

**INDO - EEC DEVELOPMENT CO-OPERATION**

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## P R E F A C E

It is generally understood that Development Co-operation is a post-war phenomenon. In the aftermath of the Second World War, West European nations were themselves faced with the problem of their own post-war economic reconstruction and rehabilitation. It is in this context that there emerged the concept of supra-national/transnational co-operation methodology which transcended the traditional bounds of the nation state. Outside this framework but within the Western hemisphere was the USA, a new Super Power, which then eclipsed all the major West European imperial powers. Verily speaking, the latter had to depend upon the US both for their economic recovery through the Marshall Plan and their security through the NATO. This was the arrangement under which, as Gunnar Myrdal says, the rich helped the rich to regain momentum in their industrial pursuits.

But the very fact that the major West European Powers, such as Britain and France became weakened, led to the liquidation of their imperial systems. With the result, there emerged newly independent countries. In 1947 India was the first to have set the pace for a new international system, gradually shaping itself with its three principal components, the first having the Western developed countries,

the second the East European countries and the third the developing countries. But then most of the countries in the last category which had been subjected to colonial exploitation for several centuries, had to contend, in an extraordinary way, with the gargantuan problems of their political survival as well as economic development, for which they did not have the necessary wherewithal, such as capital, technological know-how and the management skills. With the result, they had to seek assistance principally from their erstwhile colonial powers, with whom they had historical links. During 1950s, they received assistance, both in the form of economic and/or technological know-how, but with political strings attached. In reaction there was vigorous protest particularly from the newly liberated young nations in Asia and Africa. For, it was then feared that the developed Western powers were developing new institutional designs for their new colonial widespread.

Indeed it is in 1960s that the European Community starts functioning at a strident pace, and with its increasing economic gains it engaged attention of the developing countries, which since 1950s had come to be described as the "Third World". So it is in the midst of such a fast changing political and economic conjuncture that the concept of the First Development Decade was adopted but without any

significant input in the development endeavour of the Third World nations. The Second Development Decade began in 1971 and it may be said that it yielded some benefits to the Third World nations. It was in this tumultuous decade which saw new forms of crises (such as energy), shaking the booming Western economies to their very roots, that both the developed and the developing nations intensified interaction in all possible fields of economic as well as political activity. For a variety of reasons, such as ideological (to combat against the Soviet and/or Chinese influence in these volatile areas) and also to ensure the supply of raw materials and markets for the eventual absorption of their industrial manufactures, the European Community had to widen and strengthen the framework of Association, through the Lome I and II Conventions, and then through co-operation agreements with different regional groupings and individual countries in all parts of the Third World. Indeed, by now, the EC has a world-wide network of associate members and/or parties to the co-operation agreements. This experiment, without doubt, bears unique significance (though not without vociferous critical reflections from the critics on various levels of implementation of the agreed to plans and programmes) for while on surface it projects high values of political

and economic liberalism, but in reality it serves and promotes those vital Western interests, which otherwise it would not have been within the realm of practical.

From among the Third World countries India, even though it has been working hard for more than three decades for "Self-Reliance", bears certain glaring paradoxes. First, while it has the world's third largest reservoir of scientific and technological skills, it is considered as one of the poorest nations with less than US \$400 per capita income.

Secondly, while it is primarily an agricultural country which witnessed Green Revolution in late 1960s, yet more often than not it has to depend upon imports of foodgrains from the US, and for supply (even if in limited quantity) of butter, butter oil, and milk powder upon the EEC for the Operation Flood II initiated by the Government of India.

Thirdly, while India's intellectual and scientific capabilities have gained world-wide recognition yet its industrial capability has not earned credibility as is the case with many NICs (Newly Industrializing Countries), and for several fields of scientific and industrial activities (such as medical, communications, electronic, avionic, mining and energy research) it has to depend mainly upon help from the West.

It would thus seem that India is faced with the historic task of its economic modernization. And it is in this context that as it is rightly believed that there exists untapped potential in relation to its economic development through interaction with the European Community. This is so despite the fact that India has diversified its relations not only with the East European countries but also within the framework of South-South Co-operation. This bears out since 1980-81 from India's trade with different world regions. Indeed, in 1981-82, India's exports to the COMECON turned out to be more than those to the EEC and/or other areas.

It is more or less with these reflective thoughts that the present researcher undertook on a modest scale (as a part of M.Phil programme) the study of the Indo-EEC Development Co-operation. The writer has attempted to study the global perspectives of the EEC on development co-operation. This by itself is a vast area and hence effort has been made to do a detailed write-up, not forgetting brevity.

Potential might exist in Western European nations and it could grow too. But it would be unrealistic to gloss over the effects of the recent recession which has caused anxiety-producing unemployment and inflation. It has

therefore been considered necessary to examine its effects on different West European economies. About the prospects of their revival and recovery also some analysis has been made.

Then India's scientific and industrial potential has been analysed in Chapter III. This is done because it may help us understand how far different sectors of the Indian economy have clearly been developed and what more possibly could be done to realize our objectives through indigenous and/or external help. Also attempt has been made to indicate the fields in which India has given evidence of its competitiveness with the Western manufactures.

Deriving from this Chapter IV evaluates (keeping in mind all the limitations the writer has) the past two decades of the Indo-EEC development co-operation. An attempt is made to see if development co-operation was in the right direction, how the world economic fluctuations made it difficult for both the entities to continue their joint operations smoothly and how far has India optimally utilized different opportunities which became available to them. Areas where co-operation could be furthered have also been suggested.

The study ends with a few concluding remarks. Throughout the study caution has been taken to be objective



and unbiased, although I seek the readers' indulgence to overlook if objectivity has been transgressed.

I am extremely grateful to my guide Dr H.S. Chopra (Associate Professor, West European Studies, Centre for American and West European Studies, SIS) for his helpful guidance. His keenness on the quality of work and desire for perfection have time and again helped me to bring the better of me. In my desire to seek his guidance I had too many times eroded into his time at home that I should thank his wife and children who bore with me.

To Mr Pahwa, I am grateful for having patiently done this work. His deft at his work amazed me as much as his punctuality. Mrs Meera of the Centre of West European Studies also helped me off and on in preparing parts of the first draft. All my friends who have helped me variously in making this dissertation possible deserve my thanks. To my parents, uncle and aunt who have been constantly a source of encouragement and inspiration, I am indebted to them always.

The responsibility for any errors and omission shall solely be mine.

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## CHAPTER I

### THE EEC'S GLOBAL FRAMEWORK FOR DEVELOPMENT CO-OPERATION

The necessity for Development Co-operation was felt first by the West European nations after the Second World War when the salvage operations began. It is understood that individual efforts at reconstruction would not be successful for any nation. Europe, which was shattered by the war realised this perspective but before long came the Marshall Plan in 1947 which contributed to the revival of the continent. It was also about this time that some of the colonies gained independence and as a result they also had to contend with the problem of their economic and social development. These newly independent areas were areas of low economic activity due to their underdevelopment spread over centuries. Hence their problem of recovery and development had wider dimensions than the directly war-hit Europe. Further, Britain and France, then world imperial powers (but weakened by the devastation caused by the Second World War) and Germany which suffered a crushing defeat in the same War had no option but to reconcile to the medium power status. Simultaneously their help was also sought by their former colonies to help them in building their economies. In this backdrop the six nations

of Europe in order to protect and accelerate their economic revival set on a path to European unity in 1951.

In its early stages the EEC "projected the image of a newly born trans-national organisation mainly concerned with the development of trade and commerce".<sup>1</sup> Appreciably however the EEC did not remain with this interest alone. At a later stage, it expanded its activities to include most of its colonies which as said earlier, still depended on the 'metropolis' - if the term could be used - for some sort of their economic mainstay.

It is debatable, and is often questioned, as to whether the relationship between the metropolis and the colonies could be described as of co-operation. One thing, however, is clear that the latter were dependent upon the former for everything because decisions with respect to their security as well as economy were taken in the capitals of the metropolis. In other words, they had no participation in regard to the decisions on their own economic or political survival. Also apropos to this, Alfred Grosser, an eminent French Political Scientist, observes: "The twentieth century requires that one no longer dominate, but co-operate - domination and cooperation both serving the cause of national

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<sup>1</sup> K.B. Lall and H.S. Chopra, "EEC and India", JNU - EEC Joint Seminar on India and European Community, New Delhi, 1980, p. 1.

ambition."<sup>2</sup> To support this argument of his, he cites how de Gaulle while withdrawing from Algeria had to say: "For all the African states, Algeria included ... our historic vocation henceforth will take the form of co-operation".<sup>3</sup> These terms, according to Grosser, were purely to win the acceptance of the French people for the idea that domination and co-operation were but different forms of national ambition. This view seems plausible to explain the extent of co-operation which the developed world extends to the underdeveloped nations. This principle appears also to have been the guiding note of the American schemes of co-operation with Western Europe and this theory has popular credence. There existed also another version explaining the need for a policy of co-operation on moral grounds which is practically non-existent now as ever before. This was voiced by Foyer, the then Minister of Co-operation on 13 March 1962: "The first reason is that the policy (of co-operation) that we are pursuing is one of the means of 'rayonnement' left open to France. The second reason is that, in any case we have a responsibility towards History."<sup>4</sup> From these it may be deduced that the sources of co-operation were 'moralism' (in name only)

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2 Alfred Grosser, French Foreign Policy under de Gaulle (Boston: Little & Brown, 1967), p. 60.

3 Ibid.

4 Ibid., p. 61.

and the national interest. The first source of moralism was less popular and most leaders of the nations in Europe - de Gaulle, Adenauer and Macmillan - followed the policy of 'co-operation', thanks to the second source - 'national interest'.

The EEC's political direction especially in matters of co-operation as enshrined in the preamble to the Rome Treaty, did not gain much strength. This was because General de Gaulle raised opposition to the vesting of political authority in institutions with supra-national possibilities. It was in fact not until Georges Pompidou took over as the French President that steps were taken to strengthen its political complexion.<sup>5</sup> This hesitant approach to global co-operation by the EEC in the 1960s is in spite of de Gaulle saying on 31 January 1964: "Co-operation is henceforth a major ambition of France."<sup>6</sup> This statement of the General is to be understood within his nationalistic framework within which France had the leading role and only then came the EEC. Thus whatever the EEC pioneered or even ventured in the name of co-operation during the sixties was in spite of de Gaulle. The emphasis of the Gaullist influence on the EEC need not be explained because until he led France his was the most powerful voice bearing on the decision making in the EEC due not only to France's role as a major founding member but also due to its

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5 K.B. Lall and Chopra, n. 1, p. 2.

6 Alfred Grosser, n. 2, pp. 62-63.

charismatic and more nationalistic leader General Charles de Gaulle. Even today France plays a dominant role in the EEC's decision-making, but it is balanced by the other major powers of the EEC, such as the UK, West Germany and Italy.

On a global backdrop, the idea of development co-operation was fairly new. It has not been talked about at the levels we now refer to. Gunnar Myrdal recognising this had said:

The very idea that the developed countries... should even be prepared to feel a collective responsibility for aiding them (the underdeveloped countries) is an entirely new concept dating after the Second World War. The colonial system had served until then as a protective shield for the western developed world's conscience. Even though the peoples under the colonial rule were just as poor and in need of development then as now, responsibility for what happened out there lay exclusively on a few individual, mostly West European countries - whose subjects they were.... Before the Second World War hardly anyone perceived a common responsibility on the part of the developed countries to ( ) the underdeveloped countries. 7

Indeed it is only a truism to say that since early 1960s, the less developed countries have been very much in need of assistance to pull them out of the morass of under-development. In this regard Myrdal avers: "The

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7 Gunnar Myrdal, The Challenge of World Poverty (London: Penguin, 1970), pp. 271 ff.

reason why under-developed countries need international special consideration is because of the very fact that they are under-developed, extremely poor and encounter great difficulties in their attempts to develop."<sup>8</sup>

Development Co-operation could be through different channels - such as trade, aid and assistance. While trade and aid are relatively self-explanatory, assistance could vary in motive as in interpretation. Technology could be transferred under this category whereby the developed world could impart technical training. Assistance may also be provided by way of the supply of technical equipment to a developing country. The latter may buy it or take it on hire. For instance, merchant vessels may be hired for transshipment of goods from one place to another. The other mode of assistance could be through collaboration on terms mutually agreed to by the contracting parties.

Nearly three-fourths of the Third World countries are linked with the EEC through various forms of conventions such as association or commercial and economic agreements. As such the Community's framework of development co-operation within which its relations develop with different Third World countries and regions need to be examined. In particular, this is necessary because the EEC has its economic priorities which enable it to develop relations varyingly

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<sup>8</sup> Ibid.

with different developing countries. Here once again the 'moralism' as a point of view is neutralized. The nature of the EEC's industrial structure too is such that being so founded that essential raw materials and even subsidiary outputs were linked with their colonies. They could not be broken off.

Over and above all these there is a conspicuous absence of any provision relating to development co-operation in the treaty establishing the European Economic Community. If any mention is made about co-operation it is only in the following:

- (1) Part IV of the treaty which speaks of the Community's relations with the overseas countries. This essentially refers to only those African states which were colonies of France and Belgium.
- (2) The preamble to the Treaty mentions the general intention of the Treaty itself. It says: "To confirm the solidarity which binds Europe and the overseas countries and the desire to ensure the development of their prosperity in accordance with the principles of the Charter of the UN."<sup>9</sup>

Here again the term 'Overseas Countries' apparently refers to the associated countries because the treaty does not mention any others.

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9 R. Cohen, "Europe and the Developing Countries", in Ph.P. Everts (ed), The European Community in the World (Rotterdam University Press, 1972), p. 109.



Assessing its development policy to date (5/82)<sup>10</sup> the Community in its Bulletin traced its steps. It distinguished four major areas. They claimed that each had its own specific historical background. First, in their category was the African countries which were covered by the Lome policy described as the oldest and the fully developed area. The second was its Mediterranean policy suggestive of its intra-European commitments. Third was classified under the common policies column referring to the "Scheme of Generalized Preferences" (GSP), commodity agreements, and food aid. India, many newly industrialized countries and other South Asian LDCs, are deriving benefits from these policies till day. However, these came about only in the early seventies. It is not as if they were conceived at the time of the Community's inception. The diplomatic effort to bring forth these developments cannot be forgotten. Even the fourth area spoke of the "aid system set up by the community on a unilateral basis".<sup>11</sup> Asia and the other poor parts of Latin America are included in this. However in haste it may not be concluded that it existed since the EEC's inception. Even so, its impact is hardly much.

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10 Bulletin of the European Communities, Supplement 5/82, Memorandum on the Community's Development Policy (Luxembourg, 1982).

11 Ibid.

Not being unfair to the EEC's founders it may be said that in Article 110 of the Treaty, they claim that the customs union created among themselves will help "contribute in the common interest to the harmonious development on international trade lowering customs barrier".<sup>12</sup> It is suggested here that the Community could in principle develop a strategy for its trade relations with the developing countries. As if to reaffirm this intention Article 238 says: "The Community may conclude with a third state, a union of states or international organisation, agreements establishing an association involving reciprocal rights, obligations, common actions and special procedures."<sup>13</sup> Although the term 'third state' then carried reference only to the former African colonies of France, the Netherlands, and Belgium, this Article has subsequently been invoked to establish relations with the Third World. Similarly Article 113, paragraph 3, also has been the basis of such relations.

The peripheral importance given by the EEC towards development co-operation could be explained in another way. In late 1950s Development Co-operation was much less in common usage than it is now. The newly independent third world countries were then colonies

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12 Cohen, n. 9, p. 109.

13 Ibid.

still with their God-mothers. The Community activity in those days vis-a-vis the developing countries was limited to obligations resulting from the association agreements, with overseas countries and territories. Only gradually did arise the need for development co-operation as a global strategy.

Seemingly, two international trends set the pace for the evolution of "Development Co-operation": (1) In 1960 most of the French/Belgian colonies and dependent territories gained independence, and they started making economic demands themselves. And they were also formulated by the UNCTAD with the LDCs as a group pronouncing for it. (2) It is about this time that Development Co-operation engages attention of the Community itself. It could be compared as seen during this period, to a balloon being blown out of proportion.

In July 1963 the Yaounde Convention was held. The members of the EEC and those eligible for an associated rank entered into an agreement. This came into force on 1 June 1964. There were heavy reallocation of trade preferences. Any paucity due to the reallocation was substituted with financial aid.\*<sup>14</sup> The Convention was followed by the Declaration of Intent. The main idea behind this was to

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14 \* A point which shall be referred to with many others later while concluding a point of view in this chapter.

include in the EEC trade/aid structure the Dutch and Belgian colonies besides the many Francophone ones. It stated that "non-member countries whose economic structure and production are comparable to those of the Associated African States and Madagascar can submit request to:

- (1) accede to the Yaounde Convention;
- (2) conclude separate association agreements; and
- (3) conclude trade agreements."<sup>15</sup>

These conditions obviously made out thing clear that "it affirmed the typical ex-colonial pattern of backward economy as the sine qua non of membership."<sup>16</sup> Yaounde I lasted for 5 years. Its renewal came up in 1969 when talks were held for Yaounde II and it came into force on 1 January 1971.

Its features were not different from its predecessors. There were reductions in the preferential arrangements. In order to recompense for the above there were increase in financial aid. Above all there was an explicit recognition that the preferential arrangements should not be incompatible with the System of Generalised Preferences for developing countries which

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15 R. Cohen, n. 9, p. 110.

16 Soumiya K. Mitra, "The EEC and the Lome Convention", in Lall and Chopra (ed), The EEC and the Third World (New Delhi: Radiant, 19 ), p. 282.

was to be set up under the UNCTAD programme, i.e. preference on coffee, cocoa, palm oil etc. were reduced each at least by 5 per cent. There was an increase in financial aid from 730 million EUA to 918 million EUA.

Here, Gunnar Myrdal's observation seems to be relevant: "I never believed and I do not believe today that the giving of aid as a gift from one government to another is a necessary natural or even wise policy, except when the beneficiary is an underdeveloped country, with deep-seated structural disabilities to overcome."<sup>17</sup> It is of importance to note here that these imbalances cannot be used as a reason for reducing trade for long periods. This has been the case with the EEC associables relationship.

The associable countries' financial responsibility for their own development has increased because relatively more help is now given of course in the form of loans than in grants.

Aid to production in the form of price support has been dropped and replaced by ad hoc intervention in cases where world price levels would threaten the normal implementation of development programme.

As Yaounde II was being conceived Tanzania, Uganda and Kenya together forming the East African Community

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17 Gunnar Myrdal, n. 7, pp. 328-9.

established on 6 June 1967 decided to have a deal with the EEC. Even earlier when Yaounde I was being signed they asked for negotiation on a separate association agreement with the Community. An agreement was signed at Arusha on 28 July 1968 which never came into effect because (on) its date of expiry 31 May 1969 (of Yaounde I) it had only been ratified by three East African countries themselves and by Belgium and Netherlands.

Yaounde II expired in January 1975. Before this Britain had become a member of the EEC. Its Commonwealth umbrella was too wide to be accommodated. The existing policies could not be stretched too much. Hence in this regard therefore, in response to the new conjunctural needs, there came about Lome I, in place of Yaounde II. Lome is the capital of Togoland and it is here that the treaty was signed as if symbolically in February 1975.

The Commonwealth LDCs were split into associables and non-associables. The associable countries which existed even before the British membership of the EEC were spread over Africa, the Caribbean and in the Pacific and were then considered for association with the EEC. All the associables from the Commonwealth and the ACP (which included the erstwhile colonies of France, Belgium, Netherlands and Denmark) had the preference as in Yaounde and Lome I. The

non-associables from Commonwealth were offered a range of different and new contractual trade/aid regimes which were less favourable than Lome. This discrimination was productive of division among the associables and non-associables. And in a way, it showed that the ECC was willy-nilly not able to pursue the same policy of development co-operation with respect to all the concerned countries.\*

Nonetheless it is possible to reason out the attitude of the Community in implementing this multi-coloured policy. The Community is only an expression of a European identity and not a multilateral development institution. Its development policy necessarily reflects its geographical preferences. It has justifiably to take care of its economic interests. In framing its relations with different countries it has to keep its priorities clear. It has also to cushion its relationships with various nations and entities on which it depends for the security of its supplies and its markets.

It must although not be forgotten that this marks the beginning of a concerted policy towards the LDCs. In short, as Christopher Stevens, an eminent European expert, says, Lome I was a multilateral package of measures covering aid, trade, industrial co-operation. This was something of an innovation. Moreover it established a set of consultative fora, with the promise of a continuing effective and

productive dialogue between the two sides. And, of course, there were some tempting morsels in small prints - the Stabex and more favourable trade access to the Community's market for the ACP industrial manufactures than for any of the other countries or regions with which the EEC transacted trade.<sup>18</sup>

There were sections of the third world which felt that the EEC attitude towards the developing countries was becoming lukewarm. As if to prove this trend the EEC/ACP ministerial conference in July 1978 in Brussels witnessed a different scenario. In his address the ACP countries' representative, P.J. Patterson of Jamaica, said:

To the ACP group ... the Lome Convention always represented no more than a step, albeit a significant one, towards their goal. It is not its final achievement, though let me hasten to acknowledge it represented an example to the rest of the developed world which unfortunately has not been followed. Today our sole purpose is to seek to make with you, our partners another significant step towards that urgently needed goal. 19

To this the then Chairman of the European Council, Hans D. Genscher replied:

We are prepared to continue and extend further the co-operation launched under the Lome Convention. The Convention

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<sup>18</sup> Adrian Hewitt and Christopher Stevens, "The Second Lome Convention", in Christopher Stevens (ed), EEC and the Third World (Odi/IDS, 1981), pp. 30-31.

<sup>19</sup> Ibid., p. 31.



has proved itself in practice. The negotiations will not therefore deal with sweeping changes or renovations but with adjustments and improvements. 20

It is very clear that the EEC adopted a take it or leave it approach which was inconsiderate to the theory of interdependence, as defined in the EEC's Memorandum itself: "Although world interdependence has grown steadily over the past 20 years, collective capacity to overcome insecurity - which should go hand in hand with such interdependence - has instead become weaker."<sup>21</sup> It sounds as if the EC acknowledges the feeble impact development co-operation has made in the Third World as a whole. The 'Nine' of the EEC were unwilling to make any major new concessions. World recession made it necessary for them to prune their dealings with the South.

Conditions in the Third World for twenty years beginning 1960 have been appalling. The real per capita income of 2,000 million people inclusive of China and India increased by no more than US \$ 70 in those years while incomes in the industrialized countries went up on an average by US \$ 5,080.<sup>22</sup> Seven hundred and fifty million

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20 Ibid., p. 32.

21 Memorandum of the Community's Development Policy, Bulletin 5/82, Supplement.

22 Facts from the Bulletin, 5/82 of the European Communities, n. 10, p. 9.

people of the Third World live in abject poverty. It is the poorest countries which once again have been hardest hit by the deteriorating economic climate. From 1970 to 1980, their terms of trade with the industrialized countries declines by 16 per cent reducing their purchasing power substantially on the world market. Since 1973 their (the LDCs) external debt has increased practically five-fold amounting now to US \$500,000 million. Surprisingly a bulk of this massive debt is tucked in relatively 'richer developing countries'. The ten most heavily indebted countries comprising of five net oil exporters and five NICs (newly industrialized countries) account for 60 per cent of the total debt. The West could not afford to offer the imaginative large scale transfers and concessions that were being widely recommended by the Brandt Commission to say, facilitate trade expansions, break the protectionist spiral and untie the market forces. The EEC has an in-built institutional bias that favours the creation of an impasse. The procedure in the EC is that the Commission proposes to the Council of (Ministers) a set of negotiating positions, on the basis of which the Council issues the Commission with a mandate for negotiations that provides only a limited leeway for manoeuvre. Hence the Commission has to refer back to the Council whenever the negotiations reach a stalemate and new initiatives are required. Then the members of the

Council require an occasion to refer back to their national capitals before new decisions can be taken.

Moreover it is also stated that the Commission did not fully take advantage of the flexibility, however little it was, which was provided to it, i.e., the rigid and the high-handed attitude of the EEC negotiators was clear and positive.

The personal initiative of Mr Claude Cheysson, Director General, D.G. VIII of the EEC Commission, played an important role in drafting Lome I, but his successors turned out to be less dynamic in this respect.

The topics of discussion during the Lome II negotiations were aimed at renewal versus renegotiation controversy over the negotiating style and the size of the Community's aid pledge.

At the time of renegotiation with the ACP on Lome II, the EEC came up with new stipulations.\* They were: (1) Improved contractual arrangements to protect and encourage European investments, especially in mining companies in ACP countries. (2) To establish an obligatory consultative mechanism between ACP governments and EEC producers/consumers as a means of avoiding any impending import threat to the EEC from the manufactured or processed agricultural exports of the ACP. (3) Social clause insertion (following the ILO Convention) into Lome II. (4) Addition of a control mechanism linking ACP governments'

receipt of aid to the observation of human rights in individual ACP countries.<sup>23</sup>

It can be clearly seen that the last two clauses are digression from the main issue itself and their feasibility is weak.

From their side the ACP asked for four reforms: (1) Free access (trade) to the Community for all ACP products i.e. free of levies, tariffs and quantitative limits; (2) abolition of the general safeguard clause governing its imports to the EEC; (3) extension of the Stabex to all products based on exports to all destinations (including extra EEC markets) and indexation of Stabex transfers; and (4) establishment of special funds earmarking aid for industrial investment for commercial promotion or regional projects affecting more than one ACP country, and separate fund for LDCs islands and landlocked countries.

Initially an aid packet of EUA 5,100 million was given. This was rejected by the ACP countries in May 1979.<sup>24</sup> Then the amount was raised by EUA 507 million. The two sides returned to talks on 25 June 1979. Due to the uncompromising positions of the two sides until 31 October 1979, no progress was made. However eventually, the ACP

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23 Details from Adrian Hewitt and Christopher Stevens, n. 18.

24 Facts from Adrian Hewitt & Christopher Stevens, *ibid.*

countries found themselves with no other option but to acquiesce into the stipulations made by the EEC, and then to sign the Lome Convention II, as it was presented. Here it is important to note that the essential points agreed upon in this Convention were similar to those initially offered by the EEC.\*

Lome II comes into force when two-third of the ACP countries signed it. Till then Lome I, held good. Its relevant European Development Fund IV could guide spending decisions although the fifth EDF could not be instituted for long.

Since late 1970s, there has been the toughening up of the Western approach to the Third World problems, and this approach found expression in most of the international (North-South) forums, which led to general resentment all over the Third World. But it is at about this time that the Brandt Commission's Report appeared to reinforce the position of the South.<sup>25</sup> Technically, the Brandt Commission was an independent Commission charged with the task of appraising the problems relating to North-South development issues. It consisted of 18 distinguished politicians, economists from the West and the South. But there was none from the East.

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25 Brandt Commission Report, North-South : A Programme for Survival (London: Pan Books, 1980).



It was essentially a political initiative - an initiative to generate a momentum on the North-South issues and to forge a new kind of development relationship based on neutral interests of the two sides. It had two groups of proposals: (1) A wide ranging programme of priorities for the next two decades convey changes in the international economy and its institutions, a compact between energy consumers and producers, an improvement in the conditions of trade in commodities and manufactures and reforms of the world monetary system and the structure of development finance. (2) It proposed for an emergency programme for 1980-85 including large-scale transfer of resources to the LDCs, an international energy strategy, a global food programme and the first steps to reform the international economic system.<sup>26</sup>

The above proposals have been generally welcomed by many of the EEC member states, but then reservations expressed by some of the major members of the EEC far overweigh their positive commitments.

A major drift in the thinking of the powerful community institutions in this period can be read. The Venice Communique of 1981 and the EEC Commissions preparatory documents for the Eleventh Special Session of the UN<sup>27</sup> are

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<sup>26</sup> Ibid.

<sup>27</sup> Adrian Hewitt & Christopher Stevens, n. 18.



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cases in point. The EEC had to be prepared to reach the aid target of 0.7 per cent of GNP in the course of the decade. Although it was earlier agreed to by the Western developed countries their reluctance to fulfil the target and the need to pressurize them so that the goal is achieved, prove the point stated above. Ironically one of the communications addressed in May 1980 by the EEC Commission to the EEC Council of Ministers was entitled "What is to be gained by further dialogue?" This reminded the Council of their collective aims. (1) Countering the threat of deep and wide spread recession facing the economies of both the North and South. There are clear risks to the world economic system and to the world peace itself and these could be aggregated, by the strangulation of the poor developing countries and the stopping of the growth process of the middle income developing countries. (2) Easing world hunger, insecurity of food supplies at world level is beyond doubt the least tolerable of all forms of uncertainty and it is an absolute moral imperative for the international community to reduce this insecurity. (3) Organising the transition to a less oil dependent world economy. The foreseeable imbalance between the oil supplies and potential demand over the next few years could hamper growth and development process itself.<sup>28</sup>

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28 Ibid., pp. 5-6.

It was however at this critical juncture that the "Tokyo Round" of the GATT 1979/80 broke down. Multilateral trade negotiation was wound up in November 1979, much to the chagrin of the Third World.

Under the existing GATT, Article XIX could be evoked to impose emergency safeguard measures if a domestic industry is adversely affected by a rapid and damaging rise in imports.<sup>29</sup> But this also requires import controls which may be applied 'across-the-boards' on all sources of supply. The EEC in particular has argued for a selective safeguards clause that would permit controls to be imposed against the exports of individual countries.\* The reason for the infrequent use of this Article is the fear of retaliation. It is surprising that the EEC had to think on such lines. It is surprising because of the state of the Third World economies is well known to the world. In the world trade area -

Exports of manufactures are important for the developing countries' industrialisation but the North is raising obstacles against these too; including more 'non-tariff' barriers - such as formal or informal quotas, government subsidies or purchases restricted to their own domestic companies.... 30

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29 Jagdish N. Bhagwati, "Market Disruption, about Market Disruption, Compensation, and GATT Reforms", in Jagdish N. Bhagwati, ed., The New International Economic Order : The North-South Debate (MIT, 1981), p. 160.

30 Brandt Commission Report I, n. 25, pp. 42-43.



It appears that the West remains blind to the problems of the South although as it is often said, the aims of trade are not expected to be thoroughly wiped off.

Another major notable feature is that the EEC tends to re-act in an ad hoc fashion to the pressures exerted on it than initiate a wide ranging structure of either protection or positive adjustment.\* It is well known that an in-depth analysis of the relevant data has proven that imports from the developing countries are not a major cause of unemployment in the developed countries. The 'Institut fur Weltwirtschaft' at Kiel has calculated that the granting of access to LDC manufactures would cause (by 1985) only 1 to 2.5 per cent unemployment in, say, the West German industrial workforce. This, in particular, will be in clothing, leather goods, textiles, footwear, optical instruments and light engineering products - sectors in which the LDCs are already evincing proficiency".<sup>31</sup> However the EEC Commission in its communications affirmed its position even from 1977 which never changed -

... the structural adaptation problems have become more acute as a result of changes in the competitive capacities of certain industries, the insufficient occupational and regional mobility of the labour force and the stagnation or decline of investment over

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31 S.K. Mitra, "The EEC and the Lome Convention", in Lall and Chopra, ed., n. 1, p. 295.

the last few years..., in the present situation, first priority must be given to the objective of full employment. 32

The enlargement of the EEC will increase the EEC's domestic supply of certain CAP products relative to the demand within the Community and will as such squeeze out Third World exports. The South-ward expansion of the EEC may affect adversely even the imports from the ACP countries. Spain has tomatoes and citrus fruits to offer while the other two Greece and Portugal have vegetables, olive oil and other Mediterranean products for the EEC markets.

Perhaps as an alternative to protectionism (called as the negative adjustment) the EC could have adopted a vigorous policy of positive adjustment in manufacturing industry to cope with increases of imports. The Community however does not have the strong policy instruments required for such policies.

All this critical estimate need not blind us to the several positive steps taken by the EC towards development co-operation. It had created the European Social Fund and has offered bilateral aid and other funds (EIB) <sup>through the</sup> to a number of countries for the construction of   specific plants in energy sector.

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32 Euro-Council, 1-2 April 1977. Bulletin of the EC, April 1977, p. 26.

However it could be said (recollect all\* marked points) that the EEC not surprisingly has been too cautious since its inception in matters regarding development co-operation. After all when nations co-operate, it is on the basis of at least an apparent "give and take". The steps taken by the EEC have all helped ease Third World tension although in terms of developmental co-operation much more remains to be done. Its avenues (the EEC's) are still blocked due to over-cautious attempts at safeguarding national economies of its member states.

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## CHAPTER II

### ECONOMIC RECESSION AND ATTEMPTS AT RECOVERY

At the beginning of 1970s, the world economic scene witnessed a situation of uncertainty. This was primarily due to the oil shock in 1973-74. There was a near collapse of the world monetary system adding to the chaos and the resultant floating exchange rates caused constant turbulence. Helmut Schmidt, the former Chancellor of the Federal Republic of Germany, had then said:

The Impression...remains that the world economy had entered a phase of extraordinary instability and that its future course is absolutely uncertain; it may bring stability but also still greater instability...the future course may just as well be characterised by disintegration, national isolation and the search for more self-sufficiency. 1

The prophetic truth of this statement is proved although it is disheartening to note that the intuitiveness of even great Western leaders did not help in finding solutions to the problems of that period and they remain still unsolved.

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1 Helmut Schmidt, "Schmidt's Prescription", The Economist (London), 26 February-4 March 1983, p. 21.

It was also then believed that the affected countries could solve these problems by co-operating among themselves. However, it is too apparent now that even the turbulent ten years which have passed by have not instilled the idea of co-operation. Even those minimal efforts which were taken were given a severe jolt by the second oil shock resulting in grave price explosion in 1979-80. Considering the low level to which most countries' economies have fallen since 1930s the present state could very well be described as of "the great stagnation". And as such, urgent corrective measures are called for. In the post-1974 period large funds were placed in the commercial banks by capital surplus oil exporters. These funds were borrowed by the better-off developing countries. It was ensured that they were turned into large export orders for northern manufactures. This 'recycling' of the funds was the only antidote to the recessionary effects. The Brandt Commission Report says:

Without this the recession of that period would have been much worse; the effect has been estimated in one study to have been comparable in magnitude to a significant deflation of the West German economy; another study by OECD suggests it was equivalent to 900,000 jobs in the industrialised countries every year during 1973-7. 2

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2 Brandt Commission Report, North South : A Programme for Survival (London: Pan Books, 1980), p. 67.

The recessionary trend has seeped into all fields of economic activity. Every part of the world is caught in varying grips. The developing countries are the worst hit. Farming is still the biggest source of jobs and income in these countries. Although its contribution has shrunk, it remains three times bigger than its share in middle income countries, i.e. in the LDCs agriculture accounts for 37 per cent of their GDP while in middle income countries it is only 14 per cent of their GDP. In spite of this, farming has made little progress. Nature has had a hand in the LDCs failings also. However governments in the Third World countries have held down the farmgate prices to benefit the more vocal and vociferous members of the towns.

Farmers have reacted in text book style - low prices, so low production. Raising agricultural prices is one of the main ways that the poorest countries can save on imports and encourage exports...the past few years have underlined the need to buy imports and to service their debts. 3

The developing countries' current account balance is shockingly low due to the low raw material prices, high oil prices and exorbitantly high interest rates.<sup>4</sup> Their

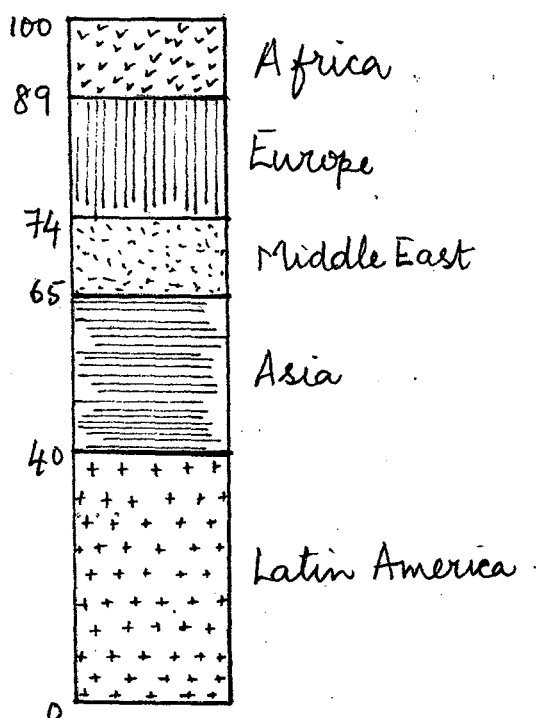
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3 "World Economy : Survey", The Economist (London), 24 September 1983, p. 46.

4 Tarun Bhat, "The Export Sector : Sixth Plan and Beyond" - A Paper presented at a National Seminar on India's Trade Prospects in 1980s, under the joint collaboration of Indian Institute of Foreign Trade and State Trading Corporation of India, on 19 November 1983 at New Delhi.

deficits in 1982 were still three times as high as in 1978. The non-oil developing countries together in 1978 had a current account deficit of \$23 billion, by 1981 this had risen to \$73 billion. The developing countries' foreign debt in 1982 rose to more than \$600 billion. In many respects the

Debt of non-oil exporting countries by region<sup>5</sup>  
(end 1982) % shares



developing countries are now in a position similar to that of the German Reich in the 1920s: Germany could not meet its reparation payments because the allies were not prepared to tolerate German trade surpluses. So Germany could not meet its debt repayments and lost its credit-worthiness.

<sup>5</sup> Source: The Economist (London), 24 September 1983, p. 32.

The fluctuations in the oil prices were the main cause for the current deep recession. The OPEC since 1973 has raised the oil prices to much that even massive subsidies by governments in oil importing countries could not in the end disguise the rise. In 1979, then there came the second "oil shock", which resulted in the near doubling of the crude oil prices. As a result, as S. Kumar Dev, Vice-President of the Forum of Financial Writers, says India's trade deficit for 1979-80 rose to Rs.2,233 crores compared with Rs.1,088 crores for the previous year.<sup>6</sup>

However, in early 1980, the OPEC's adjustments resulted in a fall in the price of oil by 45 per cent particularly in 1982 (end 1982). This has in fact helped recovery from the recession. It is hoped that the cheaper oil will make a boost to the real incomes in the rich developed countries. The fluctuations in the oil prices have affected even the oil producing countries. Mexico is a case in point. Instead of using their oil wealth with foresight Mexico got itself entangled in the world debt scene.

If Mexico had asked Exxon instead of Citibank to finance some of its oil development, it would never have got into the mess it did

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6 S. Kumar Dev, "Energy--Indian Perspective", in Shyam Ratna Gupta and L.P.S. Shrivastava, eds., North-South Dialogue: A Debate on International Economic Relations (New Delhi: Allied, 1981), p. 28.



last year, so the Mexican poor would not now be having their real incomes cut by a quarter. Foreign exchange would have been remitted only after it had been earned. Instead Mexico was faced with remorseless quarterly demands for bank interest unrelated to its ability to pay. 7

Since investment in energy takes a particularly long time to bear fruit, short term breaks bring in confusion rather than clarification. Schmidt rightly observes:

The world is in the middle of repeating the mistakes of 1976-78 when energy saving and efforts to open up alternative energy sources slowed down because real oil prices were dropping and the OPEC surpluses dwindling. In fact we should have learnt by now - 1979-'80 - that secure energy supplies are the key to growth. 8

In this situation it cannot be considered that the oil problem is solved just because the oil prices are falling. It is a fact that minor drops in prices had led to a neglect in oil exploring efforts. European attempts at large scale coal gasification and liquefaction suffered the same fate. Lower energy demand forecasts have also slowed down the construction of nuclear power plants. The jolts in the price of oil has its impact on the real price of oil itself.

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7 World Economy, "Survey", The Economist (London), 24 September 1983, p. 32.

8 Helmut Schmidt, n. 1, p. 30.

... each of the price shocks has been followed by a weakening of the real oil price to a greater extent than foreseen because of conservation and substitution effects. The degree to which OPEC's long run market power may be eroded by full exploitation of short-run profit maximisation opportunities is only now becoming apparent as a consequence of current experience. 9

The Third World nations and the European countries most of whom are rich in coal may realize that if coal is displaced they will increase their future vulnerability to blackmail. If any government needs to give more of a lead anywhere it is in the energy sector. Price and quantity agreements could be made between oil-producing and oil-consuming countries, stabilisation of consumer prices for oil and related products through taxes or levies could be arranged. Public aid for investment in alternative energy sources and for energy saving in industrial consumer countries could be mobilized alongwith efforts to diversify the non-oil developing countries' energy sources. Once again it will not be superfluous to quote Schmidt:

All this requires co-operation between oil producer and oil consuming countries and co-operation with non-oil developing countries. But one of the most important areas of international energy policy co-operation has not so far been discovered at all; I mean the question of dispensing nuclear waste

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9 OECD Document on World Economic Interdependence and the evolving of North-South Relationship (Paris, 1985), p. 40.

arising from the peaceful use of nuclear power to which nobody in the world has yet found a proper solution. 10

The world economy is bedevilled by unemployment which remains at record post-war levels and will decline very slowly even under the most optimistic of current recovery scenerios. Unemployment in Europe alone has crossed 28 million, of which 40 per cent are below 25 years of age. The seriousness of the international economic situation is clearly reflected by the severe labour market problems everywhere. The number of unemployed persons in Western industrial countries has risen from 11 million in 1973 to around 30 million at present. "The steady increase in unemployment indicates that the economic crisis is not just a cyclical downturn but to a great extent a structural phenomenon."<sup>11</sup> As of the recovery, editor of The Economist (London) says: "This year's recovery should come as no surprise. If it is stronger than most forecasters were expecting, that is because the recession lasted longer and thus left more scope to bounce back."<sup>12</sup> However, there is

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10 Schmidt, n. 1, p. 31.

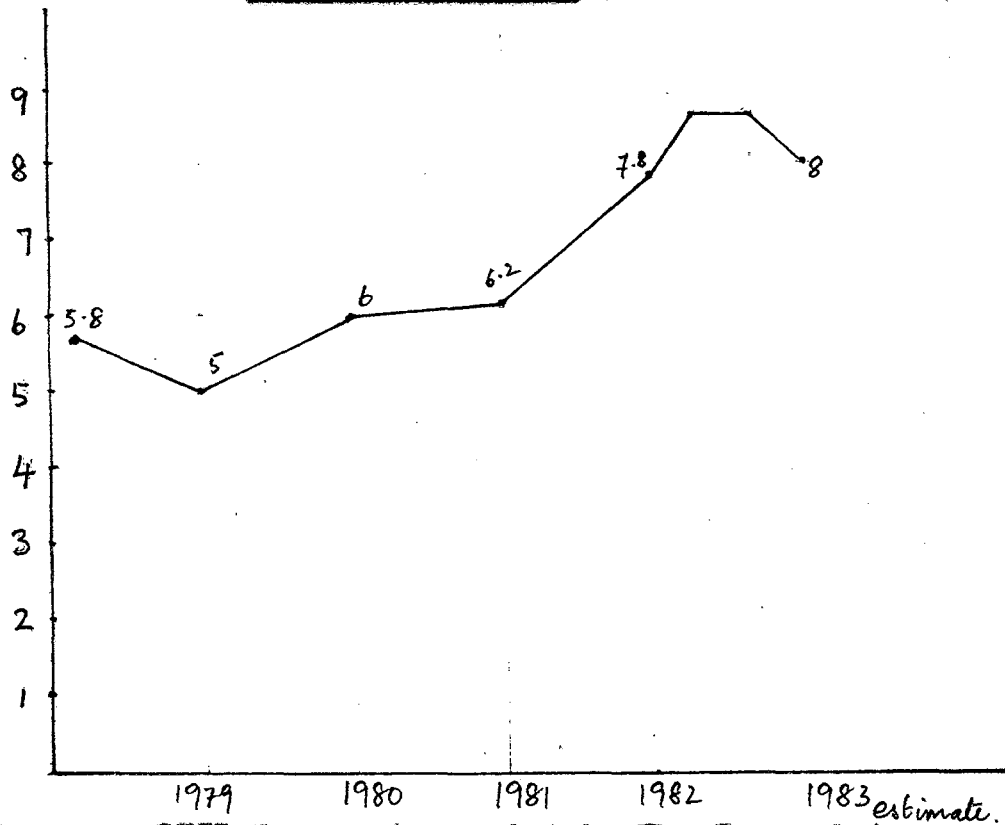
11 Dr Christoph Von Decken, "Expert Opinion : International Banking", in The Economic Scene (New Delhi), 1 May 1983, p. 49.

12 Rupert Pennaut-Rea, "World Economy Survey", The Economists (London), 24 September 1983, p. 5.

no single formula for eliminating unemployment overnight. This must be clear from the fact that cutting unemployment in the recession-hit USA and UK still continues in spite of consistent efforts.

The fall in unemployment at least marginally after the recovery began since late 1982 is felt in the West and the graph below shows the drop clearly.

OECD Unemployment (% of Labour Force)



Source: OECD Documents quoted in The Economist,  
24 September 1983, p. 6.

Poor investments also caused damage to the beleaguered economies of Europe. The rates of growth forecasts for 1983 and 1984 for different nations of Europe do not seem to be good. Economic growth forecasts for 1983 in percentage terms is -0.5 for France, 0.5 for FRG, -0.5 for Italy, 0.25 for Belgium and -0.25 for Holland. And figures for 1984 were slightly hopeful. They were 0.5 for France, 1.7 for FRG, 2 for Italy, 1.5 for Belgium and 0.25 for Holland.<sup>13</sup>

The disruptions in the trade structure also caused a lot of damage to the world economic balance. The EEC, which is a major trading bloc, has been hassled about the US Government's curbs on imports of European steel. It feels that the subsidized price of US petroleum gives American producers an unfair edge over their trans-Atlantic competitors. The EEC laments over the inflow of cheap textile from the developing countries. It is a fact that under the impact of recession and due to stiff trade barriers springing up in Europe and even in North America the boom in the Third World garment exports has finally sputtered out. In India alone the export revenues which jumped from Rs. 12.53 crores in 1970-71 to a sizeable Rs. 650.02 crores in 1980-81 fell to Rs. 633.58 crores in

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13 "Predictions", The German Tribune (Bonn), 14 August 1983, p. 6.

1981-82.<sup>14</sup> With the EC alone our export revenue has slumped from Rs. 236 crores in 1981 to Rs. 249.1 crores in 1982.<sup>15</sup>

Even in the triangle between North America, Japan and the European Community all is not too well. In the farm sector the conflict between the US and the EC is getting worse. The USA has pressured Japan to extend its voluntary export restraints (VERs) on motor vehicles.<sup>16</sup> The EEC and Japan have recently drawn up a list of sensitive products. What rules the world trade market is the element of country risk and attempts to reduce losses to individual nations. This makes the financing of exports more difficult and certainly represents a brake on the exchange between the Third World and industrial countries. In this regard a role of caution is that -

we should beware of taking the recent decline in the imports of developing countries as an indication of the effect of country-risk evaluation. Several

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- 14 R. Jaikumar, "Export Prospects for Readymade Garments" - Paper presented at the National Seminar on India's Trade Prospects in 1980s under the Joint Collaboration of Indian Institute of Foreign Trade, and the State Trading Corporation of India, on 19 November 1983 at New Delhi.
- 15 Details from Rajiv Shirali, "Garments Exports : The Party's Over", in The Business World (Bombay), 9-22 May 1983.
- 16 Jagdish N. Bhagwati, "Market Disruption, Export Market Disruption, Compensation and GATT Reform", in Jagdish N. Bhagwati, ed., The New International Economic Order : The North-South Debate (MIT, 1981), pp. 166-7.

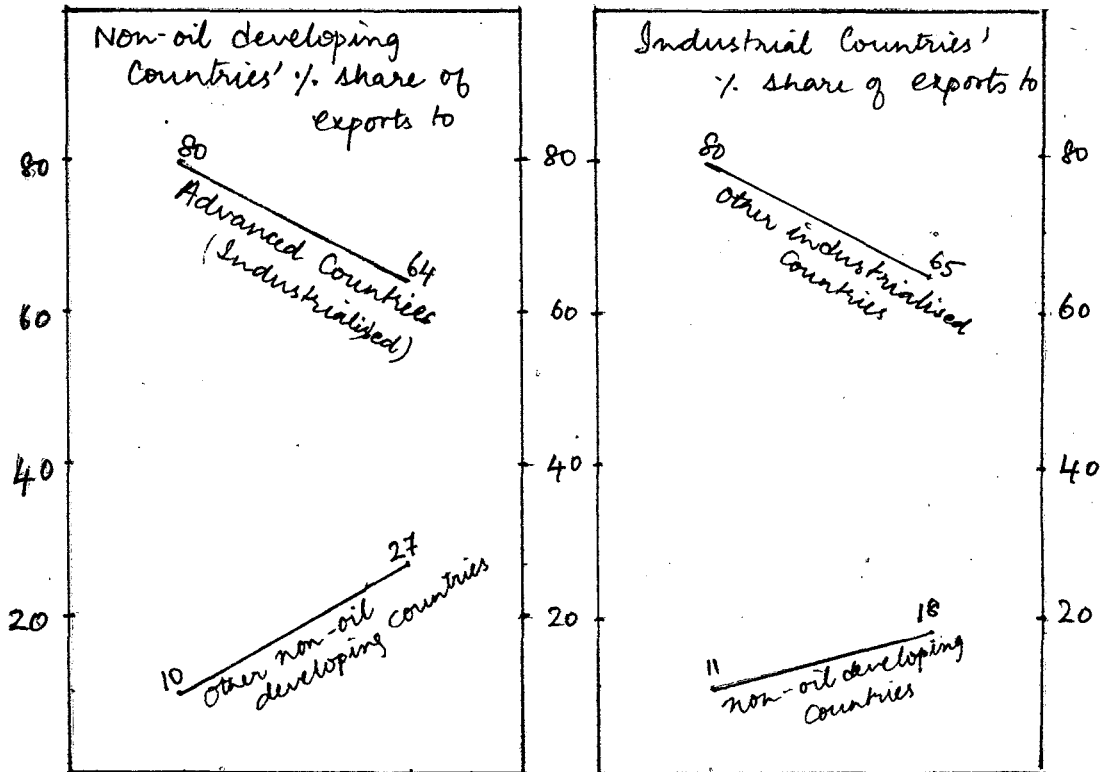
countries are suffering from major inflationary problems and are pursuing a deflationary policy on that account. This would have resulted in a downturn of imports in any case."<sup>17</sup>

The economic growth in the COMECON countries has slowed down especially in the last few years. Till 1985 it is expected to continue to be sluggish according to the latest five years forecasts. The debts of these countries have reached \$ 80 billion. This is forcing them to reduce the speed of their new borrowings and to aim at a better equilibrium in their trade with the West. Therefore the demand of the centrally-planned economies for imports from the West is likely to remain low for the foreseeable future.

The simple looking figures below reveal an important change in the world trading system. The developing countries seem to depend less on the advanced nations. In fact it could also be stated that due to heavy trade barriers the exports of manufactured goods to the industrialized countries have fallen as seen in the table below:

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<sup>17</sup> Christoph von Deeken, n. 11, p. 49.

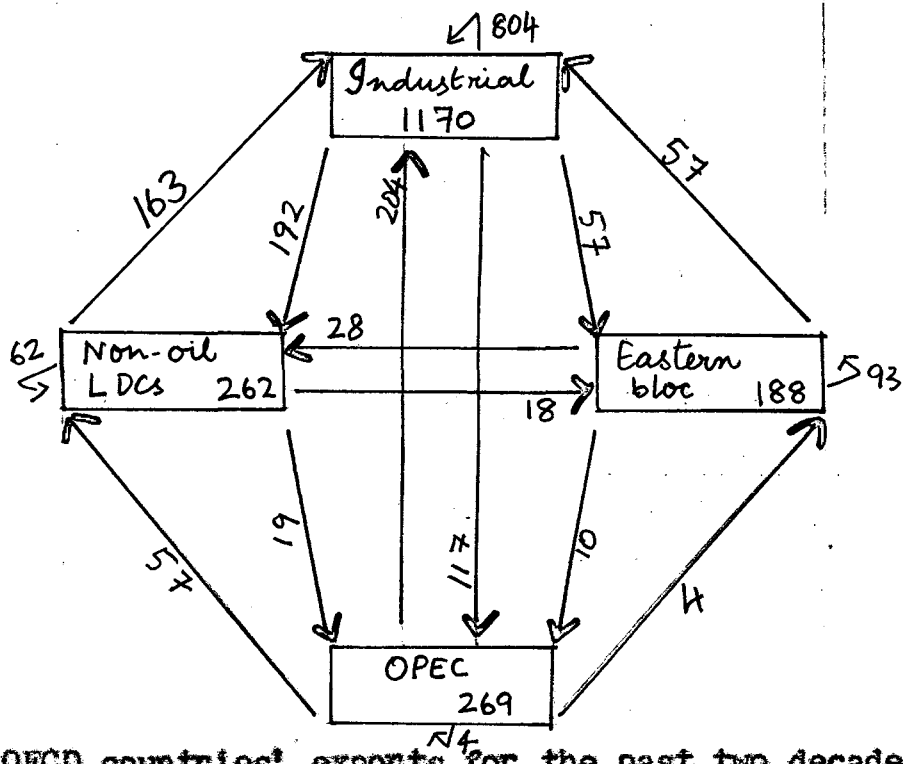
EXPORTS OF MANUFACTURES <sup>18</sup>

It can also be seen that trade among the countries in the South has increased considerably. This may be due to the hike in the important bills of oil. Regarding their trade with the non-oil developing countries there has been, in fact, a fall in the past decade (in real growth of trade).

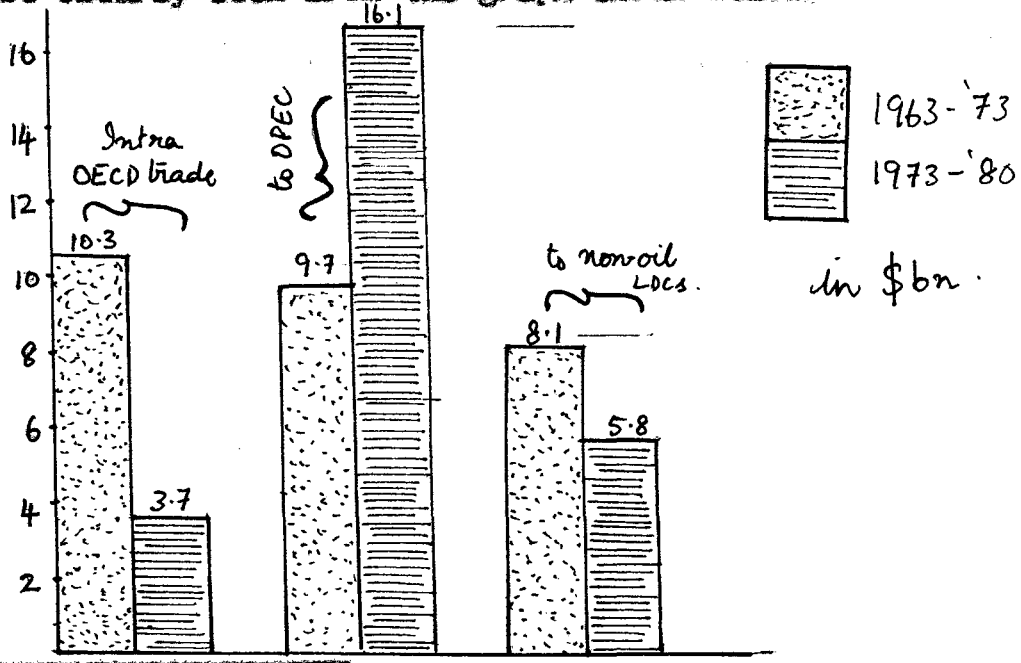
<sup>18</sup> Source: The Economist, 26 February 1983.



How Exports Flow : 1981 Figures in \$ bn. <sup>19</sup>



The OECD countries' exports for the past two decades can be clearly seen from the graph shown below: <sup>20</sup>



19 and 20. Sources: The Economist, 24 September 1983, p. 40.

These trends could be explained by the pure nationalistic interests which have superseded the general welfare principle. 'Beggar my neighbour' policy seems to work mutually and between most nations. Such measures or protectionist tendencies could be popular at home; they can perhaps even be justified with the argument that others are even no less offenders. Here once again it may be relevant to quote Helmut Schmidt. He says: "Protectionism will not create jobs. Even the hope that it will protect jobs at risk is illusory, a country which imports less must expect boomerang effect on its own exports, so jobs are lost in the export industries."<sup>21</sup> Since unemployment is more traumatic, protectionism becomes more regional, sectoral and national. The most painful development, of late, seems that the good relationship between growth, trade and credit seems to be entering a vicious circle. Similarly, as Schmidt fears, "there is a dangerous relationship between wrong exchange rates and protectionism". It is severally realized that in the current world -

... instruments of national economic manpower, industrial and regional policies have sometimes tended to delay rather than facilitate adaptation and adjustment and have thus compounded the

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21 Schmidt, n. 1, p. 30.

effects of international recession. The extension of the Multi-fibre Arrangements - authorising import countries to restrict imports from individual exporting countries - highlights one of the major outstanding problems of protectionism and, in particular, the use of safeguards. 22

In all GATT meetings invariably the whole raft of proposals which are placed aim to change the way developed countries trade with the less developed countries. The EEC insists that the newly industrialised countries (NICs) such as Hong Kong, South Korea, and Brazil take on full GATT obligations and dismantle their trade barriers. It should not be forgotten that as many of these countries still have a deficit in their trade balances (and debts ever rising)<sup>23</sup> it is hard to see how such a proposal will increase the volume of exports to them. Exports have hardly altered since 1973<sup>24</sup> as a proportion to total exports from industrial countries.

One does not keep away from objectivity in analysing the extent to which protectionism goes. National

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22 OECD Document, World Economic Interdependence and the Evolving North-South Relationship (Paris, 1983), p. 31.

23 "World Business", in The Economist, 13 November 1982.

24 As seen in the chart shown earlier in supra p. 41.

balance of payments could never be forgotten to benefit a neighbour. Trade is commerce and is built primarily on profit motive. However, it is the limit that worries the world mind. It has always, and severally been said that it is the EC which led the fight against the bold proposals from the then Australia's Prime Minister Malcolm Fraser for a war on tariffs and new protectionist measures. It is also noted that the EEC is the leading opponent on safeguards, agriculture and dispute settlement. This should be, if not curbed at least reduced so that the Third World nations are not stripped off on their righteous portion of trade. There however appears a silver lining in the dark clouds. There are signs of eminent leaders realising the need for development co-operation with the Third World. The French President Mitterrand answered a question on whether France has the means of contributing to the Third World development. He felt that the means were substantial:

We have decided in favour of the recommended 0.7 per cent of our gross national product. We have decided in favour of the figure of 0.15 per cent for the least advanced countries - we have even recommended it. We have decided in favour of reforming certain international institutions. We have decided ... in favour of regulating or stabilising commodity rates. 25

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25 Francois Mitterrand, "Press Conference", Press Release No. 143, dated 5 October 1981 (New Delhi, French Embassy), p. 5.

The world monetary system presents cause for anxiety. Even a decade after the collapse of the Bretton Woods System which was based on stable exchange rates for all countries, the fluctuations between the major currency blocs are more hectic than ever before. The efficiency of an international monetary system can be measured by the criteria of reliable, calculable exchange rates, free capital flows, stable prices and steady growth in world trade and production. Using this scale, the general unregulated floating since March 1973 has not at all fared well. Speaking of this the former German Chancellor says: "Valery Giscard d'Estaing, George Schultz and I, with others were the authors of the decisions of 1973. If any of us entertained longer term hopes with these decisions these hopes have been disappointed."<sup>26</sup>

The currently reigning monetary system is only an unstable constellation or arrangement of currencies. Despite the free floating, stability conscious countries have been able to escape the world-wide inflationary trend only to a limited extent, but no country has been able to escape the international economic linkage.

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<sup>26</sup> Schmidt, n. 1, p. 26.

Fortunately, within Europe the creation of the European Monetary System (EMS) has made it possible to treat the basic economic factors with considerable weight and to restore greater order to exchange rates.<sup>27</sup> As a consequence the European trade is more robust than the world trade as a whole. Britain which had not joined the EMS had to rough it out during the recession while the European nations had less trouble.

Large scale defaulters of debt have been registered. Consequently writing off of large debts as for instance in the case of Brazil and Mexico, affects the capital market of the world. But as long as the banks - International<sup>28</sup> and Multinational - are prepared to reschedule the debt, if the borrowers have trouble in paying, this is unlikely to happen.

So far, the IMF and the BIS have warded off crisis sometimes smoothly and some other times not so. The IMF will however continue to play a key role as the only body which can impose economic policy conditions on its members when making loans. In the 1970s even industrial countries

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27 Gerald M. Meier, Problems of a World Monetary Order (New York: Oxford University Press, 1982), p. 122.

28 International in the sense of IMF, ADB, IERD etc.

such as Britain and Italy had to put up with conditions such as monetary controls, export and foreign exchange regulations imposed by the IMF. Such conditionalities alone can ensure that countries with balance of payment difficulties will also set things right. The IMF should however be cautious and frame a set of realistic conditions. From the debtor countries' side there is a need for greater efforts: many ambitious or even major projects will have to be trimmed. Importantly they should ensure domestic food supplies, curb corruption and cut down population growth.

It must be reiterated that credit creates trade, trade secures credit; major developing countries' balance of payments problems cannot be cured if the advanced nations shut their markets to others.

It is interesting to note that within Europe itself there was a division even during the worst period of recession. The French Franc was devalued by 8 per cent against the German Mark and by 2.5 per cent against the European Currency Unit (ECU) in 1981. The German Mark went up by 5.5 per cent. It is to be noted that the D. mark has been revalued over 26 per cent against the French Franc since October 1981. Nations like the Netherlands, Denmark, Belgium and Luxembourg chose to follow the German path by keeping their respective currencies at par with D. mark. Italy and Ireland chose

to go along with the French and devalued their currencies accordingly.

The West German industrialists had not reacted favourably to the revaluation of the Deutsche Mark. Their exports both within Europe and to the rest of the world are affected and they will have to face stiff competition from the French competitors even in the domestic market. "But then, agreeing to this revaluation was probably the only way to maintain the EMS: if France decided to pull out and reverted to tariff barriers to solve its balance-of-trade problems a fresh wave of protectionism could hit all Europe with even worse consequences for the German economy."<sup>29</sup>

A close look at the French economy shows that purely expansionary national measures are not sufficient if they are not supported by corresponding actions by other countries. Inflation in France has continued above the OECD average of 8 per cent since 1971. France seems to have been continuously on the upper levels ranging from 8.5 to 9.5 per cent.<sup>30</sup> After Italy, which is in 15.5 per cent level, France ranks the highest. Britain which suffered in 1970s has conditioned its economy since early 1980s. The

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29 "Europe : The Monetary System Survives", Economic Scene (Bombay), 1 May 1983, p. 47.

30 OECD Documents, "World Economy Survey", The Economist, 24 September 1983.



gross fixed investments in terms of volume has fallen to minus 2 per cent level in 1982 from plus 2 per cent level in 1979. It was felt that a cautious monetary policy and an income policy are essential to strengthen international confidence in the French economy itself and more so in the French Franc. If the other concerned nations are to help it by co-ordinated action it is necessary for the French Government to resist its protectionist inclinations.

In West Germany the prospects of recovery have improved remarkably since mid 1982. Inflation rate is now only 3.1 per cent.<sup>31</sup> It is possible now to attend to measures which can stimulate investment, growth and employment.

Italy's problem is on a different level and is also of a different nature. Its serious economic problems cannot be solved without a further gradual reduction of the automatic wage adjustment. In fact, Italy will benefit from a world-wide upswing only if its monetary policy becomes more rigid and its huge budget deficits get reduced. Inflation too is reigning high at 15.5 per cent and ever since 1960s it has been only moving up.

Inflation rate in Britain is only slightly higher than 4 per cent. The double digit inflation (at 12.3 per

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31 OECD Documents, *ibid.*

cent) of the 1970s has been pulled down drastically to around 4 per cent level. The short-term nominal interest rate fluctuations have also been levelled out so that in the first quarter of 1983 it maintained around 9.5 per cent to 10.2 per cent. Unemployment seems the only serious and chronic problem of the British economy ever since the high level of 1932.

Andre Fontaine, former Chief Editor of Le Monde, made the following observation:

If you contemplate the present situation in the Third World where the people need almost everything - and our situation which is characterised by over-production - the answer seems obvious. We have to invest in the South to create purchasing power. 32

It is not a new idea that Fontaine seems to have come out with. The British industry's expansion in the 19th century and even earlier was necessitated by the boom that came about in the name of the industrial revolution. However, now the awareness of a need for global development policy is obvious.

This view of Andre Fontaine is only an echo of a pervasive realisation. The EC is very eager to step up relations with the developing countries. It has realized that a developing country by exporting gains in purchasing

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32 Andre Fontaine, quoted in The Economist, 22-23 January 1983.

power and this gets converted into orders for goods, equipments and services from the industrialized countries themselves.

The Brandt Commission Report first published in 1980<sup>33</sup> as a programme for survival was remarkable in its provocative analysis, which led to intense debate both in the North and South on the current division of the world and the ensuing chaos. The First Report affirmatively stated: "All countries must be able to participate fully in the world economy in a way which assists genuine development. This will come about in the long run only in an economic environment which enables all developing countries to achieve self-sustaining growth."<sup>34</sup>

There can be no uniform remedy for all the problems of the South. For the developing countries it is important to keep the markets of the developed world and their credit lines open than to increase development aid. "The least developed countries are undoubtedly the worst hit by the world recession. Their most urgent need is for an increase in official development aid."<sup>35</sup>

It is noteworthy that Schmidt advocates to all

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33 Brandt Commission Report, n. 2, p. 274.

34 Ibid.

35 Schmidt, n. 1, p. 31.

developed nations to direct their foreign policy interests to maintain economic and social stability in the developing countries. In fact, appreciably he says: "it would be fatal if a rising number of Western countries were to judge development aid only in terms of the east-west conflict. Ideological criteria are no help in the North-South conflict."<sup>36</sup> Even the American Secretary of State George Schultz felt that "the developing countries themselves do hold some of the keys, but the present world economic situation will undo even their best efforts. They need help."

Considering the wide fluctuations in the prices of commodities attempts to stabilize them would pose a grave problem. It would be better to stabilize a developing country's export earnings instead. The EEC has set a precedent in arranging the Stabex since 1976.<sup>37</sup> The developing countries are chiefly raw materials exporters. They cannot afford a decline in raw material prices.

To ensure a sustainable world recovery and resolve the global problems of debt, protection and currency management, there is a need for the major industrialized countries to work in co-ordination. In late 1982, the Institute for International Economics in Washington,

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36 Ibid.

37 Aldo Romoli, The EEC's External Relations - Stock-taking and Consistency of Action Study (Brussels, January 1982), p. 68.

published a statement by many leading economists from different countries.<sup>38</sup> This proposed three central theories: (a) The adoption of new expansionary measures by five of the major countries of which two are EEC members and some of the smaller nations in a position to do so in the light of their sharp reductions in inflation and viable external positions; (b) tailoring of these measures to minimise the risk of rekindling inflationary concerns, and (c) international co-ordination among the national causes both in their thrust and in policy compositions.<sup>39</sup>

Most importantly steps should be taken to reduce interest rates by the major industrialized nations. The real interest rates must get in line with economic requirements. The two main reasons for this increase in interest rates are: fear of inflation and a connected concern about the state of public finances.

Bergsten and Klein, leading economists, have argued that the linchpin of this entire effort is co-ordination among major industrialized nations. They say:

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38 As quoted in Fred Bergsten and Lawrence Klein, "The Need for a Global Strategy", The Economist, 23 April 1983, p. 25.

39 Ibid.

recent history suggests that no country is now able to expand alone in a stagnant world economy : even the USA was unable to do so in 1977-78, let alone France in 1981 or Mexico in 1982. History also suggests that coordination could help avoid excessive policy responses like the inflationary blow-off of the early 1970s and the deep [recent] recession. The wait for the autonomous market forces to promote lasting expansion has been shown to be extremely risky - witness the dashed hopes in many countries in 1978 and virtually everywhere in 1980. 40

Efforts cannot be only from the inter-governmental bodies. They would not only constitute a mere drop in the ocean but also lack the desired effectiveness. Gunnar Myrdal rightly said: "There is undoubtedly in the activity of our inter-governmental organizations a built-in tendency for a false and damaging internationalism. It becomes an excuse for national non-action."<sup>41</sup>

The immediate need is for a well co-ordinated recovery. Nations should ease their international economic policy in view of a lasting recovery. Without a long recovery and sustainable economies only a financial peril will result. Different approaches towards the solution are suggested by various expert groupings - the Brandt

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40 Ibid., p. 26.

41 G. Myrdal, The Challenge of World Poverty (Penguin, 1970), p. 301.

Commission Report, the Group of 77, and the non-aligned. The advanced West could derive from them points acceptable to them and may hasten to take steps to reactivate the North-South dialogue.

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## CHAPTER III

### INDIA'S SCIENTIFIC AND INDUSTRIAL POTENTIAL

The key to national prosperity apart from the spirit of the people lies in the modern age, in the effective combination of the three factors - technology, raw materials and capital - of which the first is perhaps the most important since the creation and adoption of new scientific techniques can in fact make up for a deficiency in natural resources and reduce the demands on capital. But technology can only grow out of the study of science and its application. <sup>1</sup>

In the contemporary world there is an intensive cultivation of science on an expanding scale and an increasing application of the same to meet a country's requirements. Owing to the increasing complexities of modern life, it has become imperative for any social system to have an intensive cultivation of science and also its improved application so as to meet the growing needs of human existence. Now, for more than a hundred years, it seems that the West grasped this fundamental pre-requisite, and put in all endeavours to master the natural resources and harness them to provide civic amenities to their populace without any discrimination. As a result, there has

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<sup>1</sup> Vikram Sarabhai, Science Policy and National Development, Kamala Chowdhury, ed. (New Delhi: Macmillan, 1974).



not only been a material change in human environment but there have also come about new and efficient tools of thought, yielding place to a new value system, characterized as 'industrial' very much different from the preceding 'feudal'.

The resulting assurance that with these developments there could be a quick diffusion of material and social amenities and services to every member of the community - constituted the essence of the concept of 'welfare state'. The progress towards the practical realization of the welfare state differs widely from country to country in direct relation to the extent of industrialization and the effect and resources applied in pursuit of science. India's enormous material resources and manpower could become assets only with technological advancement and with the effective combination and scientific utilization of the four factors (not only three as mentioned by India's distinguished scientist, Vikram Sarabhai) -- labour, raw materials, capital and technology.

An early and large scale development of science and technology in the country would reduce the draw on capital during the crucial stages of industrialization. It hardly needs to be emphasized that outlay on science and technology is necessary. "Science and technology can make up for deficiencies in raw materials by providing substitutes

or indeed by providing skills which can be exported in return for raw materials."<sup>2</sup> But this is possible only in the case of developed societies. In the case of LDCs perhaps the formula of beg and borrow is applicable. Then this is not enough for large scale industrialization if the terms of transfer of scientific and technological know-how are not settled to the convenience of the needy third world countries.

Historically, nations had been exposed to the benefits of science and other related developments at differing periods of time. This mainly accounts for the wide differences in the development of sciences in various parts of the world. India unfortunately has not derived the benefits of timely exposure to the developments in science. Its status for the past few centuries had not afforded it the luxury of either indigenously progressing in the field of science or importing it variously. There were individual piece-meal efforts to keep abreast of the developments which are made insignificant due to the vastness of the development venture itself. Once when its status changed the nation realised the necessity of entering into the field of science not for its own sake, but to benefit in the diversified fields of national life which are so necessary even for the mere existence of the

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2 Ibid.

nation. But then the gap between the advanced and backward nations had been widened so much that there seemed to be no possibility of bridging it, notwithstanding the most vigorous steps taken in this direction.

Prior to India's independence in 1947, foreign companies prospered due to the government protection given to them and to their subsidiary operations within India. "These enterprises brought their management practices with them and trained a number of local personnel."<sup>3</sup> The Indian enterprises had the managing agency system and this enabled only the family of the owners to wield control over the operations. This also did not enable new entrepreneurial techniques to filter in. H.T. Parekh, an expert in management economics, observes that it was the foreign companies and their operations in India (pre-independence) which heralded the other classes - the non-capital owning classes - into the field of management. This phenomenon was a blessing in disguise. India after independence had a vast 'professional base' although it lacked the capital and technology required to face the advanced world. This feature is elaborated later in this Chapter. In 1948, of the total foreign investments, four-fifths were British and the American investment was no more than 4 per cent,

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3 H.T. Parekh, Management of Industries in India (Bombay: Vora, 1971), p. 15.

ranking a poor second.

Another distinguished Indian economic expert, A. Rahman, makes an interesting observation:

After independence India deliberately set herself the task of transforming the economic structure through a process of planning which was seen as the only way by which the country would be put on the road to self-sustaining growth after centuries of stagnation. The new government took an active part in encouraging research in the universities and in establishing a chain of research laboratories. The significance attached to scientific research in Independent India can be judged from the creation of a Ministry of Scientific Research and Natural Resources directly under the Prime Minister. 4

However, in spite of all this, it was not until 1958 that the government adopted a Scientific Policy Resolution.

This indicated its concern with the development of science as a means of raising the standard of living. Its aims were clearly stated.<sup>5</sup> They were:

- (1) To foster, promote, and sustain by appropriate means, the cultivation of science and scientific research in all its aspects - pure, applied and educational.
- (2) To ensure an adequate supply within the country, of research scientists of the highest quality and to

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4 A. Rahman, Science, Technology and Economic Development (Delhi: National, 1974), p. 2.

5 Vikram Sarabhai, n. 1, p. 8.

recognize their work as an important component of the strength of the nation.

- (3) To encourage and initiate with all possible speed, programmes for the training of scientific personnel on a scale adequate to fulfil the country's needs in science and education, agriculture and industry and defence.
- (4) To ensure that the creative talent of men and women is encouraged and finds full scope in scientific activity.
- (5) To encourage individual initiative for the acquisition of and dissemination of knowledge and for the discovery of new knowledge in an atmosphere of academic freedom; and
- (6) in general to secure for the people of the country all the benefits that can accrue from the acquisition and application of scientific knowledge.

The Government of India did well in having enunciated clearly its policy on science and technology or else as it is understood there could have been haphazard import of technology. A comprehensive science and technology policy for a developing country like India bears significance "because growth strategy implies proper utilization of imported and indigenous, scientific and technological

resources in different degrees".<sup>6</sup>

India for several decades has been researching in geophysics, solar physics etc. Scientists on their own for decades have also been widely working on meteorology, geo-magnetism, biospheric physics, cosmic radiation, solar optical and radio astronomy and in theoretical astrophysics. There, however, has been no co-ordination or even of recognition of the developments. Rahman critically points out that "the Indian scientists...were not a cohesive group working for well defined social and cultural goals but within the framework of bureaucracy for limited and personal gains."<sup>7</sup> It is however understood that many of the scientists and technologists did pioneering work in their respective fields but due to the absence of a centrally organized regulating body (which could recognize their importance) it went unnoticed.

Even though India's social system has been changing steadily during the past more than three decades it is well known that more than 70 per cent of our population lives in rural areas - where even communication facilities are not properly provided. In the first few years of independent India there was a need felt to co-ordinate progressing

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6 V.P. Chitale, Foreign Technology in India (New Delhi: ESRF, 1973), p. 77.

7 Rahman, n. 4, p. 72.

scientific knowledge and the nation's livelihood. As Vikram Sarabhai, India's renowned scientist, observed:

It became quite obvious that we could succeed in executing such a programme only when the necessary social change occurred to permit an inter-disciplinary group of specialists and innovators to work completely for a well defined common objective. 8

It is a fact that scientific pursuits form the essence of modern life however peripheral they might be to begin with. Meaning the same B.G. Verghese, a journalist of class, said: "It is in the scientific endeavours that a country will find the knowledge that will make and sustain the technological revolution on which its security and prosperity ultimately depends."<sup>9</sup>

India made a bold experience in setting up national laboratories soon after 1947. The main objective in setting up these laboratories was to improve the scientific base of the economy and to find a local solution to local problems. The laboratories were thus expected to provide an indigenous research basis for our economic growth:

These initial hopes have not been satisfactorily fulfilled. This is because the Indian industry had sought the easier course of resorting to foreign collaboration for its growth. To an extent this has contributed

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8 Vikram Sarabhai, n. 1, p. 31.

9 B.G. Verghese, Design for Tomorrow (Bombay, 1965), p. 248.

to the rapid growth of the economy that has been achieved during 'the first twenty years of our independence'. 10

However, the setting up of the Atomic Energy Commission, Indian Council for Agricultural Research, Indian Council for Medical Research, Defence Research Development Organisation, etc. by the Government of India, was to confirm its belief in the role of science and technology. The 'Battelle Memorial Report' stated: "There is evidence that the scheme of national laboratories was opposed from the very outset by the private sector in the country as an example of government's bureaucratic expansion."<sup>11</sup> But it was also felt that "the industrial research laboratories appeared to have been established at a time when there was no genuine or precise demand for them. Facilities and funds were granted but neither the givers nor the receivers knew what to do with them".<sup>12</sup>

With the economic 'planning' for development in 1951 came a new era. Industries grew with greater confidence and moral support. There was a greater diversification of our industries. The country's planners analysing the varied importance of different types and nature of industries

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10 H. T. Parekh, n. 3. Emphasis ours. "First twenty years" in the original, p. 68.

11 Chitale, n. 6, p. 83.

12 Ibid.



decided on their ownership patterns too. This is best reflected in Jawaharlal Nehru's own words: "I am not against medium size or big industry. As I see them all basic industries should be state owned completely while the medium and small industries should be co-operatively owned."<sup>13</sup>

There has been an investment of Rs.3,000 crores in private sector industry during the first 20 years (1951-71) as against only one-fifth of the amount during the earlier hundred years. Although historical reasons kept away enterprising industrialists and capitalists from investing during the British raj, it cannot be denied that the Government policies in fact encouraged private enterprise while simultaneously fostering public sector. In 1951, India had a very narrow base of a few simple industries -- cotton and jute textiles, cement, sugar, two steel plants and small engineering industry based on them. But by 1971, India had set up several industries - from general engineering to chemicals, from petro-chemicals to electronics - though not in sufficient quantity and of an acceptable standard in quality and cost.

In fact this diversification and expansion of the country's industrial production has been claimed as a major achievement of the Indian planning. State control was

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13 Jawaharlal Nehru, Jawaharlal Nehru's Speeches, 1957-63 (New Delhi: Government of India, 1964), p. 112.

inevitable in most stages of our industrial activities. Evidently foreign interests were not pruned very systematically. From four-fifths in 1948, the British stake came down to less than two-thirds in 1961. The USA's investment, which was less than 4 per cent in 1948, had risen to 14 per cent in 1961. Foreign collaboration agreements whether relating to technical collaboration or capital participation had to pass through the government mechanism. "Foreign collaboration has completely not been kept off although it was imported with caution."<sup>14</sup> Of the 3,215 agreements which were approved between 1957 and 1970, 862 were with the UK, 596 were with the USA, 502 with the FRG and 288 with Japan.<sup>15</sup>

In India today the public sector grows at a rapid pace. Investment in the public sector has been quite large and purely in terms of financial results, not very profitable. This is also because the public sector has undertaken large multi-purpose (utility oriented) infra-structural industries and projects which have a long gestation period. However, the inefficiency and callousness in the public sector are undeniable.

The main role of planning and the recent concern over monopolistic trends in the economy is to re-inforce

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14 Verghese, n. 9, p. 249.

15 Statistics from Parekh, n. 3.

this world-wide trend, i.e. there is a tendency towards increasing state intervention in economic spheres to maintain a balance of economic power structure. The Indian tax structure is one weapon in this regard although its effectiveness is often questioned. However personal savings are not sufficient to ensure control of an industrial enterprise. This is so because the scale of investment has also become large that it cannot be financed out of one or a few individuals' savings. Even the so-called small industries like electronics have such a high growth rate that they have to be financed beyond a point by public savings. In fact, it became clear in the early seventies that the existing know-how had been fully utilized in their respective fields by the private sector. They were being stifled much in the name of indigenous growth which hampered them from collaborating or linking with industries abroad.\* Had this been done, with obvious marginal rather essential limitations there may not have been stagnation and drop in industrial growth in the late seventies.

Indigenous growth could have been more effective had the scientific research (which was rightly started with planning) been kept up. Due to lack of effective guidance

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\* To be referred to later on infra p. 71.

and supply of necessary equipment facilities much was not churned out of it. Even the scientific research division to the Planning Commission which was set up to integrate scientific and development plans did not do much positive work. It was a head cut off from the entire sphere of scientific body where activity - however small may it be, was going on. Utmost it co-ordinated research schemes for CSIR and its allies.<sup>16</sup> In 1968 the Commission on Science and Technology was formed. This replaced the Scientific Advisory Committee to the Cabinet which worked on ad hoc basis till then. A high powered body - National Committee on Science and Technology (NCST) - was established in 1972 for preparing a comprehensive science and technology plan for the country. It was in mid-seventies that a new Ministry of Science and Technology was created at the Centre. Notwithstanding these developments, the national science policy was not quite well defined. The National Committee on Science and Technology described the situation: "There has been no explicit policy on the level of even (sic) the allocation of funds for scientific and technological activity well over 80 per cent of which is funded from the central exchequer."<sup>17</sup>

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16 Rahman, n. 4, p. 14.

17 NCST, An Approach to the Science and Technology Plan (New Delhi), January 1973, pp. 18-19.

As a result of this the Parliament decided that the overall funding of scientific research shall be decided more by the absorptive capacity of the agencies and institutions concerned than by considerations of the economic or social importance of the fields.

After intermittent wide ranging institutional changes had been made, overall picture seemed to be somewhat promising. The Central Fuel Research Institute together with the National Metallurgical Laboratory had been drawn in as partners in planning on steel. "They have worked to well defined objectives and time schedules and have acquitted themselves well."<sup>18</sup> These were the words of a team headed by B.G. Verghese who inspected the functioning of several such activities.

Scientific research had been now organised well under and at several levels by seriously motivated organizations such as the CSIR with its chain of 30 nation laboratories, the Atomic Energy Establishment (AEE), the Indian Council for Agricultural Research (CIAR), the Indian Council for Medical Research, and Defence Research Directorate (DRDO).

Defence science had witnessed rapid expansion. Production of portable mountain guns, semi-automatic rifles,

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<sup>18</sup> Verghese, n. 9, pp. 248-52.

anti-tank guns, rocket launchers and propellants has been progressing satisfactorily. Besides, the production of indigenous parts of imported machinery and even replacement of the same with better equipped ones, has not only reduced our budget deficits but also enhanced our national image.

The first two decades saw an unsteady growth of science and technology due to turbid perspectives while simultaneously there came about a self-propelled growth of industries. Having clinically examined our Indian economy Jagdish Bhagwathi and Padma Desai described the Indian case thus:

India compares favourably with most other developing countries. Admittedly it had the good fortune of inheriting an efficient civil service from the British, a historically evolved entrepreneurial class and industrial structure and a fair supply of educated citizens: all of which factors placed India at a special advantage compared to many other developing countries especially in Africa. 19

They also estimate the Indian performance keeping in mind the various peculiar hurdles that our country faces.

Its vast size with attendant federal structure has imposed inefficiencies resulting from centre-state and inter-state relations. (2) Economic efficiency has been tampered with due to Governments' focus on political questions relating to concentration of political power i.e. contributing to the deliberate expansion of public and industrial licencing. (3) The size of

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19 Jagdish Bhagwathi and Padma Desai (ed), in India, Planning for Industrialization (Paris: OECD, 1970), p. 3.

the country, meaning that even considerable sums of foreign aid India has received have nonetheless amounted to a significantly lower proportion of her GNP than in the case of several others. (Taiwan, Israel etc.) 20

About private foreign investment, they opined:

Even though the Indian Government's policy was not entirely an open door variety it is impossible to conceive of private foreign investment entering the economy at anywhere close to the percentage of GNP level it has been in some of the 'star' developing countries - South Korea, Taiwan and Israel. However India's economic performance has been fairly impressive indeed. 21 \*

In the past three decades, India's achievements in the scientific and technological fields have been noteworthy. Under planned development a total investment of Rs. 113,000 crores (US \$ 113 billion) was undertaken - Rs. 78,000 crores in the public sector and Rs. 35,000 crores in the private sector. Even the overall growth rate which averaged a modest 3.6 per cent per annum has been eroded substantially by a 2.1 per cent growth per year in population. Development in agriculture was less than 3 per cent, while that of industry was only about 6 per cent.

The public sector was set up not at the cost of the private sector but to co-exist and strengthen the nation.

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20 Ibid., pp. 3-4.

21 Ibid., p. 4.

\* Also to reiterate the point made on supra p. 67. about the same fact.

The Avadi Session of the Indian National Congress held in 1955 contributed political support and recognized the need for their co-existence in the light of the socialistic pattern they were aiming to build.<sup>22</sup>

They (the Congress) acknowledged private rights but felt that there should be no such thing as the private right coming in the way of a public right or social reforms. "Nehru reasoned that the public sector may become slack if there was no private sector to compete with (although) in any case all this would take time".<sup>23</sup> At the end of the First Plan Jawaharlal Nehru said:

I do not say we have a very firm agrarian base but it is fairly satisfactory now.... We shall make it stronger in the course of the next few years. The time has come to lay a greater stress on heavy industries. <sup>24</sup>

The Steering Committee to the Avadi Congress explained that

the aim was at initiating and operating large scale schemes providing services such as power, transport etc. having overall control of [certain] resources, social purposes and trends and checking and preventing evils of anarchic industrial development by maintenance of strategic controls. <sup>25</sup>

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22 Rooplekha Borgohain, The Indian National Congress : A Study, 1947-1955 (New Delhi: Intellectual Publishing House, 1982), p. 130.

23 Ibid., p. 131.

24 "Jawaharlal Nehru", The Hindu (Madras), 3 January 1955.

25 The Steering Committee, "Avadi Congress", The Hindu, 18 January 1955.



The Indian industry gained (both in public and in private sectors) a great boost in its image after the Avadi Session. It subsequently experienced a great deal of modernization and support. Its productivity increased manifold. "During the Second and the Third Plans industrial growth averaged 8 to 9 per cent annually and in the organized sector alone an additional 11 million jobs were created."<sup>26</sup>

But since the Third Plan period to-date the average growth rate in industry was around 4 per cent, about half of what was achieved in the earlier decade. Not only did the international epidemic of inflation, oil crisis, and uncertainty hit India but also the peculiar Indian recurring sickness of famines and floods. Employment and income growth slackened and intensified government control killed the dynamism of the private sector. The two major sectors started looking at each other as substitutes for getting the spirit with which they were set up.

The sluggishness of the critical industries in the public sector - particularly the energy sub-sector - like coal and electricity adversely affected the other sectors which depended on their inputs. This slowed down the national economic growth itself. Recovery was seen but not

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26 H.S. Singhania, Today and Tomorrow (New Delhi: Nehru House, 1980), p. 34.

widely. In 1980, while writing his memoirs the former Chairman of FICCI, A.S. Singhanian observed:

Today our national income exceeds Rs. 78,000 crores (US \$ 78 billion). We have relative stability in food front.... We are long past the stage when we were major importers of foodgrains. Our gross industrial output is nearly Rs. 40,000 crores and our exports Rs. 6,000 crores. Yet, for all these massive figures our per capita income is only \$125, less than a fourth of many other developing countries like Brazil, Hong Kong or Singapore. 27

These figures especially the one relating to our per capita income does not tally with the one given in a few other texts. Referring to the US Foreign Policy and the Third World (ed) by John Hansen and published by the Overseas Development Council of the US it is seen that India's per capita income is \$240, very much higher than \$125 and correspondingly the income per capita in South Korea is \$1,520, in Taiwan \$2,160, and in Brazil \$2,050.<sup>28</sup> One fact is clear from both the sources i.e. India's income per capita is still very low and in comparison to South Korea, Taiwan and Brazil it is poor and efforts are needed to raise it. This, according to the former Chairman of FICCI, could possibly be done if in the present decade we try to double the overall annual growth rate which has been limping at 3.7 per cent in the last 30 years.

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27 Singhanian, *ibid.*

28 John Hansen, US Foreign Policy and the Third World (Washington: Overseas Development Council, 1982).

Industry must spearhead this advancement and speed up well over a 6 per cent annual growth. If we keep in mind our Indian social and economic conditions, it seems possible only with consolidated efforts.

It cannot be denied that there are industries such as engineering, construction and electrical, which have made tangible progress. We have achieved near self-sufficiency in many consumer goods and in some basic capital goods, notably steel and cement. There has been significant growth in the fertilizer industry as well as in the energy resources. The main grievance in the coal sector is not the production but the inefficiency of distribution. Huge piles of coal remain uncleared for distribution at the pit heads. However an efficient complex of refineries, pipelines have been created and the nation has moved into the petro-chemical age. The telecommunication system has been extensively linked with many parts of the world.

India has also made an advance in nuclear science and has become a member of the world nuclear club by the 'peaceful implosion' in 1974 of a nuclear device. Earth satellites and rockets capable of sending satellites into the orbit have been manufactured. India has also collaborated with the United States of America, France, the UK and the USSR in the field of space science. In the Sixth Plan it is stated:

During the last decade substantial progress has been made in establishing a firm indigenous base for the development of space science and technology. More than a thousand rockets have been launched from Thumba and Sriharikota ranges for scientific, technological and meteorological studies. The technology for development and fabrication of satellite launchers, complete with solid propellants, rocket motor propulsion system, control and inertial systems and electronics have been successfully established. The successful launching of Ayrabhata and Bhaskara (1979) have been marked. 29

A milestone in the development of space science and technology in our country was the launching of SLV-3 first satellite launch vehicle in August 1980. Further, the launch of APPLE (the term of which ended in the second week of September 1983) and SEO II are remarkable.

The latest and a pioneer even from the advanced nations' point of view is our INSTAB-1B which was launched from NASA in the first week of September 1983. It commences its operations from 15 October 1983. The AIR, Post and Telegraphs, "Doordarshan" and meteorological department may benefit by this. This latest satellite is multi-purpose - a three in one model - weighing 1,193 kgs and attaining a height of about 36,000 kms from the earth. "INSAT-1A" which failed initially was brought back to normal, thanks to the efforts of space scientists at the master control facility

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29 Quoted by D.M. Mithani, Review of Planning in India and the Sixth Plan (Bombay: Vora, 1982), pp. 78-79.

at Hassan."<sup>30</sup>

The provision of a broad based communication system for reaching half-a-million villages of India through television was made possible through INSAT and it was found that the investment required for using satellites would be only about a third of what would be required with conventional technologies. "The UNESCO study group on SITE (Satellite Instruction Television Experiment) had endorsed the unique contribution which this new technology can make to developing nations and identified India a particularly appropriate area for early implementation."<sup>31</sup>

The Fifth and the Sixth Plans accord high priority to industrial development. The latest offered 15.4 per cent of the total outlay to industry and minerals of the total expenditure of Rs. 15,017.57 crores envisaged in this sector. Village and small industry was assigned Rs. 1,780.45 crores, i.e. 11.85 per cent, while the balance 88.15 per cent is shared by the large and medium industries. The share of the small industry is thus merely 1.8 per cent in the total outlay.

It is here that a unique characteristic of our Indian industry is to be elaborated upon. The small

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30 The Times of India (New Delhi), 20 September 1983.

31 Vikram Sarabhai, n. 1, p. 36.

industries in India due to their low capital requirement and agro-base are mostly situated in the rural and semi-urban areas. They account for 40 per cent of the total industrial production. In these areas, in fact, only in the rural area nearly 74 per cent of our population lives. It is an axiom in the theory of development that when a country develops there is always diversification in the occupational pattern that more and more people leave agriculture and go to industries. "But in India for the last 70 years about 72 to 74 per cent of the workforce has continued in agriculture."<sup>32</sup>

Owing to the agrarian base of Indian economy as well as the other social and geographical conditions, eminent leaders like Mahatma Gandhi believed in establishing more labour intensive small-scale industries. Small scale industries in India have generally been considered as the ideal form of industry. It has been an integral and continuing form or element of both the economic structure and of the scheme of national planning in India. Small scale industries have also been diversified i.e. they are no more traditional except in artifacts, terracotta and special textile designing, etc. It has been found that they are the suppliers of necessary intermediary materials. The role of middlemen

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32 "Public Undertakings", Digest of News and Views (New Delhi), vol. 20, no. 7, July 1983.

has had less prominence in the recently developed small industries. The state has therefore to play a more prominent role in their development.

The small scale industries have more advantages too. There is a growing demand in the rural areas for repair and service facilities for agricultural machinery and other appliances. This has offered considerable scope for small workshops and technically trained personnel. Further reason for developing small industries is that they can be a good source of mobilizing local capital and skills which otherwise remain inadequately mobilized. They can help in meeting significant part of the increased demand for the consumer goods and simple producer goods forming a vital link between agriculture and large scale industry. This may provide increased employment within the local conditions and help in an equitable distribution of the national income. An eminent administrator, P.C. Alexander, writing a book on Industrial Estates in India gives an elaborate study of the same and feels for the development of small industries, for all the reasons mentioned above. Eugene Staley of the Stanford Research Institute in his 'Foreword' to this book states:

India has by far the most comprehensive and advanced small industry development programme of any of the newly developed countries. India's program has already become a model for others. Further the Industrial Estate

has become an important tool of development and India has made more use of this tool than any other newly developing country. 33

The Sixth Plan accords the highest priority to energy development programmes allocating to it 27.12 per cent of the total public sector outlay. The planners have rightly envisaged massive investments in sectors like coal, electricity generation and distribution and also petrol exploration and development.

Special attention is devoted to the development of service and technology. The planners aim at a significantly higher plan investment on science and technology in this plan than in the earlier ones. A provision of ₹865.2 crores has been made. Overall outlay of ₹1,919.41 crores in science and technology sector has been earmarked. Three major missions aimed during this period are: (1) to develop and launch an Indian remote sensing satellite in 1984-85 for effective utilization of remote sensing techniques; (2) to develop a launch vehicle capable of launching satellites of the class 500-600 kgs in the equatorial and polar orbits by 1986-87; and (3) to commission a multi-purpose satellite during the Seventh Plan period.

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33 Eugene Staley in the "Foreword" to P.C. Alexander's Industrial Estates in India (New Delhi, Asia, 1963).



Care has been taken to frame our export and import policies in such a way as not to affect industrial manufacture and international trade. Self-reliance is our aim but simultaneously with it is also our objective of ensuring optimal growth of science and technology. In order to step up exports, planners have decided to remove (1) the disadvantages due to which exports suffer because of the restrictions on imports, (2) the obstacles to the expansion of capacity for exports, (3) streamlining the existing cash compensation and other schemes intended to remove the disadvantages suffered by the exporters on account of taxation and physical controls operating in the economy, (4) ensuring that Government intervention in foreign technology policies is such as not to discriminate against exports and production for exports. There is a case for making exports marginally more profitable than import substitution in view of the need to diversify the export trade which involves capturing of new markets abroad and retaining them, and (5) maintaining adequate links with technological developments abroad so that our export capacity is not hurt by out-dated technologies.

These provisions made by the Government have come well because "resort to foreign collaboration will have to continue to be necessary in future as India moves into a newer phase of her industrial growth - towards the

establishment of science based industries".<sup>34</sup>

Referring to mere rankings in the world, India has a few plus points.

Product	Ranking
Cotton yarn	I
Scooters	II
Coal	II
Sugar	VI
Rayon, acetate filaments	VIII
Pig iron	IX
Cement, ferro alloys, manganese, caustic soda	IX
Soda ash	X
Crude steel, aluminium	XIII

Source: H. S. Singhania, Today and Tomorrow  
(New Delhi: Nehru House, 1980), p. 72.

Basic and capital goods industries account for over 40 per cent of the value added in the factory sectors.

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<sup>34</sup> Parekh, n. 3, p. 68.

Intermediate goods industries account for 30 per cent and consumer goods (durable and non-durable) for the remaining 30 per cent.

India's growing technological manufacturing and managerial capabilities are reflected in the export of equipment and know-how for setting up joint ventures abroad. As on 31 December 1982, 233 joint ventures are already in operation in 30 countries spanning over all continents involving an investment of Rs. 1,250 millions.<sup>35</sup> Another 100 projects are in various stages of completion. Half the number of units are in South, and South East Asia, about a fourth in Africa and the balance almost evenly divided between the Middle East, East Europe and North America. One third of the projects under production represent engineering and about one-fifth textiles. Chemical products, pharmaceuticals, construction trade, consultancy, restaurants, food products, cement, sugar and other miscellaneous products make up for the rest.

The Industrial Development Bank of India provides credits and credit lines under its Export Finance Schemes. These credits, which cover developing countries in Asia and Africa increased sharply from \$42 million in 1979-80 to

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35 K.N. Modi, "Possibilities of Worldwide Economic Co-operation between India and Western Europe", Dialogue Congress, Western Europe - India, organised by Austrian College, 21 June 1983, Alpbach, Austria, p. 13.

\$63 million in 1980-81. India has also established a number of joint ventures in Asia (Indonesia, Malaysia, Philippines, Singapore, South Korea and Thailand) and Africa (Kenya, Mauritius and Nigeria). By the "middle" of 1982 some 120 ventures were in operation involving an aggregate equity participation of about \$40 million. The main fields of activity were light industry, engineering and electronics. Another 80 ventures are currently under implementation.<sup>36</sup>

The above OECD analysis is borne out by our reference to a concrete case, such as, HMT completes 12 crores project in Algeria for the manufacture of water meters, gas meters and regulators. This is the single largest engineering project so far undertaken by it of this kind in Algeria. Technicians also received training both in India and in Algeria (total number of such men is 121).

Further, under the UNIDO/India Agreement on technical familiarization and transfer programme among developing countries, delegations from Philippines, Indonesia, Kenya and the Andean group of countries visited India. With a view to promoting co-operation between India and Burma in the field of science and technology, India would be supplying the government of Burma sixteen pilot plants based on CSIR

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<sup>36</sup> Rutherford M. Poats, ed., Development Co-operation, 1982 Review (OECD, 1982).

technology, viz. workshop for setting up pilot plants in food processing, sodium alginate manganese dioxide, electrochemical metallurgy, calcium carbide, etc.<sup>37</sup>

The Hindustan teleprinters limited had developed ties with Olivetti's of Italy to produce new models of electrical typewriters to suit local labour, cost and other conditions. Rs. 3.9 crores have been invested and licences have been obtained to produce 15,000 machines a year. The import content would be only 31.3 per cent. Olivetti's have agreed to buy machines from HTL if assembled machines with Arabic type could be produced.<sup>38</sup>

The telephone industry is also considering collaboration with one of the foreign manufacturers - Facit, Italy, or Siemens, Germany - for producing new model telephones.<sup>39</sup>

In regard to the development of research and development in industry, there is the need for a faster growth in consultancy organisation. India has since made a beginning in this direction and some existing organisations are of a standard as to be able to export their services. India is most advanced in the fields of consultancy for

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37 CSIR, Annual Report, 1975 (New Delhi, 1976).

38 Financial Express (Bombay), 25 May 1983.

39 The Hindu (Madras), 27 May 1983.

metallurgical and electrical services. In other fields such as chemicals and process technologies, India is still far behind. Petro-chemicals and electronics are still in their infant stage. In all these fields India needs on urgent basis new inputs to accelerate its process of industrialization.

To conclude India after three-and-a-half decades, has by its own efforts as well as the support extended to it by several developed countries in many fields of science and technology, built the foundation for a take-off. This is the crucial stage in any process of development. The economy should be cautiously geared up in all its diverse fields of activity. There cannot be any breathing time. Dr Sarabhai rightly said:

Advances in science and technology are accompanied by rapid obsolescence of existing systems. Recognising that we do not wish to acquire black boxes from abroad but to grow a national capability we should note that our plans have to be continually updated and even the strategy altered as we proceed. 40

Therefore advocating that more should be spent on research and development from our GNP he said:

In countries which are in the forefront of technology and where skilled manpower is

expensive the expected rate of return is likely to be lower than in a country such as India where manpower is comparatively cheaper and where large areas of research and development are available which do not require fundamental breakthrough in science. Therefore we ought to be willing to increase our R&D budget to 1 per cent of our GNP. 41

This would mean something significant for a poor nation like ours. As if realizing this, Sarabhai adds:

India is an expensive poor country because (1) since developing nations start from a low economic base their incremental growth large as it ought to be when expressed percentage-wise is intrinsically small compared to the incremental annual growth even of much smaller economically advanced countries. Thus a developing nation following a step-by-step approach towards progress is loaded with units of small size which do not permit the economic deployment of new technologies.

Through undertaking ventures of uneconomical size with obsolete technology the race with advanced nations is lost before it is started. Indeed, if one continues to operate on this philosophy, financial and technical assistance from the advanced nations to the developing nations can only result in frustration of the former and the increasing economic dependence of the latter. 42

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41 Ibid., pp. 13-14.

42 Ibid., p. 33.

This explains the Indian mind today. There is no time for us to lose to catch up with the developments in the world but we should also be not oblivious of our diversity and the uniqueness of our set up.

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## CHAPTER IV

### MEASURING UP DEVELOPMENT CO-OPERATION WITH INDIA'S DEVELOPMENT GOALS

Before we measure up 'Development Co-operation' between India and the EEC we need to capture the importance and the necessity for these efforts. "The West European market is important particularly to the developing countries as the 'members' forming the Common Market have achieved economic growth unparalleled in modern history."<sup>1</sup> The Community has a high GNP (\$2,575.2 billion in 1980) accounting for 19.2 per cent of the world GNP. Its population although not comparable to India is still large at 2,709 million which is 6 per cent of the world population.<sup>2</sup> Its private consumption expenditure in 1980 was \$814.6 billion. Further, it is the single largest trading area. Its share in the world exports was 33.3 per cent in 1981 as against 28.7 per cent in 1950. In imports its share in the world was 33.4 per cent in 1981 while in 1950 it was 34.2 per cent.<sup>3</sup> Further, the EEC trade

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1 P.G. Salvi, The West European Market (Bombay: Lalvani, 1967).

2 Computed from Roger D. Hansen, U.S. Foreign Policy and the Third World (Washington: ODC, 1982), p. 170.

3 Eurostat (Brussels, 1982), pp. 73-76 and 227 ff.

has not been static over the years as is clear from the above statistics. Consistent need to enlarge the scope of trade is evident when we look at the table given below. This relates to the period beginning 1951 till 1976.

Indicators Relating to 25 years, 1951-1976

Indicators		Bel.	U.K.	Fra.	Italy	Holl.	FRG
Volume of exports as %							
of GDP:	1951	24.1	14.1	8.2	4.4	16.2	8.3
	1976	59.8	19.6	15.9	17.3	47.8	24.1
Imports as % of total final							
Exports	1951	18	15	8	6	19	6
	1976	32	20	19	16	33	20

Source: OECD, McCracken Report.

Although intra-community trade forms a major chunk of its total trade there is evidence to suggest that the member countries have increased their imports of manufactured goods from developing countries. The value of such imports per \$1,000 of GDP showed an average annual percentage

increase during 1967-1975 of 14.8 per cent in France, 13.2 per cent in Germany, 12.1 per cent in Netherlands, 9.2 per cent in Denmark, 6.7 per cent in Belgium and Luxembourg and 3.4 per cent in UK. "The EEC in its original form also gave a better performance than the major developed market economy countries as a group in case of a number of manufactured products imported from developing countries."<sup>4</sup> Mrs Indira Gandhi observed in the banquet speech given in honour of the EEC President, Ray Jenkins, in May 1980:

The members of the EC are developed countries. (They are) a major trading partner of India. The opportunity to export our products to your markets means much to our workers and artisans and to the economic 'well-being' of our country as a whole. Negotiations through international agencies and forums should aim at reducing tariffs and giving further impetus to developing countries... we hope that the new commercial and economic co-operation agreement which we shall soon negotiate will formalise and strengthen the relations between India and the European countries. 5

Michael Drury who belonged to the Irish Foreign Service and who since 1974 has been in the ESC's Directorate General for External Relations and presently a senior official in the

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4 O.P. Jain, "EEC Trade and Co-operation : Mutual Understanding, not Recrimination", Foreign Trade Review (New Delhi), July-September 1980, p. 221.

5 Mrs Indira Gandhi, Foreign Affairs Record (Ministry of External Affairs), vol. 26, no. 5, May 1980, pp. 108-9.

EEC's delegation to South East Asia in Bangkok had to say: "International trade is vital to our survival since we are deficient in many of the raw materials needed by our industries and we must be able to sell our manufactures abroad and we are to prosper."<sup>6</sup> The West European countries had to formulate their trade in order that not only they benefit as independent countries but also the entire region. This explains the formulation of the European community and also the centralized decision making in matters of trade. Again Michael Drury says in this regard:

The necessity for the EEC to maintain external relations derives from the fact that in the field of international trade the nine member states have pooled their sovereignty and transferred competence to the community. Thus any decision that has to be taken about international trade is in accordance with the Treaty of Rome, taken by the Council of Ministers on the basis of a proposal made by the Community. <sup>7</sup>

Stressing the need for trade and development co-operation with the world especially the 'Third World', Erhard Eppler of West Germany stated:

The latest development in the area of energy and raw materials as in other areas, shows the need for joint action by the Community

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6 Michael Drury, "The EEC : Its Relations with South and South East Asia", Asian Affairs (London), vol. 10, February 1979, p. 6.

7 Ibid.

and its member states in development policy too.... I hope that in spite of the differences which still remain the Community will...succeed in making a decisive breakthrough towards a convincing development strategy embracing all aspects of co-operation through partnership with the 'Third World'." 8

The first formal link between the EEC and India was forged nearly two decades ago, when in 1962, the Indian Government established diplomatic relations with the six nation Community. This was at about the time when Britain's entry into the EEC was being subjected to intense scrutiny and was eventually stalled in particular by the French. This also synchronised with India's debacle at the Chinese hand. In this political conjuncture India became the first Asian developing country to open its diplomatic relations with the EEC in 1962 itself. However, the French recognition of the People's Republic of China in 1964 made it appear that sympathy for India in Western Europe was wearing out. There also then did not exist any bilateral arrangement to shape commercial and/or trade relations between the two entities. This initial stage is described as the first phase of the INDO-EEC relations. During this phase, which lasted nearly ten years, India did conduct, even though on a small scale, trade with the EEC, but then as the EEC Document No. 50/81 says, India ran in deficit:

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8 Erhard Eppler, Association News(Paris: OECD Publication), no. 25, p. 3.A.

India was primarily concerned with securing better access to the common market for its exports. For historic reasons its commercial and financial ties were with the UK but a greatly expanded import programme aimed at accelerating the pace of economic development had resulted in trade deficits with the EC. 9

With a view to correcting the imbalance in its trade with the EEC, it sought tariff and other concessions from the Community. India's initial request was for the implementation of the tariff reductions which the Six had agreed to in the course of the abortive 1961-63 negotiations for Britain's entry.

The result was a Community decision to suspend its tariff on tea in bulk, certain spices and East India kips on an autonomous basis. Again at India's request the EC opened zero-duty tariff quotas for handloom fabrics and handicrafts. Following the negotiation of self-restraint agreements covering jute and coir products the EC partially suspended its tariff on these products. 10

Another agreement covering cotton textiles was negotiated at about the same time. This was also a bilateral agreement like the others but it was concluded under an international agreement, the long-term arrangement on International Trade in Cotton Textiles (LTA) which had been adopted by the

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9 Europe Information, External Relations, Commission of the European Communities Directorate-General for Information, 50/81, Brussels, June 1981.

10 Ibid.

contracting parties to the GATT in 1962.

The year 1968 was the year of some achievements since the UNCTAD II provided a stimulus to the world trade scenario. It persuaded the developed world to implement a scheme of providing preferential treatment to the exports of the developing countries. The result was the adoption of the Scheme of Generalised Preferences to promote industrialization in the Third World countries by allowing some exports of their manufactured products to the developed countries. Most developed countries introduced several programmes through which manufactured goods from the developing countries at preferential rates of import duty were allowed to be imported. But it is notable that the Community was the first to introduce such a scheme in 1971. The objectives of the UNCTAD Resolution 21(II) according to V.R. Panchamukhi, an eminent Indian economist are: "(1) to promote the export earnings of the developing countries, (2) to promote their industrialization, and (3) to accelerate their rate of growth."<sup>11</sup>

India has been included in the list of beneficiary countries in all the GSP schemes so far implemented. But the degree to which a country (included in the list of beneficiaries) can really benefit from this scheme depends upon (a) actual and potential export capability and the number

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11 V.R. Panchamukhi, Trade Policies of India, A Quantitative Analysis (Delhi: Concept, 1978), p. 197.

of competitors it has to contend with in the particular market, (b) the strength of the traditional trade ties, (c) the institutional linkages traditionally established between the preference giving country on the one hand and on the other such as existence of foreign investments, multinational corporations within their parent organisations in the preference giving countries and shipping links, (d) geographical contiguity and convenience of transport, (e) political and other arrangements such as Commonwealth membership, EEC association agreements etc., and (f) measures taken by the beneficiaries themselves in order to derive the maximum benefits from the system.<sup>12</sup>

The factors, stated above, indicate that not all the countries (even if listed under the GSP of the EEC) may succeed in deriving equal benefits from the actual operations of the scheme.

The adoption of GSP has also been termed as a fortuitous factor that has helped in creating a healthy climate for the development and expansion of international trade. The GSP became operative to meet the growing demands of the export  sectors in the developing regions. Greenwald Joseph, an American commentator on world affairs,

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<sup>12</sup> Facts and details in *ibid.*, pp. 197-8.



feels that under this scheme "all manufactured and semi-manufactured items (with some exceptions in the case of individual developed countries) from India and other countries will qualify for duty-free treatment in the markets of the developed countries."<sup>13</sup> H.C. Sainy also quoting Greenwald observes: "This has eliminated or reduced existing tariffs on a wide range of import entering into the developed countries".<sup>14</sup> The scheme offered by the EC was also now reciprocal, in as much as beneficiary countries were not required to grant the EC tariff concessions in return.

From the beginning the EC has utilized the GSP to assist the Indian exporters secure easier access to the Community market for a growing list of products which include, to this day, packaged tea, castor oil, prawns and shrimps, hilsa fish, a variety of seeds (coriander, cumin), saffron, shellac, jute goods, footwear, and sports goods. A very major concession to India was the decision to include flue-cured virginia tobacco which became the first unprocessed agricultural product to be brought under the Community's GSP.

Keeping with the spirit of UNCTAD II, India's exports to the EC have had a wide range of electrical and

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13 Greenwald A. Joseph, Scope and Value of UNCTAD II : A US View (New York, 1970), pp. 542-3.

14 H.C. Sainy, India's National Trade, its Value and Problems (New Delhi: National, 1979), p. 261.

other machinery products, components, and sub-assemblies of chemical products, dye-stuffs, pharmaceuticals, and resins. Leather goods have also been a major item of export from India.

But it is also a fact that "a substantive quantum of Indian exports enter the EEC duty free outside the GSP. There is plenty of scope for developing Indian exports in these fields, for instance engineering goods".<sup>15</sup> Some 43 per cent of the EC's imports from India (manufactured products) already entered the community duty free while 95 per cent of the remainder are covered by the GSP. The percentage of agricultural products entitled for duty free entry have almost doubled to 73 per cent while most of the remainder benefit from tariff reductions under the GSP. This is a later development i.e. after the Tokyo round of talks implemented in 1978.

India is one of the major beneficiaries of this scheme of the Community which is currently open to more than 123 nations and 24 dependent territories. "During its first enlargement in 1974, the nine nation EC clearly saw in the GSP an instrument which could off-set the loss of the Commonwealth preferences to India and the other Asian

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<sup>15</sup> Walter Gerhardt, "The European Community's Relevance to India: A German Perspective", India and EEC, vol. 6, no. 2, August-October 1980, p. 28.

countries even while helping them build up their exports to other EC countries."<sup>16</sup>

Although from the words of the agreements and the quotas set India seems to be a large beneficiary it still ranges low when the actual percentage of EEC imports from India to the total are compared with that of the other nations. A list of such averages is given below:

Percentage of EEC Imports under GSP to Total 1976

<u>Beneficiary Country</u>	<u>%</u>
Pakistan	41.7
Romania	27.4
Yugoslavia	26.4
Venezuela	23.5
Mexico	21.7
Malaysia	19.3
Korea (Rep.)	18.19
Singapore	18.2
India	14.9
Hong Kong	12.8
Brazil	10.6
Peru	6.5
Argentina	5.5

Source: O.P. Jain, "Indo-EEC Trade and Co-operation, Mutual Understanding Not Recrimination", Foreign Trade Review (New Delhi), July-September 1980, p. 239.

<sup>16</sup> Europe Information, Bulletin, no. 50, 1981.

"Benefit to India was less in extent than the overall benefit to all the major beneficiary countries."<sup>17</sup>

The benefits to India were lesser because of a couple of reasons which we could have solved at least in the past seven years. These, it can be seen, are due to the lack of infrastructural facilities and to problems which are peculiar to our Indian set-up. In saying this Gerhard felt:

It is a fact that many of the quotas of the GSP are not fully utilised. If India wants to increase its exports up to 35 per cent annually as scheduled by the Union Minister of Commerce...considerable efforts will have to be undertaken by increasing the availability and the adaptability of Indian exports, market research, following European specification and fashions, fulfilment of contractual obligations within the stipulated time and meeting of European quality standards. 18

This fact is further substantiated by the argument that the EEC has allocated quotas for the developing countries to fulfil. It has kept a large portion of its import needs under the GSP condition and hence it was in the developing countries' will to fulfil the quota. The EEC could not be blamed for the inefficiency which in real terms reduces its imports ultimately. It is not as if the EEC even at the outset keeps off from the Third World imports in the

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17 Jain, n. 4, p. 239.

18 Gerhardt, n. 15, p. 28.

manufactured goods sector. The recent 'World Development Report 1983' has a table which could be used to elaborate this point. The EEC seems better than any of the developed nations in this regard.

Share of the Developing Countries' Exports in  
the Consumption of Manufactured Goods in  
Industrial Countries, 1970-80

Trading Group	in %	
	Share of estimated consumption 1970	1980
Australia	2.1	5.5
Canada	1.3	2.1
EEC	2.5	4.6
Japan	1.3	2.4
Sweden	2.8	3.8
USA	1.3	2.9
Total	1.7	3.4

Source: World Bank, World Development Report, 1983,  
Table 2.6, p. 14.

The same picture is given by an Indian columnist too. Writing in The Capital, an old business journal, he says:

The GSP has enabled India to step up the exports of both traditional and non-traditional goods to a considerable extent. It is estimated that about 43% of the EEC imports from India in

the industrial sector has been exempted from duty and lower tariffs are imposed on most of the remaining items. However, the recent performance of India's exports to the EEC has not been adequately encouraging. 19

He enumerates his point by indicating that India's exports to Britain fell from Rs. 228.33 crores in April-September 1979 to Rs. 164.40 crores in the same months of 1980. Similarly, to Belgium it fell from 73.69 crores to 60.07 crores. He gives more statistics to elaborate this list. He finds the deficiencies in infrastructure in India itself, and non-tariff barriers of the EEC as the constraints on India.

"The EEC-GSP is confined to a limited preferential custom treatment....The volume of imports eligible for preferential treatment has however grown from 3.2 billion EUA in 1978, to 6.86 billion EUA in 1979, showing the expansion of GS)." <sup>20</sup> More importantly, the EEC has also renewed for ten years (until 1990) its GSP under which India receives large trade concessions.

However talking of India's failure to utilize in full the quotas made available under the GSP, expert opinion at the JNU-EEC Joint Seminar on "The EEC and India" (held from 17 to 19 November 1980) was: "this is partly due to

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19 Special Correspondent, "New Opportunities for India in the EEC", Capital (New Delhi), vol. 187, no. 4668, 3 August 1981, p. 17.

20 Veena Ravikumar, "EEC-India Economic Relation in Third World Perspective", Foreign Affairs Reports, vol. 31, no. 11, November 1982, p. 195.

the lack of awareness and understanding of the GSP schemes by Indian exporters and partly due to some production constraints."<sup>21</sup> It was suggested therefore that "a constant review of items covered under the sensitive and other categories, improvements in the tariff rates for products covered under the schemes could also help in this regard".<sup>22</sup>

The 1977 figures for the utilization of the GSP limits given by Drury show that out of the top 14 countries (in the GSP utilisation grouping) nine are in Asia, two in Europe (Yugoslavia and Romania) and four in Latin America. Among them, India ranks fourth.

The points made by the experts at the JNU-EEC Seminar seem to be valid: .

To sell in Europe requires good commodity, modern design, attractive packaging and above all contacts and confidence between exporters and importers. But it is an inherent characteristic of [the] economically underdeveloped that one's manufacturers lack knowledge of the market requirements of a region half a world away that they lack contacts with importers in that region and that in most cases they lack the foreign exchange required to finance the measures necessary to overcome these deficiencies. 23

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21 K.B. Lall, Wolfgang Ernst and H.S. Chopra, EEC in the Global System (New Delhi: Allied, 1983), Introduction.

22 Ibid.

23 Ibid.

Concern was voiced by the Indians over the erosion of the preferential margin available to the manufactured tobacco of Indian origin in the EEC market and the threat posed to the Indian tobacco exports by the duty free preferences extended to imports from new sources.<sup>24</sup> The GSP had been adjusted or additional features had been introduced to meet specific problems as when "to meet India's specific problems additional concessions have been built into successive GSP offers on such products as footwear, sports goods, prawns, shrimp, packed tea, castor oil and cashewnuts"; further, "the most important concession to India has been the inclusion of Virginia flue-cured tobacco, the first unprocessed agricultural item brought into the scheme."<sup>25</sup>

The 'Seminar' pointed out during its course that the GSP had grave snags in the sense that its 'sensitive' category included India's major export items like textiles, jute, leather goods etc. Furthermore, it was also felt that in the industrial sectors the GSP scheme tended to be discriminatory for it divided its beneficiary countries into three categories: (a) Newly industrialized states, (b) least developed states, and (c) other developing countries. India is not among the newly industrialized states but it is rich in scientific and technical skills and hence could be counted

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<sup>24</sup> Special Correspondent, The Capital, n. 19, p. 17.

<sup>25</sup> Veena Ravikumar, n. 20, p. 201.



as being at the threshold of industrial powers. As Indian competitiveness soars higher its product may be excluded from the GSP facilities. Fearing this consequence as well as to enable better utilization of the quotas under the GSP it was suggested that there should be the possibility of inter-country transfer of quotas, continuous review of the items considered sensitive. It was also felt that "the value of this scheme to the recipient is reduced by the excessively bureaucratic mode in which it is operated and by the exclusion of many processed agricultural products."<sup>26</sup>

The EEC after a review of the entire scheme remodelled it before extending its period of functioning for another ten years beginning from 1981. The new scheme now offers greater security to the beneficiary countries through a system of guaranteed quotas. The categories have been greatly simplified. There are now only two of them - sensitive and non-sensitive.

A great majority of our products which are non-sensitive are subject only to statistical surveillance. 128 items were included in the sensitive products list. Of these the imports of 64 of them were restricted by means of country quotas. Under this only one of India's export

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26 Avi Shlaim, "Economic and Political Dimensions of the European Community's External Relations", in Peter Jones, ed., The International Yearbook of Foreign Policy Analysis (London: Croom Helm, 1974), p. 109.

items was restricted in 1981. A declaration attached to the new co-operation agreement in this regard stated: "The Community is prepared, in the course of its endeavours to improve the system of Generalized Preferences to take into account the interests of India in the extension and strengthening of its trade relations with the Community."<sup>27</sup>

India has constantly pleaded that the GSP proposals are to be considered from the view point of not only the level of industrialization but also from that of the per capita income of the beneficiary country. "This basis if accepted will eliminate an irritant in the Indo-EEC trade. It could be challenged by many other developing countries."<sup>28</sup> The EEC President had conceded partially to the peculiar situation of India in this domain. He also said that India could be placed in a category different from newly industrialized countries like South Korea and Taiwan.

The Trade Development Authority's study on the subject suggested recasting of the GSP proposals in the light of the realities. The Smallman's Team had in this regard, suggested to replace the limited zero duty tariff quota by a no quota pattern with a positive duty. This duty could be lesser than the MFN rates. The team mentions that it

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27 Europe Information, n. 9.

28 Jain, n. 4, p. 238.

would be for the good of both the EEC and India.

It was further suggested that the GSP should be announced by the EEC for at least three years instead of one year as at present.<sup>29</sup> This will help the exporters in India to formulate their production plans. This would pose little problem to the Western economies which have developed their market analysing techniques. No unilateral changes should be made in the scheme as these are without prior consultation with the beneficiary countries they are bound to create resentment in the latter and thus strain the understanding between them. Moreover, GSP statistics on a disaggregated level will help beneficiary countries in proper assessment of assistance provided by donor countries. Further since a very limited percentage of imports into EEC from beneficiary countries is entitled to tariff concessions there is a case for substantial improvement in the scheme in terms of inclusion of new products and reduction of qualitative barriers.

The GSP was the product of the first Phase of India's relations with the EEC. It extends its benefits to this day however and is to continue for another seven years from now on.

The second phase began in 1973 with the Community's enlargement. In fact even from October 1972 India has been

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<sup>29</sup> Details from Jain, n. 4.

considered more seriously by the EEC after the Paris meet which laid down a global development co-operation policy. During the negotiations for enlargement the Community had accepted a Joint Declaration of Intent on development of trade relations with Ceylon, India, Malaysia, Pakistan and Singapore. The 'Declaration' made itself ready "to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions."<sup>30</sup> Michael Drury, in fact, includes even this joint declaration of intent in the earlier phase when he says:

The principle policy decisions of benefit to South Asia - taken in the period until the Community was enlarged - were directly concerned with trade only. The first was the introduction of GSP, the second was the adoption, as an annexure to the Treaties of Accession [of the JDI] on the development of trade relations with Ceylon, India, Malaysia, Pakistan and Singapore known as JDI. <sup>31</sup>

He also views the JDI as "to console the breakdown of Commonwealth preferences. It was also intended to use JDI as the instrument for furthering"<sup>32</sup> [economic relations ].

An immediate effect of this JDI was the grant to India of an annual quota of 25,000 tonnes of sugar at the

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30 Europe Information, n. 9.

31 Drury, n. 5, p. 10.

32 Ibid., p. 13.

same guaranteed price as is offered to the sugar exporting countries under the Lome Conventions - in real terms this is believed to be very close to that paid to the EC producers.

In 1973 came the major step when the CCA - Commercial Co-operation Agreement - was concluded with India on 17 December 1973. It was more than a step over the traditional bilateral trade agreement and it set a trend for its South Asian policies:

The energy crisis underlined the actual interdependence and accentuated the usefulness of maintaining historic ties with raw materials - producing countries. The result was looking for a policy that would meet the legitimate developing country demands without damaging the West European economies. 33

However until 1973, it must be noticed that the EEC had no policy with regard to South Asia.

It is really intriguing to note...as to the reason for lack of a comprehensive relationship between EEC and South Asian countries. The EEC seems to have no design for South Asia because the area geo-politically has not formed a cohesive organisational group as e.g., the OPEC countries. Asia especially South Asia remains fluid and volatile. 34

In his inaugural address to the JNU-EEC Seminar, India's Minister for Commerce, Pranab Mukherjee, voiced concern at

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33 Ellen Frey-Wouters, The EC and the Third World (New York, 1980), p. 21.

34 Veena Ravikumar, n. 20, p. 195.

the low priority given to South Asia in the EEC's scheme of international economic relations:

If...there has been some disappointment in the developing countries of South Asia it is because of the comparatively low priority accorded by the EEC to its relations with this region where approximately 40% of the population of the non-oil producing developing countries and two-thirds of the population of the lowest income group in the world reside. 35

However, it cannot be forgotten as Drury says:

The idea of commercial co-operation was hit at as an answer to a problem: Agreement of the traditional kind in which import quotas are exchanged between the parties would not be entirely appropriate either to the largely liberalised commodity regime of the Community or to India's highly diversified...export potential. CCA would help India to bridge the many infrastructural gaps that prevented her from making good use of the facilities offered by GSP and the JDI tariff. 36

The ambition of CCA with India was to consolidate deeper and diversify their commercial and economic relations to the full extent of their growing capacity to meet each other's requirements on the basis of comparative advantages and mutual benefit. 37

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35 Pranab Mukherji, "Seminar's inaugural address", in K.B. Lall and H.S. Chopra, The EEC in the Global System (New Delhi: Allied, 1982), 'Introduction'.

36 Drury, n. 6, pp. 13-14.

37 Europe Information, n. 9.

In order that these aims are effectively carried out a joint commission was set up. This was also to promote the development of two way trade actively in a number of areas. Michael Drury described the EEC-India Joint Commission as one which -

concentrates increasingly on efforts to create joint ventures between Community and Indian firms in which the technology, expertise and in some cases capital of the European partners is combined with the Indian raw materials and labour to produce goods for exports from India or to provide services like construction or consultancy in Third Countries. 38

Indian exports increased after 1973 in spite of the recession during that period. Further even till 1978 the general performance was appreciable. The slump in 1978 also did not affect India's trade with the EEC. Walter Gerhardt states:

This is because of the CCA.... The main goal of the agreement was to expand mutual trade to as high a level as possible through a process of co-operation on various fields. It is mainly a framework agreement containing, among other things, a 'most favoured nation' clause. Its principal co-operation institution is a Joint Commission which has promoted Indian exports in various fields particularly engineering goods, tea, tobacco and leather products. 39

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38 Michael Drury, n. 6.

39 Walter Gerhardt, n. 15, p. 28.

The joint commissions were also active with the managing of many specific projects. The functions were wide and diversified:

The Joint Commissions are also responsible for supervising the working of specific agreements between the two sides. For example in the case of the CCA between the community and India the Joint Commission attempts to promote all aspects of economic exchange between the two partners; to oversee the implementation of India's trade agreements within the EEC whereby the latter allow duty free imports of Indian handwoven silks, certain cotton textiles and a range of handicrafts; to monitor the agreements reducing the EEC import duties on Indian jute and coir products; and also to supervise the agreements between India and the EEC on textiles in the framework of the GATT multi-fibre arrangements. 40

The EEC External Relations Commissioner had pointed out that the Community's import of Indian engineering goods had quadrupled between 1973 and 1978. Import of precious stones had increased seven-fold since 1973 and the import of clothing grew six-fold between 1973 and 1978. Here it is necessary for us to observe that India relied too much on too few sectors such as textiles, precious stones, silver and leather - these accounted for 80 per cent of all EEC imports of Indian manufactures. India also relied on too few

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40 Carol Cosgrove Twitchett, "The EEC and Development Co-operation", International Relations (London), vol. 6, no. 1, May 1979, p. 268.



markets especially on the UK and West Germany. This implies clearly that the Indian exporters have not knocked at rest of the doors which could open up new avenues of markets.

India was the first among the developing countries to conclude bilateral agreements on trade and development in 1973. The exports of such items as cotton cloth, men's shirts, women's blouses, household linens recorded satisfactory increases. It was only in 1977 the Community had to restrict import of handloom products.

The MFA which was first agreed upon in 1973 was renewed in 1978 till 1982. It provided for self-limitation by India on 14 categories at agreed levels including the level of growth and for the possible introduction of limits in other categories when imports from India reached a specific level of the total EEC imports.

Under two successive agreements negotiated in the application of JDI "the Community progressively reduced and finally suspended tariffs on jute products from January 1978 in return for a self-limitation of Indian exports of certain categories and the maintenance of certain national restrictions".<sup>41</sup> Considering the potential India has in jute, it would be encouraging if steps to improve its production to increase the utilization of raw jute products are jointly

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<sup>41</sup> Europe Information, n. 9.

taken. This would go a long way in sustaining a vital export sector industry.

The trade promotion activities have been successive steps. For this purpose 5 million EUA is allocated for developing countries which shall be used for financing trade activities approved by the JC, i.e. participation by the Indian firms in European trade fairs, trade missions in both directions, provision of consultant experts on product quality, marketing etc. The most constructive step in this regard was the setting up of the International Trade Centre in Brussels in February 1980.<sup>42</sup>

At the end of seventies India grew gravely concerned about the stagnating export (a fact in the last few years ending December 1980). The EEC gave 1.1 million EUA - the largest ever funded from the trade promotion budget for non-associates breaking its normal rules on annual programming by providing a three year commitment.<sup>43</sup>

Another significant step towards efficient utilization of the provisions of the Treaty was the Action Defining Committee which was established in 1976. It selected areas in fields of science and technology which would be of mutual benefit such as, new sources of energy, management of scientific information, environmental research

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42 EC Official Papers (Brussels), 27 February 1980, nos. 441, 2/321, 332 and 664.

43 Ibid., no. 665.

and remote sensing of natural resources.

Since then the development assistance provided by the EEC has become classified. The EEC allocated about US \$75 million out of \$187 million to India - affected by the oil crisis as part of the financial and technical assistance for non-associate developing countries.

Trade promotion activities were further strengthened when in June 1980 the EC had helped India set up a Trade Promotion Centre in Brussels in which Indian advisers for various product groups like jute, coir, leather, electronics, engineering products, textiles and handicrafts were co-ordinated to promote Indian exports by collecting market information. They did so by organizing publicity campaigns, participation in exhibitions and trade forums and by organising buyer-seller meetings. EEC has also held seminars for Indian exporters on how to take advantage in export promotion, exchanging of trade delegations and has subsidized Indian participation in trade fairs and exhibitions. The exporters were also given financial assistance by the EEC for fairs and they exchanged trade missions and consultant experts on product quality and marketing.

It is essential to get a picture of trade between India and EEC. As it is the EEC which is the single largest trading area in the world, its trade with India constitutes sizeable chunk of the latter's total trade.

Development of Trade between EC and India

	(US \$ million)					
	1973	1976	1977	1978	1979	1980
EC Imports	806	1,156	1,873	2,045	2,471	2,501
EC Exports	832	1,275	1,584	2,370	2,709	3,195
Trade Balance	+26	-289	-289	+325	+238	+694

Sources: Europe Information, n. 9.

Between 1973 and 1980 the EC's imports from India increased by 210 per cent while its exports rose by some 200 per cent. The Community trade surplus stood at nearly \$700 million in 1980 which was \$26 million in 1973. However, to India it stood in 1980 at less than 1 per cent of the total extra community exports and imports.

Seen from the Indian side the importance of the EC market can be visualized. 26 per cent of India's total exports are currently going to the EC as compared to 13 per cent to the USA and 10 per cent each to Japan, Soviet Union and the OPEC. Among the Community members the West Germans have been having a large share at 6 per cent of total exports while that of the UK remaining a major market at 7 per cent. However, the share of the UK is falling steadily.

However since the beginning of the eighties the OPEC (for well known reasons) seems to compete with the EEC in catching the Indian trade links. Now both have 27 per cent of India's total imports. Here again the Federal Republic of Germany has about 7.5 per cent which is roughly equivalent to the share of Japan at 7 per cent. But the US and the Soviet's share seems higher at 10 per cent and 8.4 per cent respectively.<sup>44</sup>

The constituents of the Indian exports were mainly agricultural products like tea, oil cakes, tobacco, coffee, crude vegetable materials etc. Among the manufactured products leather, cotton, jute fabrics, clothing, carpets, diamonds and metals made their way. Besides the transport equipment, chemicals and other manufactured products the Community exports to India consisted of even foodstuffs and vegetable oils for relatively large amounts.

Specific point of better Indian performance is in India's exports to FRG which increased by 31 per cent to more than 1 billion DM - Rs. 440 crores.

It is also felt that "though statistics indicate improved EEC-India relations in actual fact it is certainly not so. There is a structural, institutional gap between theory and practice. The West is suspicious of India's

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<sup>44</sup> Eurostat (Brussels, 1982), pp. 227 ff.

non-alignment".<sup>45</sup> The West is not convinced that the Indo-Soviet Treaty (August 1971) was concluded in the face of imminent war with Pakistan. Reflecting this idea, P. Charles Schleicher, said there is seemingly a tilt (owing to geographical proximity) on the part of South Asian countries towards USSR. He says:

Yet the West misperceives its intention and feels that it leans more left towards Moscow. Merely to be able to exist in that part of the sub-continent, India has to manage to keep itself accessible to the West and not too far from the Soviet Union. 46

Notwithstanding the Western misperceptions of India's approaches to the Soviet bloc, India has persevered in its attempts at strengthening its ties with the EEC. There have been new agreements on trade in coir covering the period 1980-83. They provide new levels of quotas and even the removal of all restrictions at the end of 1983. Further, India can export to the EEC duty free handicrafts and handloom products currently worth 10 million EUA each and handwoven silk worth 2.2 million EUA. The Community's aid budget also holds a major share for the Asian countries, especially for India.

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45 Veena Ravikumar, n. 20, p. 204.

46 P. Charles Schleicher, "The Communist Push into South Asia: A Grand Design", Proceedings of the Institute of World Affairs, session 40, 1963, pp. 194-201.

Contrary to what one might imagine the associated States and the African Continent do not account for the major share of the Community's aid budget (especially) for energy of the EUA 651 million of financial assistance...in 1980 EUA 216 million have been earmarked for Asia.... This concentration on Asia is largely because of bilateral aid from the UK and Germany for electricity projects in India, Bangladesh.... 47

Trade between India and the EEC grew appreciably from \$2,230 million in 1975-76 to \$5,370 million in 1979. Only in 1976-77 the balance of trade has been favourable to India. The 1976-77 favourable balance was due to the reduction in imports of wheat, fertilisers and iron and steel. The Indian exports to the EC accounting for 27 per cent of India's total exports in 1978-79 expanded to \$2,900 million by 1981-82 as projected in the Smallman Team's Report compared to the actual figure of \$980 million in 1975-76.

It is necessary here to know in detail about the 'Smallman Team's Report'. It has taken into account little preference to Indian exports under the GSP. This is perhaps due to the many tariff-free access agreements which were concluded by the Community with other groupings of countries. Further the Indian trade was not dealt under one large fold

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47 Malcolm Subhan, "European Commission willing to help Developing Countries", Indian and European Community (New Delhi), August-October 1980, p. 11.

but under several clauses as on coir and jute, on tea and on a slightly broader base the MFA. On attainment of full EEC membership by Spain, Portugal and Greece the Report apprehends further harm to Indian exports. It however recognises the large advantage India has due to comparatively low labour cost and material advantages in some cases. It is very optimistic about a "probable recovery in EEC demand generally, a consequent reduction in EEC unemployment and a resumption of the migration of the labour-intensive industries like textiles from the EEC to areas of lower labour costs at a politically acceptable rate".<sup>48</sup>

Development Co-operation between India and the EEC has also seen other sides like collaboration - large scale - as in Rourkela, where the German collaboration led to the most profitably-run public sector project. Further the Gujarat National Fertilizer Company and the electrical industry such as MICO, BOSCH, Telco, Ranion and Demm, Modi Rubber etc. have also entered into collaboration. Till June 1980, Rs. 160 crores was sanctioned by the EEC towards Neyveli Lignite Co., Singrauli Super Thermal Project; for ICICI and IFCI, both industrial development banks. Rural development programmes such as ARDC and TAWA Command Area Development programmes have also been taken up.

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<sup>48</sup> Smallman Team's Report, quoted by Jain, n. 4, p. 232.



The construction of the Indian Oceanographic Research Vessel, which itself is a new idea, has been carried out with European technology and collaboration. A high level delegation from EEC visited India for concluding a collaboration for footwear production with buy back arrangements coupled with financial and market tie-ups. There have also been marketing collaboration with Italy, West Germany, the UK, Denmark and Belgium.

India's expanding trade with the EEC has enabled the latter also to seek joint venture opportunities with India - and also India's know-how for their projects in the Third World. About 50 per cent of nearly 3,000 technical collaborations are accounted for by industries in EEC countries alone.<sup>49</sup> Manufacturing collaborations and agreements between India and EEC number 165 in engineering industries, accounting for 62 per cent of India's total collaboration with EEC. Some multinationals grew interested in the Indian know-how for a wide range of products after India's participation in the TECH-Ex 1980. They are FIAT, Ciba-Geigy, SNPE, GKN, Agri Contact, Ferrado Seco Tools, Innotech, Hoechst, Bell, Howell, Mico, Bosch etc. These companies might not be restructuring their operations to drop any feature in favour of India. But if they get impressed by

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<sup>49</sup> Commission of the European Communities, Industrial Cooperation : A Key to Investment in India (Bangalore, Maini Industrial Consultants, November 1982).

India's competence they might prefer leaving in favour of India's production of certain commodities. This can be accomplished in the long-run if India builds up its capability-credibility with the Western industrial concerns.

A very potential area of Indo-EEC co-operation is in the field of project engineering and consultancy services. The Smallman Team was impressed by India's use of technical labour in developing exports of project engineering services, often on turnkey basis to the West Asian and other Third World countries. The team suggested that India could use this comparative advantage to the Community's market as well initially as sub-contractors to similar consultancy service organizations for the West Asian and Third World projects and later only for themselves when the credibility is established to the end users in these markets. The then President of the EEC, Ray Jenkins, during his visit to India in May 1980 suggested that developing countries like India could participate in projects receiving financial assistance from the EIB in the ACP countries. It was felt that India had a strong case here however it would take time before member states could be briefed about it.

An increasing number of industrial tie-ups between Indian and German medium sized companies in different areas is a pointer to the realization of India's capabilities which

should open doors to joint consultancy services in the Third World, especially in the ACP countries.

India has been keen to evolve what is called production compensation for the development of mineral based industries like steel, alumina and energy. The Action Defining Committee of the Indo-EEC Co-operation in the energy sector has already identified three areas of co-operation - energy, environment sciences and data processing. Agreements have been made in coal gasification. Already attempts to develop underground mines and to improve the fertility of desert lands in Rajasthan are aimed with the French technology.

Furthermore, the EEC has been seeking outlets for investment in developing countries, stressing especially the need for an appropriate investment climate in India. In terms of total investment in India Gerhardt claims, that EC countries are number one investors.<sup>50</sup> The same with technical agreements, licences and patterns; notwithstanding these, the level of investment does not correspond to the economic potential either of India or the EEC. Stating the reasons for this low tide Gerhardt says:

(1) The Indian Government...does not particularly encourage foreign equity investment in this country. Many potential foreign investors would prefer to obtain more than

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50 Gerhardt, n. 15, p. 28.

- a 40 per cent share in a joint venture.
- (2) There are certain shadows on the present general investment climate of India, infrastructural constraints, labour problems, inflationary tendencies etc.
- (3) Various developments in the Third World countries during the last years - mainly increased political instability - have made investors from the industrial countries rather cautious in their decision making. 51

A similar argument is put forth in the case of foreign co-operation leading to the sale of licences and patents against payments of royalties and lump sum fees. "Many foreign companies would like to enter into such agreements on a more long term basis."<sup>52</sup> Currently such agreements in India last for five years. The regulations and controls on the royalties and lump sum fees are very restrictive.

But it is also a fact that 50 per cent of EEC's trade is extra EEC of which substantial part is with the Third World countries. The growing inability of developing countries to pay their import bills will certainly have a boomerang effect on the EEC's trade as well. If the belief that the demand prospects within the West European countries are rather bleak then it is even more compelling to increase the import capacity on the Third World. Fraus Schurrs

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51 Ibid., p. 29.

52 Ibid.

says: "Curbing protectionist trends in one way or the other, or presenting alternative solutions in which countries like India are allowed to increase their exports to EEC becomes a rather compulsory exercise to avoid this boomerang effect."<sup>53</sup> The purchasing power of the exports of the developing countries increased at an annual rate of only 3.7 per cent during 1971-77.

This outcome reflects partly the sluggish demand for exports owing to recession in the international economy and partly the deterioration in the terms of trade. In addition the rising source of protectionist measures in many developed market economy countries prevent developing countries from realising their full export potential. 54

It was felt strongly that

... (the West) must bear in mind that the region (South Asia) consists entirely of developing countries and that there is an international consensus that relieves such countries of the obligation adopted by developed countries. From the start therefore we (the EEC) must abandon hope of securing very substantial tariff or other import concessions from most of the countries of this region - indeed it would be quite wrong of a negotiator for any healthy industrialized country to try to persuade say, the Indian Government to import consumer

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53 Fraus Schurrs, "Indo-EEC Economic Relations and New Scenarios", Foreign Trade Review, vol. 17, no. 4, January-March 1983, p. 427. Fraus Schurrs is a scholar of Talburg University, Holland, and consultant to IIFT, New Delhi.

54 "Proceedings of the UN Conference on Trade and Development", Basic Document of the V Session at Manila, vol. 3, pp. 205-6.

goods which would rank as luxuries in the local bazaars. 55

In any case, it is understood that India does not expect a one-way operation in the process of co-operation. The idea of development co-operation would be lost. Keeping this in mind the Indian Government has been relaxing its policies for the last couple of years. In order that the Indian industries may acquire their requirements of machinery spare parts and raw materials - New Delhi has substantially liberalized its import policy. This has led most of the EEC members to increase their exports to India since September 1979-80. The increase in 1980 to that of the previous year was:

Export of:	(in crores of Rs.)	
	<u>1979</u>	<u>1980</u>
Belgium	121.0	151.3
France	74.8	160.0
FRG	285.2	366.0
Netherlands	57.2	107.8
UK	310.7	447.0
Denmark	5.8	12.9

From this derives another point. The increasing protectionist tendency of the West must be curbed not only because of

Indian interests involved but because of the greater European interest.

I.N. Mukherjee, an Associate Professor in the South Asian Studies, JNU, says in this regard:

The effect of protectionism in the Western countries is brought about strikingly in the change in the direction of India's exports particularly over the last two years. The share of Indian exports going to Western Europe fell from 31% in 1979-80 to 23% in 1981-82. In contrast the share of Indian exports going to centrally planned East European countries increased from about 13% to 24% during the same period. It is noteworthy that India's growing trade surplus with East European countries accruing in terms of inconvertible rupees does not provide any solution to its increasing deficits with the OECD countries. 56

However even the World Bank has noticed the world protectionist trend and simultaneously the Indian attempts at liberalization. It says:

The low income countries of South and South East Asia notably China and India were able to face the difficulties of the 1970s and even of the early 1980s from a stronger position. In part this was because of the policies they pursued. China, India and Sri Lanka initiated liberalization programmes in the second half of the 1970's. 57

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56 I.N. Mukherji, "Trends in International Trade Reflection on India", Economic Trends (New Delhi), vol. 12, no. 7, 1 April 1983, pp. 123-5.

57 World Bank, World Development Report, 1983, p. 24.

Looking at the low level of investment (private and others) we should also attempt to understand the West. No investment takes place in 'a political vacuum'. The volatile situation in South Asia is an undeniable fact for a justifiably commercial minded investor. Our own investment regulations like Monopolies Restrictive Trade Practices (MRTP) and Foreign Exchange Regulation Act (FERA) aiming well against concentration of wealth in a few hands are not palatable for the foreign investors.

Their viewpoint is an outcome of the fear of expropriation of their investments which has taken place in some parts of the developing world. India (of course) poses a case where there is compromise between the genuine needs of both the sides for transfer of resources through investments promotion and facilitation. 58

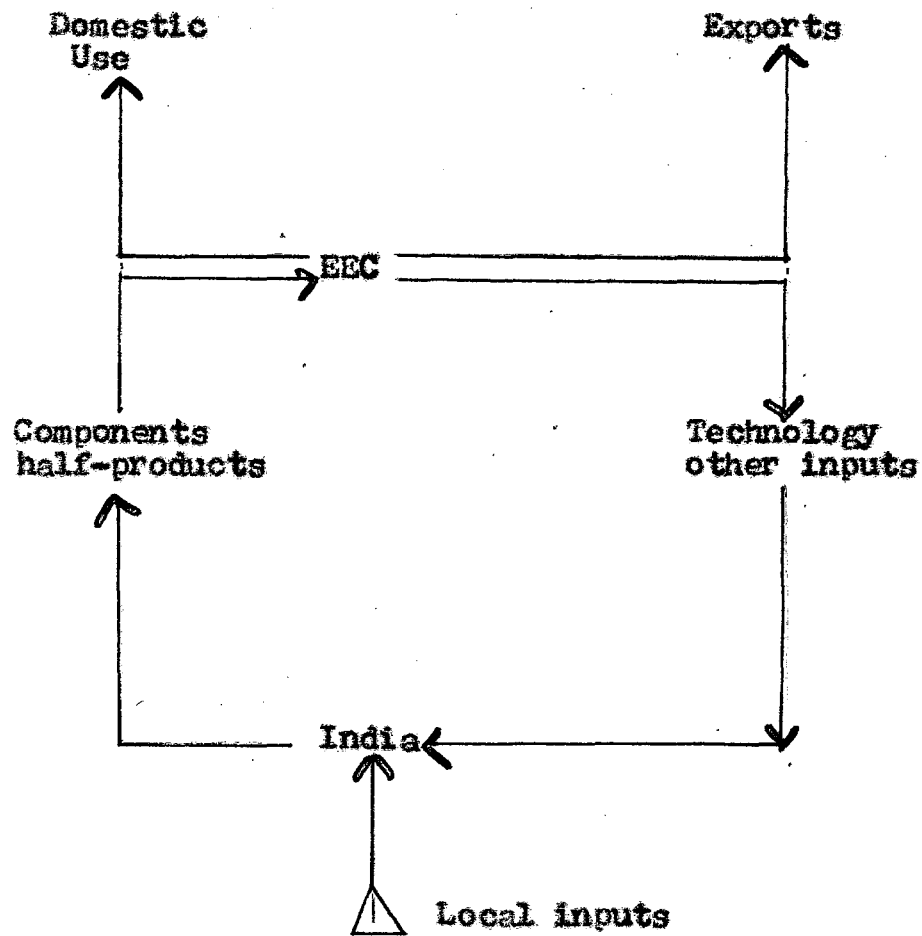
There are however clear signs that a new era of Indo-EEC economic and commercial relations is in the offing. On 23 June 1981 an agreement was signed in Brussels. This is also a non-preferential agreement like the first, also for five years based on the principle of comparative advantage and mutual benefit. It calls for a 'closer cooperation across the whole range of commercial and economic endeavour'.



The earlier agreement limited economic co-operation to trade matters, promotion of industrial co-operation including transfer of appropriate technology, mutually beneficial investment etc. The new agreement gives a stronger legal basis for technological and scientific co-operation than the earlier one. The Joint Commission shall once again be the nucleus of decisions.

The new key word is 'complementarity'. This aims at increasing situational trade between the two entities on the basis of dividing certain parts of the production process amongst the partners. Example: auto ancillary equipment, electronics and plastics. Electronics is already a clear example where certain parts of the finished products are being processed and produced by low-cost suppliers. The next is to export them to the partner company where these components are assembled together with locally produced components into finished products.

Fraus Schurrs looks at the new type of economic relations in industrial co-operation as of a vertical type and as mutually beneficial. The model would be as follows:



Sources: Fraus Schurrs, n. 53, p. 425.

It is beneficial to the EEC because it shall reduce production cost of the goods that are to be traded. It will also save some jobs which otherwise would be threatened by the import of finished products. Export of technology to less developed countries will also get a lubrication.

For India too there are benefits - from this pattern of economic co-operation. Modernization of production capacity is essential especially in power, steel, cement etc. There shall be the creation of safe and stable export-oriented industries with sizeable markets assured. Further, it shall create employment too.

However, Schurrs himself makes a note of caution in his analysis:

If getting technology is a major motive for India to enter this type of industrial collaboration, it remains to be seen what its real value is. It should also be kept in mind that technology is for sale and that it is like all other saleable commodities. Therefore there are other ways open to get the technology that India needs. 59

Besides all the trade and technology, India has benefitted from the Community's Food Aid Programme etc. In 1980 alone, India received 31,000 metric tonnes of milk powder, 12,700 metric tonnes of butter oil, and some 140,000 EUA in March 1980 for victims of drought. The ambitious Operation Flood II which has an overall cost of \$550 million is financed (roughly half of its cost) by the sale of Community Food Aid.

Special Action Programme and 'Cheysson Fund' have also come in time. In 1975 due to the oil shock and the

resultant inflation the developing countries fell into gloom. It was then that the EEC allocated about 40 per cent of its direct aid under the latter to India. The Special Action Fund helped largely the Agricultural Refinancing schemes and Co-operation towards lending to farmers, for training programmes etc.

Thus, the Indo-EEC Development Co-operation has vast dimensions and more so in showing greater potentials. It is felt necessary also from several dimensions. The recent fluctuations in the world economic arena warrant recovery programmes on a world-wide scale. The EEC as a large trading bloc in the world could take the initiative in this regard.

The EEC must take the political initiative to break out of the present deadlock in international economic relations. Many instruments already exist, for example, the STABEX system, but have to be improved whilst others must be developed....a European agency which could help to supply more cash resources for the developing countries. An initiative of that kind is not merely justified by strictly European self-interest but would give a practical answer to the wishes of the Third World which is in need of help and support but is reluctant to align its policies on those of any great power. 60

The EEC (with its super economic power status) could help India in several ways. India, like the EEC is a pluralistic

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60 Pieter Dankert, "The European Community - Past, Present and Future", Journal of Common Market Studies (London), vol. 21, September-December 1982, p. 14.

entity, and it strives to improve the economic environment at home in an equitable manner so that the benefits of development endeavour seep down to the teeming millions of this country. Furthermore, there is the scope for promoting political co-operation between the two, very much in tune with the democratic values, accepted as the very basic firmament of their existence. Even though politics is alien to the economic operators, yet the developed Members of the EEC could help in allaying general misperceptions in their industrial sectors about the nature of India's policy of non-alignment, thereby improving the prospects of increased co-operation in various fields of industrial activity, of course to their mutual advantage. In a nutshell, the two sides would serve their interests best by bridging the many gaps such as "information" and "credibility", which in the past have been productive of artificial lines of mutual mistrust and low-profile relationship.

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## CHAPTER V

### CONCLUSION

It is a great contradiction of our age that notwithstanding the advancement in science and technology a vast majority of human beings in the Third World live in deplorable conditions. It is also a matter of grave concern that disparities in human living conditions are widening. This seems paradoxical because this widening of disparities is "just when human society is beginning to have a clearer perception of how North and South depend on each other in a single world economy".<sup>1</sup> The fundamental inequality of their economic strength is striking. The North, as is well known, is richer than the South. Over 90 per cent of the world's manufacturing industry is in the North.<sup>2</sup> Patents and new technology are in the hold of multinational corporations of the North. Large scale trade in raw materials and manufactures are conducted by them and it is they who have large scale world investments. Hence the North with its supremacy dominates the world economic scene even in framing the rules of the game. It has been realized in the North

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<sup>1</sup> North-South: A Programme for Survival (London: Pan Books, 1980), p. 30.

<sup>2</sup> *Ibid.*, p. 32.

that its dependence on the South for the supply of raw materials and then the eventual consumption of its industrial manufactures has been increasing stridently.

The necessity of inter-dependence has been a subject of debate at several international forums from UNCTAD I in 1964 through the Conference on International Economic Co-operation (CIEC) in Paris 1975-'77, the Cancun in 1981 to the non-aligned summit conference in March 1983. Besides there have been an endless stream of conferences, charters and resolutions. Even two development decades have passed by but with limited input in Third World development. However, it would be inexact to believe that perpetuation of underdevelopment of the Third World has been principally due to some conspiracy or deliberate attempts on the part of the developed West. On the other hand the EEC for instance has been helpful to the Third World in giving aid and assistance. It has been widening its trade perspectives by including non-associables like India in its much relaxed trade structure where nations can derive benefits from schemes such as GSP, MFA and quota reserves. Besides, the EEC has also helped us in times of need such as famines, droughts and floods and above all by extending technical know-how and by collaborating in jointly initiated projects in the Third World. Second, the fact that the number of countries and regional groupings which have got involved in development co-operation

with the EEC has been on the increase. The Lome associates were 46 in number in 1975, and 62 in 1982. Thirdly, even in India we look forward to new collaboration deals with the EEC particularly in the Lome/ACP associates. Therefore, it is not as if much water has not flown despite consistent efforts made in promoting co-operation between North and South.

Since our expectations have gone up high, we expect more than what we can get in the normal course of our interaction with the EEC. Further, it appears to be an essence of diplomacy to go on pressurizing the developed countries to do more for the LDCs. The IMF and the World Bank have been persuading their "member-contributors" from the rich North to provide them more in order to help the needy nations. However even the West feels "most agreements which have been reached are merely symbolic or exhortory as with the Common Fund or the development strategies".<sup>3</sup>

In spite of such self-analysis which comes not too often there has only been an increasing justification of the schemes and programmes extended hitherto. Whatever be the nature and usefulness of the existing schemes the urgent need of the day is that the North and South resume the dialogue to work out the modalities for the redressal

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<sup>3</sup> Memorandum on the Community's Development Policy, Bulletin of the European Community, Supplement 5/82, p. 11.



of the Third World's economic turmoils, while respecting the political sensitivities of the latter. In other words, they must set out a framework for development co-operation without affecting adversely the internal or external autonomy of the newly emerging political entities of the Third World. It must help in promoting the independence of the young southern nations rather than dependence.

As in the case of development co-operation among the members of the European Community, so in relation to the Third World, interdependence must promote productive co-existence. This must be the motive force which could help build mutual credibility between the EEC and the Third World.

While the formula of productive co-existence is being worked out, it is necessary that the Third World nations must also evolve an integrated work ethics (involving maximally all those concerned internally with development such as civil servants, diplomats, academics, journalists and economic operation) so as to reach the goal of 'self-reliance'. The present state of fragmented endeavour has proven to be counter-productive only, or even if productive in an unsatisfactory way. In a democratic setting, such as exists in India, it is necessary that all those who think and act for development must have a source of participation,

which is lacking at the moment. It is not because of this lag in our development endeavour that Professor Michael Lipton of the Institute of Development Studies, Brighton makes a pertinent observation in one of his studies: "Among the steel mills and airports and despite the independent and sometimes freely elected governments, the rural masses are as hungry and ill-housed as ever."<sup>4</sup> Without doubt India with its union of twenty-two states and eight union territories is truly a colossus. Its socialistic pattern since mid-fifties studded well in its democratic set-up has become the 'guiding star'. In order that India may reach its goal of economic and social development there have been constant efforts, in many directions. In the light of India's historical linkage with Western Europe concerted efforts have been more towards strengthening ties with the Western democracies. Without doubt, it was in this backdrop that the India-EEC development endeavour gained strength. The Commonwealth connections apart India still attached great importance to the Community of West European nations. This can be proved by the fact that much before Britain joined the EEC India in 1962 had opened its diplomatic mission at Brussels.

However there were parallels too between India and

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4 Michael Lipton, Why Poor People Stay Poor (Canberra: ANU, 1977), p. 28.

the EC. Both the regions - South Asia and the EC - consist of economies which are struggling (at different levels though) to economically strengthen themselves and to politically gain the confidence of each other. Both their struggles for development were made necessary to rise from the two world war disasters. While the damage was direct and large in Europe, the South Asian nations especially India had post-independence problems arising out of a near bankrupt economy and a shocked population (partition and other communal disturbances).

However the parallels no longer exist since the struggle for development in India was a problem of gargantuan dimensions. In contrast the Western European revival was of a different character. Myrdal says: "The rescue action under the Marshall Plan and the European recovery programme implied that one rich country helped other potentially rich countries very substantially...but it was a sharing only among the rich."<sup>5</sup>

India had no Marshall Plan to lift it out of the morass of poverty, hunger, starvation and sickness of the teeming millions. India had however a large sterling balance in its favour at the end of the British Raj. The Government of India then observed:

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5 G. Myrdal, The Challenge of World Poverty (England: Penguin, 1971), p. 32B.

By the end of the war almost the entire external debt of the Government had been repaid and balances of the order of Rs1600 crores had been built up in Sterling...the post-War difficulties of the UK, however restricted the rate at which the sterling balances could be drawn upon while there was a tendency for this country's deficit in its trade account to become very large... (with) war time austerity, depreciation of capital equipment...and the needs of development...there was a keen demand for consumer goods from abroad...partition...increased India's reliance on improved raw materials without automatically providing for counter-balancing exports...owing to the decline in the exports of raw materials and increased imports of food-grains and machinery, the balance has tended to be unfavourable. 6

But even after three decades of development planning not much difference came to the teeming millions of our country. "This under-class includes landless labourers, peons, share-croppers, owners of dwarf 'holdings' and even pseudo-urban (but usually jobless and temporary migrants)."<sup>7</sup> Yet the Indian Government continues to claim that it is working hard to implement its plan of 'Garibi Hatao'.<sup>8</sup> Understandably the Government aims to accomplish its objectives through efforts at modernization and distributive

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6 National Development Council, The First Five Year Plan (New Delhi: Publication Division, Ministry of Information and Broadcasting, 1953), pp. 199-200.

7 Lipton, n. 4, p. 28.

8 Sixth Five Year Plan, Summary, 1980-85 (New Delhi: Publication Division, 1981).

justice. Modernization was required not only to keep abreast of the world's technological progress but also to alter the objects of production and productivity of the economy itself. Advancement in technology and the primary factors of production were chiefly with the Western world with whom we had traditional links also. Thus there came about the links with the EEC.

Since its inception the EEC for its own economic and political reasons showed keenness to spread its facilities to the Third World. It has been playing a pioneering role in initiating several programmes which benefitted its Member-States as well as its associates in the Third World. It had opened forums to hear the Third World and also some avenues for their development. Its policy towards the Third World in the Lome Conventions have been "hailed as a model of co-operative partnership between industrialized and developing countries".<sup>9</sup> India has been appreciative of the EEC's granting special concessions to the ACP countries - concessions ranging from those arising out of their associated status, the Stabex and Sysmin and many more. India, also has been at the same time, requesting for globalization of trading advantages. Its desire has been that at least the successor to the Lome Convention

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9 A. Madhavan and K.K. Bhargava, "The EEC and India", in Lall and Chopra (ed.), The EEC and the Third World (New Delhi: Radiant, 1981), p. 104.

has no divisive effect on the developing countries.

Regarding the perspectives of the EEC towards development co-operation with the Third World it is believed that the EEC has taken several steps devising a global framework. The latest development strategy of the EEC is detailed in the EEC's Memorandum (to the EEC Council of Ministers) of 5 October 1982. This strategy focuses principally upon the Lome/ACP associates/Latin American and the ASEAN countries. But it gives little attention in South Asia. As such, the strategy of development continues to be haphazard and lop-sided. Perhaps, it would have been more reasonable if the following criteria were kept in mind:

- (1) Those countries big and small, having per capita income less than US \$300 are to be given top priority in the development co-operation design.
- (2) The capability of utilizing resources by the LDCs in the preceding five years could be taken into account.
- (3) Excessive expenditure on arms imports by the LDCs need to be discouraged. For, it drains away their hard-earned resources, and
- (4) Political democratic development must receive a measure of support. For it is under this system that the benefits of development could have a chance to reach the teeming masses in the Third World.

But it seems that the aforesaid criteria have not engaged the EEC's attention. As a result, countries like India have received no fair deal from the EEC. Rather, it seems that the EEC under the indirect influence of the US has prepared its strategy according undue priority to short-term political and strategic long-term considerations. Needless to point out that in so doing the EEC's credibility for its attempts at fair deal with the Third World does not receive an upward sprout. However, there is a ground for optimism in that with the European Parliament elected directly, since 7 June 1979, the EEC's final decisions may be taken with greater care and certainty.

It may also be pointed out that the benefits India has derived from the GATT and trade avenues resulting therefrom were not without jolts off and on. The unsteady course of benefits could be explained by the EEC's responses to the fluctuations in the economic scenerio. The adjustments made by the EEC in this course were mostly not beneficial to the developing countries. The EEC by its virtue as a major trading bloc in the world spearheaded efforts both in safeguarding the interests of its member states as well as extending assistance to some of the needy Third World countries under such schemes as would fit into its own global development designs.

In the same light the current world menace - recession - was analysed. Studying the effects of the presently receding havoc it was found that the European economies had a lot of adjustments to make. This was in order that their existing structure remains well guarded. This was justifiable since in Europe alone unemployment had crossed 23 million of which 36 per cent were youth below 25 years. Although there exists no single fool-proof method or formula for eradicating unemployment the Western economies individually and collectively are striving to redress this malaise. As an immediate medication the imports had to be curtailed at least in those sectors competing directly with LDC exports of non-fuel primary commodities such as intermediary industrial raw products metal and minerals where production locally is possible.<sup>10</sup> This could be done in order to open up channels to recruit some potential labour and generate production activity. This may also help in reducing any further shedding of local labour. But the reaction of the potential exporter who would be blocked by such reduction in imports by the member states of the EEC will only be sour.

The exports of manufactured goods of the under-developed countries to the industrialized countries have

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<sup>10</sup> Riedel James, "Trade as the Engine of Growth in Developing Countries", World Bank Staff Working Papers, No. 555 (Washington: World Bank, 1983), p. 24.



fallen in percentage terms. This, together with the fact that the industrialized countries seemed to share their resources less with the LDCs has necessitated the South-South dialogue. It is true that co-operating mutually among members the LDCs can benefit. However this cannot be a substitute for the North-South dialogue. North-South co-operation has its own importance and constant efforts may be made to get the best out of it. Apart from the economic benefits which may accrue in consequence, this may help in promoting world peace and security. The increasing protectionist tendencies cannot however be forgotten. This tendency emerges due to the nature of the world monetary system itself.

The 'unstable constellation' system where currencies are freely floating create frequent dips and rise in the scene. Europe alone, with its European monetary system has safely geared itself to anchor against waves of uncertainty.

The recession has caused damage to the Indian economy particularly by reducing its exports to the EEC in value terms, meaning that the 'spiralling price' rise has neutralized marginal increase in the volume of trade.<sup>11</sup>

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11 H.S. Chopra, "The EEC's Economic Priorities and India", in K.B. Lall and H.S. Chopra (ed), The EEC and the Third World (New Delhi: Radiant, 1981), p. 130.

There is no denying that the EEC had taken steps towards improving its relations with India by concluding the commercial and Economic Cooperation Agreement (CECA) of 1981. The opening up of their 'representation office' at New Delhi (its representative being at par with ambassadors) in early 1983 is a great step towards strengthening mutual relations. These have marked great milestones in our relationship with the EEC. But as India is developing steadily in multiple fields of industrial and economic activity the EEC has started looking at it somewhat as a competitor. It is this new conjecture which has impelled us to study India's scientific and industrial potential. India has had a large professional base in the scientific field even at the departure of the British. The lack of co-ordination among them as also the paucity of funds made only a waste of such advantage. It was only at the end of the First Five Year Plan that concerted policy and programming helped in tapping the existing advantage. India at the time of partition had inherited the largest share of established industry and of non-agricultural resources of industrial raw materials then developed.<sup>12</sup> India has made a headway in many of the non-traditional industries. Iron and steel - the industry developed even before independence - is still

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12 B.L.C. Johnson, Development in South Asia (Penguin, 1983), p. 136.

very competitive. Even the public sector steel production seems encouraging. The fact that their imports into India have fallen from 36 per cent (of total available steel) in 1960-61 to 1.1 per cent in 1977-78 proves the point.<sup>13</sup> Textile industry has been given boosts and agro-industries fostered due to their export-potential. India with its vast mineral and material resources could afford developing more of such potential industries. Intermediate products such as aluminium and other processed and non-processed metal production can be taken up. To gain more from scientific developments the government must, at the outset attempt to spend more on channelling scientific developments for the sake of industrial and social developments.

It is a well publicised fact that the benefits of scientific and industrial development in this country have not as yet seeped down to the masses. As a result the Physical Quality of Life Index (PQLI) in the case of India in 1981 stayed at 44 per cent. Surprising enough, India finds itself in poor light when compared with People's Republic of China whose PQLI has gone up to 73 per cent. In the case of Sri Lanka it is 80 per cent. After all India and China started the race of development together but India seems to lag behind. China has all the problems of

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<sup>13</sup> Economics and Intelligence Unit, Quarterly Economic Review, Annual Supplement, India and Nepal, 1978.

India such as high population, untapped resources, lack of technical know-how etc. But when China could raise its PQLI it cannot be impossible for India. Science and technology is to be developed after all only to raise the standard of human living. However, one could justify the Indian delay in this regard by observing that China accomplished it in a totalitarian set-up whereas India is trodding the liberal democratic path. It cannot, at the same time be denied that the workd ethics is low among the people of India while it is high elsewhere.

In the field of consultation and technical servicing and assistance a vast scope is seen. This could be utilized in order to retain our scientists and to make a headway in our activities also. During the last few years India has been pleading with the EEC to permit joint ventures in the Lome associates. Initially, the EEC was reluctant. But recently this has been agreed to. Yet the progress is halting and slow. Only selected areas are to be tried initially. Joint ventures would be welcome in most of the Third World countries where India could provide technology and expertise for their development.<sup>14</sup>

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<sup>14</sup> More details from K.N. Modi, "Possibilities of World wide Economic Cooperation between India and Western Europe", The 3rd Round Table of the Economic Forum of Dialogue Congress, Western Europe - India (Austrian College Alpbach/Austria, 21 June 1983).

For this consultancy services must be well equipped more with government patronage by enabling them to have international links for information services technical advancements, market requirements etc.

The prospects for small scale industries are a good deal brighter. According to the Sixth Plan the workers in this sector are to increase from 7.8 million to 10.3 million between 1979-80 and 1984-85, i.e. by 32 per cent. The traditional village industries are expecting a 48 per cent increase in their labour force.<sup>15</sup> Research in agro-industrial fields will help in improving the quality of the products. Relevant technology, even in large scale farming, using of compost fertilisers and indigenously developed varieties of seeds could be publicized and then put to use by the peasantry. Ancillary units such as food processing, canning, tinning and preserving could be started. Export market is assured in these areas. But technology and sophistication are absent in India in these fields in spite of vast resources. But the European technology could help us stride successfully. Further, even small electronic and electrical goods ranging from simple calculators to ball-bearings, from electrical spare-parts to daily consumer goods could be manufactured in our semi-urban areas. Our export stronghold in textile industry has to

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<sup>15</sup> Planning Commission, Sixth Five Year Plan : A Summary (New Delhi: Publication Division, 1981).

be exploited well. There could be a more organised way of exporting our textile after sound quality assessment. For all this India has to be prepared to spend more of its GNP towards research and technology in respective fields.

The EEC and India have been practical in thinking in terms of co-operating in the fields of energy, environment and electronics sectors. This offers more scope to the relationship itself. More sophisticated methods could be adopted to intensify our search for alternative sources of energy. India has many rivers from where hydro-electricity could be generated. Waters of many perennial rivers like the Ganges, Godavari, Brahmaputra could be more productively used. This would help in escaping the menace which has become a recurrent evil in this country. While parts of our country remain dry due to lack of enough water rivers create havoc in many other parts. Even seasonal floods caused by wild rivers and land erosion are grave problems which could be solved in the advanced technology. The advanced technology of the European Community if and when available to device the flood control management could be a tangible input to our economic development.

Similarly the lengthy coastline that India is blessed with provides a lot of scope for fisheries and deep-sea mining. The EEC could be sought to have agreements

with India just as they have with the ACP countries. The EEC has recognized this: "Many of our developing partners have the same food (fish products) deficits but others have considerable resources in their waters which they are unable to exploit rationally themselves."<sup>16</sup>

After pursuing austere economic policies for more than three decades India has realized the importance of oil crunch and has deemed it fit to enter into collaboration deals with the Western MNCs of course on terms suiting our needs. This may facilitate our on-shore and off shore oil explorations.

The Year Book 'Asia 1981' had to observe:

The process of Indianisation of foreign companies through the dilution of their non-resident share holding to the stipulated figures (74 per cent, 60 per cent, 51 per cent or 40 per cent depending upon their area of operation) under the FERA of 1973 was nearly completed. The new industrial policy statement mentioned the need to introduce modern know-how to enable Indian companies to keep in line with overseas competition but indicated no fresh thinking on FERA or the multinationals. <sup>17</sup>

Even today there are no clear idea of the Government's thinking due to its ambiguous approach to foreign

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16 EEC Bulletin, 5/82 Supplement to the Memorandum on the Community Development Policy, Brussels, p. 17.

17 "Asia Year Book 1981", Far Eastern Economic Review (Hong Kong), p. 147.

collaborations or even investments (on luxurious items recognition is given for a stream of collaborations such as DCM-Toyota, Maruti-Suzuki etc., while in other essential industrial goods particularly those of complex and developed technology there seems some hesitation.) Referring to this the Year Book had to say: "Still [the foreign investors] ... are inclined to give the benefit of doubt to the ... government and hope that its approach to alien investment would be liberal."<sup>13</sup>

Co-operation is indispensable and every effort needs to be made to build it up through an integrated approach. This means that there ought to be close co-operation between those who think and those who implement the policies. In other words, the present fragmented approach in which the civil servants are held suspect by the economic operators who in turn are considered as economic "thugs" by the academics and journalists should be gradually given up, paving the path to close national co-operative endeavour charged with motivation to produce positive results. However, it is easier said than done. But it would be wise on the part of the political leadership to produce an environment in which it should be realized. On the external front the Government already has

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<sup>13</sup> Ibid., p. 147.



taken steps towards liberalization of the trading regime. There are many fields where India could intensify its inter-action with the EEC though in many cases greater diplomatic skills will have to be used to earn greater co-operation from the latter. Maintaining high quality of our products and keeping to the delivery schedules (not impossible tasks anyhow) will instil greater confidence in our industrial sector and with it gain greater credibility from the recipient markets in the EEC. Indeed, this is the path which would ensure 'self-reliance' a practical goal on national development.

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