Investments By Indian Companies In Germany: Need For Rejuvenation

The pace of Indian foreign direct investments in Germany has slowed down recently and the volume of cumulative investment has decreased. However, the current Corona crisis can only partly explain this negative development. The Bundesbank data show a declining trend for the stock of inbound Indian investments into Germany. Interestingly, the Reserve Bank of India (RBI) data show that the total volume of outbound FDI from India has remained on the upswing. Firms have, apparently, chosen other investment destinations while reducing their engagement in Germany. This development calls for a deeper investigation of the phenomenon and its root causes.

Official statistics released recently by the Deutsche Bundesbank, Germany's central bank, show a curious trend: the stock of foreign direct investments (FDI) by German firms in India has grown by about 60%, from € 9.7 billion in 2014 to € 15.3 in 2018, whereas the stock of Indian FDI in Germany has decreased by almost one quarter in this period. The released figures indicate that the stock of Indian FDI in Germany went down from nearly € 4 billion in 2014 to € 2.9 billion in 2018.

This development can be interpreted to indicate that while German companies remain convinced of the long-term market potential of the Indian market, Indian companies either face resource crunch to invest overseas or they have found greener pastures elsewhere. This article takes a closer look at this phenomenon and examines the data available with the German and Indian central banks. First of all, the data suggest that several Indian companies have exited the German market between 2014 and 2018, as evident from Figure 1, which shows the contrasting growth pattern of the FDI stock of the two nations over this period.

Scaling down of operations by firms, such as Suzlon, provides one example of divestments by Indian firms. Another set of firms that exit the market quite naturally and regularly may have their roots in the

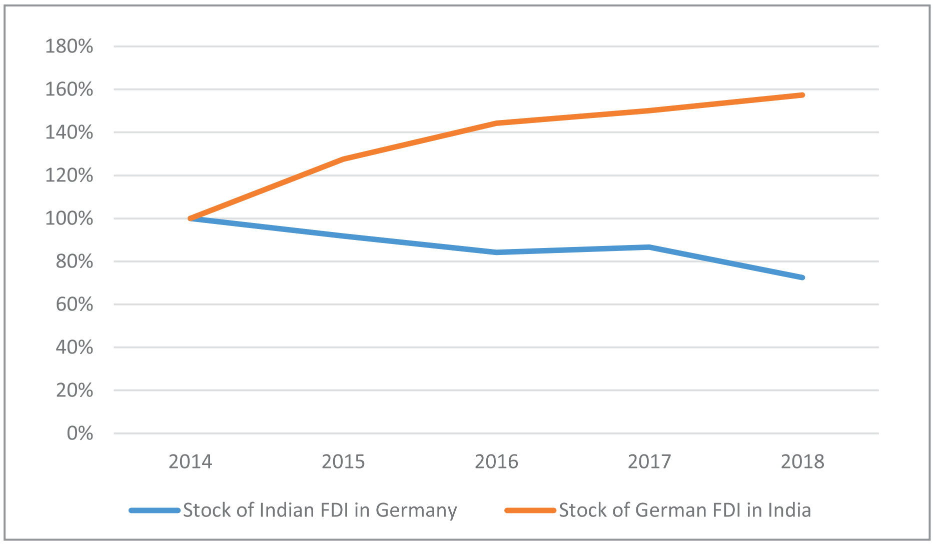

Figure 1: Developments in the FDI stock as per Bundesbank data[1]

IT sector, where firms often set up project offices to provide on-site support to clients for a certain duration and wind up their operations upon completion of the project. The decrease in the FDI stock is, nevertheless, quite significant.

The downward trend of Indian investments in Germany is confirmed by Table 1 which shows the officially estimated stock of India's FDI in Germany including the number of companies present in Germany, their cumulated annual turnover and the number of employees, as reported by the Deutsche Bundesbank. The table shows that the cumulated volume of investments has been on the downswing in the recent past, which has also reflected in the decreasing number of active companies, their employees and their annual revenues generated in Germany.

More recent (official) data is not available as yet but there is no compelling reason to believe that this trend has changed significantly in the past two years. Especially in 2020, when the Corona pandemic has caused significant societal and economic havoc globally. Firms in both Germany and India have faced hardships and, in some cases, challenges to their economic existence, which have stopped their expansion plans, both nationally and internationally.

Overall development in outbound FDI from India

However, the root causes of this downward trend seem to go beyond the Corona pandemic. Generally speaking, the global stock of Indian outward FDI has been increasing between 2014 and 2018. Data from the United Nations Conference on

Year	Investment volume (million euros)	No. of companies	Annual turnover (million euros)	No. of employees (thousand)
2014	3,960	87	9,000	17,000
2015	3,637	92	10,697	21,000
2016	3,337	93	9,022	18,000
2017	3,433	78	8,684	16,000
2018	2,871	77	9,387	16,000

Table 1: Stock of India's FDI in Germany as per Bundesbank data

[1]Source: author's compilation and illustration based on Bundesbank data released in May 2020 and April 2019.

Trade and Development (UNCTAD) show that the overall stock of outward FDI from India grew impressively and *consistently* in this period, growing from US$ 131.5 billion to US$ 166.6 billion. As per RBI data, this stock had even grown to US$ 185.4 billion by June 2020, braving the Corona challenge at least in the first half of 2020.[2]

Furthermore, data released by the RBI in April 2020 showed that Singapore, the Netherlands, the United States of America (USA), the United Arab Emirates (UAE), the United Kingdom (UK), and Switzerland belonged to those countries for which the FDI stock has increased quite remarkably between 2018 and 2019.

These contrasting growth patterns in India's FDI stock in Germany in comparison to some other major economies underscore the need for a deeper examination. It appears as if any or all of the three following factors may be at work here:

(1) Some Indian companies might have faced difficulties in businesses in Germany, e.g. due to their unfamiliarity with the local market conditions, different work cultures, lack of a suitable business strategy, and/or eventual regulatory hurdles.

(2) Some other markets, e.g. Singapore, Switzerland, the USA, the UK, or the Netherlands, may be perceived as being more attractive for a variety of reasons, e.g. market attractiveness, size of the Indian diaspora, or simply investment incentives.

(3) German government's regulatory initiatives tightening the FDI regimes for investors from outside of the European Union (EU) might have caused additional uncertainties.

As of now, the actual causes for the divestment trend lie in the realm of conjecture, and the hypotheses proposed above need a thorough empirical investigation with different stakeholders in India and Germany.

Silver Line on Indian investments in Germany

However, the future of Indian investments in Germany is, obviously, not bleak. Notwithstanding this overall negative trend, there have also been some encouraging signs for the bilateral cooperation, as exemplified by two cases presented in the following.

That Germany continues to remain a promising destination with mutual benefit for Indian companies can be seen first in the setting up of a new "Digital Innovation Centre" by Indian IT major Infosys in Dusseldorf in November 2019. In a press release, Infosys announced that the centre will help the company "work more closely with its clients in the region in supporting their digital transformation journey while focusing on next-generation business suites such as SAP HANA, as well as cloud-based services, Internet of Things, 5G, Artificial Intelligence and Machine Learning". This centre will complement the company's Digital Design Studio in Berlin in developing "Customer-Centric Design and Innovation". It intends to collaborate with both business and academic institutions in the region, such as the *Hochschule Düsseldorf* and *WHU – Otto Beisheim School of Management*. It shall "work on joint training courses, research and scholarships.

In addition, the Centre will continue to upskill and reskill Infosys and its client employees on current and future technologies". Setting up of the centre was expressly welcomed by Prof. Andreas Pinkwart, Minister of Economic Affairs, Innovation, Digitalization and Energy, in the State of North Rhine-Westphalia (NRW), and by Thomas Geisel, Mayor of the City of Düsseldorf. This active encouragement by the political leadership shows the institutional support that innovation-fostering ventures can count upon.

Another case of the continued investment opportunities for Indian companies in Germany is provided by the reported negotiations between Tata Consultancy Services (TCS), another IT major from India, and the Deutsche Bank. According to a Bloomberg report from late October 2020, Deutsche Bank is "in advanced talks to sell a technology services unit" (i.e. Postbank Systems) to TCS. While many details of the still ongoing talks are not known, Postbank Systems is a relatively large company that employed nearly 1,400 employees and generated revenues worth € 533 million in 2015 (newer figures are not available). Deutsche Bank is trying to generate higher operational synergies by merging its own IT division with that of the Postbank and the move "is expected to render the services provided by PB Systems obsolete by the end of next year", according to the Bloomberg report. For TCS, access to the local expertise could be a strategic advantage and it could utilize these freshly acquired capabilities in terms of skills, insider knowledge of market needs and work culture for developing highly market-specific solutions.

These two cases illustrate that there is still a lot of potential for Indian investments in Germany, especially if the interest also encompasses research and innovation work, going beyond the mundane.

Summary

Prima facie, it appears, as if Indian investments in Germany have been on the decline in the recent past. This is a remarkable and curious development deserving attention from all stakeholders, especially because the overall stock of outbound FDI from India has been on the increase in this period. It would be in the bilateral interest to investigate and find out the root causes for this trend and to develop remedies for reversing it.

The changing geopolitical and economic considerations, e.g. over-reliance of supply chains on specific markets, e.g. China, necessitate diversification to enhance business resilience and ensure the consumer's access to products and services. A simultaneous broadening and deepening of economic relations between India and Germany are bound to create new avenues of investments. To realize the full potential of an investment, however, we need to develop a deeper understanding of the drivers and barriers of Indian investments in Germany.

This is a topic that deserves urgent attention by policymakers as well as from other relevant stakeholders, e.g. industry associations, corporate houses and researchers.

[2] See, Table 42, International Investment Position, RBI Bulletin, Oct. 2020, p. 166.

About the author

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