will retain 1,200 employees and invest DM 150 million in the next three years. Deal finalized in October, 1991.</td>
</tr>
<tr>
<td>2.</td>
<td>Saechsische Kunstselden Gmbh</td>
<td>Man made fibre manufacturing plant (viscose filament yarn, cupro filament yarn...) with about 2000 employees. Acquired by Dalmia Group, Malaysia (Sanjay Dalmia). Dalmia will retain 1,100 employees. Guarantee for 700 employees. Unit acquired 1.1.92.</td>
<td>Dalmia Group, Malaysia (Sanjay Dalmia). Dalmia will retain 1,100 employees. Guarantee for 700 employees. Unit acquired 1.1.92.</td>
</tr>
<tr>
<td>3.</td>
<td>Greika Thueringer Weberei-und Veredelungs Gmbh Greiz. Vogthandstoffe GmbH</td>
<td>Companies at serial number 3 and 4 have been acquired by M/s Orkay Group of Industries (NRI family members). The Orkay Group will invest DM 60 million in the next five years in restructuring and modernizing the two companies. They have guaranteed 350 jobs in both the companies.</td>
<td>M/s Orkay Group of Industries (NRI family members). The Orkay Group will invest DM 60 million in the next five years in restructuring and modernizing the two companies. They have guaranteed 350 jobs in both the companies.</td>
</tr>
<tr>
<td>4.</td>
<td>Lesag Hbb GmbH</td>
<td>Acquired by Usha Rectifier Corporation (India) Ltd., Faridabad. They have guaranteed 350 jobs in the companies. The Government of India has cleared the project and RBI has released the payments.</td>
<td>Usha Rectifier Corporation (India) Ltd., Faridabad. They have guaranteed 350 jobs in the companies. The Government of India has cleared the project and RBI has released the payments.</td>
</tr>
<tr>
<td>5.</td>
<td>Berliner Schreibfeder GmbH</td>
<td>Acquired by M/s Kunstoplast Chemicals Company from Oberursel (Hesse), a subsidiary firm belonging to Mr. A.K. Chauhan of Frankfurt. Kunstoplast is planning to invest DM 2.5 million immediately on modernizing machinery and would retain 100 workers.</td>
<td>M/s Kunstoplast Chemicals Company from Oberursel (Hesse), a subsidiary firm belonging to Mr. A.K. Chauhan of Frankfurt. Kunstoplast is planning to invest DM 2.5 million immediately on modernizing machinery and would retain 100 workers.</td>
</tr>
</tbody>
</table>
7. Muggenburg Castle

About 150 kilometers from Berlin. Acquired or lease by Mr. Ashok Sancheti, Calcutta. He intends to convert the castle into a motel.

8. Germania GmbH Chemnitz


9. GATEMA GmbH

Acquired by Mr. S.N. Pamidi. He will retain 34 persons. Manufacturing, gardening, harvesting and loading machinery.

10. Zellstoff-und Papier fabrik Rosenthal GmbH

Acquired by Dalmias Produces Pulp for paper and viscose fibre. Has an annual turnover of DM 150 million. The capacity of the plant is 150,000 tonnes per annum. It employs 400 to 500 workers. The most unique feature of this plant is the new technology employed in making its products environment friendly. Also produces parchment paper which is imported into India. Plans for modernisation and expansion include an investment of DM 200 million by the Dalmia group.

11. Spices Grinding Unit Gera

Acquired outright by Mr. Ashok Sancheti, Calcutta.

Source: Indo-German Chamber of Commerce, Indo-German Economy (Mumbai), vol. 37, no. 6, 1993, p. 27.