



**FRIEDRICH NAUMANN  
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South Asia

# **INDIA-GERMANY LABOUR NEXUS: EXPLORING MARKET DYNAMICS IN EUROPE**

**Dhanya M. B. & Ashish Thakur**

**ANALYSIS**

# Imprint

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# Foreword

In the dynamic landscape of global economics, few nations possess as potent a resource as India's burgeoning population. With over a billion individuals, India's demographic dividend stands a testament to its potential for economic growth and innovation. The Friedrich Naumann Foundation for Freedom commissioned this paper to delve into the intricacies of India's labour market and explore how this vast human capital can be harnessed to address not only domestic economic needs but also tap into international opportunities. As we examine India's labour force, it becomes evident that its abundance of talented and skilled individuals presents a unique advantage that extends far beyond its borders.

In recent years, the global demand for skilled labour has prompted nations like Germany to seek talent abroad. The connection between India and Germany exemplifies this phenomenon, wherein talented individuals from India increasingly find opportunities in Germany. The current government coalition in Germany has spearheaded major initiatives to reform the Skilled Workers Immigration Act, passed by the German Bundestag in 2023. This law, aimed at attracting skilled workers worldwide, facilitates easier issuing of the EU Blue Card and resident permits and family reunification. Skilled professionals from India, particularly those in the IT field, can benefit from these opportunities given that Germany is eager to welcome them. By facilitating the movement of talent between India and Germany, this law not only enriches both economies but also fosters a climate of innovation and cooperation on a global scale.

This paper by Dr. Dhanya M.B. serves as a timely exploration of India's labour market, shedding light on the opportunities and challenges that lie ahead. By examining the intersections of demographics, domestic and foreign opportunities and policy frameworks, it offers valuable insights into how India can leverage its demographic strength to build more prosperous societies. In this spirit of collaboration and mutual benefit, let Indo-German relations embark on a journey of mutual prosperity guided by the principles of liberalism, innovation and progress.

Thank you!



**Dr. Carsten Klein**

**Head**

Friedrich Naumann Foundation  
For Freedom, South Asia

# Abstract

This paper explores the labour market relationship between India and Germany whilst delving into the demographics of the Indian labour market and its migration patterns. It draws attention towards the ageing population in Germany and its contracting labour force in comparison with the surplus labour force, particularly the youth, in India. This demographic divergence fuels international labour migration, with Germany increasingly attracting a highly skilled labour force, specifically from the STEM and ICT sectors, from India. The paper further analyses the opportunities and challenges Germany currently faces in retaining this skilled workforce. On one hand, while it eases visa access for highly skilled workers and succeeds in attracting Indian students to German universities, obstacles such as its language and high personal income tax, on the other, make it difficult for Germany to retain them.

The paper concludes with emphasis on the significance of promoting a sustainable India–Germany relationship through strategic policies, such as encouragement of the German language among migrants, reduction in the tax burden in Germany, etc. By addressing such challenges, while competing with other nations, Germany can leverage India’s skilled labour force to support its economic growth.

# 1 Labour market scenario in South Asia

With a population of almost 1.91 billion,<sup>1</sup> South Asia comprises one-fourth of the world's inhabitants while contributing to its largest demographic dividend, with nearly one lakh youth entering the labour market every day.<sup>2</sup> India alone has a population of 1.4 billion (74 per cent of South Asia) while possessing 72 per cent of its total youth (i.e., 353.01 million) in South Asia.<sup>3</sup> Being the fifth largest economy<sup>4</sup> and a labour-intensive country, India presents a labour market that has always been dynamic. Since its reforms, its economy has seen impressive growth while perceptibly changing conditions of employment and shaping development patterns. While the annual growth rate during the pandemic dropped radically to -5.83%, affecting both economic activity and the labour market adversely, economic activity appears to have rebounded substantially following the pandemic. According to official statistics, the economy in the previous quarters strengthened with an 8% GDP growth rate,<sup>5</sup> projected to be 6.8% in 2024 according to the IMF;<sup>6</sup> true recovery in the labour market, however, required interventions.

Significant structural shifts have been observed in the composition of India's economic sectors over the past decade. Notably, as evident in table 1, the agricultural sector's contribution to Gross Value Added (GVA) experienced a decline from 18.5% in 2011 to 15.6% in the fiscal year 2021-22, accompanied by a decrease in its share of the workforce from 48.9%<sup>7</sup> in 2011-12 to 45.5%<sup>8</sup> in 2021. The manufacturing sector also encountered challenges, evidenced by a declining trend in employment levels over the same period.<sup>9</sup> Conversely, the service sector, excluding construction, witnessed an upward trajectory, with its GVA share rising from 49% in 2011 to 53% in 2021 (see table 1). Furthermore, there has been a discernible trend towards increased employment in the service sector, amounting to 31%<sup>10</sup> of the total

<sup>1</sup> Author's Calculation from Population Prospectus, 2022, DESA, United Nation.

<sup>2</sup> UNICEF, 2019 <https://www.unicef.org/press-releases/more-half-south-asian-youth-are-not-track-have-education-and-skills-necessary#:~:text=%22Every%20day%20nearly%20100%2C000%20young,Henrietta%20Fore%2C%20UNICEF%20Executive%20Director>.

<sup>3</sup> Author's Calculation from Population Prospectus, 2022, DESA, United Nation.

<sup>4</sup> <https://www.imf.org/external/datamapper/NGDPD@WEQ/IND/GBR?year=2024>

workforce. A substantial portion of newly generated employment within the Indian corporate sector stemmed from enterprises operating in the realms of IT, banking and finance, collectively accounting for approximately half the total new job opportunities in 2022.<sup>11</sup>

Table 1: Share of broad economic activity in overall GVA<sup>12</sup> at constant price 2011-12 (%)

Items	2012	2016	2022
Agriculture, forestry & fishing	18.5	15.4	15.6
Mining & quarrying	3.2	3.0	2.2
Manufacturing	17.4	18.1	18.7
Electricity, gas, water supply & other utility services	2.3	2.1	2.3
Construction	9.6	8.2	8.2
Trade, repair, hotels & restaurants	10.9	12.0	11.4
Transport, storage, communication & broadcasting	6.5	7.0	6.4
Financial services, Real estate & professional services	18.9	21.9	22.4
Public administration and defence	6.1	5.4	5.7
Other services	6.6	6.8	7.0
<b>TOTAL GVA at base prices (2011-12)</b>	<b>100</b>	<b>100.0</b>	<b>100.0</b>

**Source:** National Account Statistics, 2023, Ministry of Statistical Programming & Implementation, Gol.

<sup>5</sup> Ministry of Statistical Programming & Implementation, Gol. <https://www.mospi.gov.in/dataviz-quarterly-gdp-growth-rates>

<sup>6</sup> International Monetary Fund. <https://www.imf.org/en/Countries/IND>

<sup>7</sup> International Labour Organization. [https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new\\_delhi/documents/publication/wcms\\_568701.pdf](https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new_delhi/documents/publication/wcms_568701.pdf)

<sup>8</sup> Author's calculation from PLFS 2021-22, Ministry of Statistical Programming & Implementation, Gol.

<sup>9</sup> *ibid*

<sup>10</sup> ILOSTAT modelled estimate. <https://data.worldbank.org/indicator/SL.SRV.EMPL.ZS?locations=IN>

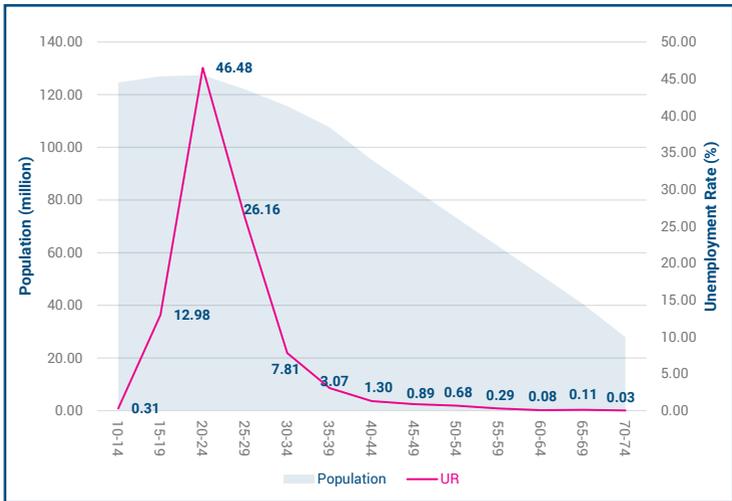
<sup>11</sup> Bank of Baroda Thematic Report. <https://www.bankofbaroda.in/-/media/project/bob/countrywebsites/india/economic-scenario/thematic-reports/corporate-employment-in-fy23-21-14.pdf>

<sup>12</sup> Gross Value Added

# 2 Major challenges and potentiality of the Indian labour market

The issue of youth unemployment, a significant global concern, is also prevalent in India. The Indian economy is at a critical juncture, facing the risk of squandering its demographic advantage within the window of opportunity spanning from 2011 to 2041, offering roughly 30 years to harness the demographic dividend before the onset of ageing.<sup>13</sup> A surge in unemployment among youth, affecting around 24 million individuals, contrasts with the rising proportion and growth rate of the elderly population, posing concerns around the effective leveraging of India's demographic dividend.<sup>14</sup>

Figure 1: Unemployment rate (%) and Population (million) among different age groups for the reference year 2022-23



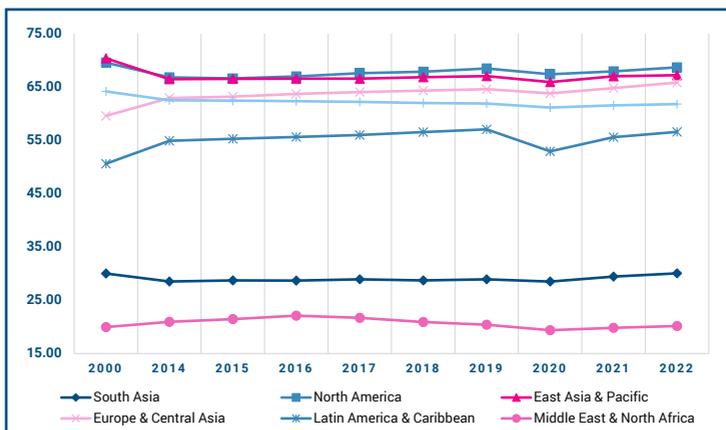
**Source:** Author's calculation from Population Division, UNDESA, 2022 and Periodic Labour Force Survey, Ministry of Statistical Programming & Implementation, GoI

<sup>13</sup> Jain & Goli, 2022, SN Social Science. <https://link.springer.com/article/10.1007/s43545-022-00462-0>

<sup>14</sup> Parida & Madheswaran, 2023, Indian Journal for Labour Economics. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9839200/>

Even though figure 1 depicts India's high level of youth unemployment (right-hand axis) due to its demographic dividend, it is also significant to note that this figure marks a decrease from the 2012 EUS Survey. Additionally, the ILO's recent report highlights a twofold increase in regular formal employment in 2022 and a 7% climb in written contract jobs among youth over the past ten years.<sup>15</sup> It is imperative for India to harness the potential of its youth as catalysts for inclusive development. This entails providing them with ample financial opportunities and enhancing their managerial, entrepreneurial and soft skills as well as technical proficiency in tools such as Artificial Intelligence and Machine Learning, to ensure sustainable growth.

Figure 2: Female Labour Force Participation Rate across the region



**Source:** World Development Indicator

<sup>15</sup> International Labour Organization. [https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new\\_delhi/documents/publication/wcms\\_921154.pdf](https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new_delhi/documents/publication/wcms_921154.pdf)

Despite robust economic growth, the participation of women in economic activities in South Asia remains limited due to challenging socio-cultural norms, their gender-unequal involvement in household chores diverting their attention. Their engagement in the labour market is among the lowest in the world, i.e., 30%, and has remained almost unchanged for several years even while female labour force participation in Europe and Central Asia is among the highest, i.e., 65.82% (see Figure 2). In India, however, recent Periodic Labour Force Survey (PLFS) data reveals a rising trend in women's participation in the labour force (15+ age group), increasing from 24.5% in 2018-19 to 37% in 2022-23. Nevertheless, women encounter numerous challenges, including skill mismatches at higher scales, which hinder their entry into the labour market and impede wage growth; working conditions and job choice and security reflect women's access to quality employment opportunities, which are crucial for fostering inclusive development in South Asia.<sup>16</sup> A comprehensive approach involving policy interventions such as maternity protection, skill enhancement through bottom-up approaches, provision of childcare and the development of life and technical skills are essential for improving labour market outcomes for women.<sup>17</sup>

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<sup>16</sup> International Labour Organization. [https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new\\_delhi/documents/genericdocument/wcms\\_342357.pdf](https://www.ilo.org/wcmsp5/groups/public/--asia/--ro-bangkok/--sro-new_delhi/documents/genericdocument/wcms_342357.pdf)

<sup>17</sup> ORF Online. [https://www.orfonline.org/research/the-skilling-imperative-in-india-the-bridge-between-women-and-work#:~:text=Most%20women%20in%20India%20are%20employed%20in,men%20\(63%20percent\)%20than%20women%20\(58.1%20percent\)](https://www.orfonline.org/research/the-skilling-imperative-in-india-the-bridge-between-women-and-work#:~:text=Most%20women%20in%20India%20are%20employed%20in,men%20(63%20percent)%20than%20women%20(58.1%20percent))

# 3 Informal labour market

The ILO estimates around two billion of the workforce (60% of the total employed) worldwide work in the informal economy, prevalent largely among emerging economies like South Asia.<sup>18</sup> The contribution of the informal sector to the Gross Value Added (GVA) of the Indian economy exceeds 50%, presenting numerous challenges as its characteristics exhibit a dynamic nature. The labour market in India is predominantly characterized by informal employment with little coverage of social security benefits; more than 90% of the workforce engages in casual labour or self-employment.<sup>19</sup> Including agriculture, 88.6% of the workforce lies in the informal sector, the number dropping to 80.3% without it. This informal workforce is distributed as follows: 79% in the informal sector, 7.3% in the formal and roughly 2% in domestic work. India's persistent informality rates have spanned decades and will continue at least until 2030 (expected to continue till 2040)<sup>20</sup>, the labour force will definitely expand. Hence, reducing the size of the informal labour market is a major concern for India's inclusive growth.<sup>21</sup>

This prevailing condition is primarily attributable to the socio-economic landscape of Indian society, characterized by a substantial portion of the workforce possessing low skills, limited financial inclusion, engagement in traditional professions, etc. However, there has been a discernible decline in the prevalence of informal employment in recent years, suggestive of the efficacy of various governmental initiatives aimed at addressing this issue on an urgent basis. Utilizing ICT and automation, institutional coordination and convergence, the Government of India has implemented several noteworthy initiatives in recent years, such as the introduction

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<sup>18</sup> International Monetary Fund. <https://www.imf.org/en/Publications/fandd/issues/2020/12/what-is-the-informal-economy-basics>

<sup>19</sup> Murthy (2019), IMF <https://www.imf.org/-/media/Files/Conferences/2019/7th-statistics-forum/session-ii-murthy.ashx>

<sup>20</sup> International Labour Organization. [https://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/--ifp\\_skills/documents/publication/wcms\\_734503.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_emp/--ifp_skills/documents/publication/wcms_734503.pdf)

<sup>21</sup> International Labour Organization. [https://www.ilo.org/wcmsp5/groups/public/--dgreports/--exrel/documents/publication/wcms\\_809409.pdf](https://www.ilo.org/wcmsp5/groups/public/--dgreports/--exrel/documents/publication/wcms_809409.pdf)

of Goods and Service Tax in 2017, the monthly EPFO payroll report, eShram, etc., to address the diversity of nature of work found in the informal economy and minimize informality. The NCS portal is a one-stop online platform for employers and job seekers, and eShram aims to formalize the labour market by registering unorganized workers. With over 290 million<sup>22</sup> registered individuals spanning various professions, the majority being women, eShram not only facilitates registration but also enables access to the government's social security program, PMSYM. This initiative seeks to create a stable and fair future for unorganized workers by providing them with formal recognition and essential benefits. The implementation of many schemes was a significant step towards formalization; one of these is the MUDRA scheme which facilitates access to formal credit, also aiming to bring informal businesses into the formal sector. India has adopted a range of policy approaches to tackle informality, spanning tax reforms, labour reforms, financial inclusion initiatives and skill development programs.

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<sup>22</sup> eSram Portal, Ministry of Labour and Employment, Government of India <https://eshram.gov.in/>

# 4 India's predominance in labour migration

Labour migration from South Asia's underdeveloped region to urbanized regions is expected to remain at the same pace as the last decade's, fuelled by globalization and diverse demographics. The trend is characterized by a significant increase in independent female migration.<sup>23</sup> The South Asian diaspora ranks among the most extensive globally, with India boasting of the largest with around 18 million individuals. Bangladesh has a diaspora of approximately 7.4 million, while Pakistan's diaspora comprises 6.3 million and Afghanistan accounts for 5.9 million migrants.<sup>24</sup> These figures position them among the top ten largest diasporas worldwide.

Despite the prevalent reliance of a significant portion of the population on agriculture, urbanization in India has experienced a notable escalation, rising from 27.8% in 2001 to 31.16% in 2011, resulting from demographic proliferation and migration.<sup>25</sup> This phenomenon is also primarily attributed to the high influx of foreign investments in India since the 1990s, with the highest annual inflow of FDI (\$84 billion) reported in 2021-22.<sup>26</sup> Given the informal market's possession of a large chunk of the labour force and its persistence, labour migration is the key concern for India. Data from the 2011 census reveals that more than 41.4 million people from different parts of the country are involved in inter-state migration<sup>27</sup> while the Economic Survey 2016-17 further estimates annual inter-state migration to be around nine million.<sup>28</sup> According to PLFS 2020-21, employment and education emerged the primary drivers of the movement of this large-scale population, accounting for 29% of the overall migration in India, 10.8% migrating for employment alone.<sup>29</sup> According to a 2020 International Labour Organization report, migrant workers contribute as much as 10% of India's GDP, highlighting their significance in the country's economy. These people meet essential labour demands and are the backbone of many different sectors.

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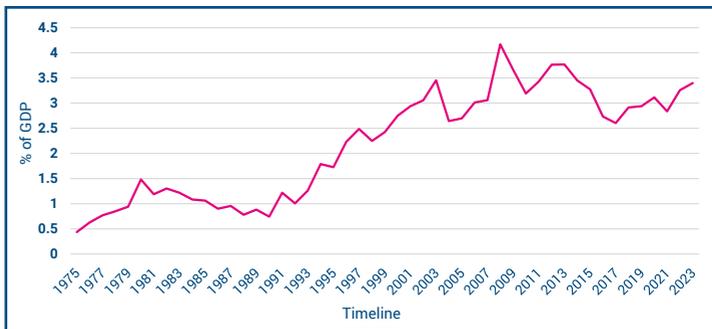
<sup>23</sup> International Labour Organization. <https://www.ilo.org/newdelhi/areasofwork/labour-migration/lang-en/index.htm>

<sup>24</sup> Asia region integration Center, ADB. [https://aric.adb.org/pdf/aeir/AFIR2022\\_5\\_movement-of-people.pdf](https://aric.adb.org/pdf/aeir/AFIR2022_5_movement-of-people.pdf)

<sup>25</sup> World Economic Forum, 2017. <https://www.weforum.org/agenda/2017/10/india-has-139-million-internal-migrants-we-must-not-forget-them/>

India is a well-known migrant-origin country, with around 18 million overseas residents worldwide followed by Mexico and Russia with 11 million and 10.8 million migrants, respectively. Over 25 years, the number of Indian migrants abroad has risen twofold, increasing at a rate approximately twice that of the global migrant population. To India's 18.1 million migrants, the Gulf countries, followed by the USA and Europe, are major destinations. In Europe, the UK, followed by Italy and Germany, holds increasing promise to Indians due to the lack of skilled labourers in the region. India not only acts as the major source of migrants but also constitutes the top destination for international migrants from countries such as Bangladesh, Pakistan, Nepal and Sri Lanka.<sup>30</sup> The increase in international migration of Indians has particularly contributed to the increase in remittance to India, accounting for 3.2% of the GDP (\$111.22 billion) in 2022 (see figure 3), which rose by around 12% within a year to 3.4% of the total GDP or \$125 billion in 2023, as per the World Bank.

Figure 3: Personal remittance inflow over the year (% of GDP) in India



Source: World Development Indicator

<sup>26</sup> Invest India. <https://www.investindia.gov.in/foreign-direct-investment>

<sup>27</sup> Press Information Bureau, Government of India <https://pib.gov.in/PressReleasePage.aspx?PRID=1941077>.

<sup>28</sup> India Budget 2017-18. <https://www.indiabudget.gov.in/budget2017-2018/es2016-17/echap12.pdf>

<sup>29</sup> Author's calculation from PLFS 2020-21, Ministry of Statistical Programming & Implementation, GoI

<sup>30</sup> Author's calculation from KNOMAD, World Bank Bilateral Remittance Matrix 2021, December 2022

The past few years have seen a drastic increment in the migration of Indian students to shores beyond. In comparison with different countries, as per the latest statistics from the Ministry of External Affairs of India, around 1.3 million students were studying abroad in 2022, major destinations being the USA (4,65,791), Canada (1,83,310), UAE (1,64,000), Australia (1,00,009), Saudi Arabia (65,800), UK (55,465), Qatar (46,000), Oman (39,550), Germany (34,864) and Russia (18,039).<sup>31</sup> Gulf countries account for the third largest share of Indian students, despite a decline in recent times.<sup>32</sup> In coming years, the migration of Indian students to various global destinations is expected to significantly increase, propelled by India's demographic advantage and rising enthusiasm for higher education abroad. For job searches, portals such as the National Career Service (NCS portal) assist Indian workers in securing better opportunities on a global scale, particularly in the international job market, while serving as a valuable resource to connect individuals with diverse career opportunities.

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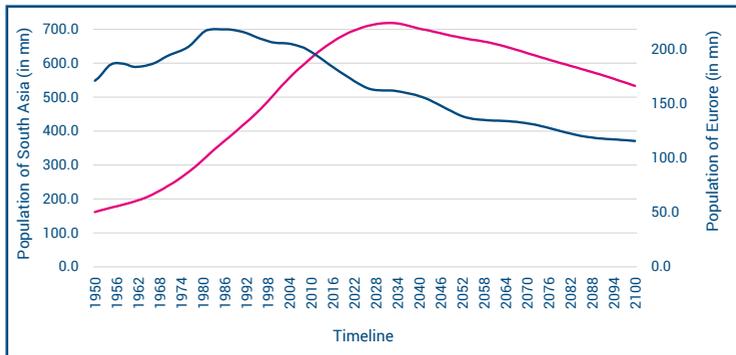
<sup>31</sup> Ministry of External Affairs, Government of India. <https://www.mea.gov.in/Images/CPV/lu3820-1-mar-25-22.pdf>

<sup>32</sup> India's Great Student Out-Migration, World Bank Blogs, 2023. <https://blogs.worldbank.org/en/people/move/indias-great-student-out-migration-0#~:text=Overall%20there%20are%2013.2%20lakh%20total%20Indian%20students%20studying%20abroad.>

# 5 India-Europe labour relations

Despite challenges such as the Russia–Ukraine conflict, the pandemic-induced economic slowdown and inflation, the labour market within the European Union (EU) has shown remarkable resilience. The employment rate has reached an all-time high of 74.6%, accompanied by a notable decrease in youth unemployment to 14.5%. However, the labour market still grapples with tightening conditions and a prevalent skill gap, particularly evident in sectors like ICT and STEM. The ageing population in Europe exacerbates the shortage of highly skilled and low-skilled workers, a trend expected to persist.<sup>33</sup> Consequently, European nations are expanding their search for skilled labour beyond their borders, notably turning towards regions like South Asia with their huge demographic dividends (see Figure 4). Being within this region, India, possessing almost 20% of youth<sup>34</sup> in the world, is the topmost choice of European countries for its large number of educated and highly skilled prospective employees.

Figure 4: Population (15-34 years) trend over the year in South Asia and Europe



**Source:** Author's calculation from Population Division, UNDESA, 2022

<sup>33</sup> Employment and Social Development in Europe, Addressing labour shortages and skills gaps in the EU, 2023, European Commission. <https://op.europa.eu/webpub/empl/esde-2023/index.html>

<sup>34</sup> Author's Calculation from Population Prospectus, 2022, DESA, United Nation.

In recent decades, Europe has emerged a significant destination for Indian migrants. Table 2 below illustrates substantial migration from India to key European destinations, with the United Kingdom, Italy and Germany prominently hosting Indian migrants. This also underscores the economic importance of migration, reflected in remittances, showcasing the financial contributions of Indian migrants to its economy. In contrast, the volume of migration from European countries such as the UK (10999), Germany (2382) and France (1735) to India is notably low.<sup>35</sup>

Table 2: Bilateral Estimates of Migration Stock and Remittance received by India from major European countries, 2021.

Countries	Migration Stock from India	Remittance received by India (million US\$)
Austria	16,644	92
Belgium	27,691	153
Denmark	16,372	94
Finland	9,404	51
France	61,327	327
Germany	1,71,895	951
Greece	10,353	49
Ireland	22,662	136
Italy	1,72,033	892
Luxembourg	3,777	23
Netherlands	49,224	277
Norway	16,506	101
Portugal	8,957	44
Spain	43,746	220
Sweden	47,369	264
Switzerland	24,215	144
United Kingdom	8,47,045	4458

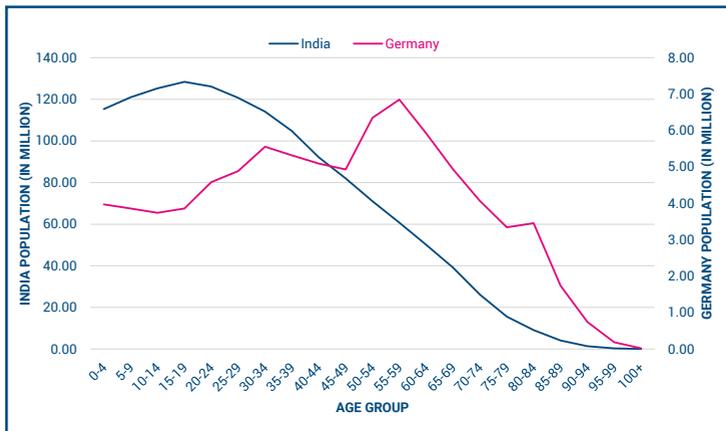
**Source:** KNOMAD/World Bank Bilateral Remittance Matrix 2021, December 2022

<sup>35</sup> KNOMAD/World Bank Bilateral Remittance Matrix 2021, December 2022.

# 6 India–German relations

Similar to other European nations, Germany is also increasing attention towards attracting an Indian workforce, especially high-skilled labour and students, in response to a paucity of youthful labour as its population ages. The demographic divergence between India and Germany, evident in the figure below, is indicative that Germany (on the right axis) exhibits a peak in the 55-59 age group, whereas India (on the left axis) possesses a more youthful population.

Figure 5: Population of India and Germany across different age groups (reference year 2021)



**Source:** Population Division, UNDESA 2022

Germany's ageing population, between 1990 and 2014, surged threefold to 17.1 million from 5.2 million, marking a remarkable 43% increment with the country registering only a 1.8% population growth during the same duration, indicating a drastic fall in the working age group. The German economy, according to the International Monetary Fund, is expected to continue its contraction among G7 nations. The trend is accredited not to the Russia–Ukraine war but rather to its ageing demographic structure. The shift in demographics is anticipated to create impacts such as imperceptible growth in GDP per capita, pressure on the social security system, deteriorating

investment levels, etc. The import of labour from nations with peaking demographic dividends, such as those in South Asia, remains a potential remedial measure to alleviate these challenges in the long run.<sup>36</sup>

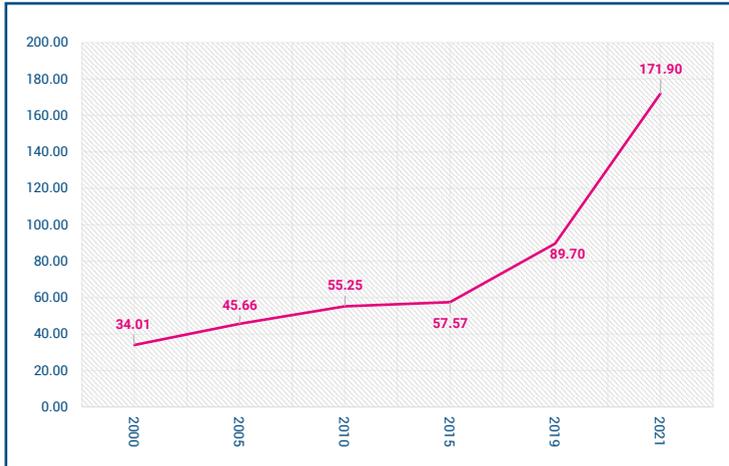
The migration of Indians, mainly students, researchers and skilled workers, into Germany began to accelerate after 2000 when it reworked its migration policies and became one of the most liberalized OECD nations in terms of regulations.<sup>37</sup> This policy liberalization since the year 2000 allowed the number of Indian migrants to increase five-fold (see Figure 6) over the 21 years that followed. Data from the UNDESA population and KNOMAD sources show there has been a notable increase in the number of Indian migrants entering Germany in recent years, particularly since 2019. The overall number of Indian migrants in Germany was around 55000 in 2010; by 2015, that number increased to 57000. The KNOMAD data shows a noteworthy rise to 171,895 over the course of the six years that followed, resulting in a substantial increase in remittance to India from Germany, totalling 950 million US dollars, indicating a threefold rise compared to 302 million US dollars in 2016. Such a massive increment of migrants is mainly due to the demand for IT professionals in the country since 2000. Migration of labour was further helped by the Immigration Act and New Skilled Immigration Act in Germany, which supported migration selectively for highly skilled workers in the IT sector, researchers and students. Germany is diversifying and innovating its STEM and ICT sectors to compete at the global level; in future, this is likely to translate into a demand for more highly skilled labour from India, utilizing its demographic dividend.

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<sup>36</sup> IMF, 2024 <https://www.imf.org/en/News/Articles/2024/03/27/germanys-real-challenges-are-aging-underinvestment-and-too-much-red-tape#:~:text=Germany%20is%20struggling,economic%20model%20is%20irreparably%20broken>.

<sup>37</sup> Indian Diaspora in Germany, India-EU Common Agenda on Migration and Mobility, ICMPD, 2021 [https://www.icmpd.org/file/download/53694/file/ICMPD-Indian\\_diaspora\\_in\\_Germany.pdf](https://www.icmpd.org/file/download/53694/file/ICMPD-Indian_diaspora_in_Germany.pdf).

Figure 6: Total Indian migration stock over the year in Germany (in thousands)



**Source:** Population Division, UNDESA and KNOMAD, World Bank, 2021

Germany currently hosts the largest contingent of Indian students among European nations, totalling 42997 in 2022-23, according to DAAD, occupying different fields such as engineering, science, law, etc., with almost 70% students being male and the remaining 30% female. The number has more than doubled in the last five years, rising 26% from the previous year.<sup>38</sup> This stems from Germany becoming a favourable destination for education for international students because of low academic fees, affordable living costs, quality education and diverse scholarship opportunities, especially to students from lower-middle-income countries. This strategic move aims to facilitate a seamless transition of Indian graduates into the German labour market immediately upon completion of their education.

<sup>38</sup> <https://www.daad.in/en/2023/08/11/indian-student-numbers-touch-a-record-high-in-germany/>

# 7 Hurdles for Germany in attracting high-skilled workers

Germany, seeking to attract skilled professionals into sectors with labour shortages, faces challenges with maintaining a consistent supply of highly skilled workers from labour-intensive countries and facilitating the smooth transition of international students into its domestic job market. This is highlighted in the OECD's research "Indicator of Talent Attractiveness" across 38 OECD nations for attracting proficient workforce into their country while adopting favourable migration policy. The index draws on several dimensions such as income tax, skill environment, quality of opportunities and life, future prospects, inclusiveness, etc. In 2023, Germany fell to the 15th position in the "Highly Educated Workers" category, previously occupying the 12th spot in 2019, with several of its counterparts such as New Zealand, Sweden, Australia, Switzerland, US, Canada, Norway, Luxembourg, UK, etc. surpassing it. Additionally, Germany's performance in promoting Entrepreneurship and cultivating start-up ecosystems reveals similar trends, where it ranks 13th and 12th, respectively. However, despite these challenges, Germany maintains a creditable position in attracting university students, holding the second spot in this category.<sup>39</sup> Germane to the discussion is the fact that anglosphere nations such as the US, the UK, Canada and Australia draw a substantial share of highly skilled workers from India thanks to their favourable English-speaking environments.<sup>40</sup> In contrast, the lack of familiarity with the German language among skilled migrant workers hinders their assimilation into the domestic German job market.<sup>41</sup> Hence, foreign students from German universities tend to seek employment opportunities in anglosphere nations rather than long-term integration into the German labour market. Accordingly, nurturing proficiency in English and inculcating a English-speaking environment whilst promoting the German language during coursework in universities amongst

migrant workers can be a pivotal strategy to enhance the sustainability of the German labour market. Moreover, the higher personal income tax in Germany, as well as in other European destinations, presents a significant barrier to attracting high-skilled labourers from India, since sending remittance is the priority of such workers while working abroad. Consequently, skilled labourers from India are increasingly drawn to lower taxation countries such as the UAE, Saudi Arabia and Qatar in the Middle East and Singapore in Southeast Asia.<sup>42</sup> Hence, reducing personal income tax for high-skilled migrants will provide a breakthrough for Germany in attracting them, thus beating its competitors. This will help create strong economic relations between both nations while fostering German-Indian social integration and establishing an Indian diaspora within Germany.

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<sup>39</sup> <https://www.oecd.org/migration/talent-attractiveness/>

<sup>40</sup> Author's calculation from KNOMAD, World Bank Bilateral Remittance Matrix 2021, December 2022

<sup>41</sup> <https://www.dw.com/en/why-germany-isnt-attractive-for-foreign-workers/a-64936856#:~:text=The%20analysis%20is%20based%20on,in%207th%20and%208th%20place.>

<sup>42</sup> Personal Income Tax rate, PWC. <https://taxsummaries.pwc.com/quick-charts/personal-income-tax-pit-rates>

## 8

## Visa opportunities for skilled workers

To attract greater numbers of highly educated and skilled workers, Germany has implemented a novel legal framework, i.e., The New Skilled Immigration Act,<sup>43</sup> particularly for individuals possessing advanced education, practical expertise and vocational training from third-world nations. The system features the EU Blue Card as a legal residence authorization tailored for highly skilled individuals with validated educational credentials and specific training. The implementation of this mechanism is anticipated to widen opportunities for migration to Germany while addressing the persistent challenge of labour shortages. Recruitment efforts will concentrate on a variety of specialized sectors including information technology, engineering, medicine and scientific disciplines, etc. This initiative provides a noteworthy prospect for skilled labour from India to work in Germany. Accordingly, it is envisioned that an increasing number of highly skilled South Asians will choose to migrate to Germany in the near future.

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<sup>43</sup> Make it in Germany. <https://www.make-it-in-germany.com/en/visa-residence/skilled-immigration-act>

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# Institutions on Labour Market located in India

Together with other statutory bodies and organizations involved in labour and employment, the Ministry of Labour and Employment, which is in charge of creating and enforcing labour laws and policies—help to shape India's labour market landscape along with the Employees' State Insurance Corporation (ESIC), Employees' Provident Fund Organization (EPFO) and V. V. Giri National Labour Institute. The Ministry of Labor and Employment oversees the Labour Bureau, which gathers and examines labour data. The National Skill Development Corporation (NSDC) supports skill development programs in India. Every Indian state has a state labour department that is in charge of carrying out labour laws, guaranteeing worker safety, handling complaints, and overseeing employment practices in the state. Several private organisations including Federation of Indian Chambers of Commerce and Industry (FICCI), Confederation of Indian Industry (CII), National Association of Software and Service Companies (NASSCOM), Chambers of Commerce at State and Local Levels etc representing Indian businesses, also plays a role in labour market issues by advocating policies that support industrial growth and labour welfare.

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