Bilateral business defies financial crisis and economic slowdown

The bygone year - 2011, which witnessed the launch of the Year of Germany in India to commemorate 60 years of bilateral diplomatic relations between the two countries, saw a continued upswing in the business relations, as indeed in other spheres. The two countries have touted their relations as consisting of "Infinite Opportunities" and the latest data on foreign trade released by Germany's Federal Statistical Office seem to suggest that the opportunities are being actually utilized progressively.

The bilateral trade volume in calendar year 2011 registered a staggering growth of 18.7% and is estimated to have stood at €18.4 billion, up from €15.5 billion in 2010. The growth in bilateral exports and imports out-performed the overall growth in Germany's trade. This is especially remarkable because the almost "hyper" growth comes in the backdrop of a continuing financial crisis in Europe (IMF, 2012) and an economic slowdown in India (GOI, 2012b).

Table 1 shows developments in Germany's exports to India and India's relevance as export destination for German firms. On similar lines, Table 2 shows developments in Germany's imports from India and India's relevance as source of imports for German firms.

The overall development in Indo-German trade since the turn of the millennium in 2000 is given in Figure 1. The figure illustrates the strong and positive growth in the bilateral trade, which has largely defied any pressure for downward trends.

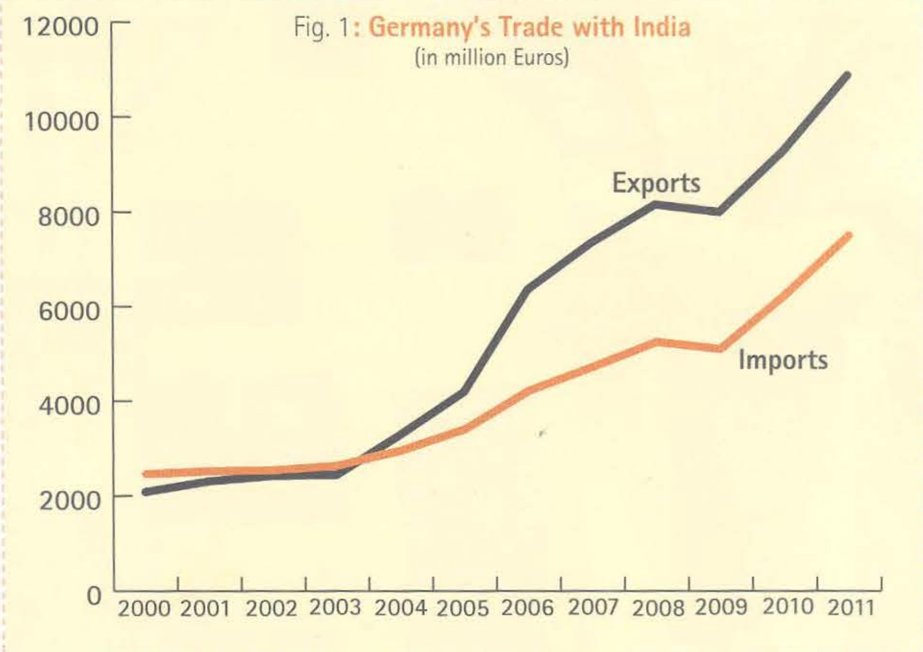
Interestingly, India's growth in the previous decade has turned the balance of trade decisively in Germany's favour. Today, Germany's bilateral trade balance alone is higher than the volume of export about 6-7 years back. Since, ceteris paribus, India is set to witness sustained economic growth over a long period of time owing to its need to build infrastructure and due to consumption aspirations of a large and young population, we may expect the bilateral trade to continue touching new heights.

India's ranking as Germany's Trade Partner

While India was Germany's 24th largest trade partner in 2010, the previous year saw India climbing up the ladder by one rank, finishing as 23rd largest partner. While this is a positive development considering that India languished at 40th rank as Germany's export partner and was 36th placed as its source of imports in 2000, there is a significant room for improvement. The upward scope may be gauged by the fact that in 2011 much smaller economies like Poland and Slovakia had a higher trade volume with Germany than India did.

Room for further intensification

In this context it may be noted that German firms so far appear to have not fully captured on the Indian opportunity. As Figure 2 shows China and even Switzerland have much greater export volumes to India than Germany. Even though at the change of the millennium they roughly stood at the same point and way back in 1991, when India started its economic reforms, Germany was much better placed than these competitors.



Graphic: R. Tiwari (TIM/TUHH: 2012), based on data from Statistisches Bundesamt

Table 1: **Germany's exports to India in billion Euros and India's relative position**

	2010	2011	Annual Growth
Germany's exports to India	9.28	10.87	17.1%
Germany's total exports	951.96	1060.20	11.4%
India's Share in Germany's exports	0.98%	1.03%	5.1%
India's ranking as export partner	21	21	-

Table 2: **Germany's imports from India in billion Euros and India's relative position**

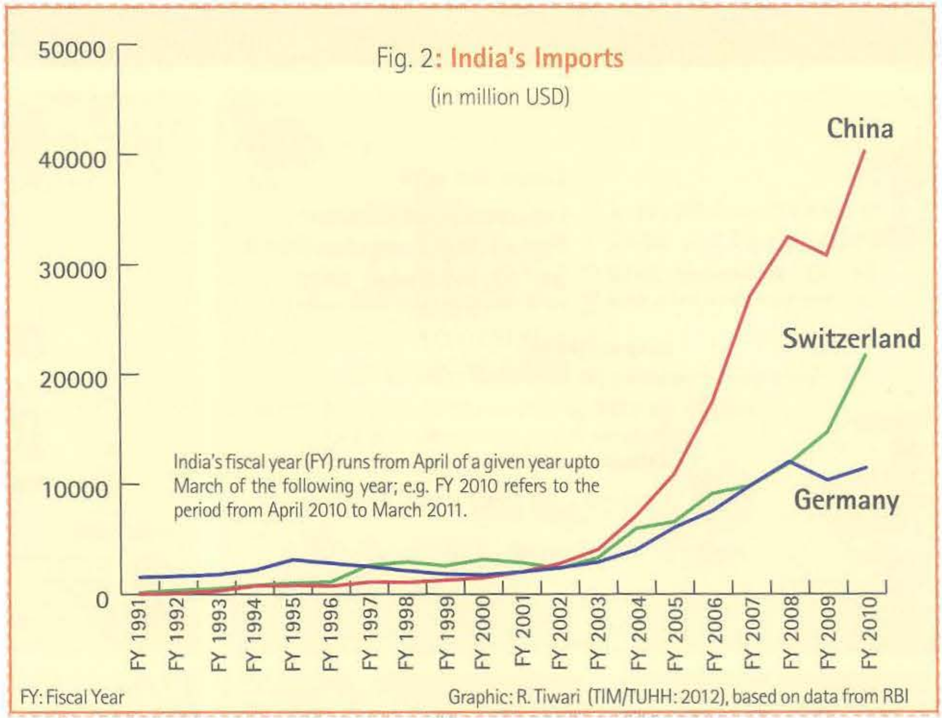
	2010	2011	Annual Growth
Germany's imports from India	6.24	7.50	20.2%
Germany's total imports	797.10	901.96	13.2%
India's Share in Germany's imports	0.78%	0.83%	6.4%
India's ranking as export partner	26	25	-

A "more realistic" extent of the bilateral trade relations

Notwithstanding the given room for improvement and further intensification of the bilateral trade relations, it might be useful to note that the data on foreign trade are, to some extent, an insufficient indicator of the "true" level of bilateral economic relations. This is mainly due to the following reasons:

(i) Trade data usually relate only to merchandise trade, i.e. physical goods. Trade in services is not included in these data even though it constitutes a non-negligible volume. Bilateral figures for Indo-German trade in services are not easily available. However, one good indicator is provided by a recent report of the European Union (EU). In 2010, EU-India trade in commercial services stood at €19.3 billion, with a trade balance of €2.1 billion in favour of the EU (European Commission, 2012). Germany is the largest economy in the group of EU-27 and accounts for more than 20% of the gross domestic product (GDP) of the EU-27 area (Eurostat, 2012). Therefore, it would not be an unfair assumption that a considerable share of the EU's trade in commercial services with India would involve Germany.

(ii) India has seen considerable foreign direct investments (FDI) from Germany and with a cumulated FDI volume of approximately $4.5 billion at the end of January 2012 it is India's 8th largest source of FDI (GOI, 2012a). Germany's central bank puts the figure even higher. According to Bundesbank (2011) data, German firms had already invested €4.9 billion (approx. $7.1 billion) in India by the end of 2009 via direct channels. The FDI volume increased to even €5.8 billion (approx. $8.4 billion), once we include indirect channels, i.e. investments routed via holding companies in third countries. Indian subsidiaries and affiliates of German companies are registered as local companies and their local production and sales do not get properly reflected in the trade data, even though they may involve large sums. Just to give one example: Siemens in India is registered as a publically listed company. In fiscal year 2010-11 its revenues from sales in India reportedly stood at €2.4 billion. Similarly, the Robert Bosch Group in India generated sales revenues to the tune of €1.1 billion in FY 2010-11 (Bosch India, 2011). An overwhelming proportion of their products is manufactured locally in India. Along similar lines, India too has emerged as a key source of FDI in Germany and Indian firms, too, generate revenues in Germany, which are not reflected in the trade data. For example, REpower Systems, a subsidiary of the Suzlon Group of India, had generated revenue of €1.2 billion in fiscal year 2010-11.



(iii) Finally, it is to be remembered that many Western multinational companies (MNCs), including from Germany, have offshored their production to low-cost locations such as China. It is therefore a reasonable assumption that in many instances foreign-based subsidiaries and affiliates of German MNCs would be exporting their products directly to India, without routing them via Germany. In such cases the transactions would be reflected in the trade data of the country from where the export took place and not in Germany's trade data.

For reasons discussed above, it seems to be a realistic assertion that the true extent of the Indo-German bilateral economic relations is much deeper than suggested by trade data.

Summarizing, we may say that the Indo-German bilateral relations, especially in the economic sphere, have grown steadily over time and are on an excellent path. All indicators suggest that the relations will grow even deeper in the course of time. The opportunities presented by the sustained growth in India have to be continuously recognized and captured, nonetheless. Maybe there is a lesson or two in understanding the trade path taken by competitors such as China, and especially Switzerland, since Swiss firms operate within a similar framework of constraints of high-costs as German firms, even though a considerable part of Switzerland's trade with India can be attributed to handling of gold exports. With Germany set to witness a festival of "Days of India" from May 2012 to March 2013, we may expect a further intensification and greater dynamism in the bilateral relations.

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