

Indo-European Cooperation in an Interdependent World: An Overview and Analysis *

Bruno Knall/Wolfgang Veit

I. The European Community's relations with developing countries and the case of India

The regionalistic approach

The development policy pursued by the European Community (EC) is the historical result of a slow evolutive process, completed and extended by incentives from within the Community and from without. Hence it seems to be useful to discuss the events and problems of this chapter in a historical-chronological way¹. At the Messina Conference in 1955, when the foundations of the future European Economic Community were negotiated, the problems of developing countries ("overseas countries and territories") were not even mentioned. Because of the close ties with its overseas colonies in the fields of culture and trade, France succeeded in solving her colonial heritage on a European way, when negotiating on the Treaty of Rome to form a European Economic Community (EEC) in 1957. She stated that she only could join the EEC when the African countries of the franc-zone also participated in the common advantages of the future common European market. The arguments of Belgium were similar. In order not to risk the project EEC at this initial stage, the Federal Republic of Germany and the Netherlands agreed to these conditions.

Scrutinizing the Treaty of Rome (1957) which is the charta, i.e. the constitutional framework of the European Economic Community, one is struck by the fact that there is no specific article concerning the Community's general cooperation policy with developing countries apart from those which had special links of colonial nature with the EC. India and/or South Asia were not mentioned at all. At that time the Community felt an international responsibility mainly for the "associated" countries and the dependent territories in Africa. It is of great significance that the be-

* Revised paper presented to the CEPS/ICRIER-Conference on Indo-EC-Relations in New Delhi, December 1986

1 See for detailed information: Commission of the European Communities, 1985; Commission of the European Communities 1984; C. Deubner 1985, p. 36; B. Friedrich et al. 1980, Chapter 4; M. Subhan 1985.

ginning of European integration coincided with the end of the colonial period in Africa: The French and Belgian colonies became independent nations between 1958 and 1962. It was therefore understandable that the Community started with a "regionalistic approach", and in the first Yaoundé Convention (signed in 1963 and started in 1964) only 18 African countries and Madagascar were included. With Yaoundé I came the second European Development Fund (EDF) providing loans as well as grants; financing was no longer confined to investment, but could also cover technical assistance and training. Furthermore, the European Investment Bank (EIB) came in alongside with the EDF. The cooperation was improved in Yaoundé II (1969) and extended to several East African countries (Arusha, 1969).

In spite of this rather restrictive regionalistic approach it is interesting to note that South Asia was not left outside the Community's concern. India was one of the first Asian countries to recognize the importance of the European integration regarding the economic ties that connect the Third World and an integrated Europe. As a logic consequence of realizing this importance, an Indian diplomatic mission to the Community was established in January 1962 in Brussels. It is a distinct mark of the Indo-European relations that the failure of the negotiations on the United Kingdom's entry into the Community (1963) did not put an end to these relations.

The "globalistic approach"

The "globalistic approach" came later, after the European Commission's memorandum on cooperation and development policy (1971) when the heads of state or government of the Community adopted in October 1972 (during their Paris summit) a global cooperation and development policy, a policy on a world-wide scale.

As a result of the United Kingdom joining the EEC in 1973, there was a new increase in the number of developing countries that aimed at an association with the Community. However, not all developing countries that enjoyed the preferential system of the British Commonwealth were accepted as associated countries. The densely populated countries of South Asia were excluded because – as it was said – the financial means of the EEC would not have been sufficient to provide the South Asian countries with the same amount per capita as the associated countries.

In 1973/74 several decisive events took place that did not only influence the relations between the EEC and the developing countries but also the world economic relations as a whole:

- (i) At the fourth summit conference of the non-aligned countries in Algiers (Sept. 1973) the idea of a new international economic order is put forward.
- (ii) In October 1973 the OPEC uses its crude oil for the first time as an economic weapon by quadrupling the oil prices between autumn 1973 and autumn 1974.

- (iii) The sixth special session of the United Nations General Assembly in New York in May 1974 adopts the Declaration and the Programme of Action on the Establishment of a New International Economic Order.
- (iv) The 29th meeting of the UN-General Assembly in December 1974 adopts the Charta on the Economic Rights and Duties of Countries.

ACP-Countries

While the Yaoundé Conventions were an experiment, a kind of testing ground for the instrument of cooperation, the first Lomé Convention (signed in February 1975 by the European Community and 46 independent states of Africa, the Carribeann and the Pacific – ACP) inaugurated a cooperation policy of a different dimension. At the demand of the ACP-countries the term “association” was dropped which was a change in political terms, reflecting the changing relationship between the EC and the former “associated” states. Lomé II started in 1980 (with 57 ACP-countries) and Lomé III in 1985 (with 66 ACP-countries). The most interesting feature of the Lomé Conventions is the provision of STABEX, a system for the stabilisation of ACP export earnings and of the mechanism for assuring ACP mineral development – SYSMIN. The decisive advantage of STABEX in view of other measures concerning raw materials, in particular UNCTAD’s Integrated Programme for Commodities, lies in the fact that the export earnings are stabilised and not the prices.

The Lomé Conventions seem to be the most extensive cooperation agreement in the history of North-South relations because – besides STABEX and SYSMIN – the conventions have the aim to develop and diversify all types of industry in the ACP-countries. The policy instruments of the EC to reach this goal are financial and technical help in the field of industrial training, help in processing locally available raw materials, the transfer of technology, the development of industrial infrastructure, energy cooperation as well as industrial information and promotion. Trade promotion is another interesting device.

Countries South to the Mediterranean

Because of the fact that the European Community is the leading trade partner of the countries *south to the Mediterranean*, several cooperation agreements were signed one after the other in 1976 with the countries of the Maghreb (Tunesia, Algeria, Morocco) and in 1977 with the Mashreq countries (Egypt, Jordan, Syria, Lebanon) as well as with Israel. These agreements included economic, financial and technical cooperation.

The trade concessions and tariff reductions vary but they have been made on a non-reciprocal basis (as in the case of the ACP group) and for an indefinite period. The south enlargement of the Community – Greece joined the EC in 1981 and Spain

and Portugal in January 1986 – will certainly require a new Mediterranean policy because this enlargement will result in a change of the social and economic structure of the Community. What seems to be required is a North-South policy within the Community itself.

There is no doubt that in the relations of the European Community with developing countries, the ACP group and the southern Mediterranean countries make up the inner circle of privileged cooperation. But in addition to its preferential ties with these two groups of countries, the EC has also developed links with the non-associated countries of Asia and Latin America.

Non-associated developing countries

An important trade policy instrument for the non-associated developing countries² is the Generalized System of Preferences (GSP) which provides preferential treatment for industrial exports originating in the non-associated countries, such as finished and semi-finished industrial products, textiles and a large number of processed agricultural products. The word “generalized” means that preferences are granted to all developing countries by most industrialized countries. In principle the ACP group also benefits from the GSP, but it makes hardly, if any use of it, as ACP-countries enjoy more generous tariff preferences under the Lomé Convention.

The international discussion about GSP was initiated during the debates at the first UNCTAD but it was the EC which took the lead by applying GSP from 1971 onwards. In 1980 GSP was extended for another period of ten years, and to make more use of this scheme the EC replaced the old global ceilings and quotas by individual limits for each country. Some 127 independent developing countries and 22 dependent territories are today entitled to GSP. In fact, it were the newly industrializing countries and other semi-industrialized countries that benefitted most from the Community's GSP. In 1982, for example, the following countries accounted for 73 percent of all exports to the EC under the GSP: Rumania, Brazil, Venezuela, Hong Kong, India, South Korea, Kuwait, Malaysia, Singapore, Thailand, and the Philippines.

Bilateral Agreements

Another important trade policy instrument were the various economic and commercial agreements concluded bilaterally by the EC and some non-associated developing countries in Latin America, Asia and the Middle East. India was the first country to benefit because a five-year non-preferential Commercial Cooperation Agreement (CCA) started in December 1973. This CCA provided the pattern for other agreements which the EC signed with some South Asian countries, such as Sri

2 Kommission der Europäischen Gemeinschaften 1983; M. Dauderstädt et al. 1982.

Lanka (1975), Pakistan and Bangladesh (1977), China (1978) as well as Latin American countries, e.g. Uruguay (1973), Mexico (1975), Brazil (1980).

Since these agreements limited the economic activities strictly to trade matters, it was felt that their scope should be enlarged. Therefore, a much broader economic, commercial and development cooperation agreement was conceived by the EC. The ASEAN-group (Indonesia, Malaysia, Philippines, Brunei since 1985, Singapore and Thailand) was the first to benefit (1980), followed by the India-EC Commercial and Economic Cooperation Agreement (CEDA), signed in June 1981. A similar agreement was signed with the Andean Pact (Bolivia, Ecuador, Colombia, Peru, and Venezuela). This new generation of agreements is broader in scope, is non-preferential, the duration is for a five-year period but automatically renewable.

In spite of the EC's priority to the rural sector (which received 40 percent of EDF aid under Lomé II), the results were disappointing: The prices of many commodities slowed down, the reserves of foreign exchange declined, making it thus difficult to pay for the necessary food imports. Hunger struck massively once more. On this background the EC launched a plan of action to combat hunger in the world by devising a food strategy which boiled down to a food aid programme providing cereals, milk powder, butteroil, sugar, vegetable oil, etc. Food aid is a debatable instrument for development because food aid can have perverse effects. But as long as developing countries cannot produce enough to meet the needs, food aid will be vital. It should be emphasized that food aid has to be an integral part of a development programme when perverse effects are to be avoided. A good case in point is India. This country applied in 1977 to the Community for 300,000 tonnes of dairy products over a seven year period. With the proceeds of the sale of these products, India is setting up a modern dairy industry supplied by ten million rural families ("Operation Flood"). Between 1976 and 1985 India received 377 million ECU from the EC as food aid (mainly "Operation Flood"). In 1985 alone, food aid amounted to 59 million ECU. (In 1984 the European Community spent 709 million ECU on food aid to help more than 60 developing countries, mainly Bangladesh, Egypt, India and several ACP-countries.)

Concluding this chapter on the Community's development policy, it is right to say that the EC can claim to have developed the widest range of instruments for helping developing countries to raise their living standards both through increased trade, development and food aid. Although the EC's trade with India represents only about one percent of the extra-Community's trade, the EC is India's largest export market with over 20 percent of all exports going to the EC, while 23 percent of India's imports are originating from the EC (1984). Furthermore, India is the leading beneficiary of the EC's financial and technical assistance for non-associated developing countries. In the period between 1976 and 1985 India received 375 mil-

lion ECU from the ECU as financial and technical assistance. In 1985 alone, the EC's financial and technical assistance for India reached 92 million ECU. Just for the sake of completeness it has to be added that the bilateral aid contributions of the individual countries of the Community, in addition, amounted to 391 million ECU. In the area of trade promotion, the Community has provided almost 6 million ECU since 1980 which makes India the greatest beneficiary of this programme. This amount was earmarked partly for the establishment and the running costs of the Indian Trade Center in Brussels in February 1980, and partly for trade missions, the participation of Indian firms at European trade fairs, seminars on trade problems, the provision of experts in marketing, product quality, etc. The priority areas of the Indian Trade Center are engineering goods, electronics, leather and leather products, jute and coir products, textiles, and agricultural products. As to the economic and industrial cooperation between the EC and India, the Community provided assistance to the Indian Investment Centre in Frankfurt which is a service agency of the Government of India assisting in the establishment of joint ventures in India and abroad. This Investment Centre, however, is not very well known among European economic circles, particularly among medium-sized firms which are so important for the Indian economy. In order to strengthen the relations with South Asia, the Commission of the EC opened a delegation in New Delhi in spring 1983. Attached to this delegation of the EC-Commission there is a press and information bureau.

Finally, it is noteworthy that in September 1982 the Commission of the European Community published a further Memorandum on the Community's development policy. This so-called Pisani Memorandum has been approved by the European Community's Council of Ministers of the Ten only with respect to the main lines of the document, but they have not yet given their opinion on its financial implications. The Commission's memorandum was intended to be a political act aimed at Europe itself. The very first sentence of this document states: "Development policy is a cornerstone of European integration." Accordingly, the whole aid process has to be changed by making it serve an eminently political purpose: to support anything that encourages less dependent, more autonomous development, in other words, to give Europe's partners the wherewithal to achieve their economic – and therefore cultural and political – emancipation.

II. The implications of India's Economic Reforms for industrial and developing countries

The asymmetric development of trade between India and the EC has been part of the as well asymmetric dialogue between the two for years. The EC names the insuffi-

cient marketing of Indian export products as a reason for the slow development of trade, which also includes criticism regarding the level of quality. India's answer to this reasoning is that the EC pursues a trade policy which discriminates Indian exports. During the last few years this official arguing has not changed. Since Rajiv Gandhi came into office some hope has been placed in his government liberalizing the economic policy³. It has to be asked, however, whose hopes will become reality, since the measures being implemented affect the sectors of the Indian economy in different ways. (The first economic reforms were already started by Indira Gandhi.)

Indian dirigisme

The Indian *dirigisme* is reflected in particular by three areas of economic policy, i.e. industrialization, foreign trade and public sector⁴.

- (i) The licensing system, intended to stop the undesirable concentration in highly capital accumulating industries and to direct the scarce resources into well-planned projects, has become a complex of rules (e.g. the Monopolies and Restrictive Trade Practices Act 'MRTP') and institutions which can hardly be surveyed. In particular, it is criticised that this system reduces competition, leads to preventive surpluses and favours inefficient small firms but could not restrict the concentration of capital (in 1985 the 20 largest firms pooled 40 percent of the capital compared with 25 percent in 1947). In addition, the procedure of licensing is not transparent enough and managers estimate that about 5 percent of the money for investment has to be deducted for bribes.
- (ii) The strategy of import substitution is still favoured by several people. The policy of promoting small firms cannot be pursued without an additional tariff protection because of their inefficiency. The aim of decentralized industrialization was reached at the cost of efficiency: The meanwhile liberalized regulation of quotas alone was one reason for a cost increase of 10 percent because of delays in delivery. Investment in research and development is neglected because of the high tariff protection for capital goods (on average 45 percent). The imports of technology of competitive countries such as Japan and USA amount to 45 and 85 times of the Indian volume.
- (iii) The public sector in the Indian economy gained great importance. 50 percent of investment and 70 percent of the employed are concentrated in this sector

3 The Economist Intelligence Unit 1986; Friedrich-Ebert-Stiftung 1986; Statistisches Bundesamt 1986.

4 N. Monga 1985.

(1983/84). This shows that its low productivity is even worse for the other sectors. Out of 214 public enterprises there were 50 which were almost bankrupt and 100 which produced losses.

Foreign trade and investment

Reforms of the Indian economic policy have remained under discussion since the 1960s, and after the first oil price increase some of them have also been carried out, especially since the early 1980s. Dating back to the time of Indira Gandhi's presidency, the following reforms were introduced that were important for India's foreign trade: export production was less hindered by excluding this part of the economy from the MTRP-legislation and granting tax reductions. In addition, the import restrictions for capital goods, in particular imports of technology were liberalized. The increasing number of cooperation licences with foreign enterprises is also important for Indo-European cooperation (*Table 1*).

It is just the number of reforms regarding technology research and development that have gained special importance since Rajiv Gandhi's assumption of office. In addition to the numerous changes in the industrial policy this is also reflected in the regulations concerning foreign trade. For example, in the electronics industry the import duties for unprocessed and semi-finished goods were reduced by two thirds, and 40 percent of foreign holdings in already existing firms as well as majority holdings in those firms which cannot meet the needs for research purposes are allowed. These measures were taken to accelerate development in the fields of automotive engineering, energy and electronics.

Between January and June 1986 the Indian government approved 355 foreign collaboration cases, 88 of them included financial cooperation. Most of the agreements (70) were signed with the FRG, the USA following with 67 agreements. Also the USSR signed similar agreements, which mention explicitly the transfer of technology and re-exports. Precisely this last point complies with India's wishes, whereas western enterprises hope to be able to supply the Indian market with their goods at a later time.

The situation in India concerning investment is felt to be unfavourable for foreign investors. According to recent studies of the European Management Forum, India ranks 25th out of 28 countries. In this context it also has to be pointed out that in 1985 200 products with advanced technology were exempted from any direct control.

The changes in India's trade policy are also reflected in the fact that an import substitution which did not consider the comparative cost differences was reduced in favour of a selective import substitution. Nevertheless, India's tariffs show an extremely high effective protection. In 1984, the protection of unprocessed/semi-fin-

ished and finished goods ranged at 42 percent and 86 percent, respectively. The export production was not liberalized in the true sense, but a greater readiness for promoting export under the given dirigistic measures can be seen. Only the fact that export duties were reduced almost to zero indicates a more liberal policy. However, this goes hand in hand with higher subsidies which ultimately are to compensate for the cost effects of the import substitution. The so-called free-trade zones established for export production have not contributed much to the growth of this sector up to now. Between 1980 and 1984 only 10 percent of the 510 officially approved enterprises started production.

Table 1: Indo-Foreign Collaborations sanctioned Annually 1980/1987

Country	1980	1981	1982	1983	1984	1985	1986	1987	Total
U.K.	110	79	107	119	126	147	130	122	940
U.S.A.	125	85	110	135	148	197	189	197	1186
F.R.G.	100	74	110	129	135	180	183	149	1060
Japan	34	27	51	58	78	108	111	71	538
Switzerland	38	26	41	47	30	42	32	31	287
France	24	23	28	40	38	61	39	44	297
Italy	25	18	37	30	38	56	58	50	312
Sweden	10	11	15	15	14	29	29	19	142
Netherlands	8	9	14	13	14	16	26	23	123
GDR	4	4	2	10	11	12	6	3	52
Denmark	6	1	4	3	6	12	7	11	50
Austria	5	8	8	3	8	14	16	9	71
Canada		2	1	6	8	15	15	9	56
Czechoslovakia	4		5	2	1	7	4	5	28
Belgium	2	1	4	8	5	9	6	7	42
Hungary	2	3	3	2	6	2	2	3	23
Poland	2	4	4	1	1	2	2	1	17
Finland	5	2	4	1	2	4	5	2	25
Yugoslavia	3	1	2			6		3	15
Others	19	11	41	51	83	105	98	94	502
Total	526	389	591	673	752	1024	958	853	5766

Source: Indo-German Chamber of Commerce (ed.): Indo-German Economic Cooperation 1988; Annual Report

Further prospects for a liberalized Indian trade policy are determined by the recommendations of the Abid-Hussain-Committee⁵ and the success of the measures

5 The Economist Intelligence Unit 1986; Vierteljahresberichte der Friedrich-Ebert-Stiftung Nr. 110, Dezember 1987

taken up to now. It is just this short-term success which seems to be important, in particular, for putting through the long-term proposals of the committee: in the first six months of the financial year 1985/86 exports to the USA and the EC dropped by 19 percent each, while imports increased by 43 percent and 24 percent, respectively. Looking at the measures taken in 1986 it can be noticed that great importance is attached to the promotion of exports:

- (i) A committee with high-ranking government officials was formed in order to de-bureaucratize the export sector by quick decisions.
- (ii) A special export development fund was established to give technical, administrative and financial assistance of any kind of exports.
- (iii) A cash compensatory scheme was introduced, intended to compensate for domestic taxes in the export production.

As far as imports are concerned, some measures to de-bureaucratize this sector have been introduced.

Most of changes in foreign trade are in accordance with the Abid-Hussain-Committee. Its far-reaching demands for changing the system of import quotas into a pure tariff system and for reducing the protection of in the meantime rather old infant industries, will probably cause some political opposition.

The conditions for private transfers of capital play also an important role in the foreign trade sector. As mentioned before, India's high distrust of foreign investors is demonstrated among other things by the MTRP-legislation and the restrictions concerning the cooperation between enterprises. Besides the question of majority holding of foreign enterprises, the possible sale in India is of major importance. Up to now only 25 percent of the production could be delivered to the domestic market, but only if an import license was available.

In view of the unfavourable foreign trade situation, characterized by shortage of capital and balance of payments problems, the prospects for the possible reforms mentioned before ought to be good, if only because they are necessary. The fact that the political intention exists for reforms that attach more importance to the power of the market, in particular in the case of pricing, is illustrated by a discussion paper of the Ministry of Finance in August 1986. It proposes methods for the setting of prices in the public sector which are to lead towards a production according to world-market conditions. This procedure is planned to be carried out gradually and under control of the Bureau of Industrial Costs and Prices. In view of a great lobby of officials and managers who profit from protection, a prompt success of the government's policy is not going to be easy. In addition, skepticism is justified because the

severe drought of 1987 has led to increased inflation and a shortfall of planned industrial production.

The trade liberalization policy of India's government is concentrating on increasing exports and modernizing the domestic capital stock by importing high-tech goods. Again, the drought may force India to substitute food-imports for their goods, thus further darkening the prospects of implementing the intended reforms. For India's trade partners this means that the suppliers of high-tech goods, mainly newly-industrializing and industrialized countries, increase their export chances, whereas the suppliers of low-tech goods, i.e. the developing countries, are confronted with increased competition.

This hypothesis is proved by data on the structure of India's foreign trade. *Table 2* illustrates that India's balance of trade deficit is mainly due to the trade with technologically highly developed countries. In Asia these are Japan, Singapore and South Korea, in Latin America Mexico und Brazil. As far as the trade with the USA is concerned, there was only in 1984 a surplus, and regarding the trade with the USSR, there is an almost constantly slight surplus. Within the SAARC-countries (Bangladesh, Bhutan, India, Maledives, Nepal, Pakistan and Sri Lanka), trade is slightly positive for India except for the case of Pakistan, which produced a surplus in its bilateral trade with India⁶.

Table 2: India's Foreign Trade by Regions, 1975, 1980, 1985 (Millions of US-\$)

	1975			1980			1985		
	Imports	Exports	Balance	Imports	Exports	Balance	Imports	Exports	Balance
World	6198	4364	-1834	14822	8441	-6381	17640	9822	-7818
Develop. Asia	656	804	148	2730	1139	-1591	3096	1078	-2018
SAARC									
Bangladesh	5	71	66	12	106	94	33	56	23
Nepal	28	60	32	21	95	74	43	78	35
Pakistan +)	5	5	0	76	2	-74	41	14	-27
Sri Lanka ++)	1	55	54	32	101	69	7	68	61
Latin America	61	16	-45	344	20	324	509	5	-504
Africa	156	335	179	274	518	244	307	336	29
Japan	514	450	-64	815	776	-39	1770	1089	-681
USA	1384	477	-907	1865	967	-898	1806	2253	447
USSR	394	511	117	1233	1410	177	1306	1549	243
EEC	1315	875	-440	3416	1897	-1519	4658	1844	-2814

+) instead of 1975-data there are given 1976-data

++) instead of 1975-data there are given 1977-data

Source: Statistical Yearbook for Asia and Pacific 1987

6 See N. Wagner 1987

Table 3: Trends in Indo-EEC Trade (Million ECU*)

Year	India's Imports (FOB)	Percentage Change over previous year	India's Exports (CIF)	Percentage Change over previous year	Total Trade	Balance of Trade
1980	2298		1799		4097	-499
1981	3363	+16	1880	+4	5243	-1488
1982	3991	+19	2572	+37	6563	-1419
1983	3823	-5	2196	-15	6019	-1627
1984	4629	+21	2905	+32	7534	-1724
1985	5560	+20	2672	-8	8232	-2868
1986	5707		2396		8103	-3311

+ ECU (European Currency Unit) is the basket currency unit to compile Community budget & trade statistics. The current ECU-Rupee exchange rate is 1 ECU=Rs. 15.60

Source: *India Bulletin*, January-March 1988

Table 4: India's Exports to EEC in Different Sectors (Million ECU)

Sectors	1981	1982	1983	1984	1985	1986	1987 ++
I. Agriculture and Marine Products	477.6	549.2	578.7	771.0	539.1	524	342.2
II. Leather, Leathersgoods and Sportsgoods	220.6	256.5	260.2	371.0	433.8	369	403.6
III. Chemicals and Allied Products	29.5	35.3	36.6	51.7	56.1	71	75.1
IV. Textiles and Garments	593.9	563.8	588.8	709.9	732.5	734	924.5
V. Jute and Coir	69.4	70.0	92.4	79.0	101.2	64	
VI. Gems and Jewellery	232.4	317.8	329.5	293.0	281.0	320	292.5
VII. Engineering and electronic goods	114.0	127.0	108.3	150.3	144.3	139	130.6
VIII. Others including POL	142.6	652.1	201.1	479.5	384.3	170	125.0
Total	1880.0	2571.7	2195.6	2905.4	2672.3	2391	2293.7

++ 10 months in respect of 10 countries

Source: *India Bulletin*, January-March 1988

As a future newly-industrializing country, India's trade policy aims at opening up new markets in industrial countries as well as supplying the existing markets of the less developed countries of Africa and Asia. It will be confronted with difficulties, which result from the increasing protectionism of the industrial countries. (Even now the typical Indian export products meet high Pakistani competition, as can be seen by comparing the export products with high export performance ratios of both countries.) Since it cannot be said whether this tendency changes, India's relations to the SAARC-neighbouring countries become more important.

At the beginning of the 1980s the SAARC-countries negotiated on the possibility of increased regional cooperation. In 1983 these negotiations resulted in an agreement on the South Asian Association for Regional Cooperation, SAARC, in 1985⁷. The cooperation comprises a common political position towards the countries outside SAARC. An increase in intraregional trade was considered to be politically delicate and therefore mentioned only vaguely. The average tariff on imports in 1984 amounted to 72 percent. The fields of cooperation determined more precisely were telecommunication, transport and agricultural policy; they formed the common denominator in a political sense. However, parallels are drawn to the EC which indicates the intention of pursuing a policy of South Asian rapprochement. In general, it can be stated that SAARC is characterized by

- a) a small trade volume
- b) high tariff and non-tariff trade barriers
- c) different political systems
- d) non-acceptance of the presence of the USA and the USSR
- e) an only rudimentary organization of regional cooperation.

III. India's role in an interdependent world

The most important existing links between India and the EC⁸ in the field of economic, commercial and development cooperation, have already been touched upon in a condensed way. But what are the political dimensions of India's involvement in world affairs and world politics?

Despite its many and very complex domestic preoccupations, India has been quite active on the world stage. After World War II, India was one of the first Asian nations (only preceded by the Philippines) to gain political independence and supported strongly Asian and African decolonialization. Jawaharlal Nehru is considered

7 See D. Braun 1987.

8 K.B. Lall 1984; V. Ravikumar 1982, pp. 193-212; P. Talbot 1983.

to be the founder of nonalignment for nations outside the cold-war blocs. India's peacekeeping efforts under the aegis of the UN in the Congo, Lebanon, Gaza, Korea, and Vietnam should be seen in the same vein. During international conferences and gatherings, India always had a strong position: as member of the Non-Alignment Movement, the Group of 77 and UNCTAD, India often pronounced her views about the North-South dialogue, about planning and development in the Third World, but also about the questions of national security and control of nuclear weapons. By doing so, India did not follow a smooth course in her complex pattern of foreign relations, in witness whereof some examples may suffice.

Relations with China and the Soviet Union

After the independence of India, Sino-Indian relations⁹ during the mid-1950s seemed to run smoothly. (Remember the slogan: *Hindi Chini Bhai Bhai*, Indian and Chinese Brothers.) The border dispute at the north-eastern frontiers which started at the end of the 1950s, escalated to a small but full-scale war in 1962. The rupture of Sino-Soviet relations in the early 1960s further soured the Sino-Indian relations because between the Soviet Union and India¹⁰ a "reliable friendship" was cherished. More than 20 years have elapsed since then, and today the Sino-Indian relations are guided by *Realpolitik*. On both sides a more realistic foreign policy can be noticed. Not only an India-China Trade Agreement was concluded in 1984, but also negotiations have taken place for joint India-China ventures in third countries and Indian industrial investment in China. It is noteworthy that the European Commission financed twice several Indian experts in China as part of the cooperation EC-China.

The preservation of a friendly relationship between India and the Soviet Union can be explained by the particular foreign policy objectives of both partners. On the one hand, by supporting India, the Soviet Union hopes that on international issues Indian political leaders will take positions which are as close as possible to those taken by the USSR. Another extremely important argument for closer relations with India is the possibility of using India as a counterbalance to China and the USA in the Asian balance of power. On the other hand, India's interest in the Soviet Union's support is to secure the nation's independence and to maintain non-alignment. (India denies that the treaty of peace, friendship and cooperation signed with the Soviet Union in 1971 for a period of 20 years constitutes an alliance, although there are military implications.) Soviet military assistance accounts for some 80 percent of military equipment and arms India has received since 1965. Commercial relations are another field in which both sides perceived continuing benefits.

9 M. Monhanty 1985, pp. 17-22.

10 R.H. Donaldson 1980/81, pp. 235-258; T. George et al. 1984; D. Kaushik 1985, pp. 6-16.

However, India needs more and newer high technology which the Soviet Union is less able to provide than Western countries like the USA or the European Community. Since the government under Rajiv Gandhi seems to be less ideological and more technocratic than the government of Indira Gandhi, the chances that the new government is more flexible in its treatment with the EC or the USA have increased.

Relations with the United States

From the point of view of Indian politicians the United States¹¹ are a friendly nation whose reliability, however, is much to be desired. This reputation may have started some three decades ago when the USA entered into an economic and military aid relationship with Pakistan. The US Congress' refusal to assist in building the Bokaro steel mill may be seen in the same context. Furthermore, in the India-Pakistan war (1971) US economic aid to Pakistan was not terminated, while the Nixon administration cut off the \$ 87 million development loan to India. The Indian politicians resent in particular the United States' commitment in the arms aid to Pakistan and they are rather afraid of Pakistan's nuclear weapon's drive. The US-relations with Pakistan have been a continuous obstacle to the improvement of US-relations with India. As to the US' attitude towards India the most equivocal matter is India's policy of non-alignment. For many Americans this is equal with a political rapprochement of India and the Soviet Union. The Indians argue that the international system is not a bi-polar zero sum game in which the outsiders have to choose between Washington and Moscow and that India's friendship with the USSR is not intended to be an act of Anti-Americanism. Therefore, considering the geopolitical situation of India, the adoption of a pragmatic non-alignment policy follows quite naturally. This is perhaps the reason why India used its bargaining power with regard to development aid. The United States lead overwhelmingly in granting aid. The same is true for the Indo-US trade relations. After the visit of Prime Minister Rajiv Gandhi in the USA in July 1985, it seems as if the Indo-US political relations got a new beginning. Addressing a joint session of the US Congress (this honour was granted to only one Indian leader before, in 1949: Jawaharlal Nehru, Rajiv Gandhi's grandfather), he stated full of hope: "The people of India and America are not allies in security strategies, but they are friends in larger human causes: freedom, justice and peace".

Relations with Japan

The Indo-Japanese relations¹² have undergone a substantial change in the past 40 years. A significant date in this process, the year 1984, may be mentioned. It sym-

11 B.K. Shrivastava 1985, pp. 1-5.

12 S. Vishwanathan 1985, pp. 23-27; R. Drifte 1983, pp. 147-161.

bolizes a change of attitude in Japan's perception of India. Despite several attempts by India to resume close relations between both countries from the 50s onwards, Japan preferred to be in line with the United States with respect to international relations. In 1984, by the initiative of Prime Minister Nakasone, Japan seemed to extend her concept of Asia beyond the western borders of South East Asia. Political resentment against an increasing economic presence of Japan in the whole of Asia is widespread. Thus India's role within the Non-Aligned Movement may serve for Japan as a medium of rapprochement to the region in general. If India is successful in bargaining, the economic benefits which she can reap from this intermediation can be considerable.

Relations with the European Community

From the point of view of the European Community¹³ India has a huge market, is the tenth most industrialized nation and has an important voice among the Third World in the North-South dialogue. The EC, being more dependent on outside raw materials and energy than the USA, gives a higher priority than Americans to negotiations with the Third World. Unlike the USA and USSR, the European Community as such has no hegemonial interests in the sub-continent of South Asia, thus acquiring a sort of neutrality in conflicting situations. The most important intra-regional conflict is that between Pakistan and India¹⁴. The latest tensions between both countries in Kashmere coincide with a considerable increase in defence-spending. It hinders closer economic cooperation between these two major countries of the subcontinent. Both countries see its causes in the interference of a super-power in regional disputes. Representatives of both countries would welcome an increase in the EC's political power, a counterbalance to the influence of the super-power, so to say. (In particular, India indicates that the EC is still too closely connected with the USA so that it cannot be considered to be neutral as far as the South Asian problems are concerned.) Thus in gaining more influence, the EC can contribute to the reduction of regional tensions and promote trade and economic development in the countries concerned. Similar to the development aid through international agencies, the European Community does not pursue its own interests. This could have effects on the investment not made by individual countries but by the European Investment Bank. It happened in the past that the laudable initiatives of the EC-Commission which were in the interest of the developing countries were rebuffed by the opposition of the member-states which do not want the Commission to encroach upon the national prerogatives. Therefore, since the Commission depends in the last resort on

13 K.B. Lall et al. (eds.) 1984; Commission of the European Communities 1986.

14 See D. Braun 1985.

the consensus of the Council of Ministers, its development policies have been watered down to the lowest common denominator. Nevertheless, there is a definite chance that the European Community can assume an active role of mediator in the successful resumption of the North-South dialogue. There is no doubt that in this endeavour India can play a decisive role. As far as the Community's policy towards the countries of the Mediterranean region is concerned, India will certainly find some useful hints as to how to tackle regional problems. Despite the differences which exist between India and the Community, some EC experiences in regional policies gained so far, can and should be taken into account by India, such as the problem of decentralization, the participation of people in regional and local government, locational planning of industries, etc.

IV. Perspectives of the future Indo-European relations

The economic and political relations of both sides were based and will in future be based on three basic alternatives.

- (i) The EC and India consider their acceptance of demands of the other partner to be a concession. This implies that an economic and political structural change in both India and the Community is not regarded as positive, since in the short run there are vested interests. In the case of India this could be, for example, the government's consideration for protected industries, in the case of Europe it could be the administration's dependence on national governments.
- (ii) Both sides aim at distributing political and economic activities according to the comparative advantages. This is diametrically opposed to the point (i) mentioned above, since this would result in an enormous structural change with high adjustment costs for the parts of society which are concerned. In the long run, however, it would be advantageous for the whole society.
- (iii) The present relations (point i) are extended on the basis of a compromise between the above-mentioned assumptions (i,ii). This means, only those measures are taken that seem to be advantageous for both sides. In this case the possible options are rather limited. There are supporters of each of these alternatives on both sides, i.e. India as well as the EC. For example, the Joint Project Planning Study of the Smallman Committee demands taking into consideration comparative advantages as far as economic relations are concerned, but on the other hand, it welcomes the EC's beginning process of

differentiation between countries at various levels of development, something which newly industrializing countries consider to be discriminating¹⁵.

Arguments of both assumptions are combined in India's demand for opening the European market for goods which are produced in India with comparative advantages, and on the other hand, her hindrance of capital imports in the form of direct investment.

Europe's objections to a New International Economic Order with interferences in the market – as promoted by India – is opposed to its own trade and agricultural policy.

Also impressingly ambivalent is India's position towards the multi-fibre agreement. On the one hand, it is condemned as an instrument of European import policy. On the other hand, Indian textile industry is rather inefficient compared to other South East Asian countries.

The discussion on the future modelling of the Indo-EC relations is increasingly dominated by arguments that put more weight to the importance of the market forces and hence to comparative advantages. The connection with the reform policy of Prime Minister Gandhi mentioned above, is obvious. Increasing transparency of the market seems to be a prerequisite if this policy is to be successful. This is true for the production side, where an only insufficiently developed infrastructure in the communication and transport sector has negative effects on competitiveness. And it is also true, even in a double sense, for the marketing: Information on the European markets concerning quality, service, reliability, etc. does not reach the Indian producer because of the inadequate international flow of information. Because of domestic problems he might not even be able to take it into account.

Hence, the efforts to improve the flow of information on the international level and the infrastructure in India are useful and promising elements of future cooperation. In fact, the problem of information is regarded as extremely severe by possible investors and exporters¹⁶.

However, such concrete measures should be embedded in a greater concept of development policy. On the part of India, the most recent changes towards a more liberal economy have already been explained. In the EC, the future role of the development policy has not been definitely defined yet. In the last analysis, the foreign trade policy is the result of a conflict of interests between opening to within and opening to without. The one thing seems to be possible only at the cost of the other.

15 An example of this process of differentiation is the writing off of government loans given by industrialized countries to least developed countries.

16 The success of the Indo-German trade fair 1988, again, reflected this deficiency.

In view of the existing structural problems within the Community and a shifting of competences concerning trade policy from the member states towards the Community, the reduction of protectionist measures cannot be expected in the short run.

The EC maintains very close economic relations with about 50 percent of UN member states, so that these are directly affected by decisions of the EC concerning economic policy¹⁷. This fact should be taken more into account in the development policy of the EC¹⁸.

Hence, there is the question of a precise concept of the European Community's development policy. This would be advantageous, because

- (i) prospective planning would be more successful on both sides,
- (ii) short-term decisions would have a long-term basis,
- (iii) the financial means from the member states would increase,
- (iv) national interests would decrease in favour of an integrated policy.

A concept which gives priority to common interests does not seem to be possible without a shifting of competences towards the EC institutions. In the following fields of policy such a shift may be meaningful:

- (i) transfer of capital (increasing efficiency by better coordination),
- (ii) promotion of export (integration of trade and development policy),
- (iii) food aid (integration of agricultural and development policy),
- (iv) monetary policy (less negative impact of \$-fluctuations on trade and a reduced risk in the case of indebtedness denominated in foreign currencies).

Thus, the European Political Cooperation would get concrete meaning. India could expect considerable advantages from a calculable European policy. In her own interest, she should support the Community in its process of development.

17 Many countries fear that after 1992 there will be even higher barriers to trade with the EC; see for example the statement of India's Ambassador to the EC, in: *India Bulletin*, January-March 1988

18 H.S. Chopra 1985, pp. 60-67.

Sources

- D. Braun, *Südasiens zwischen Konflikten und Zusammenarbeit*, Gesellschaft für Wissenschaft und Politik, Ebenhausen 1985.
- H.S. Chopra, "Indo-EEC Perspectives on Development Cooperation", *India Quarterly*, XLI, Jan.-March 1985.
- Commission of the European Communities, *Die EWG und die Entwicklungsländer außerhalb des Abkommens von Lomé*, Europa Informationen 66/83, Brüssel, 1983.
- Commission of the European Communities, *The European Community's Development Policy 1981-1983*, Brussels, January 1984.
- Commission of the European Communities, *Europe-South Dialogue: Interdependence, 2. History, 3. Lomé and 4. The Mediterranean*, Brussels, March 1985.
- Commission of the European Communities, *The European Community and India*, Europe Information, External Relations, 85/86, Brussels, April 1986.
- M. Dauderstädt et al., *EG-Politik der Zusammenarbeit mit Entwicklungsländern*, Weltforum Verlag, Köln, 1982.
- C. Deubner, "Die Außenwirtschaftspolitik der EG", *Aus Politik und Zeitgeschichte*, B 17/85, April 1985.
- R.H. Donaldson, "The Soviet Union in South Asia: A Friend to Rely On?", *Journal of International Affairs*, 34, Fall/Winter 1980/81.
- R. Driete, "The European Community and Japan: Beyond the Economic Dimension", *Journal of International Affairs*, 37, Summer 1983.
- The Economist Intelligence Unit, *India to 1990*, The Economist Publication Unit, London, 1986.
- B. Friedrich et al., *Entwicklungspolitik der EG*, Campus, Frankfurt, 1980.
- Friedrich-Ebert-Stiftung, *Rajiv Gandhi's Wirtschaftspolitik*, FES, Bonn, 1986.
- T. George et al., *Security in Southern Asia 2: India and the Great Powers*, Gower, Aldershot (England), 1986.
- N-P. Jain, "Indo-EEC-Relations", *India Bulletin*, January-March 1988, pp. 3-5
- D. Kaushik, "India-URSS and East Europe: Emerging Trends under Rajiv Gandhi", *India Quarterly*, XLI, Jan.- March 1985.
- K.B. Lall et al. (eds.), *The EEC and the Global System*, Allied Publishers, New Delhi, 1984.
- K.B. Lall *India and the EEC*, Allied Publishers, New Delhi, 1984.
- J.N. Monga: *India's Economic Development Strategies 1951-2000 A.D.*, New Delhi 1985.
- M. Monhanty, "India-China Relations: A Positive Frame", *India Quarterly*, XLI, Jan.-March 1985.
- V. Ravikumar, "EEC and India: Relations in Third World Perspective", *Foreign Affairs Reports*, XXXI 11, November 1982.
- B.K. Shrivastava, "Indo-US Relations: Search for Mature and Constructive Relations", *India Quarterly*, XLI, Jan.-March 1985.
- Statistisches Bundesamt, *Länderbericht Indien 1986*, Kohlhammer, Mainz, 1986.
- M. Subhan, *The EEC's Trade Relations with the Developing Countries*, Europe Information, Development, DE 48, Brussels, January 1985.

- P. Talbot, *India in the 1980s*. Foreign Policy Association: Headline Series No. 9262, New York, Jan/February 1983.
- United Nations, *Statistical Yearbook for Asia and the Pacific 1984*, ESCAP, Bangkok, 1985.
- United Nations, *Foreign Trade Statistics for Asia and the Pacific 1983*, United Nations, New York, 1985.
- S. Vishwanathan, "Continuity and Change: India's Relations with Japan", *India Quarterly*, Jan.-March 1985.
- W. Veit, "Improving Capital Supply to Asian Developing Countries: South-South Cooperation and Financial Integration", in: C. Effenberg (ed.), *Developments in Asia*, Steiner, Wiesbaden, 1987.
- N. Wagner, "Prospects of Regional Cooperation in South Asia – ASEAN: A Model for SAARC?", in: C. Effenberg (ed.), *Developments in Asia*, Steiner, Wiesbaden, 1987.