

FRANCO-INDIAN RELATIONS: SOME ISSUES  
(1958-1976)

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## PREFACE

The hypothesis with which this attempt to study Franco-Indian relations begins is that these relations have been weak. While this may be a widely known fact, it is important to study the reasons for the weak relations between France and India. It is also essential to study what changes, if any, have taken place in the relations over the years.

With this perspective, two issues have been chosen. In the first issue, Franco-Indian relations are seen in a broader perspective of Indo-EEC economic relations. EEC has become a viable entity in Western Europe. But India's relations are not only with EEC as an entity but also with individual West European countries. In fact, India's relations with some West European countries have been or are fast gaining significance. In this context, it is necessary to see where France stands.

The first issue has been divided into various sections. In the introduction, a background to EEC's external relations is given in the context of European integration. Then the development of Indo-EEC economic relations is traced from 1958 to 1976. Further on, three important aspects of economic relations - trade aid and investment - are analysed. Largely this analysis is empirical. While France's position is sought to be understood in the broader context, a special section focussing on France and India has been included.

As regards the first issue, the student would like to make a confession. The discussion has been largely on Indo-EEC economic relations than on Franco-Indian relations. I beg

indulgence for this liberty taken by me. Two reasons prompted me to do this. First, the study of Franco-Indian economic relations becomes more relevant and interesting only when Indo-EEC economic relations are understood. Secondly, a study of Indo-EEC economic relations is more significant than an isolated study of Franco-Indian relations. Nevertheless the special reference to France is there.

The second issue concerns French arms trade especially in the context of Indian sub-continent. In a brief introduction, the process of militarization in the Third World is traced. Next, France is identified in the industrial pattern of supply of arms. Then a modest attempt is made at pointing out some of the drawbacks of the SIPRI analysis of arms trade. Further on, while implications of arms trade for arms production in developing countries like India are also discussed, the emphasis has been on understanding the nature of French arms trade in the Indian sub-continent. Also French arms trade is not studied in isolation but in relation to other arms suppliers.

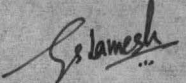
The conclusions drawn both in the first and second issues try to shed some light on some points like the role of the French State in France's economic relations and arms trade with India.

I am highly grateful to Dr. H.S. Chopra, Associate Professor and Head of the West European Studies Division in the School of International Studies. He has constantly guided and encouraged me. I am highly indebted for the understanding and patience he has shown towards me without which I would not have been able to

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THE FIRST ISSUE

INDO-EEC ECONOMIC RELATIONS WITH SPECIAL  
REFERENCE TO FRANCE

## INTRODUCTION

The European Economic Community has grown into an economic force to be reckoned with. It is the world's largest market, accounting for about 40 per cent of international trade. Presently it represents a common market and has evolved, in terms of commerce, more or less coordinated policies under the EEC institutional structure. In other words, EEC can be said to have a common commercial policy. Because EEC offers a very big market, other countries in the world - both developed and developing - have found it attractive and have desired to develop commercial relations with it.<sup>1</sup>

In the sphere of foreign policy, the EEC countries are cooperating and trying to coordinate their policies; though it cannot be said that they have achieved a common foreign policy.<sup>2</sup> Instances are there - like their joint pronouncement on the Middle East and voting together on resolutions at the 31st session in the United Nations. But these are hopeful signs rather than reflections of a dominant trend.

However, there is no doubt that EEC has become a powerful entity in world affairs. Though it may not have achieved a Super

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1 John Pinder, "The Community and the Developing Countries: Associates and outsiders", Journal of Common Market Studies (Oxford), vol. XII, no. 1, 1973, p. 55.

2 John Pinder, "The Community's Need for an Active External Policy", World Today (London), vol. 31, no. 10, September 1975, pp. 369-71.



power status, it is trying to increase its influence.<sup>3</sup>

Internally, EEC has some achievements to its credit. It has established a customs union which not only abolishes all intra-trade barriers but also protects EEC countries from outsiders by raising tariff and non-tariff barriers. It has sought to evolve a common agricultural policy within the community-though this policy has become controversial particularly because a common agricultural policy implies great losses to some members and here reconciliation of various national interests needs great caution. The EEC has also sought to bring about freedom of movement within the community which among other things implies free movement of labour from region to region.<sup>4</sup> There could also be some other achievements in political, economic and technological spheres though these are at present limited by the overall limitations of the EEC as a primarily commercial union.

Internally, the EEC has also experienced some failures which flow from what is mentioned above. Economic and monetary unions have not been achieved. For instance, neither centrally evolved financial policies nor a common currency have become

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3 For two different views on this, see Johan Galthung, The European Community: A Super Power in the Making (London, 1973) and Andrew Shonfield, Europe: Journey to an Unknown Destination (London, 1973). While Galthung argues that Europe has become a Superstate and is fast moving towards a dominant position in world affairs, Shonfield visualises the West European countries as a 'bag of marbles'. Shonfield argues that positive and deliberate steps are needed if Western Europe wants to play a leading role in world affairs.

4 Castles S. and Kosack, G., "The Function of Labour Immigration in West European Capitalism", New Left Review (London), no. 73, May-June 1972, pp. 12-13.

realities.

Externally, until 1973, EEC had sought closer ties mainly with the ex-colonies of France, Italy and Belgium.<sup>5</sup> The African, Caribbean and Pacific (ACP) countries were thus to become Associated States of the EEC. Before 1973, Britain was not admitted to the community and partly because of this, Asia and India in particular did not receive much attention.

Before 1973, opposition to British entry into the EEC was from one member of the community - France. French opposition was on the allegation that Britain was seeking Anglo-American hegemony in West Europe and its entry would not be conducive to European unity. Implicit in France's opposition was also the fear that if Britain entered the community, French ex-colonies would not receive great attention by EEC because Britain would seek to retain its own ex-colonial ties even within the EEC framework.

It may be argued that since Britain agreed to give up Commonwealth Preferences<sup>2</sup>, this reason could not be valid. But here it should be pointed out that the relations of West European countries with developing countries are not confined merely to commercial relations. For instance, Britain not only has trade relations with India, but also investments in India. Thus, even France has trade, aid and investment relations with several countries in and out of Francophone Africa. So the real reasons for French fear of British entry may have been based on the desire

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5 Christopher Soames, "The EEC's External Relations", The World Today (London), vol. 29, no. 5, May 1973, pp. 190-1.

to secure advantages vis-à-vis Britain. And EEC without Britain was suitable for such a purpose. This is all the more relevant because Britain may have more capacity first, on account of its "alliance" with the United States and second, because of British industrial organization. Britain's colonial legacy has given it some advantages over the colonies of other countries whether it is in banking structures, commercial activities, legal framework or skilled manpower and so on.<sup>6</sup>

Britain's entry was also opposed because of France's nationalistic outlook under de Gaulle. France feared that by Britain's entry, France would not succeed in playing a leading role in the EEC.<sup>7</sup> But, in the post-de Gaulle period, West Germany's growing strength led France to realize that France could not hope to play such a role. Now, the problem had become one of securing its interests vis-à-vis Germany within the EEC framework. This was possible if some other important country entered the EEC. However, this does not mean that West Germany saw Britain's entry as a move against its interests. Germany had the confidence that it could carry on with an enlarged community. In fact, it was one of the ardent supporters of British entry into the EEC.

One point however becomes evident. West European countries cannot as yet, overcome their national outlook. This is not only reflected in the differences existing among EEC members on

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6 Claude Cheysson, "Europe and the Third World after Lomé", World Today (London), vol. 31, July 1975, p. 236.

7 H. S. Chopra, De Gaulle and European Unity (Abhinav, 1974), pp. 197-9.

matters like agricultural policy but also in the crisis of the seventies faced by the EEC countries.

The oil crisis and recession in the world economy affected<sup>8</sup> the attitudes of west European countries to European integration. West European countries sought to recover from the crisis by following nationalistic policies which meant divergencies in economic and other policies. In fact, the Organization for Economic Cooperation and Development (OECD) itself recommended de-synchronization of policies in respect to economic growth.

From this, it also becomes clear that there is a certain dialectic between national and collective interests in the West European context. This is also the reason for the fact that relations between West European countries and India exist at two levels. One is at the bilateral level and another at the level of EEC as an entity.

This duality of EEC countries' external relations leads to the reiteration of the questions: whether EEC will remain a mere common market or evolve into a more integrated community? whether national interests will block the evolution of a powerful economic entity?

These questions are also related to the political and legal institutions which would play a role in this evolution.<sup>9</sup> According to one view, the European level institutions (like the

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8 Peter R. Odell, Oil and World Power: Background to the Oil Crisis (London, 1975), pp. 108, 117.

9 For example, Daniel Yergin, "Europe's Identity Crisis", Current (Washington, D.C.), April 1976, pp. 44-52.

European Commission) may have become subordinated to national governments rather than develop as alternatives. This may be liked by those West European countries which may still have strong national attitudes, for example, France and Britain. The European level institutions may reflect only a coordination in some spheres and not an organic unity. But there are also hopeful signs. The European Parliament will have direct elections in 1978. Though the national governments have some reservations, they have approved direct elections. Direct elections may increase the power of the European Parliament vis-à-vis the national parliaments. However, it is easier to predict about constitutional obstacles than to predict about the power of the European Parliament.

If there is to be a real effort towards a supra-national integration there has to be a process of integration of economies and institutions. Whether this process is there may be debatable. Assuming that it is there; it is evidently slow. This slow process has received setbacks now and then - the crisis of the seventies being an important one. Because of the setbacks some people may feel that EEC is facing an "identity crisis".<sup>10</sup>

Leo Tindemans, the Belgian Foreign Minister, was asked to report on this "identity crisis". The Tindemans report made modest, but as some people feel, significant recommendations. It was also said to be pragmatic. Among other things, the report wanted the following: (1) closer integration of foreign policies

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10      *ibid.*

(including removal of veto in the community institutions); (2) community responsibility for crisis in the 'region' of Europe; (3) expanded power for the European Parliament; (4) appointment of a spokesman to deal with the United States in "a dialogue based on equality"; (5) joint weapons buying; (6) closer links among all community currencies; and (7) a kind of two tier community in which those with stronger economies march quickly towards integration while weaker countries are to catch up when and as best as they can.<sup>11</sup> But there was no enthusiastic response to the Tindemans report.

Another point to be mentioned in the context of coordination of foreign policies refers to the communication between EEC countries and developing countries. The Conference on International Economic Cooperation (popularly called the North-South Dialogue) showed that EEC countries were trying to talk as a group with the developing countries.

Given all this, it would be simplistic to say that European integration is fast becoming a reality or that the process is blocked by national attitudes. Both are at work. However, what seems evident is that EEC countries are in no great hurry to bury their individual approaches whether it concerns their internal problems or external relations. At the same time, they are proceeding with European integration with a long-term perspective to gain supremacy in world affairs.

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11 This last proposal has been a controversial one since it is considered by some as self-defeating, for it would create an inner market very much different from an outer market.

## DEVELOPMENT OF INDO-EEC RELATIONS

The European Economic Community was formed under the Rome Treaty of 1957. But until 1961, India did not show much interest in this European experiment.

Until 1961, India had a suspicious attitude towards the EEC. The EEC was viewed as a new form of maintaining colonial links. There was also some objection to some specific actions of the EEC members. For example, India was opposed to the discriminatory tariffs imposed by EEC countries against other countries. Thus, when the six members of the EEC - France, Federal Republic of Germany, Italy, Belgium, Netherlands and Luxembourg - applied to the General Agreement on Tariffs and Trade (GATT) for permission to form a customs union, India was among those countries which urged that the formation of the European Common Market (ECM) and the application of a common external tariff (which would be the arithmetic mean of the former national tariffs) would result in harmful diversions of trade, particularly from the point of view of developing countries.<sup>12</sup> However, India did not press its general objections when 'the Six' assured it that they would try to avoid developments harmful to countries outside the EEC.

India was also suspicious of the European unity movement, if it implied strengthening Western Europe as a military ally of the United States - since all the EEC members at that time were<sup>13</sup> members of the North Atlantic Treaty Organization (NATO). India

12 Dharma Kumar, India and the EEC (Bombay, 1966), p. 54ff.

13 Kuzmoric, "USA and its NATO allies", Review of International Affairs (Belgrade), vol. 27, no. 24, 5 April 1976, pp. 29-31.

was critical of the NATO because of its key role in the 'Cold War' tensions.

But these objections were not made with much vehemence since the EEC was still seen as a regional affair and its importance was not foreseen. Thus, the only sign of the official Indian policy until 1961 was the GATT action taken by India as mentioned above.

However, as early as 1957, the Federation of Indian Chambers of Commerce and Industry (FICCI) began studying the problems of implications of the European Common Market (ECM) for India. The FICCI showed concern about the likely restrictive effects of the EEC's tariff and trade policies. In 1961, when the United Kingdom expressed its intention of joining the EEC, FICCI's concern was more particularly expressed.<sup>14</sup>

"It was Britain's decision to apply for membership in 1961 which first compelled India to take a closer look at EEC".<sup>15</sup> It was also FICCI's concern which influenced India to do so.

UK's entry into EEC at that time would have had two consequences. First, UK would have to phase out its Commonwealth Preferences and second, replace these Preferences by the Common

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14 FICCI, Report of the Proceedings of the Executive Committee for the year 1961 (New Delhi, 1962), pp. 21-22; Report for the year 1962 (New Delhi, 1963), pp. 29-31; Correspondence and relevant Documents relating to important questions dealt with by the Federation during the year 1961 (New Delhi, 1962), pp. 171-3.

15 Malcolm Subhan, "Opportunity for Stocktaking", India and European Community (Delhi), vol. III, no. 2, August-October 1977, p. 17; also Dharma Kumar, n. 12.



External Tariff (CET). As a result of the first, EEC exports to UK would enter duty-free and as a result of the second, India and other non-EEC countries would face customs barriers for their exports to UK.

In 1961-62, UK was India's largest export market among all countries. At this time, India's trade with UK accounted for one and a half times the trade with 'the Six'. In 1961-62, India's imports from 'the Six' amounted to 17.5 per cent of her total imports and from 'the Seven' (i.e., if UK had joined EEC) to 36.2 per cent. Exports amounted to 7.9 per cent with 'the Six' and 32.2 per cent with 'the Seven'. India was of the view that if UK had joined the EEC, India's export problem would become more difficult.

Further, by including UK in the EEC, the latter would have become a greater force in international politics and could aggravate the 'Cold War' tensions. More important, the growth of EEC could further exacerbate tensions between the developed and under-developed countries. An enlarged EEC would strengthen neo-colonial role of the West European countries, while weakening colonial legacies like the Commonwealth. In other words, the close ties of British ex-colonies with Britain would be transformed into one where West European countries would develop new links according to West European needs.

Of course, this did not imply that India was interested in de-linking itself either from Britain or West European countries. If some changes were to take place in the relations between West European countries, India would also seek a modified

relationship with these countries since it suited India's interests; or put it in another way, the interests of those groups which were represented for instance in the FIJCI.

If UK joined the LEC and adopted the Common External Tariff (CET), Indian goods would lose the right of duty-free entry as well as their special position against non-Commonwealth exports. By UK's entry, India would have to pay duties on its exports to UK, while competing exports from the Six and EEC's associated members would gain duty-free or preferential entry. India wanted that until India's trade relations with EEC were adjusted - to overcome the decline vis-à-vis UK - some interim arrangement should be made to maintain India's exports to UK. In this context, India argued for a lowering of the Common External Tariff and devising special measures for the transitional period to reduce damage to India's trade which would be caused if UK joined the EEC. India also proposed that within two years of UK's entry into EEC, EEC should conclude a wide ranging trade accord with India. While this proposal was accepted by the EEC countries and was to be extended to other Asian Commonwealth countries, it was doubtful if it could really solve the problem of India's commercial relations with UK. Even the provision for phasing out the Commonwealth Preferences or gradually raising the customs barriers would not solve the problem. UK was aware of this problem and was prepared, to some extent, to accommodate India's exports. But UK was primarily concerned with its own interests.

In 1963, UK's application was rejected because of the opposition from France led by de Gaulle. But this did not mean

that India reverted to its pre-1961 position. This was because (1) UK's entry into EEC at any future date could not be ruled out; (2) EEC was growing as a viable entity and irrespective of UK's entry, India had to consider its direct relationship with EEC; and (3) EEC's growth implied greater weightage to EEC countries in international affairs. <sup>16</sup> India could not ignore all these developments.

When UK's entry was opposed by France and there were differences of opinion among EEC members, it seemed as if EEC had an uncertain future. But in 1964 a customs union was established. This customs union meant abolition of tariffs between the Six and raising a common customs barrier by the Six against outsiders. This also implied that India had to negotiate more with EEC rather than individual States on matters of exports to EEC members.

The rejection of British application for entry into EEC did not lead to the abandonment of some concessions EEC had agreed to give India. India persuaded the Six that irrespective of UK's entry, India should be given these concessions as India had a chronic trade deficit with the Six. In this context, some tariff reductions were made.

Though there were some minor discussions between India and EEC, between early sixties and early seventies, EEC as an entity did not show much interest in India. Partly the reason for this was that EEC itself was evolving slowly. In fact, EEC was not even a

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16 For a discussion of the third point, see Ralf Dahrendorf, "Possibilities and Limits of a European Communities' Foreign Policy", World Today (London), vol. 27, no. 4, April 1971, pp. 148-61.

complete customs union.

While EEC was thus not in a position to show much interest in India, it did not mean that India had no noteworthy bilateral relations with any West European continental country. Thus, it could be observed that the Federal Republic of Germany had developed extensive bilateral relations and there was a rapid increase in bilateral trade, a large part of it financed by means of long-term credits and other financial assistance given by FRG. Other EEC countries also had relations with India and in fact had given some aid - for example, as members of the Aid India Consortium.

Further, if EEC was gaining any importance in India's eyes it was in the sphere of trade relations with the Six. Thus, if India had to trade with FRG it had to go through the European Commission because this institution was "EEC's negotiating arm for all trade matters".<sup>17</sup>

UK's entry into EEC took place in 1973. By this time, some changes in India's trade relations with UK led to the view, particularly among some EEC members, that India did not need any wide ranging agreement to protect its trade interests. Thus, while the terms of British entry were similar to the 1961 proposals, India was not offered any wide ranging trade accord. It was observed that in 1973 India's exports to UK (percentage-wise), were less than exports in 1962. Also, losing the Commonwealth Preferences and facing the customs barriers would be partly offset by the Generalized System of Preferences (GSP) which was implemented by

the EEC from 1971 itself. Additionally, by now India's trade relations with the Six had grown to some extent.

While the EEC seemed reluctant to have a formal trade agreement with India, India was bent on getting such an agreement concluded. The European Commission finally conceded and asked the member states for a mandate to negotiate such an agreement which would provide for the consolidation of some minor tariff suspensions and the creation of a joint commission to look into specific trade problems. The Commission's proposals were considered trivial by some EEC countries and France argued that the proposals were not important enough to be negotiated into a formal trade agreement. India continued to negotiate and tried to persuade EEC countries about the mutual advantages for India and EEC in developing trade. The final result of this was the signing of a Commercial Cooperation Agreement (CCA) in 1973.

Prior to the Commercial Cooperation Agreement India had submitted its 'aide memoire' calling for such an agreement. At this time, some EEC members took the view that the proposed cooperation agreement should be a "two way affair". They had a suspicion that India wanted to penetrate EEC market under the cover of the CCA - with products which could compete with some European products. Hence they insisted that the proposed agreement should provide for a measure of reciprocity. At the same time, they desired something more tangible. Thus, they made references to natural resources and foreign investments. Elsewhere, in the debates in the United Nations Conference on Trade and Development (UNCTAD) and other United Nations' (UN) bodies

on financial aid, some EEC countries notably the FRG and UK stressed the "value" of foreign private investments to developing countries. This was done to such a point where some EEC countries refused to subscribe to the 0.7 per cent target for 'official Development Assistance'.

Thus, when India submitted its aide memoire, the European Commission proposed that there should be a study of the possibility for creating favourable conditions for investments - particularly private investments - by West European countries.<sup>18</sup>

India argued that investments should be seen in the context of the existing "complementarity" between the economies of India and EEC member countries. If there was scope for investments based on complementarity there was none for investments seeking a high rate of return. In other words, if investments served to profit not only West European economies but also Indian economy, they were welcome. This implied that investments could be made in those spheres of economic activity where Indian industry could also have advantageous growth. Add to this, the insistence of EEC countries on private investments - which would prefer to align themselves with Indian private capital - and the desired 'direction' of cooperation would become obvious.

India also argued that EEC did not as yet, have a common investment policy. In fact, France also felt that EEC had no common policy on investment and that it was not necessary to bring

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18 News report, "EEC-India Treaty, Battle over Foreign Investments", Commerce (Bombay), vol. 127, no. 3263, 17 November 1973, pp. 358-9.

in the question of investments into the CCA proposals. France also sought to distinguish between European Commission competence and national competence. Further, France desired a reduction in the activities under the CCA to a bare minimum. This was because, certain Indian proposals to broaden the competence of the proposed Indo-EEC Joint Commission went beyond what was agreed to with the African associated States under the Yaoundé Convention.

The ultimate outcome of such differences of opinion - between India and EEC members on the one hand and between EEC members themselves on the other - was an agreement which was specifically commercial but was of a general nature with regard to other spheres and with no time bound programmes.

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The CCA had three broad areas of agreement: (1) to develop and diversify India's exports to EEC and also EEC's exports to India; (2) to encourage cooperation in economic relations; and (3) to cooperate in third country ventures especially in developing countries.

When India had proposed the CCA, it also wanted to strengthen the proposed Indo-EEC Joint Commission. But France opposed it because it felt that a strong Joint Commission would begin to deal with those economic aspects on which EEC had not yet developed a common policy. In other words, European integration had not proceeded to such a stage where all matters could be left to EEC institutions. However, India and EEC agreed that the Joint

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19 "Indo-EEC Relations: All the Milestones", India and European Community (Delhi), vol. III, no. 2, May-July 1977, p. 23.

Commission could progressively deal with those matters which become part of the common policies of EEC.

Though initially some EEC countries were of the view that a formal commercial agreement between India and EEC was unnecessary (or not important), the signing of the CCA could show one of the two things: (1) the EEC had realized that it was important to conclude such an agreement or (2) India had persistently tried to conclude such an agreement and this was conceded by EEC countries though they were not keen. But the real answer seems to be that EEC members realized the potential of such an agreement - if not in an immediate sense, at least in the long run - to further strengthen the links between EEC countries and India. India was also keen on entering new areas of economic activity. It was not satisfied with mere removal of some trade barriers.

At present, the progress in Indo-EEC relations represents chiefly the commercial sphere. From India's point of view, these relations still need improvement in terms of tariff reduction and improvements in the Generalized System of Preferences (GSP). Thus, CCA and improved GSP would be two elements of India's strategy for increased exports to EEC.

Further, the EEC provides some technical assistance to India for example, in export promotion. EEC has also given some food aid to India. However, broadly speaking there is no complete co-ordination in the aid policies of EEC countries towards India. In the context of forums like Aid India Consortium and World Bank, EEC members have often agreed on the aid to be given to India. However, this aid refers to broader aspects of what is called developmental



assistance.<sup>20</sup> Financial aid through the EEC institutional structure (and not bilateral aid and aid through other international organizations) for the non-Associated countries is small, in fact smaller than EEC's food aid programme. But within such a limited financial aid programme, India has been an important beneficiary.

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20 "Development Aid", India and European Community (Delhi), vol. 3, no. 2, August-October 1977, pp. 77-79.

## INDO-EEC TRADE

Since the Second World War, India's imports from 'the Six' were rising steadily. In 1948-49, imports from the Six were only Rs.360 million. By 1957-58, they rose to a peak of nearly Rs.2,160 million or over one-fifth of India's total imports. By 1964-65, they had dropped to Rs.1,693 million. Imports from the Six in 1964-65 amounted to 13 per cent of the total and in 1957-58 to 20 per cent whereas in 1948-49 they were only 6 per cent. While Indian imports had grown by well over Rs.1,000 million, the absolute level of exports to the Six rose only by some Rs.280 million or so in comparison with 1948-49.<sup>21</sup> Exports to the Six remained more or less constant as a proportion of total exports over the post-war period for several years. As a result of this difference between the movements in exports and imports, India had an unfavourable balance of trade with the Six in every year since independence right upto 1975 (1950-51 was an exception, being the year of the Korean boom).

Dharma Kumar in her study - India and the EEC - made in 1964-65, felt that the formation of the EEC had no marked effect on the broad movements in exports and imports. This could have been partly because the Customs Union was not yet completely formed. She was of the view that the watershed of India's trade with the nations comprising the Six was not the formation of the EEC but the Second World War because in the inter-war period, India's trade pattern was different from the war or post-war

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21 Dharma Kumar, n. 12, pp. 137, 139.

pattern of trade. While, what Dharma Kumar says about the broad movements in trade in the inter-war<sup>war</sup> and post-war period may be true, it cannot be said that the formation of the EEC had no impact on India's trade. Of course, it has to be conceded that in the initial period of Indo-EEC trade relations there was no notable impact. In fact, while EEC's share of world imports was rising since 1958, India's share of exports to EEC market was stagnating. But by 1970s India realized the importance of EEC as world's largest export outlet for India.

In absolute terms, total imports from the EEC into India were falling more or less steadily in the four years upto 1963-64. In 1963-64, total imports to India (from all sources) were higher than in 1957-58 and imports from the Six consequently were observed to be declining in proportion to total Indian imports. In 1964-65 imports from the EEC rose substantially but were still below the 1957-58 level.<sup>22</sup>

There could have been two possible reasons for this decline of Indian imports from the EEC: (1) The role of other suppliers may have increased taking a greater proportion of India's imports. (2) The commodity pattern of India's trade may have changed in ways unfavourable to the EEC.

The extent of influence of the first cause, i.e., the loss of ground to other suppliers is partially evident in Table 1.

In Table 1, imports from the Six are set out as a percentage of total Indian imports for six major commodity groups in

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22 Dharma Kumar, n. 12, p. 142 ff.

TABLE 1

IMPORTS FROM THE SIX AS A PERCENTAGE OF TOTAL  
INDIAN IMPORTS

	1956-57 Percentage of total imports	1963-64 Percentage of total imports	1964-65 Imports from the Six (Rs. millions)	Percentage of total imports
1. Machinery and transport	30.0	19.2	1010.45 <sup>a</sup>	21.4
2. Chemicals	33.0	27.3	253.63	27.9
3. Manufactured goods	23.0	11.2	334.07	15.1
4. Mineral fuels, lubricants and related material	0.8	0.8	13.94	2.0
5. Crude material inedible except fuels	2.8	1.9	21.68	1.7
6. Scientific instruments	27.0	20.6	37.80	25.6
7. Total imports	14.2	12.0	1693.64	13.4

Source: Dharma Kumar, n. 12, p. 143.

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1956-57, 1963-64 and 1964-65. It can be noted that between 1956-57 and 1964-65 EEC's share of India's imports fell in every single group (except minerals and fuels which were the least important). The fall was particularly marked in machinery and transport equipment and manufactured goods. It can also be observed that machinery and transport were the most important imports from the EEC in 1964-65 (see a in Table 1).

Imports of machinery and transport equipment were generally higher from the Six and the UK than from the world. But it was the fall in the absolute value of these imports from the Six which was one of the important reasons for the decline of total Indian imports from them. These commodities were precisely those which tended to be bought only if foreign aid or private foreign investment were available to cover the purchase.

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Imports of these items i.e., machinery, transport equipment and also manufactured goods had to be reduced because of shortage of foreign exchange and particularly because a relatively small proportion of aid could be utilised for them. Thus an important reason for the decline of India's imports from the Six, until the mid sixties, had been scarce foreign exchange position and absence of EEC aid to cover such imports. Those imports which were not financed by aid had to be cut and that meant EEC exports to India. The aid coming from sources other than the Six were tied and so could not be used for imports from the Six.

Table 2 sets out exports by the Six to India as a proportion of their total exports. In general, India's imports from

the EEC formed a very low percentage of EEC's total exports. Further, this percentage fell from 1957 to 1962 and 1964. Among these, exports of machinery and transport equipment were relatively important, but here too there was a decline from 1957 to 1964.

TABLE 2

EXPORTS BY THE SIX TO INDIA AS A PERCENTAGE  
OF THE TOTAL EXPORTS

Commodity	1957	1962	1964
Total	1.9	0.8	0.8
Chemicals	2.3	1.6	1.1
Machinery and transport equipment	3.8	1.5	1.4
Basic Manufactures	2.5	0.8	0.6

Source: UN Commodity Trade Statistics for 1957, 1962 and 1964. (n. 12, p. 146).

The decline of Indian imports from the Six was to a large extent due to the import policy. This policy was determined mainly by the level of aid receipts and foreign exchange reserves.

Since 1958, the terms of trade of the Six moved in almost the same way as the terms of trade of the developed areas in general. There was a steady improvement both for developed areas in general and the Six in particular at the expense of under-developed areas.

In the first half of sixties, while Indo-BEC trade was not so important, yet India's imports from BEC formed a larger part of India's total imports than India's exports did in BEC's total imports. This can be substantiated when India's exports are seen as a percentage of the total imports of the Six.

TABLE 3

INDIA'S EXPORTS TO THE SIX AS A PROPORTION OF  
THEIR TOTAL IMPORTS, 1948-1964

OR

IMPORTS FROM INDIA AS PERCENTAGE OF TOTAL  
IMPORTS BY THE SIX

	1948	1957	1962	1963	1964
West Germany	0.1	0.8	0.6	0.5	0.5
France	1.6	0.6	0.3	0.3	0.3
Italy	2.4	0.5	0.4	0.3	0.3
Belgium/ Luxembourg	1.2	0.4	0.4	0.3	0.3
Netherlands	1.1	0.3	0.3	0.3	0.3
<b>Total</b>	<b>1.3</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

Source: For 1948, 1957, 1962, 1963, UN, Direction of International Trade and for 1964, OECD, Overall Trade by Countries, July 1965 (n. 12, p. 172).

As Table 3 shows, India's exports played an extremely small part in imports by the Six. India's exports were only 0.4

per cent of the EEC imports in 1964 (including intra-trade), which was even smaller than India's 1 per cent share of world exports at this time. Further, in 1964-65 India's exports to EEC countries were not even able to maintain the extremely low share they had few years before 1964. As observed in the table, exports from India to France also fell from 1.6 per cent in 1948 to 0.6 per cent in 1957 to 0.3 per cent in 1962-64. While FRG had a lower share of India's exports to the Six than France in 1948 (because its trade was abnormally low just after the War), in 1964 it remained at a higher level than France - 0.5 per cent - after overtaking France in 1957, itself. It should also be added that India's exports to the Six as a group fell sharply in the post-war period as compared to inter-war period.

The commodity composition of India's exports to the Six was rather different from the overall pattern of exports. In India's trade with the EEC, India's leading exports in the earlier half of the sixties<sup>24</sup> were leather, iron ore, coir yarn, tea, jute bags, oil cakes, rose wood, jute cloth, coffee and mica. On the other hand, in India's overall trade they were tea, jute cloth, cotton fabrics, jute bags, oil cakes, iron ore, leather, sugar, cashew kernels and tobacco. The striking difference between the two lists was that while cotton textiles were the third most important item on the list of overall exports, they did not appear at all on the EEC list. This feature of the earlier half of the sixties was in contrast to the seventies when cotton

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24 *Ibid.*, p. 175. These lists are based on averages for 1962-63 and 1963-64.



textiles formed an important item of India's exports to the EEC.

An important question in this context was in what ways and to what extent did the formation of EEC affect India's exports to the Six?

An important way, among others, in which the EEC could affect India's trade was the alignment of the national tariffs with the Common External Tariff (CET). Two possible effects of the CET were: (1) a diversion from India to other sources of exports because of the CET. This would particularly affect those commodities for which tariff was high. These sources of export could be within the EEC or could be the Associated members of EEC; (2) A more restrictive effect of the CET - not withstanding the fact that EEC did not have a policy of quota restrictions in the initial period. Also, the Common Agricultural Policy (CAP) could have affected India's exports by seriously restricting India's exports of some agricultural products - for example, oil seeds, oil, sugar, etc.

Initially, the CET excluded tariff on a large number of primary commodities (for example, raw cotton and minerals) and on a few simple manufactures or semi-manufactures (for example, coir yarn). But the rates were high on some traditional goods (like woollen carpets), on processed food articles and some manufactures (for example, bicycles).

Sharma Kumar was of the view that the formation of EEC had little perceptible impact on Indian trade with the Six. She also thought that in the near future of the sixties, EEC would not make trading conditions more difficult for India than they

would have been in EEC's absence. By her calculations, Dharma Kumar thought that for the goods of interest to India, the CMT was on the average probably no higher than the national tariffs it replaced. Further, since the Six did not compete very much with Indian exports, it was not likely at that time for diversion from Indian trade to suppliers within the EEC. On most of the primary commodities in which the Associated Members of the EEC competed with India the tariff was nil or low (vegetable oil was an important exception).<sup>25</sup>

EEC's impact on India's trade may not have been evident in the earlier years - particularly in the first half of the sixties. But such a statement would not be true when later developments in Indo-EEC trade are observed. Further, instead of EEC competing very much with Indian exports, it was the other way. Indian goods started competing with EEC goods within the EEC market. This was particularly true of the recent period of India's trade with EEC (for example in cotton textiles). However, it cannot be said that all Indian exports started competing with EEC products. Some Indian exports entered EEC market along with goods from Associated Members or other non-members - subject to quota restrictions. In other words, exports of more manufactures to the EEC were hindered by the restrictions EEC imposed on them. The French were more restrictive about allowing Indian manufactures unlike the relatively 'liberal' Dutch or Germans.

In the early sixties, when British intentions of joining

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25 Ibid., pp. 225-6.

the EEC were formalized in its application to the EEC, it was believed by some observers that if UK joined the EEC, India would suffer a loss. Once UK were to remove preferences given to India as a Commonwealth country and give preferences to the EEC and its Associates against India, Indian exports to UK were bound to fall. Also, Indian exports to the Six could fall since these exports would have to face barriers unlike UK's goods. UK's membership of the EEC would almost certainly weaken the Commonwealth.<sup>26</sup> There were also some apprehensions about India losing the Commonwealth Preferences. Since two trade blocs, instead of one, existed at that time - the EEC and the European Free Trade Association (EFTA) - it was considered some relief.

However, the Commonwealth Preferences were being eroded over the years. Thus, the Commonwealth countries did not enjoy any greater advantage over the EFTA countries in their exports to the UK.<sup>27</sup> The successful conclusion of the Kennedy Round of talks, leading to the reduction of Most Favoured Nation (MFN) duties further diminished the so-called advantages of the Commonwealth Preferences.

Also, the UK adopted the Generalized System of Preferences (GSP) by which duty free access was extended to a large number of manufactures and semi-manufactures from all countries. This

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26 The Communist Party of India (undivided) in fact welcomed UK's efforts to join the EEC because it would lead to the disintegration of the Commonwealth and "the freeing of India from its colonial ties". See Bhupesh Gupta's speech in Rajya Sabha on September 5, 1961.

27 EFTA had seven West European states as members: Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the U.K.

nullified India's so-called advantage as a Commonwealth country. This is substantiated by the fact that while in 1960-61, the UK accounted for 26.1 per cent of India's export trade; by 1970-71,<sup>28</sup> the percentage came down to 11.1 per cent.

Between the sixties and the seventies Indo-EEC relations began to undergo some changes. The EEC was increasing its importance as a supplier of various capital goods, machinery and other items like chemicals and chemical compounds, pharmaceuticals, fertilisers, base metals, transport equipment, minerals, and fuel. In early sixties, India's share in total EEC imports was only about 1 per cent. It showed persistent improvement since 1965-66. India's exports showed growth in various sectors: tea, jute goods, hides and skins, leather goods, iron ore, manganese ore and some varieties of textile. While the proportion of Indian exports to the EEC remained constant, the proportion of Indian imports coming from the EEC showed increase from 6.6 per cent in early sixties<sup>29</sup> to 24 per cent in 1968-69.

According to Tandon, the dominant position in Indian exports to EEC was being taken by raw materials which were finding a steady though not suddenly expanding market in the EEC. Trade restrictions it seemed, did not affect these exports. Nor did

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28 S. G. Bose Mullick, "Framework of the Indo-EEC Relations", India and European Community (New Delhi), vol. 1, no. 4, February-April 1976, p. 15.

29 Government account imports formed a substantial part of Indian imports from the EEC. In the second plan period (1956-61), these imports formed about 41 per cent of the total imports from the EEC, but rose further to 49.5 per cent over the third plan period (1961-66).

they affect semi-manufactured goods and some manufactures to a great extent. Tandon also says that the importance of EEC for India has been as a supplier of capital goods and equipment than as a buyer.

While raw materials did form a significant part of Indian exports to EEC, the role of manufactured and semi-manufactured goods was also increasing in the transition from the sixties' period to the seventies' period of India's exports to EEC. It was also natural that primary commodities found easier access into EEC. It was also true that EEC was mainly a supplier of capital goods and equipment. While EEC may have been more keen on supplying such goods to India, India was making efforts to increase the exports of manufactures (like engineering goods).

During the first and second plan periods (1951-56 and 1956-61 respectively), the EEC occupied the fourth place in India's export earnings. In the third plan period (1961-66) the East European countries relegated EEC to the fifth place. By the end of the fourth plan period (1969-74), the picture changed and the EEC occupied the second place receiving 24 per cent of India's exports in 1973-74. In 1975-76, the EEC still occupied the second place receiving 21 per cent of India's exports. While it is true that EEC share went up when UK joined the EEC in 1973, the extent to which UK's entry brought about this change should not be over emphasized.

30. N.P. Tandon, "Impact of EEC on India's Trade", Economia Internazionale (Geneva), vol. 23, no. 2, February-May 1976, pp. 192-210.

From Table 4 it is evident that EEC's share of India's exports was below 9 per cent until 1973. In 1973, EEC's share shot up to 24 per cent. (The figures before 1973 are annual averages and do not explain annual fluctuations and the figures after 1973 are not annual averages. Thus they may not be strictly comparable, but the overall change seems clear - that there was a notable increase since 1973). The large increase in India's exports to EEC was of course to a great extent due to UK joining the EEC. But it was to some extent independent of it too. This was because India's exports to EEC members were increasing over the years even without UK's entry into EEC. This point is proved by another fact that India's exports to UK had decreased both in absolute terms and percentage figures i.e., from Rs.258 crores or 27.7 per cent of total Indian exports in the first plan period (1951-56) to Rs.188 crores or 10.4 per cent of total Indian exports in the fourth plan period (1969-74).

Among the EEC countries, FRG increased its share of Indian exports in absolute terms (1968-69 was an exception). And in percentage figures there was an increase but with mild fluctuations. Italy also showed improvement (though with fluctuations) in its share from the first plan period (1951-56) to 1975-76, though not as much as FRG. In fact FRG was the most important importer for India next to UK in the EEC.

In 1975-76, France too improved its share of India's exports (only slightly better than Italy) but not as much as FRG. French share was 2.1 per cent of India's total exports in 1975-76.

TABLE 4

## DIRECTION OF INDIA'S EXPORTS (SOME SELECT COUNTRIES)

(Rs. Crores)

Countries	Annual Average				By the end of Annual Plan period 1968-1969	By the end of Fourth Plan per- iod 1973-74	1974-75	1975-76
	First Plan 1951-52 to 1955-56	Second Plan 1956-57 to 1960-61	Third Plan 1961-62 to 1965-66	Fourth Plan 1969 to 1974				
ECM	72 (7.7)	74 (7.6)	90 (7.6)	125 (6.9)	111 (8.17)	609 (24.1)	689 (20.9)	819.0 (20.8)
i) G. Germany	20 (2.2)	27 (2.8)	30 (2.5)	50 (2.8)	27 (1.99)	87 (3.4)	105 (3.2)	118.3 (3.0)
ii) Italy	13 (1.4)	11 (1.1)	11 (0.9)	33 (1.8)	13 (1.33)	69 (2.7)	52 (1.6)	78.7 (2.0)
iii) France	11 (1.2)	13 (1.3)	13 (1.1)	32 (1.8)	20 (1.47)	50 (2.0)	85 (2.6)	84.0 (2.1)
iv) U.K.*	258 (27.7)	268 (27.4)	254 (21.6)	188 (10.4)	202 (14.87)	263 (10.4)	307 (9.3)	403.6 (10.2)

\* UK joined ECM on January 1, 1973.

Notes: 1) Figures prior to 1966-67 are in post-devaluation rupees.

ii) Figures in brackets indicate percentage share to the total exports.

Source: Foreign Trade Review (New Delhi), vol. XI, no. 2, July-September 1976, p. 206 [compiled]. Primary Source: DGCI&S (Calcutta) and Ministry of Commerce (New Delhi).

the UK accounted for the largest share of India's exports to the EEC countries, since the first plan period (1951-56) to 1975-76, with a share of 10.2 per cent in 1975-76. This was a high percentage compared to any other EEC country's share. But percentage-wise Indian exports to the UK had fallen from the first plan (1951-56) to 1975-76.

From Table 4 the implications are that India's exports among EEC countries are mainly to the UK and then to FRG. France is not as important as they are in India's export earnings.

India's exports to EEC have risen substantially. The total exports (including re-exports) to the 9-member EEC increased from Rs.4,080 millions in 1972-73 to Rs.6,890 millions in 1974-75. The expanded EEC is the world's largest trading bloc. The US and Japan are EEC's major trading partners. This big trading bloc (EEC) accounted for an important percentage of India's exports. In 1972-73 it was 20.7 per cent. The share went upto 24.1 per cent in 1973-74. However in 1974-75 while India's overall exports increased by nearly 31 per cent, exports to the EEC increased by only 13 per cent with the result that India's exports to EEC came down to 20.9 per cent of total Indian exports.

From Table 5 it can be observed that India had a persistent unfavourable balance of trade with the EEC (excluding UK) from 1971 to 1975 (December). The trade gap had in fact widened. But with UK India's balance of trade showed a change (since 1973-74) in a favourable direction. The widening of India's trade deficit



TABLE 5

INDIA'S TRADE WITH EEC COUNTRIES\* EXCLUDING U.K.  
(Rs. Crores)

	1971-72	1972-73	1973-74	1974-75	1974 Ap.-Dec.	1975 Ap.-Dec.
i) Imports	253.8	339.2	451.8	625.6	404.6	616.0
ii) Exports	124.6	235.2	345.3	382.5	272.2	275.7
iii) Balance	-129.2	-104.0	-106.0	-243.1	-132.4	-340.3

India's Trade with U.K.

i) Imports	220.8	237.2	252.2	213.4	149.4	205.9
ii) Exports	168.7	172.5	263.1	307.0	241.1	281.0
iii) Balance	- 52.1	- 64.7	+ 10.9	+ 93.6	+ 91.7	+ 75.1

\* Includes Belgium, France, West Germany, Italy, Luxembourg and Netherlands for 1971-72 and 1972-73 and in addition Denmark and Ireland from 1973-74.

Source: Reserve Bank of India (RBI), Report on Currency and Finance, 1975-76, p. 199.

with EEC (excluding UK) reflected a steep increase in imports.

Table 6 shows that India's balance of trade with EEC countries (excluding UK) has been consistently unfavourable from 1971-72 to 1975 (December). With the US (which is outside the EEC) except for 1972-73 it has been unfavourable. With the UK however, a favourable balance is observed from 1973 to 1975 (December).

From Table 6, it is seen that there was a sharp increase in the combined share of the USA and EEC countries (including UK) in India's imports - from 32.4 per cent in 1974 to 44.3 per cent in 1975, while the share of these countries in India's exports came down slightly from 34.9 per cent to 33.4 per cent. The EEC countries in particular (excluding UK) increased their share of India's imports from 13.1 per cent to 15.8 per cent, an increase of 2.7 per cent. At the same time their share of Indian exports fell from 11.6 per cent to 10.3 per cent, a fall of 1.3 per cent. This meant again that India's balance of trade with EEC (excluding UK), was unfavourable, with those countries increasing their share of exports to India and India reducing its share of exports to the EEC.

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According to some observers, India's unfavourable balance of trade with EEC, particularly in 1975, was due to the following reasons:

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32 For example, S.S. Mehta, "India's Economic Relations with the EEC", India quarterly (New Delhi), vol. 33, no. 3, July-September 1977, pp. 281-91.

TABLE 6

REGIONAL PATTERN OF INDIA'S TRADE WITH SELECT COUNTRIES OR  
REGIONS

Country or region	<u>1971 - 72</u>		<u>1972 - 73</u>		<u>1973 - 74</u>		<u>1974 - 75</u>		Percentage of shares			
	m	x	m	x	m	x	m	x	<u>1974</u>		<u>1975</u>	
									m	x	m	x
U.S.A.	22.9	16.4	12.6	14.0	16.7	13.7	16.3	11.4	14.5	13.1	23.2	12.7
U.K.	12.1	10.5	12.7	8.8	8.5	10.4	4.8	9.3	4.3	10.2	5.3	10.4
ECM Countries (excluding UK)	13.9	7.7	18.2	11.9	15.3	13.7	14.0	11.6	13.1	11.6	15.8	10.3

m - imports

x - exports

Source: RBI, Report on Currency and Finance, 1975-76,  
p. 200 [compiled].

(1) The Generalised System of Preferences (GSP) and its disadvantages for India - Under the GSP, the EEC grants preferential tariff or duty free treatment to some manufactures and semi-manufactures falling under certain categories and to certain agricultural products under certain categories. These concessions are severely limited by the fixation of ceilings and quotas on some items which are notified as 'sensitive' products. For the 'sensitive' products the GSP quota has been distributed among the EEC countries. this system allows these countries to restrict the imports of 'sensitive' items to specified limits.

The GSP had incorporated some improvements in 1975, whereby the 'sensitive' products list was reduced, quotas were improved, duty free access to more agricultural products was given. However, the 1975 'liberalisation' under the GSP was not carried forward in 1976. Under the GSP only about 13.5 per cent of India's exports to EEC received relatively preferred entry in 1975. In 1976, on the whole, about a third of EEC imports under the GSP were subject to quota restrictions. however some Indian exports like textiles and footwear experienced ceilings even though they were allowed under preferred entry. In fact India "voluntarily" agreed to restrict its textile exports to the EEC market. Some other goods like engineering goods and chemical and allied products did not have quota limits.

It is also argued that such limitations notwithstanding, it is still very difficult to explain India's poor performance in respect to items which come under the GSP. In other words, it is said that tariff and quantitative restrictions do not fully

explain India's poor exports. According to Mehta, this may be because a substantial amount of Indian exports enter the EEC <sup>33</sup> duty free outside the GSP. However it should be noted that some goods like raw tobacco, cotton textiles, carpets, jute and coir products suffer from high tariff. For some other traditional goods the demand is said to be inelastic.

(2) The composition of India's exports and the need for alteration - The commodity composition of India's exports to EEC is as follows. A large part of the exports consist of cotton textiles, tea, leather and leather products, silver bullion, handicrafts, engineering goods, ores and minerals and unmanufactured tobacco. Some other exports are chemicals and allied products, non-essential vegetable oils, sugar, oil seeds, jute manufactures, coir and coir products, etc. However, some goods in particular do not have a significant share in EEC imports, for example, engineering goods and chemical and allied products. It is argued that new efforts are required to assess EEC requirements in such goods and increase such exports because some of these goods have not reached the ceilings or quotas prescribed and there is room for further expansion.

(3) Lack of adequate export surpluses - This is noticed both in traditional goods like sugar and non-traditional goods like bicycles and shoes. It is also observed that India cannot supply the required quantity and to European specifications.

(4) Non-fulfilment of contractual obligations - Indian exporters do not follow satisfactory norms of efficiency; for

example, deliveries of goods are delayed and so on.

The above reasons are said to be the limitations on India's export strategy to EEC and hence resulting in the trade deficit. It is also argued that efforts should be made to overcome the limitations and substantially increase exports to EEC to close the trade gap.

While the arguments given above may be partially true particularly in a narrower sense of a strategy for expanding exports, the recent experiences in some exports; for example in cotton textile exports to EEC, point out to a more important problem. This problem seems to have been identified by the official circles in India as a tendency towards protectionism among the EEC members. The argument of EEC members is that a particular commodity by invading EEC market in a big way might pose a threat to the already existing industry, commerce and employment situation in that particular commodity sector. Thus for example, EEC argued that India should limit its exports of cotton textiles as they would affect employment opportunities in EEC's domestic textile industry. And by pressure, India "voluntarily" agreed to some ceilings in some commodities. In other words, the import policies of EEC countries also play a role in influencing the increase or decrease in India's exports.

EEC countries seek to impose tariff and non-tariff restrictions not withstanding the LDC and duty free entry for some goods. This is evident in those commodities where as soon as their exports begin to benefit an exporting developing country like India (or even a developed country) EEC countries seek to

invoke protectionism. At the same time an argument for 'liberalisation' in some other cases may not be forgotten by developed countries like the EEC group. This happens when they find that some goods can enter their market without any substantial challenge to the internal production and commerce.

There may also be an argument that diversification in commodities is needed for increased exports from India to EEC. Thus it is pointed out that only some items in India's exports reached the EEC ceilings under the GSP and other products did not and hence there is great room for improvement in trade performance. A plea for diversification in commodities for exports may not be wrong if it is only an argument for export promotion. But here it implies that such diversification is actually meant to prevent more competitive Indian goods (for example cotton textiles) from acquiring an important position in the EEC market.

## AID BY EEC COUNTRIES TO INDIA

Aid by EEC countries to India should be seen at two levels - one at the bilateral level and another at the EEC level. In other words, some EEC members give bilateral aid to India. This aid has been larger than the aid through the EEC institutional structure and hence a distinction is necessary.

While some observers note a two fold relationship between India and EEC in terms of trade and aid, they fail to understand the underlying relationship between these two aspects of economic relations. Thus they make statements that "the rationale behind the accord (the Commercial Cooperation Agreement of 1973) is that in economic relations between a developing and developed countries, the latter can export to the former only in proportion to its capacity to pay"<sup>34</sup>. Here what they fail to understand is that even when a developing country may not have adequate resources to absorb an advanced country's exports, it is possible to absorb the exports through the aid given by an advanced country (or countries). It may so happen that the aid which may be given by an advanced country may have clauses which benefit the aid giving country. As a result, the aid receiving country may buy exports from an advanced country even without any real indigenous resources and become indebted to the advanced country.

The relationship between trade and aid could be seen in: India's relations with EEC countries both in the earlier and later periods.

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34      Ibid.



Table 7 shows aid as a percentage of imports from each of the Six, during India's second and third plan periods (the third plan period covered in the table is only upto 1964-65). As already mentioned, imports from the Six came down due to the import policy and limited foreign exchange reserves of India - both of which were influenced by the level of aid receipts.

In the table, it is observed that among the Six, FRG gave the largest amount of aid to cover imports. This led to a relatively less sharp fall in Indian imports from FRG, as against other countries, except Netherlands. (However, the figures in the table can be an underestimate since they account for only bilateral aid.) Further, France gave virtually no aid in the period 1956-61 to cover imports and in the period 1961-65 its exports declined, though covered by some aid amounting to Rs.130 million. Perhaps this aid maintained the imports at least at Rs.603.3 million or else it would have declined even further.

Two years or so before 1965, Indian receipts of aid from the Six began rising very rapidly. During the first plan period (1951-56) India received no aid from the Six but by March 1965 official aid received from them amounted to 15 per cent of the <sup>aid</sup> total from all sources (including PL 480).

In the early sixties practically all the aid received by India from the Six was in the form of loans. The only grant until then was from FRG which was the largest aid giving country of the Six. FRG alone provided three-fourths of the aid from the Six. Among the aid giving countries FRG came second to US, apart from international aid institutions. France's official aid

TABLE 7

AID\* TO INDIA AS PERCENTAGE OF IMPORTS FROM SIX IN  
THE SECOND AND THIRD PLAN PERIODS

(Rs. million)

Countries	Second Plan Period (1956-57 to 1960-61)			Third Plan period up to 1964-65			Percentage fall in imports bet- ween 2nd and 3rd Plan periods (annual averages)
	Imports	Aid	Aid as percentage of imports	Imports	Aid	Aid as percentage of imports	
West Germany	5475.8	1206.0	22.0	4167.2	1747.4	41.9	4.9
France	1070.2	..	..	503.3	130.0	21.5	29.5
Italy	1350.2	..	..	361.0	90.8	10.5	20.3
Netherlands	621.2	..	..	511.1	27.3	5.4	(2.8) (increase)
Belgium	901.4	..	..	347.7	11.7	3.1	48.0
Luxembourg	52.0	..	..	0.4	..	..	99.0
EEC	9470.8	1206.0	12.7	6517.7	2007.7	30.8	

\* Figures are for utilized aid. No aid was given to India by any of the Six during the First Plan period.

Source: Dharma Kumar, n. 12, p. 147.

authorized upto March 1965 was Rs.476 millions and of the Six France's position was only third (second being Italy's). Further, unlike East, France gave no grants.

In 1963, the spread of aid by the EEC countries was extremely uneven. This was particularly the case with French aid. In 1961 and 1962 over 95 per cent of French official aid and 85 per cent of her total assistance, including private investments,<sup>35</sup> went to ex-French territories. While three years before 1965 more had gone to countries outside the Franc area, by far the greater proportion of French aid was still concentrated inside it.

Of the Six, FRG's aid was most widely dispersed. Also, FRG devoted a major part of its aid to Asia as table B shows.

The table shows that in 1963 French aid went chiefly to Africa - 78.5 per cent, and Asia's share of French aid was very meagre - 1.2 per cent. FRG gave the largest share of its aid to Asia - 43.5 per cent. Of this, South Asia accounted for 24 per cent. The obvious conclusion of the above is that French interest lay mostly in Africa than in Asia or any other region though Latin America had some share in French aid. In other words, French aid policy was not at all concerned with India in any noteworthy sense at this time. In fact, the Jeanneney Report had argued that France should go on giving first priority to Africa and help the African countries to 'take off' because France's relatively small contributions would merely scratch the surface of the 'vast needs'

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35 Report, M. Jeanneney, Ministère d'État Chargé de la Réforme Administrative: "La Politique de Co-opération avec les pays en Voie de Développement", July 1963, p. 73, n. 12, pp. 150-1.

TABLE 8

GEOGRAPHICAL DISTRIBUTION OF NET  
BILATERAL AID BY THE SIX IN 1963

(in percentages)

Donor/ Recipient	Belgium	France	West Germany	Italy	Netherlands
Europe	2.1	..	10.1	35.7	- 2.8
Africa	99.1	78.5	16.7	42.2	..
America	..	17.3	9.1	13.3	94.4
<u>Asia</u>	..	1.2	48.5	1.0	..
Middle East	..	..	19.6	- 0.2	..
South	..	..	24.0	0.6	..
Far East	..	1.2	4.9	0.6	..
Oceania	..	..	..	..	..
Other and Unallocated	- 1.2	3.0	15.6	2.8	8.4
Total of the above	100.0	100.0	100.0	100.0	100.0
Total (in million USA)	76.50	833.80	398.93	109.08	17.90

Source: Dharma Kumar, n. 12, p. 151.

of Asia and Latin America.

Around 1963, the average interest charges on the loans granted by the Six to India were fairly high. In the first plan (1951-56), the rates on FRG loans ranged from 5½ per cent to 6½ per cent per annum. On most of the credits obtained during the third plan (1961-66), they were around 5½ per cent to 5¾ per cent though a few were obtained at 3 per cent. The maturity periods were 3 to 19 years. On the French loans, which were in the nature of export credits, the rates were around 6.7 per cent (including credit and insurance charges).<sup>36</sup> Thus, loans by FRG were somewhat on better terms than France.

Mostly Indian borrowings from the Six were tied to projects and to a lesser extent to the aid giving country for imports. According to Dharma Kumar, the latter case was not so restrictive since India would have any way imported some commodities from the Six. FRG was reportedly said to have adopted an interesting informal way of tying loans. That was to tie aid to projects in sectors in which FRG's contractors were known to be particularly efficient.<sup>37</sup>

A possibility contemplated by Dharma Kumar was that the EEC may supply some aid of the FL 480 type. It had been evident that the Common Agricultural Policy (CAP) might result in surpluses. A study group was set up in the EEC as early as 1963 to look into possible markets for surplus. The study group was of

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36 Dharma Kumar, n. 12, p. 152.

37 Ibid., p. 153.

the view that commercial markets in the developing countries were unlikely to increase, so non-commercial markets may have to be increased. The study group recommended that agricultural surpluses should be treated as an integral part of the overall development aid. Generally, this food aid could be given as a part of the costs of specified investment projects (except in emergencies). Since the existing ways of allocating surpluses were regarded as dumping, new international agreements would be required.

The food aid given to India by the EEC in 1970s could be related to the above. Thus the 1974 EEC proposal to provide one million tonnes wheat which was partly aid and partly commercial sale seems to substantiate the point. In 1974, EEC announced an emergency aid of \$50 million to India. In 1975, around 40 per cent of EEC food aid came to India.

Aid India Consortium which includes several advanced Western countries and Japan, also includes EEC members who give development aid to India. After consultations among themselves and with the aid receiving country, the Consortium members earmark the aid to be given to India.

As table 9 shows, of the EEC countries, UK has made the largest direct contributions from 1973-77, through the Consortium. It is followed by FRG. While France occupies the third place again among EEC countries in 1973, 1974 and 1975; in 1976 and 1977 the Netherlands committed itself to more aid than France did.

Outside the EEC countries, USA and Japan have given more aid than France, through the Consortium. USA has given more direct aid than FRG. Some of the Consortium members have made

TABLE 9

COMMITMENTS OF THE INDIAN CONSORTIUM  
(in US \$ million)

Country	73/74	74/75	75/76	76/77	77/78
Austria	2.7	4.1	-	3.1	2.6
Belgium	6.2	7.5	9.0	10.2	10.2
Canada	88.8	53.1	70.1	73.3	40.0
Denmark	4.9	12.4	15.8	23.9	9.8
France	69.8	84.7	91.2	80.5	74.4
FRG	116.2	146.5	155.9	155.5	150.5
Italy	17.2	-	-	-	-
Japan	112.1	100.3	100.3	79.3	106.9
Netherlands	24.6	41.3	55.9	103.3	101.9
Norway	-	7.4	10.9	6.0	13.3
Sweden	49.4	30.6	53.3	55.9	58.5
Great Britain	202.1	143.1	254.3	192.5	247.3
USA	89.1	269.6	177.2	231.7	163.0
IBRD/IDA	629.0	889.1	917.0	315.0	1,100.0
<b>Total</b>	<b>1,371.8</b>	<b>1,797.6</b>	<b>1,910.9</b>	<b>1,330.2</b>	<b>2,078.4</b>

Total+mainly loans (capital assistance)  
2,078.4+22.3 = 22,100.7 million.

indirect contributions through the World Bank (IBRD) and International Development Association (IDA). Thus the position of different countries in indirect aid is not clear from the table.

The aid coming from the Socialist countries (table 10), who are outside the Consortium, is not significant when compared to Consortium countries. Thus for instance in 1977, aid from the Socialist countries was around \$255.7 million, whereas aid from the Consortium countries was about \$2,100.7 million. In other words in 1977, aid commitment of the Consortium countries was about eight times the aid commitment of Socialist countries.

Table 11 shows the loan authorizations and utilizations made in two periods - 1974-75 and 1975-76. Here it is seen that total loan authorizations by France, FRG and Japan remained more or less unchanged in the two periods. But utilization by India differed. Further, the US which provided debt relief in the form of debt refinancing credits did not provide any such relief in 1975-76. UK extended debt relief in the form of outright grants. Japan as usual provided debt relief in the form of rescheduling or postponement of payments.

France figured in debt relief provided in the form of refinancing cash credits, but did not figure in other forms of relief like postponement of payments (like USA) or rescheduling of payments (like Japan) or by way of grants (like some EC countries - UK and FRG).

38 Reserve Bank of India, Report on Currency and Finance, 1975-76, vol. 1, p. 215.

39 Ibid., p. 214, table VIII.4.



TABLE 10

COMMITMENTS OF THE EAST EUROPEAN COUNTRIES  
(in Rs. million)

Country	Before 1966	66 to 69	70 to 74	74-75	75-76	76-77	77-78
Bulgaria <sup>1</sup>	82.5	--	--	--	--	--	--
Czechoslovakia							
Credit	614.8	--	796.0	--	--	--	--
Grants	--	--	4.0	--	--	--	--
Hungary <sup>1</sup>	--	250.0	--	--	--	--	--
Poland	242.7	--	--	--	--	--	--
USSR							
Credit	4,843.1	2,533.8	2,024.8 <sup>2</sup>	--	--	--	2,250.0
Grants	49.6	39.2	--	--	--	--	--
Yugoslavia <sup>13</sup>	179.8	465.9	1.6	--	--	--	--
<b>Total</b>	<b>6,012.5</b>	<b>3,338.9</b>	<b>2,826.4</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>2,250.0</b>
Estimated in \$ mn.	1,263.1	445.2	367.1	--	--	--	255.1

1) Only credit, 2) Loan for the import of 2 million tonnes of wheat, repayable in kind, 3) only 2 credits sanctioned.

Source: "Development Aid", India and European Community (Delhi), vol. 3, no. 2, August-October 1977, p. 79 (Primary source: World Bank). (For Tables 9 and 10).

TABLE 11

LOANS AUTHORISED AND UTILISED 1974-75 AND  
1975-76 (Fiscal years, Rs. Crores)

Country	Authorisation								Utilisation							
	1974-75				1975-76				1974-75				1975-76			
	Pro- ject	Non- pro- ject	Lebt rel- ief	To- tal	Pro- ject	Non- pro- ject	Lebt rel- ief	To- tal	Pro- ject	Non- pro- ject	Lebt rel- ief	To- tal	Pro- ject	Non- pro- ject	Lebt rel- ief	To- tal
France	27	16	10	53	27	19	8	54	12	9	10	31	19	15	8	42
West Germany	18	23	26	72	15	30	29	74	10	27	26	63	8	36	29	73
Japan	23	15	--	38	22	15	--	37	10	27	--	37	20	18	--	38
U.K.	--	90	17	107	--	--	--	--	39	51	17	107	23	39	--	62
U.S.A.	6	82	34	122	17	--	--	17	10	21	34	65	19	86	--	105

Source: RBI, Report on Currency and Finance,  
1975-76, vol. 1, p. 212.

As far as India's loan utilization went, the UK, USA and FRG accounted for much of it. France however was not insignificant in its loans, whether authorizations or utilizations.

Thus, while EEC countries are providing aid through international forums like Aid India Consortium and also bilaterally they have not coordinated their aid policy in any significant sense through the EEC institutional mechanism particularly towards India. There is some amount of financial aid through the EEC institutional set up. This financial aid for non-Associated states is small. In fact, this financial aid is smaller than EEC food aid programme. But within such a limited financial aid programme, India has been an important beneficiary.

## INVESTMENTS BY EEC COUNTRIES IN INDIA

in the context of investments it has to be reiterated that EEC as such has not evolved a common investment policy. But this does not mean that EEC countries have not invested individually in other countries. Further, while one may get investment data countrywise, in reality there could be multinational character to such investments. This hypothesis is substantiated by the historical trend in West Europe - European integration. While the achievements and limitations of the European unity movement have been discussed earlier, suffice it to say here that West European investments may find it profitable to go multinational.

The available data however, do not reveal the multinational character of the West European investments. The analysis of this data would thus be limited in the sense that they would point out to countrywise investments from which it is difficult to bring out the multinational character of West European capital.

In the earlier period of India's relations with the Six the private foreign investments by the latter in India was small. At the end of 1961, only Rs.180 million were from the Six out of a total private foreign investment in India of Rs.5,817 million. This was just about three per cent of the total foreign investments. of this (Rs.180 million), more than half came from FRG alone.<sup>40</sup>

From 1961 to 1965, the inflow of private foreign investment

40 Reserve Bank of India, "India's Foreign Liabilities and Assets", Survey Report, 1961, pp. 38-39.

increased. In its annual report for 1964, a Committee of the EEC recommended that in order to achieve a better equilibrium in EEC, exports of capital should be increased, particularly to developing countries.

An indication of the increase of foreign investments in India by EEC countries may be seen from table 12.

TABLE 12  
FOREIGN COLLABORATION IN INDIAN  
INDUSTRIES, COUNTRYWISE  
(Cases approved by Government)

Country	1960	1961	1962	1963	1964
U.S.A.	63	79	59	68	78
U.K.	122	128	80	70	105
West Germany	63	69	40	47	68
France	9	16	15	13	18
Italy	9	13	11	6	8
Japan	41	29	24	32	35
Holland	6	10	7	4	5
Switzerland	15	20	20	19	19
Belgium	4	2	4	3	5
Others	43	37	40	36	65
<b>Total</b>	<b>381</b>	<b>403</b>	<b>300</b>	<b>301</b>	<b>406</b>

Source: Dharma Kumar, n. 12, p. 157. (Data supplied by Ministry of Industry and Supply).

While the table shows most EEC countries entering into

more and more collaboration agreements, these figures among other things do not show the actual volume of investment nor the nature of collaboration. Despite such qualifications, it may be argued that private investments by EEC countries were increasing in India.

From table 12, it can be observed that among the Six, FRG had more collaboration agreements than any other EEC member. After FRG came Japan and Switzerland which are not EEC members, and then France.

UK which was not a member of EEC at that time had the largest number of agreements. This first position among all foreign collaborators was evident every year from 1960 to 1964. This perhaps reflects the fact that at this time, British capital was more strongly entrenched in India than any other foreign capital.

Next to UK was US which too had a large number of agreements. Though India was closer to US collaboration figures than other countries, there was a notable difference between US's second position and India's third position. Between 1960 and 1964 US had 347 collaboration agreements and FRG had 293.

Japan had some good number of agreements while Italy, Holland (the Netherlands) and Belgium (the three being EEC countries) had only a small number of agreements; though Italy did somewhat better than the latter two.

Table 13 does not show the volume of investment in each collaboration agreement and the nature of collaboration. However, with some qualification it does give an indication of the extent

TABLE 13

## APPROVED FOREIGN COLLABORATIONS (COUNTRYWISE)

Country	1957 to 1969	1970	1971	1972	1973	1974	1975	Jan. to June 1976	Total 1957 to June 1976
Britain	811	39	55	38	53	59	54	22	1131
USA	538	41	43	62	48	79	55	25	891
FRG	463	28	42	49	60	71	59	16	788
Japan	266	15	35	27	38	28	23	4	436
Switzerland	139	13	14	15	10	34	27	9	261
France	118	7	15	11	13	22	13	7	209
Italy	81	8	5	8	5	16	10	2	135
GDR	67	5	5	3	4	3	3	2	92
Sweden	50	3	3	4	7	10	4	2	83
Netherlands	47	3	4	4	2	3	1	2	66
Denmark	35	1	1	1	3	4	-	1	46
Czechoslo- vakia	32	5	5	6	5	5	3	1	62
Australia	25	3	1	1	2	3	-	2	37
Belgium	25	1	3	3	1	5	5	-	43
Canada	21	-	1	1	2	3	6	-	34
Poland	18	-	-	-	1	-	-	1	20
Hungary	15	1	1	3	1	1	1	2	25
Yugoslavia	14	-	-	1	1	-	1	-	17
Finland	5	1	-	-	-	3	1	-	10
Others	238	9	11	17	9	10	5	2	310
<b>Total</b>	<b>3008</b>	<b>183</b>	<b>244</b>	<b>257</b>	<b>265</b>	<b>359</b>	<b>271</b>	<b>100</b>	<b>4687</b>

Source: India and European Community (Delhi), vol. II, no. 4, February-April 1977, p. 88. (Primary Source: Indian Investment Centre).

to which each foreign country is involved in Indian Industry.

In Table 13, total number of collaborations from 1957 to June 1976 show that the following countries have the largest number of agreements in order: 1) UK, 2) USA, 3) FRG, 4) Japan, 5) Switzerland and 6) France and so on. Thus, France is not among the top five collaborators. But it does have some good number of collaboration agreements i.e., 209. UK has more than five times the collaborations of France and FRG more than three times that of France. France was not concluding more agreements than the top five (except Switzerland in 1971 and 1973 marginally). But the number of Indo-French agreements nevertheless increased since 1971 particularly in comparison to 1970.

In 1970 and 1971 UK had more collaboration agreements with India than FRG. But from 1972 to 1975 each year FRG had more collaboration agreements than UK. This may reflect the fact that FRG capital is penetrating India at a faster pace than UK.

However, though the number of FRG collaborations in India is large, capital investment is not corresponding in magnitude.<sup>41</sup> The spurts in FRG investments abroad have been directed mainly to the developed countries in EEC (including UK) and to a lesser extent to USA. According to a RBI study on private foreign investment in India, in March 1967, FRG's investments in India

41 FRG lost all its foreign assets twice at the end of the two world wars. enormous capital was required for the post-war reconstruction of the economy. Besides, private industry in FRG is much more dependent on the Banking system for its capital needs than industry in many other developed countries. There has been a shortage of venture capital which explains to some extent why FRG investment abroad is not commensurate with the growth or the strength of its economy.



were Rs.617 million or 5 per cent of the total private foreign investment in India.

In 1948, outstanding private business investments by FRG in India were only Rs. one million. In June 1957 they were Rs.31 million. Thereafter the rate of inflow increased sharply from Rs.88 million (between January 1958-December 1962) to Rs.120 million (in the three years ending March 1967). In 1967, half of FRG investments were in manufacturing and the other half in services. In early seventies, the inflow of FRG official portfolio capital to private industry in India also increased.

From the collaboration figures, it seems that FRG participation in Indian industry is sizeable enough in numbers, involving nearly all the leading FRG manufacturers in varying degrees and various forms. But in terms of money, at the end of June 1970, the total FRG investment in India was Rs.34 crores - 'no more than a trickle of that country's massive total investments abroad'. From Rs.3561.8 crores the total investments abroad increased to Rs.3883 crores (during January-June 1970), showing a rise of little over Rs.320 crores. During the same period, the size in the flow of such investments to the developing countries amounted to Rs.77 crores - Panama and Brazil getting a lion's share while India was getting a paltry share.

There could be varying interpretations as to the reasons for the "shyness" of FRG capital (after a fair start from the mid sixties). West German business delegations to India expressed

\* Portfolio is a collection of securities held by an investor.

42 The figures mentioned above concerning FRG investments are taken from "India and FRG - Cultural and Economic Relations", Directory of Foreign Collaborations in India (Delhi), vols. 2 and 3, 1974, pp. 167-80.

doubts and fears which were said to be caused not so much by the Indian concept of mixed economy as by the rules and regulations affecting the industries and foreign collaboration - for example, the licensing policy among other things.

However, it is observed that the flow of FRG investment is mainly among developed countries and in developing countries it remains highly selective in respect of certain geographical areas and particular industries (mainly oils, minerals and enterprises of particular interest to developed countries).

But this explanation of the "shyness" of FRG's investments in India is not enough. The real reasons also seem to evolve from Euro-American relations. In this context, Heymer and Rowthorn argue that West European and US capital are 'cross-penetrating' each other, i.e., US capital is entering West Europe and West European capital is seeking to enter US. There is also competition among the West European and US Multi-national Corporations (MNCs) at the world level, where the MNCs are increasingly seeking economic territories in developing countries.

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43 S. Heymer and R. Rowthorn, "Multi-National Corporations and International Oligopoly: The Non-American Challenge", in G.P. Kindleberger, ed., The International Corporation (Massachusetts, 1970), pp. 57-91.

Further, they also argue that "In the coming competition between (West) European and U.S. Corporations (MNCs) the markets of the Third World will be an important battle ground, because the stakes will not be only the limited markets of Africa, Latin America and Asia, but Oligopoly equilibrium in the developed world itself".<sup>(p.91)</sup> The present paper however, will not go into these broader theoretical questions.

## FRANCE AND INDIA

Economic and trade relations between France and India were weak from the very beginning. Over the years there was some improvement but this does not compare in any significant way with India's trade with other countries.

Table 14 shows India's trade with France. Over the period 1965-66 to 1974-75 imports from France increased. While exports rose they were not as much as imports. 1972-73 and 1974-75 were exceptions with favourable balance for India. But imports increased sharply over the earlier French exports in April-December 1975. This was probably due to imports of wheat and fertilisers. More often than not India had an unfavourable balance of trade with France.

If an earlier table (table 4) is seen, it is observed that from 1961 to 1966, France's share in India's exports averaged to 1.1 per cent of the total Indian exports. In 1969-74 it averaged to 1.8 per cent. When the annual figures in 1974-75 and 1975-76 are observed, the share was 2.6 per cent and 2.1 per cent respectively. This meant that there was some increase in Indian exports to France. But France's share in Indian exports was very small. It should be added that Indian imports from France too were not important though they were more than Indian exports.

Even as a part of the EC, France's share in Indian exports was small as is evident in the following table (table 15).

TABLE 14

## INDIA'S FOREIGN TRADE WITH FRANCE

(Rs. lakhs)

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	1965-6	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	Ap.-Dec. 1974	Ap.-Dec. 1975
Imports(-)	18,05	23,73	21,33	37,07	39,85	70,29	81,16	49,54	144,37
Exports(+)	11,24	21,72	17,98	24,21	45,90	49,70	84,74	53,48	61,42
Balance	- 6,81	- 2,00	- 3,35	-12,86	+ 6,05	-20,59	+ 3,58	+ 3,94	- 82,95

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Source: RBI, Report on Currency and Finance, 1976, vol. II, p. 143. (Primary source: DGCI&S, Monthly Statistics of Foreign Trade of India).

TABLE 15

	1961-66	1969-74	1973-74	1974-76	1975-76
EAC	7.6	6.9	24.1	20.9	20.8
France	1.1	1.3	2.0	2.6	2.1

(See Table 4 for more details)

According to French figures which are somewhat different from Indian calculations (the former include re-exports via entrepot countries), in 1970, Indian exports to France were only 222.79 million francs. In 1975 they rose to 663.25 million francs - a more than three fold rise. <sup>44</sup> Indian figures do not contradict this rise though there may be some difference. French exports to India too increased and in 1975 were at 1175.35 million francs particularly as a result of exports of wheat and fertilisers worth 500 million francs. These exports were unlikely to be repeated in 1976.

In 1976, Indian exports to France were about 850 million francs. French exports to India were about 750 million francs. This meant a favourable balance for India.

The Reserve Bank of India (RBI) Report in its data on "exports of selected commodities to principal countries", mentions several commodities and the countries to which they are exported. For some items like tea (black), oil cakes, tobacco,

44 U.N. Abhayankar, "Indo-French Trade, Three-fold Rise", India and European Community (Delhi), vol. 2, no. 4, February-April 1977, p. 47.

cashew kernel, jute goods, iron ore, iron and steel etc., France's name does not appear in particular. It may be assumed that if there are any exports of these commodities to France, they may have been included in the category "other countries". Such commodities may not form a significant part of India's exports to France.

There are some items which have been specifically mentioned against France's name. They are observed in the following table (Table 16).

Of the four items mentioned, leather and leather goods seem to be more important. Then come pearls, precious and non-precious stones. Cotton piece goods and marine products take third and fourth place respectively.

The RBI figures do not seem to take into account re-exports of Indian goods (for example, from UK to Continental countries). In other words, accounting may be on the basis of port of destination. Thus some goods which may be relatively important to the items mentioned above may have been excluded.

The commodity composition of Indian exports to France is still dominated by traditional goods. Thus raw jute, tobacco, cotton apparel, tanned hides and skins, leather, pearls and precious and semi-precious stones, jewellery, coir manufactures, guar flower and opium have been exported. There has also been a smaller volume of export of mica, sandalwood, gums, resins, balsam, cashew kernels, chemicals and allied products, etc. In the two years before 1976, non-traditional items

45 Yojana (New Delhi), vol. XX, no. 21, 1-14 December 1976, p. 18.

TABLE 16

	(Rs. lakhs)								
	1965-66	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	Ap.-Dec. 1974	Ap.-Dec. 1975
Cotton piece goods	23	2,55	1,02	1,41	2,09	3,63	2,81	1,70	2,15
Leather and leather goods	2,53	3,40	4,20	6,98	20,60	10,46	12,29	9,70	11,37
Marine products	46	72	58	88	1,92	1,23	81	70	1,85
Pearls precious and non-precious stones	1,62	1,65	1,42	2,19	2,68	3,90	3,98	2,83	3,71

Note: Data are provisional for 1974-75.

Source: RBI, Report on Currency and Finance, 1975-76,  
vol. II, pp. 147-50, Primary Source: DCCI&S.

like engineering goods, fish, leather products, etc. have shown increase.

Indian imports from France have been mainly electrical and non-electrical machinery, fertilisers, wheat, iron and steel (special types) and transport equipment. There have also been some chemicals and photographic equipment and so on.

As has been mentioned earlier, French aid to India was not noteworthy in the earlier period of Franco-Indian relations. But France as a member of the Aid India Consortium since 1961-62, gave India credits every year. Major imports from France were covered by these credits. France made no grants nor were French aid terms as attractive as those of FRG. This observation holds good both for the earlier and later periods.

Upto 1965, France had authorized official aid of about Rs.475 million. Among the six, France's position was third as an aid giver at that time.

As a member of the Aid India Consortium France committed itself to the following amounts of aid in various years in the

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46 The terms of French loans generally involved a down payment and an interest rate between 5 and 6 per cent per annum and the repayment period often extended from 7 to 15 years. France gave both project and non-project aid. For example, the former includes aid for oil exploration and for the Nasik thermal power station. Project aid was more than non-project aid. France liberalized its credit terms to some extent in recent years but not as much as FRG. In fact, FRG's aid terms have been liberal right since the early sixties. For example in 1964-65, FRG loans carried an interest rate of 3 per cent and repayment period was 25 years. Also, FRG aid was increasingly getting untied. See Directory of Foreign Collaborations in India (Delhi, 1974), especially, "Indo-French Economic Relations", pp. 65-79 and "India and FRG - Cultural and Economic Relations", pp. 167-80.



later period (see table 9, p. 43): 1973-74 (A89.3 million), 1974-75 (A84.7 million), 1975-76 (A91.2 million), 1976-77 (A89.5 million), 1977-78 (A74.4 million). Agriculture being an important sector of French economy, France also found it profitable to export wheat to India in 1975.

France never gave aid as much as UK or USA, the reason being its lack of any great interest in India. French aid as stated earlier was mostly in the form of credits - given through general and special protocols (the latter being outside the Consortium aid for particular programmes). Thus for example, in 1975, credits worth 315 million francs were agreed upon. Of this, 225 million francs were to cover the supply of heavy and light industrial equipment, under a general protocol. The remaining 90 million francs covered atomic energy and space projects under a special protocol. France also agreed in recent years to finance the export of enriched uranium to India. Table 17 gives the aid figures since April 1974.

TABLE 17

AID FIGURES SINCE APRIL 1974  
(million francs)

Year	General protocol	Special protocol	Debt relief	Total
1974-75	214	60(274)	69.23	343.23
1975-76	225	90(315)	61	376
1976-77	290	50(340)	(not yet signed as on February-April 1977)	340 (excluding debt relief)

Source: U.N. Abhayankar, "Indo-French Trade, Three-fold Rise", India and the European Community (Delhi), vol. 2, no. 4, February-April 1977, p. 43.

French investment in India is not large. In early seventies for example, French investment in India was only 3 per cent of the total outstanding foreign investment in India. Bulk of the French investments constituted portfolio-investments.<sup>47</sup>

Though French investment forms only a small percentage of foreign investment, it does play a role in some key sectors. According to the available data for the sixties, the pattern of French investment in Indian Industry was as follows:

TABLE 18

(in Rs. Million)

Year ending March	Mining	Petroleum	Manufacturing	Services	Total
1963	27	-	115	1	143
1964	24	1	113	62	205
1965	28	4	107	89	228
1966	24	8	106	123	261
1967	22	15	139	266	442
1968	12	15	146	291	464

Source: "Indo-French Economic Relations", Directory of Foreign Collaborations in India (Delhi, 1974), p. 70.

As table 18 shows, French investment in the Petroleum

<sup>47</sup> Portfolio is a list of securities held by an investor. A good portfolio will show a wide spread of investments.

sector began in 1964 with a small amount - Rs. one million. By March 1968 this had increased to Rs.15 million. In the case of services - like trading, construction, utilities and transports, financial and miscellaneous - there was a phenomenal increase; from Rs. one million in 1963 to Rs.291 million in 1968. While investments in mining showed a declining trend over the years, investments in manufacturing showed a moderate increase.

French collaborations in India are both in public and private sectors. For example in 1967 a French industrial group - composed of IBCNMF and BNSA - concluded an agreement with the Indian Ministry of Petroleum for the construction of an oil refinery at Haldia (West Bengal); with a capacity of 2.5 million tons per year, for the Indian Oil Corporation - an Indian public sector company.

Some French collaborations in India involve the French joint sector. For example, the Compagnie Française des Pétroles (CFP) (which was in the news recently because of some controversial dealings during the emergency in India) has investments both by the French private and public sectors.

France is collaborating with the Indian public sector - both financially and technically - and also exporting some equipment to India in the aero-space industry. For example, initially France supplied Alouette helicopters; later agreed to the licensed production of these helicopters, artouste engines and some other equipment. In missiles too, France has helped India to set up a rocket propellant plant at Thumba and manufacture some missiles. 3511 51 anti-tank missiles are manufactured at Bharat Dynamics

(Hyderabad). France has also made a breakthrough in Indian Commercial aircraft market - first in Caravelles and now in Airbus.

French companies are involved in such areas as (1) atomic energy, for example, the Fast Breeder Test Reactor (FBTR) Project in Madras, (2) Petro-chemicals, for example, the Baroda Complex, Haldia and Cochin Refineries, and (3) steel and special steels, for example, Mahindra-Ugine, Hyderabad Super Alloys, etc.

French companies like the Techiney-Ugine-Kuhlman (steels and chemicals), Creusot-Loire (steel and atomic energy), Rhone-Poulenc, IFP, TECHNIP (petroleum and Petroleum products) have long standing experience and collaboration in India.

Both France and India - particularly in the private sector - have shown interest in setting up an Indo-French Chamber of

48 Commerce. In the private sector, collaborations have led to the working of companies like the Mahindra-Ugine Steel, Tata Merlin and Gerin, May and Baker, Larsen and Tubro and so on.

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48 The Indian section of this Chamber was opened on 1 December 1976, with H. Mahindra as its President.

## CONCLUSIONS

In one sense Indo-EEC economic relations are primarily commercial - if they are understood as being through the EEC institutional structure. In a broader sense however, nations comprising the EEC not only have commercial relations but also aid and investment relations with India. When the relations are analysed in the latter sense, the following conclusions can be made.

Trade

From 1958-1975, India experienced a persistent unfavourable balance of trade with EEC as a whole. In 1976, India had a favourable balance<sup>49</sup> but this may not be a long-term trend.

In the initial period of Indo-EEC relations there was not much trade. The reasons for the absence of important trade relations in the initial period were: (1) lack of adequate EEC aid to India to cover Indian imports from EEC, (2) limited foreign exchange reserves in India and (3) Indian import policy which was influenced by (1) and (2).

In the initial period, a large part of Indian exports to EEC countries consisted of primary products. But by the seventies, manufactured goods were growing in importance in addition to primary products. EEC exports to India were chiefly capital and other manufactured goods.

Initially, EEC occupied the fourth place in India's export

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49 News report in Economic and Commercial News (New Delhi), vol. VII, no. 50, 10 December 1977, pp. 4-5.

earnings. But by mid-seventies, it occupied the second place. UK's entry into the EEC in 1973 was an important reason for this change. But India's trade with EEC also increased independent of UK's entry.

Among the EEC countries, Indian exports increased mainly to FRG which was next in importance only to another EEC member - UK. UK had the highest share of Indian exports to EEC countries, despite the fact that over the years the share of Indian exports to UK declined. Indian exports to France increased over the years, but they formed a small part of Indian exports to EEC countries. French and Italian imports from India were relatively close to each other when compared to other EEC countries.

Partly because of UK's long standing important position and FRG's increasing importance in India's foreign trade, France could not strengthen its trade relations with India particularly on a bilateral basis. However France may improve its relations with India as part of the EEC structure.

In those goods where India was increasing its competitiveness in the EEC market - for example, cotton textiles or coir products - EEC sought to impose restrictions. While Indian export strategy had some drawbacks - for example, lack of diversification in export commodities - the more important reasons for India's unfavourable balance of trade with EEC seemed to be related to the trade policies of EEC and India. While EEC curtailed Indian exports by its 'protectionist' attitude, India was increasing its imports from EEC countries through an import policy which was gradually becoming 'flexible'. However these

two opposite trends should not be over-emphasized since trade - both in terms of exports and imports - showed an increase. At the same time, the paradox of opposition to protectionist policies of the EEC was that India would have to increasingly 'liberalise' her import policy.

### Aid

Apart from aid to cover imports, aid was also given for other purposes which in broader terms were called 'developmental assistance'. Initially, this aid by EEC countries was negligible, though FRG gave relatively larger amount of aid to cover trade. From around mid-sixties, 'developmental aid' by EEC countries increased.

The food aid given by EEC countries to India in the seventies was part of the EEC strategy to dispose of surplus agricultural produce of some EEC countries.

While 'developmental assistance' was not yet coordinated in any significant way through the EEC institutional structure, EEC countries gave aid through other channels - through international forums and bilateral means.

Such aid by EEC countries - particularly in the seventies - showed that aid commitments of the advanced capitalist countries were several times the aid commitments of socialist countries. For instance, in 1977 the aid commitments of the former were eight times the aid commitments of the latter.

Of the advanced capitalist countries, nations comprising the EEC gave a large amount of direct aid. However, in the overall contributions (including indirect aid from the US through

international institutions like IBRD) the US played a significant role compared to the EEC countries.

In the ultimate sense, India is much too constrained by advanced capitalist countries through the aid mechanism. The EEC countries being a part of this group of nations and particularly deriving some additional strength through the EEC structure, are able to influence India.

While some individual EEC countries may wield more influence over India - for example, UK or FRG, some others may not be able to do it in equal measure - for example, France or other EEC members. But as a group, the latter may also be capable of wielding influence. This is possible because France can motivate EEC countries since all of them have collective interests in addition to national interests. Also West European multi-national corporations can influence the EEC group of nations in order to promote their interests which are not confined to national boundaries.

Thus, even without substantial economic linkages, France may be capable of influencing India through the EEC. However, the relationship between France and India cannot be explained in simple terms. Even among EEC members, mutual rivalry, competition and national attitudes exist.

Further, the rivalry and competition among various advanced capitalist countries may increase or decrease the influence of one over another when dealing with India.

These advanced countries try to acquire spheres of economic interest and consequently spheres of influence in different parts of the world. Here some are also influenced to a great



extent by historical linkages. France is an example of such a country as is UK too. Because of this, France may not be quite influential in South Asia.

### Investments

In the earlier period, India's relations with the EEC Six were weak. This was so because foreign capital by the Six had not made significant inroads into India.

However, the EEC countries were interested in increasing investments in India. This applied particularly to FRG. While France too sought to increase its investments in India, it did not appear to be very keen since its more important interests were in some other parts of the world. Because of historical reasons, UK's capital was and is still strongly entrenched in India.

In early sixties, the six did not have significant investments in India. Among them however, UK was relatively important. By mid-sixties it was observed that investments by the Six were increasing in India. In the first half of sixties, the following countries had the largest number of foreign collaborations in India (in order): (1) UK, (2) USA, (3) FRG, (4) Japan, (5) Switzerland and (6) France.

Even for the whole period i.e., 1958-1976, a similar position was observed. But in the recent years, FRG was showing a faster pace than UK in concluding collaboration agreements. France was concluding an increasing number of agreements over the years. But when compared to FRG and Japan - besides UK and USA -

France was not as 'dynamic' as these countries.

While FRG capital was penetrating India at a faster pace especially in the seventies, it cannot be said that FRG's private investments were large in India when compared to FRG's overall investments abroad. FRG had investments chiefly in other developed countries especially in West Europe itself.<sup>50</sup> FRG also had investments in developing countries; though in select geographical areas it showed much greater interest - for example, in some Latin American countries like Brazil.

But FRG has the capacity and willingness to increase its capital flow to Asia and particularly India. FRG has already proved this when compared to other EEC countries - whether France or Benelux. In fact, US, FRG and Japan may be acquiring spheres of interest in various parts of the world. While UK and France too are seeking to do this, partly their strategy is to retain historical bonds in particular geographical areas.

Capital from various developed Western countries and Japan may be selective about particular spheres of economic activity in particular geographical areas. For example, France may show more interest in India in spheres like services sector, petroleum and petro-chemicals and steel. But when France is compared to some other countries like UK, USA or FRG, the latter countries may show involvement in more spheres of activity and in a more significant way than France. It is also possible that some West European capital - from FRG for instance - may enter several spheres of

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<sup>50</sup> While FRG had investments in USA too, it was not as large as investments by UK or Switzerland in USA. In fact, FRG and Japan gained more by exporting to USA than by investing there.

activity in India and gradually concentrate in more profitable spheres. This is more so because FRG capital seems more willing to take risks than French capital.

It should also be noted that EEC countries have not yet evolved any significant common investment policy through the EEC institutional structure towards India. But this need not deny the multi-national character of West European investments. At the same time however, the role of the nation state in West Europe is important. In the case of some West European countries it not only provides a political leadership but also enters economic activity willingly, France being the most obvious example.

#### France and India

Franco-Indian relations have been weak. Though there was some improvement over the years, the relations could not be considered important.

India's trade with France formed a very small percentage of total Indian foreign trade. Even when Franco-Indian trade was compared to Indo-EEC trade, France's share was small.

Despite such relatively unimportant trade relations India's exports to France rose three-fold between 1970 and 1975. Similarly, French exports to India also rose.

Over the years, the commodity composition of Franco-Indian trade was as follows: Indian exports to France were mainly leather and leather goods, precious and non-precious stones, cotton goods, marine products, raw jute, tobacco, coir manufactures, opium, etc. French exports to India were mainly electrical and non-electrical

machinery, fertilisers and wheat (particularly in 1975), iron and steel (special types), transport equipment, chemicals, photographic equipment, etc. Some of the commodities mentioned above were observed during 1966-76 period, while some others in recent years.

French aid to India was not noteworthy in the earlier period. This was so because French aid went chiefly to Franco-phone Africa and to a certain extent to Latin America. On the contrary, FRG's aid was not only widely dispersed but a large part of it went to Asia.

Whatever aid France gave to India in the earlier period was mainly to cover French exports to India. Gradually, aid was also given for developmental activities.

Unlike FRG, French aid terms were hard - both in the earlier and later periods. French aid was mostly in the form of credits. Unlike UK or FRG, France did not offer any grants. French interest rates were more than those of FRG. French repayment periods for credits were often less than those of FRG.

French trade with India and aid to India - though they showed an increase over the years - did so with fluctuations. Sometimes trade was favourable or unfavourable; sometimes aid commitments increased or decreased. This could be partly because France did not show great interest in its relations with India and lacked important economic and trade strategies in its policy towards India. It may also be noted that when France was compared to the Netherlands in trade and aid the former did not show relatively steady and persistent trends unlike the latter. During

1973-77, Netherlands' relations with India showed steady, if not significant improvement.

French investment in India is not large when compared to other foreign investments. Probably French capital has limitations unlike capital from FRG, Japan, US or UK. Because of this, France may not have the capacity to make huge investments in India; though it is seeking to improve its position.

Thus, it is observed that while FRG's private investments in India were 5 per cent of the total private foreign investment in India in 1967 in itself, French private investments were only 3 per cent of the total even in early seventies.

However France's investment role should not be neglected. France is actively involved in some key sectors in India.

From the data available for the sixties, it is observed that French investments in the services sector showed a phenomenal increase. Investments in petroleum also showed an increase - fifteen times in five years from 1963 to 1968. However, services and manufacturing accounted for much of French investments in India.

French collaborations in India are both in Indian public and private sectors. French investments also show that the state in France plays an important role in French foreign investments. This is evident both in French civil and armaments sectors.<sup>51</sup>

Important French collaborations in India are in petroleum and petro-chemicals, atomic energy, steel and special steels and aero-space equipment.

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<sup>51</sup> The role of the state in French armaments sector is discussed in the second issue.

in conclusion, it can be argued thus: while aid, to some extent, may lead to an increase in exports by EEC countries to India, aid and investments mainly help West European capital to enter India. By doing so - in various sectors of the economy and in various ways - both aid and investments lead to economic gains for the West European countries.

**THE SECOND ISSUE**

**THE NATURE OF FRENCH ARMS TRADE AND THE  
INDIAN SUB-CONTINENT**

## INTRODUCTION

Historically, the militarisation of what is now called the Third World can be traced to World War II. When the war intensified, the Western Colonial Powers used colonial resources and manpower in the War effort. Thus in Africa, Britain and France built up colonial armies and established military operation bases. In the Indian sub-continent, Britain sought to use the colonial manpower and resources and also built up an armaments industry.

When the War ended, the decolonisation process led to the granting of independence to several colonial possessions. Some Third World countries thus inherited the colonial legacy in military and armaments.

However, the militarisation of the Third World did not cease with the war. It intensified during the 'Cold War'. Until 1960 or so, militarisation in the Third world and the developed Western World was chiefly due to the western doctrine of "containing communism". But the decline of the Cold War and the emergence of détente did not lead to a reduction in the Third World militarisation.

The continuing militarisation in the Third World pointed out to the fact that such a trend was the reflection of what could be identified as the "armaments dynamics". These dynamics were not the same for all countries. For some advanced countries, among other things, they turned out to be a political instrument; for some other advanced countries they meant chiefly a profitable



activity, though both these were interrelated.

The responsibility for the increasing arms trade in the world lies mainly with the advanced countries which export arms. But some countries which demand weapons and become recipients of arms are also not free from the onus. In fact, while the advanced countries exported arms mainly to further their interests, the recipients also desired to develop their military capacity for external and internal uses.

Some important Third world countries also embarked on domestic defence production. At times, such production may point out to an international division of labour. But in some cases, such production points out to a desire to achieve independence from external influences.

While such an effort to gain independence from external influences was made in some of the important developing countries, the desire to obtain modern sophisticated weapons led to technological dependence on advanced countries. Also resources which could be fruitfully used for economic development were used for arms production.

Of the advanced countries, the United States and the Soviet Union dominate the world arms trade. Britain and France though not as important as the Superpowers, join the ranks. These four countries are thus <sup>the</sup> most important arms suppliers the world over.

## PATTERNS OF ARMS TRADE

Before explaining the nature of French arms trade policy or France's position in the supplies of arms to the Indian sub-continent, it is necessary to analyse arms trade policy theoretically as such. This, of course, will be done keeping in view France as the object of our study.

In arms trade, one may observe three patterns of supply:<sup>1</sup>  
hegemonic, industrial and restrictive.

Hegemonic pattern of supply is seen where one or more countries may dominate other dependent countries. Thus the supply of weapons from some advanced industrial countries to some developing countries may show this pattern of supply of weapons. US arms supplies to support anti-Communist regimes or Soviet arms supplies to strengthen and support anti-West and anti-colonial movements could be taken as illustrations.

Industrial pattern of supply may be observed when it is considered necessary to maintain an advanced domestic defence industry in the supplier country and where this becomes possible through the export of arms. If maintaining an advanced domestic defence industry is the only function of arms trade, then arms may be supplied indiscriminately to any buyer who can afford them.

Restrictive pattern of supply is where there is a restraint on arms supply - where such supply may involve the supplier directly or indirectly in a local or international conflict. To

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1 See SIPRI, The Arms Trade with the Third World (Penguin, 1975), p. 21 ff.

illustrate, Sweden is said to follow the pattern.

The above mentioned patterns of supply are not mutually exclusive even though they may conflict at times.

The arms supply policy of France mainly falls into the industrial pattern of supply.<sup>2</sup> France is a medium level country. France considers it necessary to have an advanced domestic armaments base. According to SIPRI analysts, France feels this necessity to ensure its independence both within and outside the major systems. Whether this view is correct, if so, in what sense is not our present concern and may be discussed later. Perhaps the above view needs to be seen in the context of the needs of French economy to which we may pay greater attention here.

An important factor which influences the policy of an arms supplier like France is the size and structure of the domestic defence industry and the planning of procurement. Also important are the efforts to maintain maximum and stable employment. In the defence industries, productive capacity tends to exceed immediate defence requirements. In other words, the plant, machinery and labour available for the production of weapons is in any one period greater than the government's demand during that period. There is an argument, traditional though, which says that excess capacity needs to be maintained as a matter of public policy so that emergency situations may allow quick expansion. But the

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<sup>2</sup> Some elements of the hegemonic pattern of supply may be there in France's relations with its former colonies but the needs of French defence industry may be considered important in France's case.

rapid change in military technology, the increasing implausibility of a long conventional war in Europe, the fact that most armed forces are kept in a state of alertness are said to show the weakness of this traditional argument.

There are other factors which have influenced the arms supply policy of countries like France. The rapid change in technology is said to be one of those which has led to lumpiness in government purchases. Thus, while the government may be anxious to replace obsolete militaryware as quickly as possible, continuous replacement becomes too expensive because each new type of equipment incorporates a more complex and costly technology. Thus, the government may tend to procure such items as aircraft, missiles and tanks in a two or three year period every ten years or so. But the problem is made more difficult because various resources are not employed all the time. Surplus capacity cannot be left idle, income is insufficient to maintain skilled labour and other resources for future use. Thus, the defence industry becomes an important pressure group through various channels (like parliamentary representatives, etc.). The problem of supply and demand and specifically of surplus capacity is sought to be solved for most European countries including France, by exports.<sup>3</sup>

For West European countries, including France, the main alternatives to exporting arms are international collaboration in

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<sup>3</sup> One may wonder whether this too is a sufficient explanation of the need felt by countries like France to export arms. There may be another view that the need to export is engendered by the very nature of the economy - capitalist - that a country like France has need for investigation.

weapons production and the production of related goods for the civilian market. Also in Western Europe, the transnational corporation in the Military sector is of increasing importance. This is reflected in the numerous bilateral agreements for joint developments and co-production of weapon systems. Thus it may be observed that British and French arms exports contain an increasing share of West German components, or for that matter, that 'Milan' Missile is a joint French-West German development.<sup>4</sup> In practice, however, international collaboration has not lessened the need to export because it has led to overall increase in production capacity since it involves an increase in costs. Related civil production implies difficulties since such productions as civil aircraft, advanced electronic equipments are expensive and require state subsidies. In other fields it may be difficult to build a competitive scale of operations. It is expensive to produce civilian goods with facilities meant for military purposes. Further, goods thus produced may be unrelated and/or involve establishment of ancillary small scale industries.

Exports are important to maintain maximum employment in defence industries. This is seen by the inverse relationship between exports and domestic procurement in certain countries like France where exports are an important part of total production.<sup>5</sup> Thus in France "...rises and falls in exports have closely

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4 Albrecht, Ernst, Lock, Wulf, "Militarisation, Arms Transfer and Arms Production in Peripheral Countries", Journal of Peace Research (Oslo), vol. XII, no. 3, 1975, p. 203, footnote 8.

5 In France, exports form more than 20 per cent of the total defence production. SIPRI, n. 1, p. 28.

compensated for falls and rises in domestic procurement".<sup>6</sup>

Further, in France where exports are required for the maintenance of domestic defence industry, the choice of weapon production in the domestic defence industry and the choice of weapons for the domestic armed forces is made keeping in view their export potential. Thus, the French government has set guidelines that foreign needs should be kept in mind when weapons specifications are drawn up.

After analysing and identifying France in the above-mentioned pattern of supply, we may proceed to discuss the requirement for supplies of weapons felt by recipient countries. Later this could be related to the Indian sub-continent.

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<sup>6</sup> Ibid., p. 28.

## SUPPLY OF WEAPONS AND RECIPIENT COUNTRIES

SIPRI analysts are of the view that since the world war II the multiplication of nations as a consequence of independence from colonial rule led to the multiplication of military units under independent control. Further, the circumstances in which these states were created often encouraged the establishment or expansion of armed forces. In addition, the decolonization process brought with it sharp changes in social structure which also caused internal instability.

SIPRI analysts further recognize "five broad interrelated factors" as determinants of the flow of weapons. These factors are: (i) conflicts, (ii) nationalism, (iii) the role of the armed forces, (iv) the size of foreign exchange earnings and (v) the interests of the two great (super) powers.<sup>7</sup> The first three are said to be requirement factors and the last two resource factors.

i) Conflicts - internal and external - in which force may be used, necessitate arms. This is characterized as the "purely" military requirement. ii) Divided groups can be united by affirming national identity and here the acquisition of arms may serve the purpose. iii) Armed forces are said to represent one of the main attributes of independence. The armed forces may also play a role in the politics of these countries. Hence the governments may gain support of the armed forces by satisfying their demand for weapons. iv) The financial resources of the potential recipient countries may also influence the flow of

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7 Ibid., p. 35.

weapons and the extent of the flow and v) the attitude of the weapon supplying countries may be influenced by international political and other considerations.

Where there have been conflicts the demand for weapons has generally been the greatest - for example, in 1972, the Middle East. The resource positions of the potential recipient countries have also influenced the flow of arms - for example, Iran's purchase of arms. The interests of the two super powers and other powers have also been influential in the flow of arms - for example, crises in Congo and Angola. But the other two factors mentioned by the SIPRI analysts - nationalism and the role of armed forces - seem rather misleading factors in the analysis of the determinants of the flow of weapons.

To say that arms supply helps nationalism or that the armed forces are sought to be satisfied by purchasing weapons seem to be rather overdrawn statements. The examples given by the SIPRI analysts are: (1) Arab nationalism in the Middle East vis-à-vis Israel and (2) the struggles against racist regimes in Africa. (3) As to the role of armed forces, apparently the examples are Chile and Portugal. (1) However, Arab nationalism is not the sole factor determining the flow of weapons. Arab nationalism itself is a consequence of the historical needs felt by Arab nations to protect and further their interests. Also the interests of the super powers and other arms supplying nations have influenced the arms supplies. (2) Nationalism is a consequence of some more fundamental reason. In Africa, it is exploitation that is a more fundamental reason for the conflict. (3) The role of



armed forces has been observed in various countries. Their importance in some situations cannot be denied. But it would be more useful if the role of the armed forces is seen in the context of social conflict within these societies and in the context of the influence of external factors in these situations. This would lead to a better insight into the determinants of the flow of arms. Also, the military factor as an independent variable (as implied by the analysts) is not acceptable.

Further, the five factors are said to be present in varying degrees in the Middle East, South East Asia and Africa. This means that they are not applicable to South Asia (Indian sub-continent) or other regions. The applicability of the factors as understood by the analysts even to the regions mentioned by them, as well as to those excluded, may itself be questioned.

Arms trade shows a relationship between a supplier and a recipient. To have strong armed forces may be seen as an attribute of political independence. However a state of dependence may arise in the efforts to acquire weapons from outside powers. There is a risk that the supplying country may terminate a contract for political reasons, suspend supply of spares or 'over-charge' for spares deliveries. The supplier countries desirous of a hegemonic position may succeed to the extent they acquire a monopolistic position.

There are two ways in which dependence on a sole supplier can be avoided by recipient countries: (1) by the establishment

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8 One is reminded of India's request to the Western Powers for military aid in the wake of the 1962 Sino-Indian conflict and the consequences of such aid.

of domestic defence industries (2) by the diversification of sources of weapons supply.<sup>9</sup>

Domestic defence production is costlier than importing in most Third World countries.<sup>10</sup> One may try to maintain a certain degree of independence by obtaining licence to manufacture indigenously or by manufacturing most components at home. But this means heavy investments and only big countries among the developing ones can possibly do that.

Diversification means spreading (military) dependence over a number of supplying countries. This may give the recipient country more independence of action. Thus, the recipient country may not fear the action of any one supplier. Further, the independence of the recipient increases by the competition between the supplier countries. It is also said that diversification avoids a homogenous army elite - which may be trained together in a foreign country - thus reducing the risk of a military coup d'état. To avoid dependence, one type of diversification may be to rely more on purchases from minor supplier countries instead of major suppliers. However, this is possible only if the requirement of weapons itself is limited. For instance, if sophisticated weapons are required, minor suppliers like the Federal Republic of Germany or Canada cannot be relied upon, since, for this the suppliers to turn to are the United States, Soviet Union, United Kingdom or

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9 Ibid., p. 36 ff.

10 In India, for instance, domestic production of aircraft under licence costs more than 50 per cent the price of importing complete aircraft (at 1971 exchange rates).

France. Further, a developing country may want a subsidy or favourable terms or even gifts in which case the suppliers can be only the US or USSR. Thus, another type of diversification may usually be sought whereby competition between the major powers is utilized. This form of diversification is evident not only in the sphere of arms trade but also in economic and political relations.

However diversification is limited in two cases: (1) where the recipient is dependent on the supplier in broader areas and (2) where the recipient is engaged in an armed conflict. Thus in the first case the supplier can resort to sanctions against a country which seeks arms from other suppliers. In the second, it is militarily impracticable to change suppliers since change means adoption to new equipment and in conflict situations this may not be possible.

There is also a relationship between the supply of weapons and wars. One facet is the way in which the supplying countries may be drawn into the conflict. It is possible to say that the supply of weapons is an indirect use of force in a conflict. By giving arms to a party in a conflict the supplier may be implicitly lending support to that party. When the support becomes explicit there are enormous implications for the course of conflict. The relationship between a supplier and a recipient is closest in a conflict situation and is of great significance. The indirect presence of a supplying country can influence the issues of a dispute. Wars may also be extended, intensified or restrained depending on the interests of the supplier. The nature

of such effects depends to a great extent on the role of the competing supplier countries: whether they are arming both sides or one supplying country is arming one side and so on.

There is a relationship between arms trade, internal social situations and economic development. Increasing quantities of resources in the developing countries are set apart for procuring arms.<sup>11</sup> Further, in the use of skilled manpower and in the absorption of foreign exchange, the imports of major weapons place much burden on the economies of poor countries.

While reduction of expenditure on weapons and increase in expenditure on development is a desirable argument, it should be conceded that "it is generally not realistic to envisage large transfers of resources without other political and economic changes. Arms procurement policy cannot be treated in isolation".<sup>12</sup>

Further it is said that in some countries in South Asia heavy arms procurement has gone hand in hand with modernization and economic reforms since "nationalist" groups are said to favour both. But it is possible to have a connection between arms procurement and a reactionary group or regime. Thus arms supply is

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11 Since 1950 the GNPs of all developing countries have grown at 5 per cent per annum. Their military expenditures have grown at a rate of 7 per cent per annum and their major weapons imports at a rate of 8 per cent per annum. Ibid., p. 43. Also, see the General Survey in this JIPRI book for a fuller discussion of the relationships mentioned above.

12 The total average yearly expenditure of major weapon imports to developing countries over the years 1967-72 has been around \$1.7 billion. While this is approximately 3 per cent of their total imports, in the South Asian region the share is higher. The expenditure on major weapon imports represents 5 per cent of total imports to South Asia. Ibid., p. 43.

also related to internal social situations. Further, it can also be observed that in some recipient countries, the number of the military, paramilitary and police forces is continuously increased in order to secure a particular socio-economic system.

## ARMS PRODUCTION IN DEVELOPING COUNTRIES

Besides the supply of arms, there is also the sphere of armament production in the developing countries. Asbjørn Eide<sup>13</sup> feels that armament production in Third world countries is never production to cover basic needs. On the other hand, for the major industrialized states armament production is a tool for the maintenance of an unequal division of labour and political control. Further, arms producing Third World countries, even if they produce arms domestically, will remain technologically dependent on the major industrialized countries due to the tremendous difference in the capacity for research and development.

The fact that not all types of armaments can be manufactured in developing countries has an economic and principally technological rather than a political or military basis.<sup>14</sup> Thus, we see that the existence of a heavy engineering or machine tool industry, capable of certain standards of precision is essential for the manufacture of heavy armaments material, while the development of an electronics industry is a pre-requisite for equipping modern aircraft and warships.<sup>15</sup> Though a number of developing

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13 Asbjørn Eide, "The Transfer of Arms to Third world Countries and their Internal Uses", International Social Science Journal (Paris, Unesco), vol. XXVIII, no. 2, 1976, pp. 307-25.

14 Albrecht and others, "Arming the Developing Countries", International Social Science Journal (Paris, Unesco), vol. XXVIII, no. 2, 1976, p. 333.

15 For instance, in India it was among other things the equipment of aircraft with the necessary instruments that proved to be the weak link in the production chain.

countries are trying to have their own armaments industries, they have not as yet achieved independence in this and outside support in all cases may still be essential for these countries. These countries may feel that rapid advance can be made in their arms programmes when substantial cooperation is obtained from industrialized countries.

To make an advance in arms programmes some developing countries become customers for the US, USSR, France, UK and others. While socialist countries may have a restrictive attitude to granting arms production licences to non-socialist states, India seems to be the main exception having received a few reproduction licences from the USSR. The developing countries may try to use licensing arrangements as a first step to achieve independence in their armaments industry. On the other hand, the consequence may be the internationalization of arms production as a result of the metropolitan manufacturers' efforts to extend their activities to the developing countries. In the world market, according to Albrecht and others, heavy weapons systems like fighter bombers and big tanks would become relatively less important compared to counter insurgency equipment, helicopters, communication equipment etc. (except for the oil producing countries). It is possible that arms producers of some West European

16 Developing countries like India still depend on the advanced countries even though some domestic production may be there. Even in domestic production the dependence is obvious - for example, some components, special raw materials and technical know-how may be imported. Albrecht, Ernst, Lock, Gull, "Armaments and Underdevelopment", Bulletin of Peace Proposals (Oslo), vol. 5, 1974, p. 177.

17 Albrecht and others, n. 14, p. 333 ff.

countries or Canada will be gaining more importance in this field and U.S. armaments corporations will co-operate with these countries or will transfer production of components to West Europe and Canada. It would be a relevant question to ask whether some developing countries like India will be incorporated into such an integrated production for the world arms market.

The internationalization of arms production by its extension to the developing countries is said to be typical of the present trend. In certain countries, governments may accept the strategic terms of the Multinationals even in the armaments production field. In such cases labour intensive components and subsystems may be produced in the developing countries, while capital intensive and complicated components may be produced in the metropolitan countries.

The US and USSR continue to produce newer generations of weapons. As a result, weapons are continuously outdated. This may imply another possibility - the elimination in the long run of the producers of weapons in West European countries. Since the United States has a huge domestic defence market, it can, it is said, support an armament industry without relying necessarily on exports. The production series are big enough to guarantee near optimum unit costs of production. On the other hand, British and French producers rely on foreign markets in order to increase production series. Only with this strategy can they compete with the unit prices offered by US producers and maintain for the time being an autonomous weapon production in a few branches.<sup>18</sup> They may also agree to partial



local production in recipient countries, coproduction or even licensed production by the recipient countries in the hope of securing protected markets for their weapon production. In this way, the technical know-how necessary for partial production may be transferred to the developing countries while technical capacity for producing complete weapon systems may remain with the countries of the origin.

For the industrial manufacturer, the partial transfer abroad of production, in addition to providing an escape from export restrictions is essentially a way of reducing labour costs though other considerations may be there: like the general climate for investments, the incentives offered by the foreign state, the local market, the export potentiality of the country concerned and strategic reasons.

On the other hand, the collaborating developing countries expect, among other things, savings in foreign exchange and building up of research and development (R & D) facilities.

The tendency to embark on local arms production programmes may not be without effect on neighbouring countries. The neighbouring countries may feel threatened or may so allege and they too may strive to increase their military expenditures even if they do not possess comparable resources. Under assumed or real threats, regional arms races may almost inevitably turn into regional arms production races. The consequence may also be super power role in assuming strategic and control functions in the region.

## NATURE OF FRENCH ARMS TRADE POLICY

French arms exports have helped its defence industry to maintain a self-sufficient armaments base. SIPRI analysts are of the view that, because of this France has been helped to establish an independent position in international affairs. They further feel that France can be described as a country seeking the best available markets without strong political restraints. Several examples are mentioned in this regard: like arms sales to South Africa after the British embargo (1964); sales of Mirages and submarines to Pakistan after the US embargo on India and Pakistan (1965); supply of counter-insurgency weapons to Portugal for use in African colonies. Even the change-over from Israeli to Arab market for weapon sales is mentioned. Though France pleads only a commercial basis for its arms policy, France has benefited in commercial and political terms. By moving into Anglo-American markets there has been some increase in French influence and according to SIPRI analysts it also implies some French independence from other Western countries.

According to the official thesis, arms exports are one of the means by which France affirms independence in its defence structure and its foreign relations. The emphasis is on the political end of the venture and the arms sales in particular seem to be the means of ensuring the material base of an autonomous defence and of extending (or increasing) the influence of France in Europe and the world. On the contrary, critics of French policy argue that she (France) is guided purely by economic interests. (Translated) (19)

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19 Jean Klein, "Commerce des Armes et Politique: Le Cas Français", Politique Etrangère (Paris), no. 5, 1976, pp. 563-86, Abstract in Bulletin of Peace Proposals

Some others argue that making and selling arms is France's only chance of asserting its industrial, commercial, military and diplomatic presence in the face of the major Powers, in particular the United States.<sup>20</sup> Another way of arguing may be that France's arms trade and arms policy were necessitated simply by the need to export arms and sustain its defence industry. We will return to this argument soon.

While France has supplied weapons to all its ex-colonies in Africa (except Guinea), to South East Asia for some time and to Latin American countries, three countries Israel, India and South Africa were supplied with 56 per cent of all French major weapon exports.<sup>21</sup> However this does not mean that France is a major exporter compared to other exporters to India. This is because of two reasons: (1) India receives major weapons from

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(Oslo), no. 2, 1977, pp. 177-8. The French abstract is as follows: "Selon la thèse officielle, les exportations de matériel de guerre sont l'un des instruments dont dispose la France pour affirmer son indépendance dans l'organisation de sa défense et la conduite de sa diplomatie. L'accent est mis sur la finalité politique de l'entreprise et les Ventes d'armes apparaissent surtout comme le moyen de garantir la base matérielle d'une défense autonome et d'étendre l'influence de la France en Europe et dans le monde. Les détracteurs de la politique française soutiennent au contraire qu'elle est commandé par des intérêts purement économiques".

20 Jacquelin Grapin, "Arms Exports: when Means Become an End", The Guardian Weekly (London), 28 November 1976, Abstract in Bulletin of Peace Proposals (Oslo), no. 2, 1977, pp. 179-80.

21 SIPRI, n. 1, p. 126. This figure however, does not apply to post-1972 period.

Various sources and France is not the only source. France is also relatively less important - to what extent we will discuss later - than other major suppliers to India or Indian sub-continent. (2) Major weapons are only a part of the overall arms deals which include small weapons. However, this does not mean that France is totally insignificant as a supplier as far as the Indian sub-continent is concerned.

In France, the government itself owns a large part of the defence industry. But there are private firms too. The two biggest private firms which merged in 1967 are Dassault and Breguet. The national firms and private firms cooperate closely. And it is logical that

In France, the opinion which prevails among the opponents of arms trade is that, it is a problem of profitable trade meant to enrich the manufacturers of the private sector, to ease (or reduce) the burden of national defence and to stabilise the balance of payments. (Translated). (22)

Further, there is a strict supervision of the exports of arms. The exports of arms are regulated by a law of 18 April 1939, which necessitated export licences for war material and related items. Some other decrees add to the regulations. Export licences are issued by the Ministry of Finance after approval by various ministers.

An inter-ministerial commission was set up in 1949 with functions to consider requests for production and export of war

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22 Klein, op. cit., n. 19. The French abstract is as follows: "L'opinion qui prévaut en France parmi les opposants au commerce des armes est qu'il s'agit d'un trafic fructueux destiné à enrichir les fabricants du secteur privé, à alléger le fardeau de la défense nationale et à équilibrer la balance des paiements...."

material and to study policy aspects necessary for export oriented production of war material and so on. This commission works in close connection with the ministry of foreign affairs and is directly responsible to the Prime Minister. Further, there is an office closely concerned with the sales of weapons - 'La Délégation Ministérielle pour l'Armement' (DMA).

The government also helps in the promotion of French weapon sales in developing countries. The government provides after-sales assistance to the buyers in the nature of training and technical support through the relevant branches of armed services. The government also places emphasis on the design of the military equipment to meet foreign requirements. For example, in 1963, a French Minister, M. Debré asked the French armed forces to take the export potential into consideration when choosing military equipment.<sup>23</sup> Further, under the DMA there is the 'Direction des Affaires Internationales' which is concerned with the promotion of weapon exports on behalf of the government.

While there are some private owned agencies engaged in the promotion of weapon exports, there are also some jointly owned agencies like the 'Société Française de Matériel d'Armement' (SOFMA) (with 35 per cent government share) to promote sales of tanks and infantry weapons. There are also some similar aviation agencies.

French weapons are offered on cash and/or credit and

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23 SIPRI, n. 1, p. 128. A specific instance would be the Mirage-5 designed with special consideration to the Third world market.

interest rates vary between 7 per cent to 3 per cent.<sup>24</sup> French arms exports are also closely related to wuer commercial agree-<sup>25</sup>ments which benefit France.

The growth of French defence industry is closely related to the growth of its exports. The industry had a rapid expansion since 1960 and especially since 1962 and exports were a major reason. But the industry grew not merely because of exports. There were other reasons too. As C.J.E. Harlow mentions,<sup>26</sup> the settlement of the Algerian war not only rid France of the incubus of a large army but helped her to concentrate her defence expenditure within metropolitan France or nearby Germany.<sup>27</sup> Harlow says that one of the effects of the solution of the Algerian crisis was the elimination of the element of overseas support costs in the French defence budget. while Harlow thinks that this elimi-<sup>28</sup>nation was total, other writings contradict his view and point to the fact that while the French overseas support costs were eliminated to a great extent France's continued military interests,

24 Ibid., p. 128 ff.

25 For example, in Argentina, while France agreed to provide assistance for assembling some tanks in that country, the government-owned 'Régie Nationale des Usines Renault' acquired a controlling interest in the main vehicle producing firm in Argentina - the 'Industrias Kaiser Argentina' Ibid., p. 129.

26 C.J.E. Harlow, "The European Armaments Base: A Survey", pt. 1; Economic Aspects of Defence Procurement, pt. 2; National Procurement Policies, ISS (London, 1967).

27 Harlow, pt. 2, p. 26.

28 Chester J. Croker, "France's Changing Military Interests", Africa Report (Washington, D.C.), vol. 13, no. 6, June 1968, pp. 16-24.

for example, in Africa, could not be ignored. However, the reduction in overseas support costs led to diversion of some resources for Defence research, development and production. But France's Research and Development (R & D) expenditure has not been as huge as that of the super powers. This expenditure is considerably low compared to them.

Another reason for the growth of French defence industry, as mentioned by Harlow, is the leadership of de Gaulle. Though de Gaulle may have had his shortcomings, he is said to have "imparted a simplicity of objective and a consistency of policy" which made technological progress in defence industries easier to achieve. Some other writers too point out to the role of the General in this context.

Here, an important point to be noted is in the context of French military doctrine, particularly during de Gaulle's leadership. The formulation of military doctrine in France reflects the dynamics of armaments. The French withdrawal from the North Atlantic Treaty Organization's (NATO) integrated defence structure can be interpreted as an attempt to resist complete integration and submission of the French industry to the world-wide production and marketing strategies of mostly US-based multi-national

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29 Frank Barnaby, "The Dynamics of World Armaments: an overview", International Social Science Journal (Paris), vol. XXVIII, no. 2, 1976, pp. 245-55.

30 Harlow, pt. 2, p. 27.

31 For example, H. S. Chopra, De Gaulle and European Unity (New Delhi, Abhinav, 1974).

corporations. It seems obvious that there exist interrelationships between the partial military disintegration of France (from NATO) and her role as an independent, competitive and at times aggressive contender of US supremacy in the international arms market.<sup>32</sup>

The indication of the growth of French defence industry was evident in the rise of French exports. Between 1960 and 1971, French arms exports rose at a rate of more than 20 per cent a year and in 1970 they amounted to more than 20 per cent of total defence production.<sup>33</sup>

Further, the armaments industry spends over 20 per cent of its turnover on Research and Development, whereas the rate is rarely more than 3 to 10 per cent in civil industry. This means that the military sector provides the initiative and drive for French technology at a time when civilian budgets have on the whole shrunk. It can also be noted that France has a 16 per cent share in the world armaments trade and occupies the third place after the United States (46 per cent) and the Soviet Union (30 per cent).<sup>34</sup>

For France, the benefits of arms exports are said to be those of economies of scale and protection of the defence industry from fluctuations in government demand. These also help in

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32 Albrecht, Ernst, Lock and wulf, n. 4, p. 196.

33 SIPRI, n. 1, p. 129.

34 Grapin, n. 20. Some others give the third place to UK, for example, B.K. Joshi, "Europe's Stakes in Arms Race - Causes and Results", Times of India (New Delhi), 22 December 1977, p. 6.



maintaining a stable level of employment. It is also argued (as mentioned earlier) that arms exports help in stabilising French balance of payments.

...recourse to arms exports to offset payments deficits ultimately results in the country's readily exporting these goods to balance its books, whereas such sales were before only a by-product of its defence policy. (35)

But this view has to be criticized. The French export of arms has never been merely a byproduct of its defence policy.

A major problem of the French defence industry is that of limited domestic resources. International cooperation (joint ventures) with other advanced Western countries has not been a highly favoured solution. To meet this problem and to improve the possibilities for export, the French aerospace industry has been reorganized. This is because aerospace industry plays an important role in French exports. Also, there have been some mergers like that of Dassault and Breguet and the formation of Aero-spatiale after the merger of three other nationalized companies.<sup>36</sup> A possible result of the mergers can also be a contraction in employment. An increase in foreign orders would thus be essential in guaranteeing the level of employment. As mentioned earlier, exports also bring another benefit to the defence industry in France - the contributions to Research and Development. In fact, some buyers have even financed major projects.<sup>37</sup>

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35 Grapin, n. 18.

36 SIPRI, n. 1, p. 130 ff.

37 Israel and South Africa for instance.

Thus, for France, economic considerations were quite crucial with regard to arms supply policy. But this policy also brought about benefits of a political nature. It contributed to an increase in French political 'presence' in the world and gave it some independence vis-a-vis the two major power camps. This should be understood as a consequence of economic interests rather than as a motivation for initiating the arms policy. However, a reductionist approach considering French arms policy in purely economic terms is not correct. The complexity of other influences cannot be neglected.

## FRENCH ARMS SUPPLIES TO THE INDIAN SUBCONTINENT

French arms supplies to the Indian sub-continent have to be seen in the overall perspective of arms supplies by various countries. This is because, by studying just France's supply role without understanding it in relation to other arms suppliers, one may commit the mistake of magnifying what is essentially a case study of one country's arms policy. Thus, the objective is to avoid such a mistake and make an effort to understand France's role as an arms supplier along with other suppliers.

In the Indian sub-continent, the tensions arising from the decolonisation process have contributed mainly to the demand for weapons. Important in this process was the partition of India. Since then, there were some conflicts between India and Pakistan. There was also a conflict between China and India. Some tension was noticed between Pakistan and Afghanistan also. There were also internal situations which may have created a demand for weapons by the ruling groups or regimes in some countries of the sub-continent. The arms races or build-ups accompanying these conflicts, tensions and situations were further aggravated by the interests of the two super powers and also by the interests of the ex-colonial power.

An analysis of a table given in the SIPRI book - the Arms Trade with the Third World may help us to understand the arms supplies role of various suppliers. (see table attached)

38 This table refers only to the supply of major weapons - aircraft, naval vessels, armoured fighting vehicles and

(Contd. on next page)

TABLE

## INDIAN SUB-CONTINENT: SUPPLIES OF MAJOR WEAPONS BY SUPPLIERS

US \$ mn., at constant (1968) prices

Supplier	USA	UK	FRANCE	USSR	CHINA	OTHER	TOTAL <sup>a</sup>
1950-54							
Ann. annual average	8	22	12	-	-	0.4	42
per cent	19.0	51.7	28.3	0.0	0.0	1.1	100.0
1955-59							
Ann. annual average	24	102	22	5	-	5	168
per cent	15.2	64.7	13.8	3.4	0.0	3.1	100.0
1960-64							
Ann. annual average	39	46	4	31	-	14	134
per cent	29.4	34.4	2.9	22.8	0.0	10.6	100.0
1965-69							
Ann. annual average	1	25	14	136	6	18	200
per cent	0.7	12.3	7.2	67.9	3.0	8.9	100.0
1970-72							
Ann. annual average	1	22	10	103	32	7	175
per cent	0.5	12.6	5.7	58.9	18.6	3.7	100.0
1950-72 <sup>a</sup>							
Ann. total	365	1,040	290	1,168	127	206	3,197
per cent of total	11.4	32.5	9.1	36.5	4.0	6.5	100.0

<sup>a</sup> figures may not add up to totals owing to rounding.

Source: SIPRI work sheets.

See SIPRI, The Arms Trade with the Third World (Penguin, 1975), table 11, p. 180.

In the period 1950-54, the United Kingdom was the major supplier of major weapons - \$22 mn., 51.7 per cent. This was because, the dependence of India on the UK was influenced by its past links. France seems to be the second supplier - \$12 mn., 28.3 per cent but almost half as important as the UK. The United States was third - \$8 mn., 19.0 per cent which too was not as significant as that of the UK. The US supplies went mainly to Pakistan since India was mainly dependent on the UK in this period. The Soviet Union and China were not suppliers of major weapons during this period as observed in the figures.

During the period 1955-59, the UK increased its supplies probably because demand increased mainly due to tensions between India and Pakistan. The UK was the most important supplier during this period - \$102 mn., 64.7 per cent. The US had increased its supplies over France to \$24 mn., 15.2 per cent, France having \$22 mn., 13.8 per cent. During this period, France's supply was probably because of its SEATO commitments and supplies to Pakistan which was also a member of the SEATO. But it is obvious that both the US and France were not even a quarter as important as the UK. The USSR had made some minor sales - \$5 mn., 3.4 per cent to India. China did not as yet

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missiles. Small arms like rifles, sub-machine guns and heavier weapons like mortars, anti-aircraft guns etc. are not included. Hence, over-generalisations are sought to be avoided. Also, the analysis is supplemented from information not evident in the table.

39 Who were the other suppliers mentioned in the other column is not clear.

make any supplies of major weapons.

In 1960-64, though the UK was the first important supplier, it was not as important as earlier since its supplies had dropped to \$46 mn., 34.4 per cent. It seems India was becoming less dependent on the UK. The US was the second major supplier and came second to UK. The supplies of all western countries, during this period, were largely to India in the wake of the Sino-Indian conflict of 1962, when India had asked for help. The US and UK were the major suppliers during this period. The others - chiefly Canada and Australia - also supplied major weapons during this period - \$14 mn., 10.6 per cent. USSR's increase in supply had been before the 1962 war itself, when India purchased transport planes and helicopters from the USSR. Supplies from France, Canada or Australia were not significant during this period compared to other suppliers. The reason could be that only the US and UK made huge contributions to India especially in the nature of gifts - of \$60 mn. each because of Sino-Indian war.<sup>40</sup> The contributions of France, Canada and Australia were not significant since they jointly contributed about \$10 mn.<sup>41</sup> France's supplies dropped due to its greater preoccupation with Algeria (until 1962). Soviet supplies

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40 This figure is naturally more than the figures in the table against the US and UK since this figure is not confined merely to major weapons.

41 This figure is less than that in the table. There could be two explanations for this: (1) The 'other' column may include some countries other than Canada and Australia; or (2) France, Canada and Australia could have supplied to countries other than India in the sub-continent.

were noticeable perhaps because of the 1962 agreement to supply MiGs to India. Soviet supplies increased probably because of favourable price and terms. China does not seem to have made any major weapon supplies in the sub-continent during this period.

In 1965-69, the US major weapons supplies seem to have dropped to an insignificant figure. The reason probably was the US embargo on supplies to India and Pakistan in the wake of Indo-Pak conflict of 1965. France's relative increase *vis-à-vis* its earlier figure, to \$14 mn., 7.2 per cent was perhaps due to the growth of French defence industry after the solution of Algerian crisis and due to the fact that France took advantage of the US embargo. Pakistan in particular, increased some purchases from France. UK's supplies dropped relatively to \$25 mn. and percentage-wise were less than half of 1960-64 period - 12.3 per cent. The USSR increased its supplies significantly to \$136 mn., 67.9 per cent. This indicated India's lessening dependence on the West so far as arms were concerned. India's dependence on one super power - the USSR - may have increased because of the Sino-Indian conflict though this was not evident immediately. This was unlike earlier periods, especially the early fifties when supplies from the two Super Powers were either not important or were not sought. USSR's supplies increased because it gave credit facilities and easier terms to India and imposed no embargo in 1965 either on India or Pakistan. China's major weapon supplies were evident for the

first time during this period - \$6 mn., 3.0 per cent. The reason probably was that Pakistan turned to other sources for the supply of major weapons in the wake of 1965 US embargo. The other sources of supply may have been surplus US equipment from Europe (through the Federal Republic of Germany) and Iran; some supplies also came from Turkey and Portugal. Thus Pakistan was not dependent on one supplier after 1965. While by an agreement in 1968 Pakistan may have acquired some arms from the USSR, the extent of the supplies is not known.

1970-72 is a two-year period unlike the earlier four year periods. This should be borne in mind if the figures are sought to be compared with earlier periods. During this period, the USSR continued to be the predominant major weapon supplier to the Indian sub-continent - \$103 mn., 58.9 per cent. This figure should not be compared to its supply in the earlier period since period lags are different. USSR's supplies may have been mainly to India and possibly to Bangladesh. China was the next important supplier with supplies chiefly to Pakistan - \$32 mn., 18.6 per cent. The UK was next - \$22 mn., 12.6 per cent, but nowhere near the USSR and less than China. France's supplies were not important vis-à-vis the other three suppliers (USSR, China and UK). France's supplies were \$10 mn., 5.7 per cent. The US major weapon supplies seem to be insignificant during this period. China's supplies (\$32 mn., 18.6 per cent), were a noticeable increase from earlier period (\$6 mn., 3 per cent). This was probably because in 1971, the Indo-Soviet friendship treaty made Soviet supplies to Pakistan



difficult and because of the fact that in February 1971, China had agreed for a \$300 mn. economic and military aid to Pakistan. After the 1971 war, Pakistan had received assurances from China of "unlimited" military aid. Whether this was practised is not known.

Between the period 1950-1972 major weapons worth a total of \$3,197 mn. were supplied to the Indian sub-continent - all the suppliers put together. There were some other recipients like Sri Lanka, Afghanistan, etc. but the major recipients seemed to be India and Pakistan. The value of exports of major weapons from the USSR over the period was the highest with \$1,168 mn.<sup>42</sup> The next place went to the UK - \$1,040 mn. The US direct supplies were \$365 mn. France came fourth with \$290 mn. Total exports of major weapons by the USSR and UK were significant and above \$1,000 mn. each. The US direct exports of major weapons were nearly one-third of the values of the first two. France's exports were not even that. This meant that France was not an important supplier of major weapons to the Indian sub-continent. France, however, did try to take the advantage of the the availability of market left by others (for example, by the US in 1965). France's sales were meant for commercial purposes and were not influenced to the same degree by other factors. This was unlike the US, UK or USSR which may have wanted to use the supply of weapons as an instrument of political

42 The SIPRI data seems to have put together supplies by various socialist countries to the Indian sub-continent. This may be one of the reasons for such high figures. However, despite this, USSR's supplies were quite high.

influence (this however, should not be taken as a denial of the linkages of various factors). This was evident in the case of USSR foregoing its restrictive arms supply policy towards non-Socialist countries, in the case of India. In the case of UK, while intentions of influence were there, economic motives were more important since its domestic defence industry needed exports. Indian sub-continent because of its ex-colonial links with UK, facilitated an easier outlet. Also, one cannot overlook the fact that various factors overlap and are deeply interrelated. Given this, even France's interests or gains are not purely commercial or economic. By its role as a supplier it also increased its political influence.

UK's position was in contrast to France's position because France had no strong colonial links with the Indian sub-continent. France had such links with Africa and there its supplies or assistance were significant. France's supplies were also significant in the Middle East. This position of France is evident in the following figures. Between 1950-71, France's exports of major weapons to some regions of the Third world were as follows:

Indian sub-continent	-	£290 mn.
Middle East	-	£554 mn.
Africa (including South Africa)	-	£562 mn.
Latin America	-	£148 mn.

The total French exports of major weapons to the Third world

were \$1,653 mn. of this the Indian sub-continent received 17.6 per cent.<sup>43</sup> Also, France's supplies to Africa (excluding South Africa) were not as much as UK's supplies to the Indian sub-continent (i.e., \$298 mn. : \$1,040 mn.). Another conclusion about France's arms supply policy is that it tries to make use of those opportunities where the market is left to its advantage by other suppliers for some reason or other. But in the Indian sub-continent this aspect of French arms supply policy has not been much of a success (except in 1965 to some extent) probably because other suppliers are still holding ground or in fact increasing their supplies. Another reason may be that France does not have important strategic interests in the Indian sub-continent. Further, France may be finding other regions more lucrative for its exports than the Indian sub-continent.

Keeping this position of France in mind vis-à-vis other suppliers, we can note some specific points in French arms trade in the Indian sub-continent since 1969.

In 1969, France tried to convince India that its arms sales to Pakistan was purely on commercial basis and had no political implications.<sup>44</sup>

While India had voiced its concern over likely dangerous repercussions of French arms deals with Pakistan, it was assumed by some observers as not significant enough to drive a wedge into the diplomatic relations between the two countries.<sup>45</sup>

43 SIPRI, n. 1, pp. 124-5, table 8.

44 Tribune (Ambala), 19 March 1969.

45 Amrita Bazar Patrika (Calcutta), 7 February 1976.

France was said to have become a leading supplier for Pakistan's air force and navy since the Anglo-American embargo of 1965. In October 1975, Bhutto visited Paris for more arms. By then Pakistan was reportedly armed in part with French made weapons including sub-marines, helicopters and Mirage jets. In 1974 itself Paris had extended a credit of £72 mn. to enable Pakistan to finance the purchase of equipment. Reports said that this credit was fully utilized.<sup>46</sup> Also, Pakistan seemed keen on securing manufacturing rights under licence for Mirage Jets.<sup>47</sup>

In December 1975, France denied that it was co-operating with Pakistan in setting up a Mirage complex and in the manufacture of armaments.<sup>48</sup> The French Foreign Trade Minister stated that the sale of arms constituted "only a small proportion of his country's exports".

In January 1976, French Prime Minister Jacques Chirac again emphasized the commercial nature of French arms supply policy. The French argument as to the impact of such arms supply on the stability of the Indian sub-continent was one of clever salesmanship. "If France did not sell arms, those requiring them would turn to other countries. It was a better

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46 Among the items acquired under this credit were surface-to-air missiles, reconnaissance aircraft and a special type of bomb.

47 Times of India (Delhi), 21 October 1975 and Statesman (Delhi), 21 October 1975.

48 Hindustan Times (Delhi), 18 December 1975, see Lovbert Jegard's statement in the press conference.

policy to buy arms from friends who have no political interest,  
rather than approach the Super Powers".<sup>49</sup>

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49 Statesman (Delhi), 25 January 1976, Chirac's press conference.

## VII

### ARMS PRODUCTION IN INDIA

While arms trade policy may refer mainly to supplies of weapons, the production of arms in the developing countries also has some relationship to the arms trade policy.

India is one of those developing countries which are trying to implement largely unassisted armaments programmes with the final aim of attaining a capacity both for indigenous production and development of weapons. India has invested huge sums in the development of a national armaments industry. The objective may be independence from foreign arms supplies, embargoes, refusals to deliver spares, etc.

These attempts at steadily increasing the share of local production - thereby saving production costs or at least foreign exchange - have so far shown little success in India,<sup>50</sup> and there is also not much likelihood of achieving the goals in future. The reason for this seems to be that the technological sophistication, especially in the armaments field, has made developing countries like India even more technologically dependent on leading metropolitan arms manufacturers than before. It is also said that these arms production programmes are being turned to their profit by local capitalists in India.<sup>51</sup>

India can be said to be self-sufficient in the production of small arms. Pakistan can also claim self-sufficiency although Pakistan continues to import such weapons.

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50 Albrecht, Ernst, Lock and Wulf, n. 14.

51 Ibid.

As for the licensed production of major weapons in India, various countries: Czechoslovakia, France, UK, USSR and Switzerland have licensed the production of various items of major weapons. Of interest to us, France has licensed the production of cheetah (Lama) and Alouette III helicopters, Bharat SS-11 anti-tank missiles and Avisos frigates. India also produces engines - the French Artouste - under French licence.

Licensed production can mean anything from mere assembly to the local manufacture of nearly all parts and components. India has not reached the latter stage.

Arms production in developing countries like India is also related to production costs and poses a problem. Indigenous production of aircraft is considerably more expensive than importing. This is probably also the case with the production of missiles and electronic equipment. Material costs are not only high because of indigenization but also because the import of parts is more expensive than the import of complete aircraft. This may be because of differing transportation costs, manufacturers' pricing practices and modifications made to suit the purchasing country. The future cost of the licensed production of the French SA 315B Lama (cheetah) high altitude Helicopter will also very likely reflect the fact that it was specially designed in France to meet Indian requirements.

India may try to diversify its technological dependence and France would be one of those countries with whom India may be interested in collaborating.

Possibly due to a highly competitive situation, European producers are prepared to join national production schemes in developing countries. Such participation allows them easier access to markets. Low labour costs may attract a metropolitan producer to manufacture certain labour intensive components in developing countries and by re-exporting them increase the total sales to the country concerned.<sup>53</sup> The existence of export restrictions may also lead to the transfer of production or assembly lines, but sometimes merely the subsidies (often in the form of tax exemptions) suffice to induce a metropolitan arms manufacturer to establish military production in a developing country.<sup>54</sup>

Developing countries can partly arrive at a self-reliant position in military technology only if they abstain from imitating military doctrines and weapon systems developed in the context of confrontation between industrialised nations. At present, the developing countries seeking to be politically independent may experience the existence of influence of the major arms suppliers. This will continue as long as these developing countries rely on the military technology (and aid) designed and produced in the industrialised countries.

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53 Whether this has happened in India's case needs investigation.

54 Lock and Wulf, "Consequences of the Transfer of Military Oriented Technology on the Development Process", Bulletin of Peace Proposals (Oslo), vol. 8, no. 2, 1977, p. 132 ff.



as long as a military doctrine for the Third world is accepted which has been prescribed for them and taught by strategists from industrialised countries, political independence and military self-reliance cannot be achieved in the Third world. (55)

## VIII

### CONCLUSIONS

French arms supply policy is based on the need to maintain a self-sufficient defence industry in France. Among other things, the benefits of maintaining such an industry are the protection of the industry, a stable level of employment and economies of scale. It is also interesting to note that advances are made in French technology by the research and development done in the defence industry. This point is particularly relevant because a larger percentage of resources are set apart for R and D in the arms production sector than in the civilian production sector in France.

Defence industry production in France is not fully absorbed by the domestic market. This is largely due to limited resources which the state can afford to spend on defence purchases.

An important way of overcoming the problems - of protecting the defence industry, ensuring utilisation of its over-production and maintaining a stable level of employment - is by exporting the arms. This helps the defence industry in France not only to survive but also to grow in a profitable way.

In French defence industry, one sees an example of how the state intervenes in the economy and joins hands with the private sector to increase the profitability of this industry. In fact, the state plays a very important role in the growth of this particular industry.

While France supplies arms to Pakistan and India in the

Indian sub-continent, France is not as important a supplier of major weapons as other big Powers. This point becomes evident when the role of various arms suppliers and the attitudes of the countries in the sub-continent are analysed.

For some years after independence, India was more dependent on the ex-colonial power than on others, for arms supplies. Gradually, India's dependence on other suppliers increased. This also implied a diversification of the sources of supply. But in one sense, until the early sixties there was no diversification because India's major sources of supply were the non-socialist countries.

But soon the Soviet Union became an important supplier of major weapons in the sub-continent, particularly for India. In fact, the USSR was the most important supplier of major weapons to India, superseding UK.

In the sub-continent, while France could not be ignored as a supplier of major weapons, it could not be placed among the other important suppliers; namely, the USSR, UK and USA. These three were predominant in their supply role while France was not. However among the three, USSR and UK were more prominent for India. For Pakistan, the important suppliers were USA and UK. For Pakistan, China became an important arms supplier by the seventies.

India's increased dependence on the USSR for major weapons was not only because of favourable terms, but also because of regional considerations - of Soviet Union being a powerful neighbour of China. Another reason for increased Soviet arms

supply could be Soviet Union's own strategic and political considerations in developing "special friendship" with India. The US made direct and indirect arms supplies in the sub-continent, in particular to Pakistan.

While France had mainly commercial interests in its arms supply policy it was logical that by its somewhat independent role, France may have gained in political terms. But instances - like the US pressure on France and Pakistan not to go ahead with a nuclear re-processing deal - may show that France is not free from external pressures in its commercial relations. In the above mentioned case, the pressure was a consequence of the discriminatory US policy of preventing nuclear proliferation.

But such pressures may be there in other spheres too and arms trade may not be an exception. This is all the more probable because France has to a great extent given up de Gaulle's aggressive style of foreign policy in its relations with other Western countries particularly the US - notwithstanding its continuing assertion of independence as evident for example, in the opposition to the Nuclear Non-Proliferation Treaty (NPT).

To some extent, the position of France as an arms supplier (and also of UK) has been influenced by its ex-colonial links (for example: in franco-phone Africa). Despite this, France tries to compete with other arms suppliers in regions where it has no important colonial legacy. But success in such a competition depends on whether other suppliers have made it possible for France to supply arms. This success is also dependent on whether the recipients of arms are willing to turn to

France as a source of supply. In the absence of these two circumstances, it is not easy for France to increase its role as an arms supplier.

Related to the above is also the absence of any important French interests - strategic or other - in the Indian sub-continent. France has such interests in the Mediterranean and some other regions. Additionally, the Indian sub-continent may not be as lucrative a market for French arms as the Middle East or South Africa.

It is also interesting to note that French transactions in arms with one country in the Indian sub-continent have not led to any important diplomatic problems with other countries in the region. This of course is not to deny the fact that whenever France made arms deals with one country, another country expressed apprehensions. Thus for instance, India voiced concern over the likely dangerous repercussions of French arms deals with Pakistan time and again. But France always sought to assure India that its deals with Pakistan were purely on commercial basis and were not motivated by political considerations.

It may be true that unlike other big Powers French arms policy towards the sub-continent is not formulated on political considerations. But it cannot be denied that France has gained in political terms. For example, in 1965 when the US imposed an arms embargo on India and Pakistan, Pakistan could turn to France for arms. Again in recent times, Pakistan turned to France when other big Powers were not inclined to provide

Pakistan with a nuclear re-processing plant. Here the political gain for France would be that Pakistan would look to France as a more reliable trading partner. By evolving such a relationship with arms recipient countries, France can influence them in other spheres.

Coming to domestic armaments production, while India may try to invest in domestic armaments production - in an effort to become more independent in defence production - the continued reliance on technology from advanced countries works against this objective. This situation is more evident in manufacturing major and sophisticated military equipment than small arms.

Further, by agreeing to licensed production of defence equipment in developing countries like India, the arms producing countries of West Europe may be working out newer and newer strategies of securing protected markets and making more profits. This may be done by various means - for example, by withholding technology related to some parts of a defence equipment and by exporting these parts at higher prices.

India has sought to diversify its technological dependence in defence production pertaining to major weapons. For production of various major weapons, it has relied on various advanced countries.

India's relations with various advanced European countries (excluding USSR) may have been motivated by a desire to rely on medium and small advanced countries. Its dependence on the USSR however was, among other things, out of regional-strategic and political-considerations. This dependence on

USSR was also partly because of the desire to avoid total dependence on western countries.

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