

# INDIA-GERMANY BILATERAL RELATIONS

## GERMAN ECONOMY

Germany - the fifth largest economy in the world in PPP terms and Europe's largest - is a leading exporter of machinery, vehicles, chemicals, and household equipment and benefits from a highly skilled labor force.

German Economy contracted by 5.1% in 2009 but grew by 3.6% in 2010, and 3.1% in 2011. The recovery was attributable primarily to rebounding manufacturing orders and exports - increasingly outside the Euro Zone. The worsening euro-zone financial crisis and the financial burden it places on Germany as well as falling demand for German exports has made domestic demand a more significant driver of Germany's economic expansion.

Stimulus and stabilization efforts initiated in 2008 and 2009 and tax cuts introduced in Chancellor Angela Merkel's second term increased Germany's budget deficit to 3.3% in 2010, but slower spending and higher tax revenues reduce the deficit to 1.7% in 2011, below the EU's 3% limit.

### Current Economic Status\*

Germany faces significant challenges to sustained long-term growth. An aging workforce and declining net immigration are increasing pressure on the country's social welfare system and necessitate structural reforms.

Weakness in the domestic economy, particularly in investment, has caused German economic growth to more than halve from 3.1% in 2011 to an annualized 1.3% in the first nine months of 2012. Although the pace of growth has slowed in response to this year's bouts of the Eurozone crisis, GDP has not actually contracted yet — unlike many other countries in the region.

Manufacturing orders fell by 3.3% in September, which was weaker than expected, as orders from the Eurozone dropped 9.6%. Consequently, Q3 of 2012 saw a 4% quarter-on-quarter fall in orders.

Taken together, the weakness in business confidence and orders, and the tightening of credit conditions suggests that although German GDP did not contract in Q3 of 2012, it may do so in Q4 of 2012. The business surveys are consistent with a quarterly contraction in the economy of around 0.2%. But business confidence, and hence economic momentum, should gradually improve as it becomes clear that the European Central Bank (ECB) will back its pledge to ensure the survival of the Eurozone with further actions.

Quarterly growth is expected to pick up gradually during 2013 as a recovery in world trade lifts export growth. A gradual improvement is expected in business confidence as policy measures quell fears of a Eurozone breakup and help investment to start growing again. Consequently, GDP is forecasted to grow by 0.8% in 2013 and 1.7% in 2014. The main risk to the German economic outlook remains the current volatility of the Eurozone.

## INDIA-GERMANY BILATERAL RELATIONS

Germany is amongst India's most important partners for trade, investment and technology. Economic and commercial relations between India and Germany date back to the early 16<sup>th</sup> century when well-known German trading companies from Augsburg and Nuremberg, with the help of Portuguese, developed a new sea route around Africa, as they sailed in search of precious stones and spices for trading purposes. Thereafter in the 16<sup>th</sup> and 18<sup>th</sup> centuries, a number of German companies were established with the express purpose of trading with Indian and other East Asian countries. In 1867, Siemens built the first telegraph connection between Kolkata and London. In 1896, Bayer started its operations in India. In 2011-2013, we celebrated 60 years of diplomatic relations between India and Germany.

### Trade

Germany is India's largest trading partner in European Union and 6<sup>th</sup> largest trading partner globally. Germany is also India's second largest technology partner. India's significance as a trading partner for Germany is also on the increase. Currently India ranks at the 28<sup>th</sup> position amongst trading partners for Germany worldwide, accounting for 0.7% of total German trade and ranks 5<sup>th</sup> among Asian exporters to Germany.

Bilateral trade has been consistently growing in the recent years. From USD 15 billion in 2007, it almost doubled to USD 24.21 billion in 2011. Trade of USD 10.62 billion has been registered in the first two quarters of financial year 2012.

Indo-German Bilateral Trade (fig in USD million)				Source: Ministry of Commerce and Industry, GoI		
\Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013 (Apr-Sept)
<b>Indian Exports</b>	5,121.53	6,388.54	5,412.89	6,751.18	7,942.79	3,489.63
<b>%Growth</b>		24.74	-15.27	24.72	17.65	
<b>Indian Imports</b>	9,884.83	12,006.02	10,318.18	11,891.37	16,275.56	7,134.36
<b>%Growth</b>		21.46	-14.06	15.25	36.87	
<b>Total Trade</b>	15,006.36	18,394.56	15,731.07	18,642.55	24,218.35	10,623.99
<b>%Growth</b>		22.58	-14.48	18.51	29.91	

While major items of exports from India to Germany are cotton and textile products, leather and leather products, chemicals & pharmaceuticals, metal products and automobile components, the key imports in India from Germany include machinery, electro-technical goods, aircrafts, metal goods, chemicals, measurement and control systems, synthetic materials etc.

## **Investments**

### **German Investment in India**

German investments in India, which had been relatively flat for some time, have registered an increase in recent years. For the period April 2000 to September 2012, Germany has been the eighth largest investor with cumulative FDI inflows of USD 5.05 billion.

Germany is also the 2<sup>nd</sup> largest partner for technology collaborations globally and has been an important development cooperation partner for India. Nearly 1600 Indo-German collaboration agreements and around 600 Indo-German joint ventures are presently in operation. The largest co-operations are in the field of machinery and parts followed by heavy vehicles, chemicals, technical consultancy services, computers, electrical appliances etc.

Sectors such as services, chemicals, automobiles, trading and electric equipment were main sectors for German investment. Germany's leading news magazine Der Spiegel has cited India as the No.1 destination for offshore development by German software companies. Cooperation in the field of Information Technology, biotechnology, auto components, renewable energy and the entertainment industry is also increasing.

Large German companies have been stepping up their existing investments and several new companies have entered the Indian market. In the last three years, all the major German automobile giants (BMW, Daimler, MAN AG, Audi, Volkswagen and Porsche) have established manufacturing facilities/assembly plants in India.

Mercedes-Benz India (MBI) has formally inaugurated its new manufacturing plant in Chakan on February 24, 2009 which has been set up with an investment of USD 70 million. Daimler has entered into a partnership with Sutlej Motors (SML) for manufacture of luxury buses. In 2012, Daimler inaugurated a new factory in the south Indian auto hub of Chennai, the centerpiece of its USD 850 million (44 billion rupee) investment in India.

Volkswagen inaugurated its plant in Chakan on March 31, 2009. The USD 768 million plant in Chakan has a capacity of manufacturing 110,000 cars annually. Porsche plans to expand its dealerships in India. MAN AG is in a joint venture with Force Motors for manufacture of mid-sized trucks and buses. It intends to increase its stake to 50 per cent.

In October 2012, Lemken, the German farm equipment manufacturer, inaugurated its first manufacturing facility outside Europe at Nagpur with an investment of Rs 69 crore. The German plough and cultivator maker said it would invest Rs. 115 crore in India. Two other German companies Amazone and Grimme, which specialise in potato cultivation technology, also plan to enter India.

EADS plans to establish a joint venture with Larsen & Toubro to tap into India's defence procurements. EADS will invest upto 26% in the joint venture, which will have a total initial investment of USD 20 billion.

Munich Re has entered the Insurance sector and has signed/finalized a number of joint ventures in India covering Non-life Health Insurance (their subsidiary DKV launched a joint venture with Apollo Group); Non-life (Non Health) Insurance (their subsidiary ERGO signed an agreement with Housing Development Finance Corporation (HDFC) by way of a joint

shareholding (26%) in HDFC. Allianz and CARE agreed to become partners for micro-insurance in India for the tsunami-affected people in Tamil Nadu.

Other major German companies such as Siemens, Bosch, Bayer, SAP, Deutsche Bank, Metro Cash & Carry India, Fraport, Herrenknecht, Heidelberger Cement, Giesecke & Devrient, Behr, Cognis, Beko Technologies, KBA Metronic and Grüner + Jahr, Schott AG, Klüh Gruppe, GEA Group, Bombardier, Oetker Group, Lanxess AG, Continental and S. Oliver Siemens, Osram GmbH, Continental AG, Deutsche Bank, CLAAS KgaA, Sennheiser, Bayer Material Science, Hunger Hydraulics, Mahle Group, Sanofi-Aventis, HSH Nordbank, Cognizant Technology Solutions, Klüh Group, Harting Technology Group, Springer, Röhlig, Herrenknecht AG, Rheinmetall AG, FEV Motorentechnik GmbH, Deutsche Telekom, Diehl Aerospace, ZF, Tognum Group, DHL, KTR Couplings (India), Demag Cranes, Hensel Electric India, Hulsta, Schaeffler Group, Nokia Siemens Networks, have also announced major investments in India.

An MoU has been signed between General Insurance Council of India and the German Insurance Association on April 3, 2008 to promote cooperative relationship, mutual understanding and exchange views and information on matters and activities of common interest.

Besides large companies, German small and medium enterprises (SMEs) are also showing greater interest in India. A German Centre has been established in Gurgaon jointly by two of the Germany banks, viz. Bavarian Landesbank (BLB) and Landesbank Baden Württemberg (LBBW) to facilitate the activities of German SMEs in India.

### **Indian Investments in Germany**

Indian investment in Germany has also increased in recent years. The IT sector continues to be the best represented in terms of foreign direct investment. According to fDi Markets, India has initiated 40 projects in Germany since 2003, 20 of which are in the software and IT sectors.

Indian companies either acquiring firms or starting their own subsidiaries in Germany include Ranbaxy, Samtel, NIIT, Wockhardt, Graphite India Limited, Megasoft, Torrent Pharmaceutical, Tata Auto Component Systems, Bharat Forge Limited, Hexaware Technologies, Hinduja Group, Tooltech Software, Ocimum Biosolutions, Bharat Fritz Werner Ltd (BFW), Biocon, Lupin, IFGL Refractories, Kirloskar Electronic Company (KEC), 7 Seas Technologies Ltd, MKU Group, Kalyani Group, Sakthi-Group, Sintex Industries, Techno Life style, Kiri Dyes & Chemicals Ltd etc.

Dr. Reddy's Laboratories has acquired Betapharm GmbH, a generic drugs producer; Mahindra & Mahindra have acquired Schoeneweiss & Company and a 68% stake in Jeco Holding AG; Reliance has acquired Trevira GmbH; and Suzlon Energy has acquired a major stake in REpower Systems. ICICI Bank has set up a branch in Frankfurt; and Biocon has acquired 70% stake in German pharmaceutical company Axicorp GmbH.

As Germany has a large number of technically strong small and medium sized companies, the potential for strategic acquisitions by Indian companies remains strong. A recent study of the Technical University of Hamburg-Harburg estimates the total volume of Indian investments in Germany at over USD 4 billion. Of this, roughly USD 2 billion was invested in 2008 (USD 825 million in 2007), which is incontrovertible proof that India is emerging as a major investor in foreign markets.

Although Indian companies are spread throughout Germany, they are mainly clustered in the states of North Rhine-Westphalia, Hessen, Bavaria and Baden-Württemberg. Taken together, Indian companies in Germany employ nearly 24,000 people, most of whom are German nationals, there by adding to the job opportunities in Germany.

#### **FICCI'S ENGAGEMENTS WITH GERMANY IN 2012:**

- **30<sup>th</sup> October 2012, New Delhi:** Panel discussion at Indo-German Urban Mela on Road for Planned Urbanisation.
- **15<sup>th</sup> October 2012, New Delhi:** Business Interaction with H.E Mr Olaf Scholz, First Mayor of the Free and Hanseatic City of Hamburg.
- **12 October 2012, Frankfurt:** India centric business session during visit of business delegation to Frankfurt Book Fair.
- **24<sup>th</sup> September 2012, New Delhi:** Workshop on “Market Economic challenges in South Asia” jointly with KAF.
- **12-13 September 2012, New Delhi:** German Government officials and German companies participated at India Carbon Market Conclave organized by FICCI.
- **9 September 2012, Berlin:** Visit of Chief Economists from India to Germany in coordination with KAF.
- **5<sup>th</sup> September 2012, New Delhi:** Germany participated as a Partner Country in FICCI's Global Skill Summit.
- **21 August 2012, New Delhi:** Dialogue on “Europe at crossroads- Current political and economic challenges” with KAF.
- **18-25 August 2012, Erfurt and Berlin:** Workshop focused on Renewable Energy: Challenges and Opportunities and to gauge the nature of energy technologies employed in Germany and how it could be replicated in SAARC.
- **13-15 June 2012, Munich:** Business delegation to Inter-Solar Expo in Munich. A conference on Destination India: Opportunities in Solar Energy jointly with GIZ and a seminar on Solar Energy Financing with GIZ and German Environment Ministry was also organized during this visit.
- **30 May – 1 June 2012, Cologne:** Business delegation to participate at Carbon Expo organized in Cologne.
- **24<sup>th</sup> April 2012, New Delhi:** Business interaction with H.E Mr Jurgen Roters, Mayor of City of Cologne
- **April 2012, Hannover:** Business delegation to Hannover Messe Fair. The delegation was led by Mr Kamal Nath, Minister for Urban Development. During the fair FICCI organized a special session on “Metropolitan Solutions”.