Deutsche Bank Research

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German FDI to India: Untapped potential

Between 1985 and 2004, German foreign direct investment (FDI) to India amounted to a cumulative USD 1.5 bn, making it abundantly obvious that the country has not been an important international investment destination for German companies (see chart).

Why has German FDI to India been so low? Bureaucratic hurdles, unsatisfactory infrastructure and procedural delays are among the factors inhibiting greater flows of FDI.

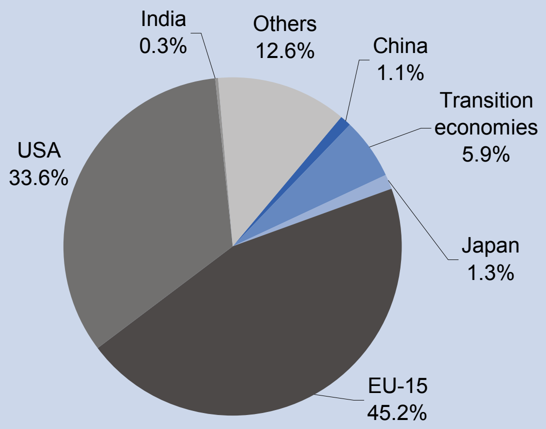
The companies that did invest, however, have been very profitable. German enterprises in India have recorded double-digit growth in sales and net income in recent years. Indeed, Indian subsidiaries of German companies outshine their parent companies' performance on both counts.

The prospects for German FDI to India appear promising. India's large and growing market, its pool of high-skilled workers and the potential it offers foreign firms for cost reduction appear a great match for German companies' increasing outward orientation.

Moreover, India continues to undergo economic reforms, implying that the outlook for returns on investment remains good. While initial delays and difficulties may dissuade potential investors form entering the country, those who take the leap may be rewarded with substantial benefits.

German investment in India lags behind

Regional and country shares of German FDI stock (2003)



Source: Deutsche Bundesbank

www.dbresearch.com

Author
Kunal Kumar Kundu*

Editors
Maria L. Lanzeni
Jennifer Asuncion-Mund
+49 69 910-31714
jennifer.mund@db.com

Technical Assistant
Bettina Giesel

Deutsche Bank Research
Frankfurt am Main
Germany
Internet: www.dbresearch.com
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877

Managing Director
Norbert Walter

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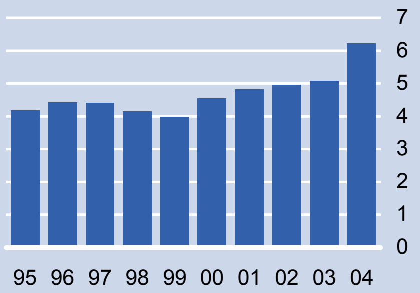
German merchandise trade with India picking up

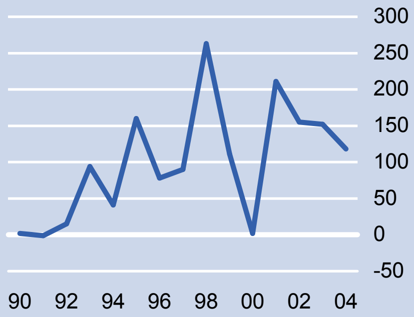
Exports plus imports, EUR bn



Source: German Federal Statistics 1

German FDI flows to India: No rush just yet

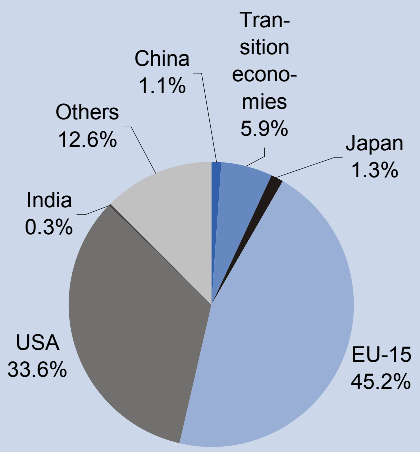
EUR m



Source: Deutsche Bundesbank 2

German investment in India lags behind

Regional and country shares of German FDI stock (2003)



Source: Deutsche Bundesbank 3

Indo-German trade relations, which long showed signs of stagnation, picked up considerably in 2004. In that year, Indo-German trade reached EUR 6.2 bn, recording the highest annual growth rate (22.5% yoy) in over two decades (see chart 1). Signs of further strengthening of bilateral trade flows have been evident during the first five months of 2005, rising nearly 22% yoy.

In comparison, German companies' investment in India has been more volatile, and unlike trade, investment flows continued to decline in 2004 from their recent peak in 2001[1] (see chart 2). But could the recent trend in German investments to India turn around soon? There are at least signs of growing interest from investors. In February this year, about 70 small and medium-sized German companies visited India to explore potential for collaboration in the country. This interest matches the enthusiasm reflected in recent surveys among foreign investors in India, many of whom are planning to expand their local operations further.

This report presents stylised facts about German investment in India, including a historical perspective of Indo-German business relationships. An analysis of incentives and challenges facing German investments in India follows, drawn from various surveys among existing foreign investors in the country. We conclude with an outlook for future German investments in India.

I. German FDI to India: Stylised facts

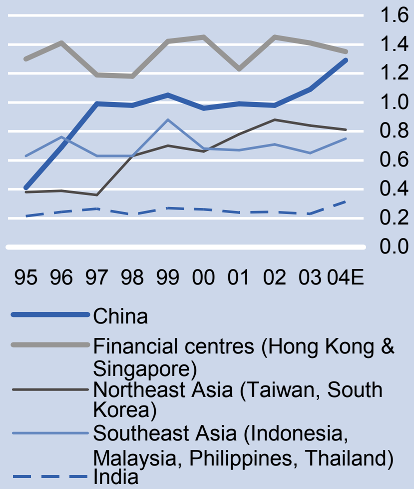
A centuries-long relationship…

The first economic relations between Germany and India date back to the early 16th century when well-known German trading companies from Augsburg and Nuremburg built ships in Lisbon and, with the help of the Portuguese, developed a new Indo-German trade route around Africa. The first trading post was started in the year 1505 on a small island of Anjedip near Goa. Between the 16th and 18th centuries a number of German companies were established with the explicit purpose of trading with Indian and other East Asian countries. However, each one of these was short-lived. It was only in the 19th century that German initiatives in reviving trade with India proved to be more sustained.

The first German trade representation was established in Bombay (now Mumbai) and Calcutta (now Kolkata) in 1844 with the opening of consular offices by the Free and Hanseatic City of Hamburg. The consulate of Prussia followed in 1854 in both cities and that of Hanover in Kolkata in 1855. As the trade volume gradually increased, a regular shipping line was started between Hamburg and India. In 1867, Siemens laid the telegraph line between Kolkata and London. In 1896, Bayer started its local operations.

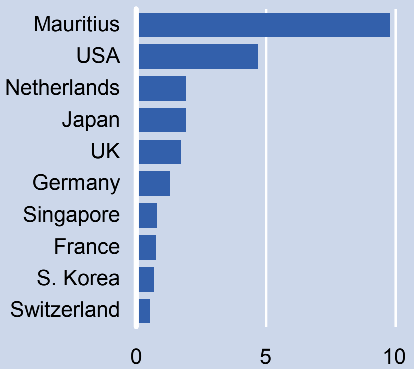
[1] According to the Bundesbank, direct investments are financial operations with German and foreign enterprises in which the investor directly holds 10% or more of the shares or voting rights, including branches and permanent establishments. This may not necessarily correspond to the method followed by the Secretariat for Industrial Assistance (Government of India) and hence could mean disparities in the foreign direct investment figures reported by each country.

Other locations in Asia still ahead
% of total German FDI stock



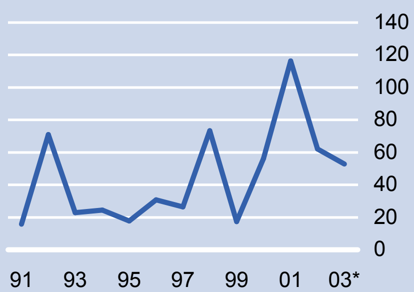
Sources: Deutsche Bundesbank, DB Research estimates **4**

Germany the third largest European investor in India
Cumulative FDI inflows to India, USD bn (August 1991-May 2005)



Source: Secretariat for Industrial Assistance, Government of India **5**

Actual FDI lags approved FDI
Ratio of German actual FDI to approved FDI in India, %



* 2002 and 2003: Deutsche Bank Research estimates

Source: Secretariat for Industrial Assistance, Government of India **6**

… but German business interest in India is still relatively small

Despite this long history, the Indo-German business relationship today has much room for improvement, particularly regarding investment flows.

Since the mid-1980s, German companies have only poured a cumulative EUR 1.5 bn of foreign direct investment (FDI) into India. This clearly indicates that the country has not been an important FDI destination for Germany. As chart 3 shows, the lion's share of German FDI is accounted for by the EU and the US. Within emerging market regions, the gap between Asia and the frontrunner region Central and Eastern Europe has been widening, in line with the increased attractiveness of the latter as these countries have joined or will soon join the EU. And within Asia, German FDI stock is concentrated on the financial centres Singapore and Hong Kong, with China catching up fast.[2] India's share, by contrast, is only starting to pick up (see chart 4).

From the Indian perspective, however, Germany has been an important source of FDI. During the 1990s, Germany ranked first among European investors in India, and fourth overall behind Mauritius[3], the US and Japan. However, FDI flows from Germany slowed down considerably from 2000 on, resulting in the Netherlands and the UK outpacing the German firms. Thus, Germany descended to sixth place among foreign investors in India in the whole period 1991-2004 (see chart 5).

For many years, actual FDI has lagged approved FDI considerably (see chart 6)[4]. This can be attributed to a turnaround in a German company's decision to undertake its desired investment in India for country-specific reasons, or to a fall-out in agreement with the local partner. This is not an India-specific phenomenon, though, but rather common in emerging economies where the perceived risks stemming from political, regulatory or institutional difficulties slow down the execution of business plans.

Wholly-owned subsidiaries are preferred route

For uninitiated investors aiming to explore the potential of the Indian market, one option is to hire an agency to represent their business interest in India, which involves no establishment costs. Alternatively, a liaison or branch office could be set up, which offers the foreign investor greater control of the Indian operations. Once a company decides to invest in India, it may opt for joint ventures with Indian partners. These may involve the partial acquisition of shares or to set up wholly-owned subsidiaries.

Initially in India, the extent of foreign ownership was restricted by legal norms. The Foreign Exchange Regulation Act (FERA) of 1973 allowed foreign companies to own more than 40% of a joint venture in exceptional cases only.[5] Since then, continued liberalisation in the norms of foreign ownership across various sectors has seen ever more Indo-German joint ventures being established with a higher percentage of German shareholding. A survey conducted by the Indo-German Chamber of Commerce (IGCC) in 1999 showed that roughly 20% of all Indo-German ventures in India were wholly-

2 See Trinh (2004) for a thorough analysis of German FDI to China.
3 Investments from Mauritius are mostly triggered by tax incentives.
4 Actual German FDI figures as referred to here may differ from Chart 2 due to differing sources.
5 Indo-German Chamber of Commerce (1989).

owned subsidiaries. By 2003, this share had risen to nearly 30%.[6] In fact, wholly-owned subsidiaries accounted for the largest number of German equity investments. The main reason behind this trend is probably the ability to have full control of the Indian operation and the technology being employed.

Technical collaborations are popular among German investors

Many German investors also opt for technical collaborations. A separate study conducted by the Indo-German Chamber of Commerce[7] revealed that more than half of total Indo-German collaborations in India were technical in nature. This option allows small and medium-sized enterprises, which are very strong in their technology but do not necessarily have enough financial resources, to invest in foreign countries, especially in those where the perceived risks are high. Through the technical collaboration route, these companies can earn a stream of royalty payments.

Wholly-owned subsidiaries expected to pick-up

As India embarks upon reforms and as transparency improves, the wholly-owned subsidiaries are expected to become the preferred route for German investors in India. Investors planning to enter the banking industry, for example, may increasingly use this option now that foreign banks have been permitted to establish wholly-owned subsidiaries in the country. Similarly, foreign banks already present in India may convert their bank branches into wholly-owned subsidiaries.

Mumbai region attracts most investments

Large cities are the main destinations of German FDI

Of about 630 Indo-German joint ventures currently in operation in India, roughly one-third of these are located in the state of Maharashtra, which includes the city of Mumbai, the country's financial capital. This is followed by the national capital region of Delhi and the state of Karnataka, which includes the Indian "Silicon Valley" of Bangalore.

Over the years, the three southern states of Karnataka, Andhra Pradesh and Tamil Nadu have seen increased shares of investment flows. West Bengal is another budding location, especially in the field of IT. The preferred investment locations of German companies are listed in Table 7.

Large German manufacturers lead the way

Approximately 80% of all German investors present in India are manufacturing firms, mostly from the fields of electrical and electronic engineering, chemical and mechanical engineering and auto components. Some of the prominent German investors represented include DaimlerChrysler, Siemens, Bayer, BASF, Robert Bosch, Allianz, ThyssenKrupp and SAP, most of which are among the top equity investors in the country.

Large-cap German companies dominate but SMEs will increase their presence

While the dominance of large-cap investors is expected to continue, the pressure on small and medium-sized enterprises (SMEs) to search for new markets and cut costs is projected to increase their presence abroad. However, the rush by SMEs to India might take time, as the CEE-3 and other Eastern European countries are the immediate choice of international location by German firms.

Where does that leave the services sector? It may not come as a surprise that German investors are increasingly tapping India's knowledge-based expertise. Opportunities abound in software production, IT services such as back-office processing, legal and

[6] Indo-German Chamber of Commerce (1999, 2003).
[7] Indo-German Chamber of Commerce (2003).

medical transcription and content development. The biotechnology, tourism, health and financial services sectors also offer attractive prospects. There is also a tremendous potential in Knowledge Process Outsourcing (KPO) and India is moving up the value chain from Business Process Outsourcing (BPO) to KPO. A report by Evalueserve, a global business intelligence and market research company, predicted India to be the world leader in KPO by 2010, capturing more than 70% of the business. The most sought-after professionals will be well-versed in data search and management, followed by biotechnology and pharmaceuticals. This will give the services sector’s share of FDI a boost, but will unlikely outstrip the manufacturing sector.

Some of the prominent German companies present in the services sector are Metro (wholesale trade), Allianz (insurance), SAP (software), Deutsche Post’s DHL subsidiary (logistics), and TÜV (certification).

Profile of India's FDI locations

Main investment destinations

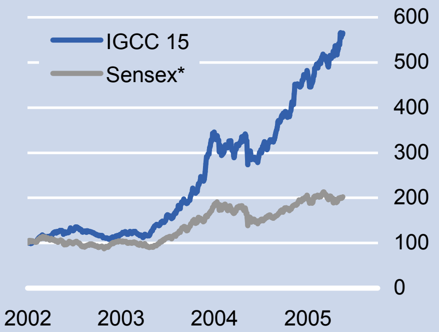
	Investment strengths	Investment weaknesses	Priority areas
Maharashtra	Well-developed, fast improving physical and social infrastructure, excellent financial infrastructure, largest market for goods and services, high purchasing power	Power deficient; deteriorating state government image due to weakening in state finances in the last 5 years; poor irrigation resulting in high variability in agricultural output	Software, electronics, textiles, auto-ancillaries, food processing
Delhi	Advanced physical infrastructure, richest market in the nation and high rate of urbanisation; developed services sector	Local administration still perceived as not business friendly and corrupt; high transmission and distribution losses; high costs of labour	Hotels, tourism, IT, transportation, power
Karnataka	Conservative fiscal policies of the state administration; relatively healthy state finances, well-developed and adequately maintained telecom infrastructure; easy availability of highly-skilled workers; few industrial disputes	Shortage of power, frequent rationing and high tariffs; relatively slow rate of growth in the rail and road networks in the state; low irrigation coverage resulting in high dependence on rainfall	IT, electronics, auto components, leather, textiles, pharmaceuticals

Other investment locations

Gujarat	Business-friendly state policies, responsive local administration, extensive network of roads, ports, railways and telecoms in most parts; well-developed financial structure	High power tariffs, high cost of labour and frequent disputes	IT, gems and jewellery; electronics, garments, food processing, leather
Andhra Pradesh	Reform-oriented state, improved governance and administration; fourth largest market in the nation; relatively high purchasing power	State finances under pressure, deficient power supply, high power tariffs, low literacy and poor healthcare coverage	Food processing, software, financial services, electronics, power
Tamil Nadu	Business-savvy state government; responsive local administration; good railways, ports and telecom network; adequate road connectivity; availability of low-cost labour throughout the state	Large power deficits; high power tariffs for industry; lowest purchasing power among southern states, over-strained and poor coverage of public healthcare	Electronics, software, auto-ancillaries, pharmaceuticals, leather
West Bengal	Large market with considerable rural purchasing power; national and international connectivity; power availability with low tariffs and distribution losses	Active and often adversarial trade unions; inadequate infrastructure outside the metro area; slow but responsive state government policies toward industry	IT, petrochemicals, food processing, leather

Source: Author 7

Indo-German companies outperform the local stock market index



* Bombay Stock Exchange (BSE) index

Sources: IGCC, Bloomberg 8

German enterprises in India are mostly successful

Roughly 77% of foreign investors in India are reported to be profitable,[8] and German companies are no exception. This is borne out in the following:

1. Indo-German companies listed on the Indian stock exchanges continue to show improved performance every quarter. The latest study by the Indo-German Chamber of Commerce (IGCC) shows that during the quarter ending December 2004, listed companies recorded a sales growth of about 11% yoy, while net income growth was more impressive at 25% yoy. The strongest performing sectors continue to be the auto component and engineering industries.
2. Indian subsidiaries of German companies regularly outperform their parents. A recent study by the IGCC found that listed Indian subsidiaries of German companies have outshone their parents in terms of both sales and net profit growth.[9]
3. The IGCC's annual market share review showed that Indo-German companies were market leaders in as many as 21 product groups, nearly half of the 48 product groups considered in the manufacturing sector. 17 other companies occupied the second spot in the respective industries, while another 10 came in as third most important players. As expected, more than 50% of the companies were engaged in mechanical engineering, followed by those in the electronic and electrical sectors.[10]
4. Not surprisingly, the listed Indo-German companies have been performing well in the Indian stock markets, as reflected by the performance of the IGCC-15 Index.[11] A market capitalisation index created by the IGCC, it includes 15 companies with a minimum 25% German shareholding and a listing on Indian stock exchanges. Since its inception in January 2002, the IGCC-15 has risen by roughly 465% and compares favourably against the performance of the Sensex, which has "only" risen by around 102% over the same period (see chart 8). Not surprisingly, foreign institutional investors' (FII) exposure to these companies is gaining ground, rising from nearly zero just three years ago to about 5% on average recently.

II. Incentives and obstacles to foreign investment in India: What investors say

The findings of periodic surveys conducted by the Deutsche Industrie- und Handelskammertag (DIHK) among German investors are very much in line with other foreign investor surveys such as those of the Federation of Indian Chambers of Commerce and Industry (FICCI).[12] For example, in FICCI's 2004 survey, 86% of the respondents indicated their plans to further expand their investments in India. However, respondents pointed to the all-too-common challenges – systems, infrastructure and procedural delays – confronting multinational companies present in the country. The rest of this sec-

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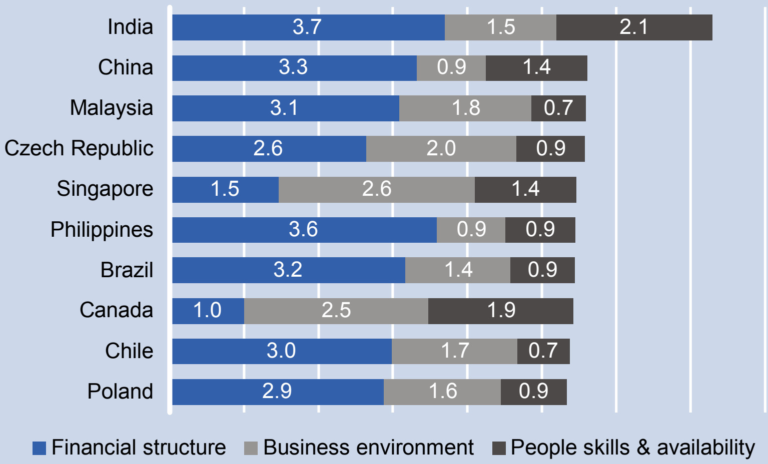
8 FICCI (2004).
9 Indo German-Chamber of Commerce (May 2004).
10 Indo German-Chamber of Commerce (May 2004).
11 Indo German-Chamber of Commerce (February 2005).
12 A combined study by the World Bank and the Confederation of Indian Industries (CII) is also illustrative. See World Bank (2004).

tion enumerates the most frequently cited incentives and obstacles to foreign investment in India.

Incentives

1. **Cost reduction.** The 2005 survey by the DIHK regarding German companies' foreign investment plans cited production and operating cost reductions as their primary reason to invest abroad.[13] This comes on the back of their drive to maintain their competitiveness. India's advantages in this regard are unambiguously favourable. For example, in AT Kearney's 2004 ranking of offshore locations globally, India out-ranked China by a wide margin, mainly due to its combined low-cost advantage and its large availability of high-skilled workers (see chart 9). India's cost advantages span skilled and non-skilled worker categories, as well as professional levels.

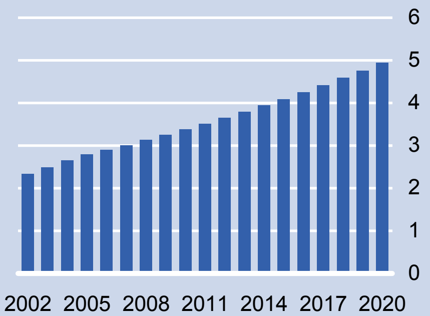
Top 10 offshoring locations: India leads the pack
AT Kearney's 2004 Offshore Location Attractiveness Index*



* The weight distribution for the three categories is 40:30:30, meaning that the financial structure is rated on a scale of 1-4, and that the business environment, and people skills and availability are on scale of 1-3.

Source: AT Kearney 9

India's GDP per capita expected to double
GDP per capita, USD '000 (PPP)



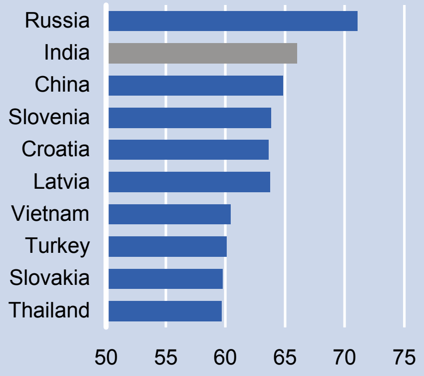
Source: Deutsche Bank Research 10

2. **Access to new, high-growth markets.** The size of the market has also become an important reason for German companies' to increase their orientation abroad. This bodes well with India's young demographics and large population, whose consumption patterns are becoming more discerning as real disposable income increases (see chart 10). These positive attributes, combined with India's greater integration with the world economy, make it the growth star performer among 34 developed and emerging market countries according to a recent comparative study by DB Research.[14]

   In this sense, the retail sector offers an exciting opportunity to foreign investors, although until now it has remained relatively closed to FDI. AT Kearney estimates India's retail market to be worth as much as USD 202.6 bn. It also expects the sector to grow 30% over the next 5 years, hence, it is regarded as one of India's sunrise sectors. In AT Kearney's 2004 Global Retail De-

13 Deutsche Industrie- und Handelskammertag (DIHK, 2005)
14 See Asuncion-Mund (2005) and Bergheim, et al (2005) for further details

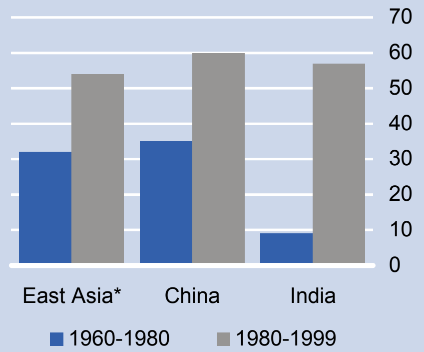
Retail sector offers opportunities
AT Kearney's 2004 Global Retail Development Index*



* High score = high attractiveness

Source: AT Kearney 11

Growth powered by increasing productivity
% contribution of total factor productivity to growth



* incl. China

Source: IMF 12

velopment Index, India earned the second highest spot among 30 emerging market countries as the most attractive market, ranking behind Russia and just ahead of China (see chart 11). This came on the back of its growing market size and irrespective of the still stringent FDI rules and regulations. Opening the sector to foreign investors is still at issue in parliament, although it is expected that the government will not allow 100% FDI. As mentioned above, Germany's Metro Group is already present in Bangalore, where it offers wholesale convenience to suppliers and distributors.

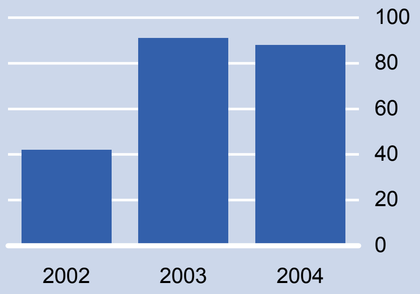
3. **Availability of high-skilled labour and increasing productivity.** Every year, about 2.3 million Indian students graduate with bachelor's degrees and about 300,000 of them earn a degree in engineering. This gives India a commanding advantage in possessing a high availability of skilled workers in the global pool of labour. Moreover, the Indian economy is much more efficient than it was in the past. A study of trends in total factor productivity growth (TFPG) in India brings this to the fore.[15] This demonstrates how Indian economic policies have impacted productivity in India. India's previous strategy of protection against international competition had a depressing effect on TFPG between 1960 and 1980. Over this period, its contribution to overall growth was significantly lower compared to East Asian countries and China (see chart 12). The reforms embarked upon since the 1980s – particularly the rapid opening up of the country to foreign investors in the 1990s – have had a dramatic effect on total factor productivity. Between 1980 and 1999, its contribution to growth came to par with that in East Asian countries and was just slightly behind China. Over this period, foreign technologies and efficient practices began to penetrate, forcing Indian entrepreneurs to seek efficiency-enhancing strategies as a consequence. The removal of import barriers after 1991 helped unleash the competitive forces in the economy. In short, continued economic reforms have invigorated TFP in India and led to higher GDP growth.
4. **Manufacturing activity picking up.** In combination with India's high-skilled labour, its long history in manufacturing offers superior outsourcing opportunities for German companies. True, India has lagged behind its Asian neighbours as a manufacturing hub, a fact attributed to its relatively poor infrastructure. This will change dramatically, however, as ever more multinational companies start to look beyond India's infrastructure gap and focus on its skill-intensive availability.[16] McKinsey, the global consulting company, identified fabricated metal products, auto components, machinery, pharmaceuticals and telecom equipment as manufacturing sectors in which India will play a commanding role in global outsourcing. This augurs well with German firms' plans to increase their investment abroad, specifically in sectors such as auto components, metal products, pharmaceuticals and machinery.[17]

Obstacles

1. **High "ground-level" hassles.** "Ground-level" hassles refer to issues such as bureaucratic hurdles and procedural delays. In the FICCI foreign investor survey, a whopping 88% of respon-

15 Rodrik and Subramanian (2004).
16 McKinsey (2005).
17 Deutsche Industrie- und Handelskammertag (2005).

"Ground level" impediments high on foreign investors' list
% of respondents*



* % of foreign institutions citing ground-level hassles as "high" or "medium"

Source: FICCI (various years) **13**

Relatively higher tax rates in India
Corporate tax rates in Asia, % (2004)

India	35.9*
China	33.0+
Hong Kong	17.5**
Indonesia	30.0**
Malaysia	28.0**
Philippines	32.0**
Singapore	22.0**
Thailand	30.0**

* Foreign companies are charged 41%.

+ Tax rate is applicable to Foreign Investment Enterprises ("FIE").

** Standard corporate tax rate. The tax rate for Thailand was as of 2003.

Note: A simple comparison of tax rates is not sufficient for assessing the relative tax burdens imposed by different governments. The method of computing the profits to which the tax rates will be applied ("the tax base") should also be taken into account.

Source: KPMG **14**

dents considered ground-level hassles in India to be medium to high (see chart 13). An even higher percentage, 93%, found it frustrating to navigate through India's bureaucratic controls and procedures, leading to significant time and cost overruns. According to a study by the Confederation of Indian Industries (CII), a typical power project requires 43 central government clearances and about 57 from the state government level. Similarly, the number of clearances for a typical mining project may involve 37 central government approvals and 47 at the state government level. Although the number of approvals or clearances may not always be significantly lower in other countries, there are often more transparent regulatory processes with clear documentation requirements and decision rules.

2. **Inflexible labour laws and relatively high taxes.** As a result of labour market rigidities, employers are generally unwilling to boost hiring due to the difficult prospect of retrenching workers during cyclical downturns, making it difficult to close down inefficient businesses. In addition corporate tax rates in India are quite high by Asian standards (see chart 14).[18] Those operating in a special economic zone (SEZ), however, are given special tax incentives, and thus find it encouraging to establish operations there.[19]
3. **Unsatisfactory infrastructure.** The state of India's physical infrastructure leaves a lot to be desired. It represents a major impediment to the country's achieving its full potential, especially in the manufacturing sector. Roughly 43% of the respondents to the FICCI's survey regarded India's ports and airport facilities as substandard in an international comparison. In addition, investors remained concerned with the lack of improvement in transport, roads, power and water availability.

III. Prospects for German FDI to India: surveys allow cautious optimism

Nearly 40% of roughly 20,000 German firms surveyed by Deutsche Industrie- und Handelskammertag (DIHK) expressed their concrete plans to tap new markets abroad.[20] Of those who plan to increase their investments abroad, many are considering transferring capital and knowledge-intensive functions abroad, such as administration and R&D. This bodes well for India's large knowledge-based sector, where high skills are complemented by cost benefits. The findings are generally in line with the perception of foreign companies already operating in the country. FICCI's 2004 FDI survey showed that 93% of the respondents see opportunities for greater FDI in their respective sectors. This represented a further increase from the 82% received in the 2003 FDI survey. Sectors where rapid expansion is expected to take place include IT and IT-related services, chemical and chemical products, rubber and plastic products, and electrical machinery and apparatus.[21]

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[18] The tax rate of 41% is applicable only on branch offices of foreign companies and not companies incorporated in India. Branch offices are not allowed to undertake manufacturing in India. Only companies incorporated in India can undertake. manufacturing activities and the effective tax rate for such companies is 33%.

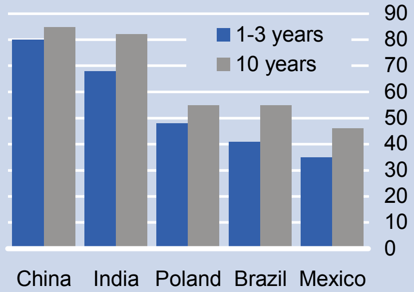
[19] http://www.worldwide-tax.com/india/ind_invest.asp

[20] Deutsche Industrie- und Handelskammertag (2005).

[21] FICCI (2004).

India seen mostly as a medium-term opportunity

Relative s/t & m/t attractiveness, % of total respondents to survey



Source: AT Kearney **15**

Investors value political stability

Determinants of future FDI inflows

Rank 2004	Factor	Rank 2003
1	Political stability	3
2	Stable policy	1
3	Reduction in ground level hassles	2
4	Rate of return	4
5	Market growth	5
6	Availability of skills and manpower	6
7	Stable exchange rate	8
8	Government incentives	7

Source: FICCI **16**

At the same time, it might take several years before large investment flows enter the country, as many investors still see India as an attractive location in the medium to long term but less so in the short run (see chart 15). Taking into account the factors which investors consider key for their investment decision (see chart 16), the prospects for FDI in India are good. While India has had a history of frequent leadership changes in the past (mostly in the 1990s), the mindset to usher in further reforms cuts across parties and the process of liberalisation – despite occasional setbacks – seems irreversible.

Microeconomic determinants such as the rate of return on investment, market growth and availability of skills and manpower do not seem to pose immediate risks to investors. In most sectors, market penetration is still low and, therefore, profit margins are not expected to narrow soon. The favourable outlook for growth and the abundant supply of skilled labour were already discussed above. Regarding the stability of the exchange rate, the Reserve Bank of India has been able to maintain currency stability, even in periods of regional or global turmoil. More decisive efforts to rein in the fiscal deficit would ensure the viability of the central bank's conduct of exchange rate policy.

Finally, the government's pursuit of aggressive reforms in the early 1990s included plenty of incentives for foreign investors. Many more are being worked out, including the opening up of more special economic zones, as well as increasing or eliminating caps in a number of sectors. Although politics will largely dictate the speed of reforms, investors should take heart from the fact that this reflects the democracy for which India is known. In sum, India's intrinsic attributes, including a large population, favourable demographics, a wealth of skilled professionals and the march toward further liberalisation, place it ahead of many emerging market countries as a favourable FDI destination. German companies should, and probably will, seize this opportunity in a more decisive way.

Kunal Kumar Kundu* (kunalkundu@yahoo.com)

* Until July 2005 Senior Economist at the Indo-German Chamber of Commerce

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