Germany Must No Longer Neglect India

by Rainer Apel

During the 1950s and 1960s, even into the 1970s, German industry's engagement in India was one of its biggest in the world outside Europe. But since the 1980s, this engagement has been on a steady decline, and appeals by Indian politicians and businessmen to the Germans to get more involved, have mostly fallen upon deaf ears. Direct investment by Germany in India is ridiculously low, at about $125 million during the last few years. The Joint Indo-German Commission on Economic and Industrial Cooperation did not meet for five years after its 14th session in 2000, and its 15th session took place only this April. German Economics Minister Wolfgang Clement and about 60 representatives of the German business community flew to New Delhi for the gathering on April 4-5.

The rediscovery of India by the Germans is owed in part to the fact that in 2004, India proved to be the steepest-rising export market for German industrial goods among all non-European Eurasian trade partners: Indian imports from Germany, especially of industrial machines, increased by 34.7%. Clement and his Indian co-chairman at the Commission, Finance Minister Palaniappan Chidambaram, resolved that the trade volume between their countries be doubled by the year 2010, from the 6.25 billion euros in 2004. The Germans also committed themselves to visibly upgrade their direct investments in India.

In an interview published just before the arrival of the German delegation, Chidambaram said, "We regard Germany as the leading economy in Europe," adding that German industry had "enormous opportunities for investments in sectors such as sea ports, airports, roads, and energy." But German companies, he said, were lagging behind companies from Korea, Japan, and even Malaysia, in terms of engagement in India, and it is India's view that "it is important that Germany does not miss the opportunity."

There are, Chidambaram said, "big deficits in the Indian infrastructure, and that is precisely why we say investors should enter the infrastructure sectors. There is a deficit in airports, a deficit in power production. . . . So, my deficit is Germany's opportunity." He added that the potential of German-Indian cooperation is "still very far from being tapped."

During the opening events of the Commission's session on April 4, Chidambaram elaborated on the infrastructure issue: He said that his country wants to spend tens of billions of dollars over the coming ten years for development of transport, energy, and other infrastructure. India was prepared to absorb foreign direct investment in the range of $150 billion for projects like roads, ports, airports, power, housing, and telecommunications. Health and bio-tech are included, as well. German industry's engagement, however, has been fairly "disappointing" in recent years, Chidambaram added, pointing to the low average direct investments of $125 million per year.

Probably the biggest current engagement of Germany in India is in the construction of the fifth stage of the giant thermal power-generating complex in the state of Andhra Pradesh. The project, designed for a total capacity of 1,950 megawatts, will begin operation in March 2008. The construction of the German-funded component with 660 megawatts will begin in May 2005—talks on that have been going on since 1997, and the decision to accelerate the deal was made after German Chancellor Gerhard Schröder's India visit in October 2004. In terms of technology, the project is the most modern one in this category, in India. What is particularly interesting is the funding mode for this German project: 30% of its construction expenses, which is 83 out of 280 million euros, will be covered through a longer-term loan by the German state-run Kreditanstalt für Wiederaufbau (KfW, Reconstruction Finance Bank), at an extremely low interest rate of 0.6%. With that, this state-subsidized loan is almost 5% below the usual rates on the private banking market.

India's giant energy needs are illustrated not only by the repeated power blackouts at companies, homes, and administrative offices, but also by the government's announcement, coinciding with the arrival of the German delegation in New Delhi, that it wants to electrify large non-urban areas in order to supply 78 million rural households with electricity, by 2009. Germany could assist in that and related power-developing projects, by having the KfW invest billions of euros, if the Germans would only stop hesitating, and make up their minds to engage.

For reasons unknown, railway development was not addressed during this two-day visit of the Germans. But along with the already-stated commitment to assist India in the modernization of its seaports, Germany could also supply railway technology. Even if it were not the state-of-the-art maglev technology (in which Germany excels, and which it has supplied to China—although it does not use it domestically, due to irrational ecologist opposition), modern conventional railway systems would be important to develop the Indian end of the Grand North-South Corridor, the direct rail commodity route from St. Petersburg on the Baltic Sea to Mumbai on the western coast of India, which will begin operation this June. (Ideally, the Pakistani end could also be developed.)

An entirely new rail corridor could cut through India from Mumbai to Madras on the eastern coast, making the route available for additional big shipments from and to the regions around the Indian and Pacific Oceans.

A grand project like that would be an ideal complement to that other project which Germany is much interested in right now: the big railway line for commodity transport along the Arabian shore of the Persian Gulf, which the German Chancellor endorsed during this tour of the Gulf four weeks ago.