

# ISAS Brief

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Institute of South Asian Studies  
National University of Singapore  
29 Heng Mui Keng Terrace  
#08-06 (Block B)  
Singapore 119620  
Tel: (65) 6516 4239 Fax: (65) 6776 7505  
[www.isas.nus.edu.sg](http://www.isas.nus.edu.sg)  
<http://southasiandiaspora.org>



## A New Chapter in Indo-German Relations

*Indian Prime Minister Narendra Modi's two-day visit to Germany on 29 and 30 May 2017 to meet German Chancellor Angela Merkel was an opportunity for the two partners to explore ways to further cement economic and trade relations. The two leaders signed a dozen agreements. The need to resume free trade talks between India and the European Union (EU) was also included in the agenda. India and the EU have been unable to reach a Free Trade Agreement (FTA) despite enduring negotiations since 2007. The FTA is aimed to increase investments, lower tariffs on goods and enable trade in services between the two sides.*

Roshni Kapur<sup>1</sup>

### Introduction

Indian Prime Minister Narendra Modi visited Germany on 29 and 30 May 2017, as part of his six-day European tour. After Germany, he visited Spain, Russia and France to develop a greater relationship with the region's partners. In the first leg of his four-nation trip, Modi held talks with German Chancellor Angela Merkel and various business leaders to enhance bilateral economic engagement and ratify trade agreements. The meetings were held as part of the fourth round of the bi-annual India-Germany Intergovernmental Consultations (IGC).

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<sup>1</sup> Ms Roshni Kapur is a graduate student at the University of Sydney majoring in Peace and Conflict Studies, and a former intern at the Institute of South Asian Studies, National University of Singapore. She can be contacted at [kapur.roshni@gmail.com](mailto:kapur.roshni@gmail.com). The author bears responsibility for the facts cited and opinions expressed in this paper.

The IGCs are a high-level engagement that allowed Indo-German partnership to enter into a new phase of relations.<sup>2</sup>

Indo-German partnership has developed through trade and foreign direct investment (FDI). Germany is India's biggest trading partner in the European Union (EU) and sixth worldwide after China, the United States (US), the United Arab Emirates, Saudi Arabia and Switzerland. More than 1,600 German firms and 600 joint ventures are registered in India.<sup>3</sup> The bulk of German FDI and technology flows occurred in the last decade.<sup>4</sup> According to the 2015 German Investments in India Survey, the top 30 German firms in India make €15 billion (\$20.9 billion). The German firms are active in the mechanical, electronics, chemical and pharmaceutical, logistics, banking and insurance sectors.<sup>5</sup> Indian firms are also tapping on the industrial capabilities of the German innovation systems. Indian-based firms Bharat Forge Limited, Piramal Enterprises and SonaBLW India are using German research and development (R&D).<sup>6</sup> On the other hand, India provides a constant investment flow to Germany. The operational basis of Indian companies in Germany which manufacture goods and services, and engage in R&D and innovation activities has increased lately.<sup>7</sup>

## **New Chapter in Relations**

Modi's visit signalled a turning point in Indo-German relations in light of Merkel's comments that Europe cannot wholly depend on the longstanding relations with the US and United Kingdom.<sup>8</sup> His visit concurred at the same time when Chinese Premier Li Keqiang

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<sup>2</sup> "Joint Statement – Third India Germany Inter-Governmental Consultations (IGC) in New Delhi (5 October 2015)", Ministry of External Affairs, 5 October 2015. Available at [http://www.mea.gov.in/bilateral-documents.htm?dtl/25887/Joint\\_Statement\\_Third\\_India\\_Germany\\_InterGovernmental\\_Consultations\\_IGC\\_in\\_New\\_Delhi\\_October\\_05\\_2015](http://www.mea.gov.in/bilateral-documents.htm?dtl/25887/Joint_Statement_Third_India_Germany_InterGovernmental_Consultations_IGC_in_New_Delhi_October_05_2015).

<sup>3</sup> Swami, Praveen, "After talks with German Chancellor Angela Merkel, PM Narendra Modi to push stalled trade with EU", *Indian Express*, 31 May 2017.

<sup>4</sup> "German Investments in India Survey 2015", Indo-German Chamber of Commerce, p1 Available at: [http://indien.ahk.de/fileadmin/ahk\\_indien/Bilder/2015\\_Business\\_survey/Business\\_Survey\\_15.pdf](http://indien.ahk.de/fileadmin/ahk_indien/Bilder/2015_Business_survey/Business_Survey_15.pdf).

<sup>5</sup> Ibid.

<sup>6</sup> Tiwari, Rajnish, "Indian Companies in Germany – A Report on Investment Activities in 2014-15", Annual Review 2015, Indo-German Chamber of Commerce, p 3. Available at: [http://indien.ahk.de/fileadmin/ahk\\_indien/Bilder/2015\\_News\\_and\\_Info/economic\\_news/collab\\_-indian\\_companies\\_in\\_Germany.pdf](http://indien.ahk.de/fileadmin/ahk_indien/Bilder/2015_News_and_Info/economic_news/collab_-indian_companies_in_Germany.pdf).

<sup>7</sup> Ibid.

<sup>8</sup> Henley, Jon, "Angela Merkel: EU cannot completely rely on US and Britain any more", *Guardian*, 28 May 2017.

visited Germany for an annual meeting.<sup>9</sup> The presence of both Indian and Chinese leaders suggested Germany's desire to strengthen relations with the two Asian powers.

The amiable engagement between Modi and Merkel was evident during the visit. Modi praised Merkel for being a world leader and how he has learnt from her "experience, her knowledge, and her vision with regard to the European Union, and her global vision".<sup>10</sup>

The two leaders aimed to strengthen cooperation by signing a range of joint declarations of intent and memoranda of understanding. They went through the scope of bilateral issues and ratified 12 wide-ranging agreements in the areas of digitalisation, sustainability, skills development, advanced training, cyber policy, development cooperation, vocational education, alternative medicine, health, railway safety, Foreign Service institutes and sustainable urban development.<sup>11</sup> A Joint Statement was released after the host of meetings where the two partners agreed to deepen collaboration in investment ties and enhanced trade. Modi also met a number of business leaders to explore ways to enhance economic collaboration and bring in more investment into India.

The trends suggest that the Indo-German strategic partnership may move towards a long-term relationship. Modi said after his talks with Merkel, "Pace of development of our relations is fast, direction positive and destination clear. Germany will always find India as powerful, prepared and capable partner."<sup>12</sup>

The need to restart free trade negotiations between India and the EU was also flagged.<sup>13</sup> Talks for a wide-ranging free trade agreement (FTA) started 10 years ago in 2007. The agreement will provide a framework for investment and rules on mutual trade. It will also enable India and the EU to enter each other's markets for goods and services, and provide sustainable development on trade while ensuring social, labour and environmental rights are upheld.<sup>14</sup> However, the FTA negotiations were halted in 2013 after 16 rounds of talks. There were

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<sup>9</sup> Qiang, Hou, "Chinese premier arrives in Germany for official visit", *Xinhuanet*, 31 May 2017

<sup>10</sup> Swami, Praveen, op. cit.

<sup>11</sup> HT Correspondent, "PM Modi arrives in Spain, aims to improve economic and cultural relations", *Hindustan Times*, 31 May 2017.

<sup>12</sup> Express Web Desk, "Development of Indo-German relations is fast, positive and clear: PM Narendra Modi in Berlin", *Indian Express*, 30 May 2017.

<sup>13</sup> Haidar, Suhasini, "Modi, Merkel nudge FTA, sign a dozen agreements", *Hindu*, 31 May 2017.

<sup>14</sup> <http://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>.

disagreements on intellectual property protections and access to Indian information technology employees to Europe. As a result, bilateral investment agreements between India and European countries failed to achieve their full potential.

Separately, German companies which are keen to venture further into the Indian market have raised concerns about the barriers such as bureaucratic red tape, corruption, tariffs and poor infrastructure. They are pushing for an investment protection treaty to protect their business investments in India.<sup>15</sup>

## **Conclusion**

Modi's visit comes at a time when India is far more active in diplomacy than before. The South Asian giant is building new relations with other countries by signing agreements, pacts and treaties. India's relationship with Germany matured further during Modi's visit. There is also renewed hope on reaching a FTA agreement between India and the EU.

The two leaders met again at the G20 summit in Hamburg on 7 and 8 July where this year's summit covered key issues on climate change, mass migration and free trade. The visit and the meetings between the two sides certainly point to a long-term strategic partnership between the European powerhouse and the rising Asian power.

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<sup>15</sup> Swami, Praveen, op. cit.