

# Coming Full Circle

India's business ties with Germany go back almost five centuries. That was in the 16th century when German merchants established trade links. Later, products of German technology, from Mercedes cars to Siemens consumer wares dazzled Indian consumers. In the last two years, Indian companies have begun investing in Germany. **Abhijit Joshi** reports on the changing equations

In Germany, Indian business came of age some time ago. More specifically, it was in November 2003 when India's largest exporter of auto components, Bharat Forge, bought out the German forging major Carl Dan Peddinghaus. With that acquisition, the Indian company became the world's second largest forging major. A year later, Bharat Forge bought out another associate company CDP Alumiumtechnik for Euro 6.3 million. And recently in February, Dr Reddy's Laboratories acquired Betapharm, the fourth-largest generic pharmaceuticals company in Germany.

Traditionally, it has been the big German firms which have invested in India that have been a source of technology in collaborations with Indian firms. More than \$1.65 billion (or Euro 1.4 billion) has been invested by major German companies in India. This includes German industrial leaders like Siemens, Daimler-Chrysler, Bayer, BASF and Robert Bosch, among others.

And, nearly 1,600 Indo-German collaboration agreements and over six hundred joint ventures are in operation today. The highest number of collaborations are for machinery and parts followed by heavy vehicles, chemicals and technical consultancy services.

Since India is a rapidly growing market,



**ACQUIRING GERMANY'S BETAPHARM:** Dr Anji Reddy of Dr Reddy's Laboratories



**DRAWING GERMAN INVESTMENT:** Dr Klaus Kleinfeld, president and CEO, Siemens AG, (left) in Mumbai with J Schubert, MD, Siemens India

German firms in India have seen double-digit sales and profit growth in recent years. That is more than what they are recording elsewhere. A Deutsche Bank report *'German FDI to India: Untapped Potential'* brings out an unusual fact: that Indian subsidiaries of German companies regularly outperform their German parents.

Because of the opportunities, existing German companies in India have ramped up their operations. Mico, the flagship company of the Bosch group in India, last year announced that it will be investing \$125 million over the next three years on Common Rail Diesel Injection systems at its Nasik plant in Maharashtra.

Siemens is further augmenting its manufacturing capacities, to cater to the growing domestic demand and exports. It has recently announced the setting up of a new transformer factory at Kalwa, near Mumbai. Dr Klaus Kleinfeld, president and CEO of Siemens AG said during a recent visit, "India is amongst the fastest growing economies in the world, with a large middle class population and favourable demographics, which in itself is a huge demand driver. Moreover, its highly skilled talent

India's huge market and its pool of high-skilled workers appear to be the perfect fit for German companies.

pool will further drive India's economy on the technology front."

Siemens first came to India in 1867 but only started manufacturing 90 years later. It now has annual revenues of \$1.23 billion and employs over 12,000 people. Kleinfeld's visit was a signal that Siemens' Indian subsidiary will play a larger role as a partner in its global operations.

The Indian IT story is inevitably attract-

ing German companies like Daimler Chrysler and Siemens who are setting up research centres at Bangalore. Automobile giant DaimlerChrysler has set up a Research & Technology Centre at Bangalore. Some of the research at this centre will find its way into cars made in their plants globally.

Daimler, which first came into India through a joint venture with the Tatas, one of India's largest industrial houses, has invested about \$140 million in the country so far and has a car assembly plant near Pune. At present, it sells just about 2000 of its high-value Mercedes sedans annually, but sales have been growing at an average rate of 16 per cent.

The Indian connection with Germany is an old and enduring one. Trade dates back nearly five centuries when German merchants first set up shop in India during the 16th century. German philosophers like Schopenhauer and poets like Goethe have been deeply influenced by Indian culture. One of the foremost European scholars to study Sanskrit and Indian philosophy was Max Mueller. It was Siemens that first built the telegraphic link between Calcutta and



**THE THREE-POINTED STAR SHINES BRIGHTLY IN INDIA:** Mercedes sedans roll off the DaimlerChrysler plant near Pune

## Indo-German Trade

Values in \$million

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>EXPORTS TO GERMANY</b>	1,907.57	1,788.36	2,106.68	2,544.57	2,674.70
%Growth		-6.25	17.80	20.79	5.11
India's Total Export	44,560.29	43,826.73	52,719.43	63,842.97	80,540.19
%Growth		-1.65	20.29	21.10	26.15
%Share	4.28	4.08	4.00	3.99	3.32
<b>IMPORTS FROM GERMANY</b>	1,759.59	2,028.10	2,404.53	2,918.58	3,891.68
%Growth		15.26	18.56	21.38	33.34
India's Total Import	50,536.46	51,413.29	61,412.13	78,149.61	109,173.23
%Growth		1.74	19.45	27.25	39.70
%Share	3.48	3.94	3.92	3.73	3.56
<b>TOTAL TRADE</b>	3,667.15	3,816.45	4,511.21	5,463.14	6,566.38
%Growth		4.07	18.20	21.10	20.19
India's Total Trade	95,096.75	95,240.01	114,131.56	141,992.58	189,713.42
%Growth		0.15	19.84	24.41	33.61
%Share	3.86	4.01	3.95	3.85	3.46
<b>TRADE BALANCE</b>	147.98				
India's Trade Balance	-5,976.16	-7,586.56	-8,692.70	-14,306.65	-28,633.04
Exchange rate: (1US\$ = Rs.)	45.6844	47.6919	48.3953	45.9513	44.9315

Source: Dept. of Commerce, Govt. of India

**THE HANNOVER FAIR**



GERMANY is a global champion in hosting trade fairs. Fairs of international importance are held for several major industries, printing, photography, automobiles, books etc. Of these, the Hannover Fair, also known as the Hannover Messe, is the largest and most important meeting ground for businesses around the world. Over 200,000 visitors from all over the world are expected to visit the 6,000 stalls this year.

The first Hannover Fair was organised in 1947 by the British military government in

order to test Germany's post-war economic advancement. The event went global in 1950, with US participation.

This year, Hannover Messe 2006 will take place from April 24 to 28, 2006. India has been invited as the Partner Country for Hannover Technology Fair 2006. This privileged invitation comes after a gap of 21 years and is a testimony to the collective global recognition of Indian manufacturing and growing economic significance in the world.

The display categories this year are

process automation, factory automation, industrial building automation, energy, pipeline technology, subcontracting, digital factory, industrial facility management and services, micro technology and market research and technology.

As Partner Country, India has issued a special logo for the event. Besides showcasing India's innovative drive and potential in technology, Indian participation is expected to be maximum in the Energy, Research and Development, Subcontracting and automation sectors too.



**A GLOBAL FORGING MAJOR WITH GERMAN ACQUISITION:** Bharat Forge CMD Baba Kalyani

London in the 19th century.

In the last 20 years, trade between the two countries has grown many times. Bilateral trade between Germany and India grew 25 per cent to cross \$7.2 billion in 2004.

"Trade is expected to touch Euro 10 billion in the next two to three years," says Bernhard Steinruecke, director general of the Indo-German Chamber of Commerce (IGCC). But while Germany is India's fourth largest trading partner, India is a distant 35th trading partner for Germany, and bilateral trade between Germany and India accounts for less than half a per cent of Germany's total trade.

The major import from Germany is still machinery which accounted for 32 per cent of Indian imports from Germany in 2004. Other imports from Germany included traditional imports of electronic goods, metal products, chemicals and plastic and

## INDO-GERMAN CHAMBER OF COMMERCE: A TIME FOR CELEBRATION



**IN CELEBRATION MODE:** IGCC's Bernhard Steinruecke

IT'S PARTY time at the Indo-German Chamber of Commerce (IGCC) which is celebrating its golden jubilee anniversary this year.

When IGCC was first established in 1956, it had less than 500 members. Currently, the Chamber has the distinction of being the largest German Chamber of Commerce abroad with more than 6500 members.

The IGCC is one of the most important institutions that promotes Indo-German trade relations. Bernhard Steinruecke, Director-General of Indo-German Chamber of Commerce, Mumbai, is optimistic about the future of Indo-German trade. "India has a lot going for her. Apart from the language — most people speak English, a well established legal system, banking system, a vibrant stock market and a free press. Also the business opportunities in India are huge."

The Chamber conducts studies

and market surveys to track the performance of the Indo-German joint ventures. Besides, it has developed a benchmark, the IGCC -15 index that tracks the stock market performance of select companies.

IGCC has its head office in Mumbai and branch offices in New Delhi, Chennai, Kolkata, Bangalore and Düsseldorf, besides a liaison office in Hyderabad and Berlin.

The Chamber has been looking to expand its network further by having honorary representatives of the chamber in tier-II cities in India like Kochi, Hyderabad, Coimbatore, and Ahmedabad.

The IGCC has taken the lead in setting up the Indo-German Training Centre (IGTC), that conducts Post-Graduation in Business Administration Program based on the German Dual System. The course so far has had 100 per cent placement since its inception in 1991.

rubber. Other high precision equipment like optical & measuring equipment, aircraft, medical equipment, automotive and components and pharmaceuticals make up the trade basket.

Textiles are a major export accounting for 28 per cent of the total exports to Germany in 2004. Leather goods, food, chemicals, electro products, metal products, pharmaceuticals, machinery, automotive & components, gems & jewellery and plastic & rubber comprise India's other major exports.

The interest in India is gaining a larger following among German industry. Small and medium German companies are now showing interest in collaborations with Indian companies. Last February, about 70 small and medium-sized German companies visited India to explore the potential. Their interest matches the enthusiasm of other foreign investors in India, many of whom are planning to expand their local operations further, mainly in the service sector.

Indian companies too are now showing an interest in investing in Germany. The acquisition of Betapharm by Dr Reddy's

The interest in India is growing in German industry. Small and medium German companies are now collaborating with Indian companies.

was prompted by Germany being the second largest generics market in the world, and by far the largest in Europe.

"We see our investment in Betapharm as a strategic initiative towards becoming a mid-sized global pharmaceutical company with a strong presence in all key pharmaceutical markets. Betapharm has created a strong growth platform.... and we are looking forward to partner them in build-

ing a strategic presence in Europe," said Dr Anji Reddy, chairman, Dr Reddy's Laboratories.

Dr Reddy's is not the only Indian company investing in Germany, often seen as a gateway to European markets. The \$1.5 billion Kalyani group has three plants in Germany and is planning to expand further. "Germany's strengths in precision engineering when combined with India's skills in manufacturing and information technology would make us a winning combination," says Baba Kalyani, chairman of Bharat Forge, the flagship company of the Kalyani group. New economy companies like TCS, Infosys, Wipro, Hexaware are also actively present in Germany.

Thanks to the growing economy and the huge market, India will continue to be attractive to investments from global majors. After all, India's large and growing market, its pool of high-skilled workers and the potential it offers foreign firms for cost reduction appear to be the almost perfect fit for German companies that have a track record for technical expertise and efficient business execution.