Europe India Chamber of Commerce

Newsletter

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Europe India Chamber of Commerce wishes its readers a very joyful New Year despite the difficult times around us and the challenging the 2020 has been.

India's economy could prove to be 'most resilient' in subregion over long term: UN

India's economy could prove to be the "most resilient" in the subregion of South and South-West Asia over the long term, according to a report by the UN, which says a positive but lower economic growth post COVID-19 pandemic and the country's large market will continue to attract investments.

The report added that FDI outflows from South and South-West Asia increased for the fourth consecutive year, modestly growing from USD 14.8 billion in 2018 to USD 15.1 billion in 2019. (Photo source: Reuters)

India's economy could prove to be the "most resilient" in the subregion of South and South-West Asia over the long term, according to a report by the UN, which says a positive but lower economic growth post COVID-19 pandemic and the country's large market will continue to attract investments.

The report titled 'Foreign Direct Investment Trends And Outlook In Asia And The Pacific 2020/2021', and compiled by United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), stated that inward FDI flows to South and South-West Asia slightly decreased by 2 per cent in 2019, from USD 67 billion in 2018 to USD 66 billion in 2019.

The growth, however, was mainly driven by India, which accounted for 77 per cent of the total inflows to the subregion and received USD 51 billion in 2019, up 20 per cent from the previous year.

The report, released last week, said the majority of these flows were destined for the Information and Communications Technology (ICT) and the construction of sub-sector.

Regarding the ICT sector, the report said the investment to India has evolved from information technology services for Multinational enterprises (MNEs) to the thriving local digital ecosystem where many domestic players, especially in e-commerce, have attracted considerable international investment.

The report added that FDI outflows from South and South-West Asia increased for the fourth consecutive year, modestly growing from USD 14.8 billion in 2018 to USD 15.1 billion in 2019.

The geographical spread of FDI outflows from the subregion remained uneven, with just two countries (India and Turkey) accounting for the vast majority of outflows in 2019, it said.

"As such, the slight increase in outward FDI was predominantly due to an increase in outflows from India, which accounted for 80 per cent of total outward investment from the subregion," the report said, adding that in 2019, India invested USD 12.1 billion abroad, a 10 per cent increase compared with the previous year.

The report noted that in the short term, both inflows and outflows from and to the subregion are expected to decline. In the first three quarters of 2020, the value of greenfield FDI inflows declined by 43 per cent compared to the same period last year, signaling a reversal of the growth trend in the subregion.

Most of the greenfield flows (87 per cent) were destined for India, although the overall greenfield inflows to the country declined by 29 per cent. Equally, FDI from India is projected to decline in 2020, with the largest MNEs revising their earnings down by 25 per cent in early 2020 due to the impacts of the pandemic.

”However, India’s economy could prove the most resilient in the subregion over the long term. FDI inflows have been steadily increasing and positive, albeit lower, economic growth after the pandemic and India’s large market will continue to attract market-seeking investment,” the report said. India’s fast-growing telecom and digital space, in particular, could see a faster rebound as global venture capital firms and technology companies continue to show interest in the country’s market through acquisitions, it said. It noted that Facebook and Google’s investment in Jio Platforms in 2020 worth USD 5.7 billion and USD 4.5 billion respectively were testaments to this trend. ”Estimates suggest that by 2025, core digital sectors such as IT and business process management, digital communication services, and electronics manufacturing could double in size. ”In addition, the pandemic has only further increased the tendency of many sectors such as agriculture, education, energy, financial services, logistics to digitalise, as COVID-19 has pushed many individual and companies to adopt digital solutions and processes,” the report said.

India has implemented a number of noteworthy investment policies and measures since 2019. Some of them include the relaxation of limits to FDI in the insurance sector, liberalisation of FDI rules which ended equity caps in several sectors including coal and lignite mining, contract manufacturing and single brand retail trading and increase in ceiling for FDI into the defense sector to 74 per cent via automatic approval route, it said.

In addition to these measures, and in direct response to the COVID-19 pandemic, the government also introduced intensified FDI screening procedures from neighbouring countries, including Afghanistan, Bangladesh, China and Nepal, it said.

The report said that as in previous years, inflows of greenfield investments have been unevenly distributed across the Asia-Pacific region. In 2019, Vietnam received the second largest share of inward greenfield investment (11 per cent), followed by India (10 per cent), and Sri Lanka (8 per cent).

Looking ahead, in the short-term investment in pharmaceutical manufacturing is forecast to decrease as many European and United States pharmaceutical companies may switch partly to more localised sourcing owing to supply-chain disruptions in the pharmaceuticals sector during COVID-19 pandemic.

”This will be important for pharmaceutical manufacturing hubs in the region, particularly in India,” the report said. The report said that Asia-Pacific’s share in global FDI inflows dropped from 45 per cent in

2018 to 35 per cent in 2019, and its share in global FDI outflows decelerated from 52 per cent to 41 per cent.

(Financial Express, 29/12/2020)

At 9.9% GDP growth, India could be fastest-growing Asian economy in 2021

India could well be the fastest-growing Asian economy in calendar year 2021 (CY21) if Nomura's forecasts are to be believed. The foreign research and brokerage house expects the Indian economy – as measured by gross domestic product (GDP) – to grow at 9.9 per cent in 2021, eclipsing China (2021 GDP growth pegged at 9 per cent) and Singapore (at 7.5 per cent) during this period.

Nomura has turned positive on India's cyclical outlook for 2021, and believes the country is on the cusp of a cyclical recovery. The change in stance comes after nearly two years (end-2018), when it had turned negative on India's growth.

"We project GDP growth to remain in negative territory in Q1-2021 (- 1.2 per cent), pick up to 32.4 per cent in Q2 on base effects, before easing to 10.2 per cent in Q3 and 4.6 per cent in Q4. Overall, we expect GDP growth to average 9.9 per cent in 2021 versus -7.1 per cent in 2020, and 11.9 per cent in FY22 (year ending March 2022) versus -8.2 per cent in FY21," wrote Sonal Varma, managing director and chief India economist at Nomura in a December 8 report titled Asia 2021 Outlook, co-authored with Aurodeep Nandi.

FORECAST: REAL GDP

	2020	2021	2022
Australia	-2.8	3.8	3.3
China	2.1	9	5.3
Hong Kong	-6.1	4.3	3.2
India	**-7.1**	**9.9**	**5**
Indonesia	-2.3	4.9	5.3
Philippines	-9.8	6.8	7.9
Singapore	-5.2	7.5	4.6
South Korea	-0.8	3.6	2
Thailand	-6.9	3.2	5.3
Asia ex-Japan, Aus.	**-1.1**	**8.1**	**5.1**

All figures in %; Source: Nomura Asia Outlook 2021 report sharper-than-expected rebound by India's economy in the second quarter has taken most analysts by surprise. Fitch Ratings, for instance, now expects the GDP to contract at 9.4 per cent in the current financial year, down nearly 1 percentage point (pp) from 10.5 per cent forecast in September 2020.

Given the uncertainty surrounding the Covid-19 vaccine, Nomura expects the Reserve Bank of India (RBI) to maintain an accommodative stance in the first half of calendar year 2021 (H1- 2021) and a gradual withdrawal of liquidity in the first/second quarter (Q1/Q2) of 2021, shift to a neutral stance in Q2/Q3CY21, followed by higher policy rates in early 2022. It expects inflation to average at around 5.5 per cent in H1-2021, before easing to 4.1 per cent in the second half.

Key risks

The fastest-growing tag in 2021, however, will come with its own challenges. A key concern in 2021 and beyond, Nomura said, is the implication of the K-shaped recovery seen till now. A slower pace of recovery in the informal sector, according to them, implies the cyclical recovery maybe a jobless recovery and can lead to lower per-capita income, higher inequality, pressure for more populist spending by the government and social tensions.

It also cautions against the structural balance sheet challenges, particularly elevated non-performing assets (NPAs) in the financial sector, constrained fiscal space and a corporate sector focused more on deleveraging than capex.

"Owing to the lack of job creation, the cycle’s durability could be on shaky ground. For 2021, however, we believe risks are skewed towards an upside surprise on both growth and inflation, relative to consensus and the RBI's projections," Varma and Nandi said.

A rise in infection cases due to crowding during recent festivals; fading of pent-up demand after the initial reflex; fiscal drag from expenditure compression in Q1, as the government struggles to keep the deficit under control; and weaker growth in Europe and the US due to the pandemic are the four risks it cites that could trigger a slowdown in economic growth going ahead.

At a macro level, Nomura expects global growth to pick up from negative 3.7 per cent in 2020 to 5.6 per cent in 2021, with growth in H1-2021 averaging around 7.8 per cent y-o-y (owing to base effect).

(Business Standard, 9/12/2020)

India’s recovery faster than expected; ADB cuts contraction projection to 8% for FY21

In India, supply chain disruption brought food inflation to an average of 9.1 per cent in the first 7 months of 2020-21, pushing headline inflation to 6.9 per cent in the same period, it said.

The Asian Development Bank (ADB) on Thursday upgraded its forecast for the Indian economy, projecting 8 per cent contraction in 2020-21 as compared to 9 per cent degrowth estimated earlier, on the back of faster than expected recovery.

Observing that the economy has begun to normalise, the Asian Development Outlook (ADO) Supplement said the second quarter contraction at 7.5 per cent was better than expected.

“The GDP forecast for FY2020 is upgraded from 9.0 per cent contraction to 8.0 per cent, with GDP in H2 probably restored to its size a year earlier. The growth projection for FY2021 is kept at 8.0 per cent,” it said.

Highlighting that India is recovering more rapidly than expected, the report said the earlier South Asia forecast of 6.8 per cent contraction is upgraded to (-)6.1 per cent in line with an improved projection for India.

Growth will return in 2021-22, at 7.2 per cent in South Asia and 8 per cent in India, it added.

Earlier this month, Reserve Bank Governor Shaktikanta Das had said the economy is recuperating faster than anticipated and growth rate is likely to turn positive in the second half of the current financial year.

In the year as whole, the economy is likely to contract by 7.5 per cent, which is an improvement over Reserve Bank’s previous projection of 9.5 per cent contraction, Das had said while unveiling the bi-monthly monetary policy review.

Observing that the prospects of growth have brightened with the progress on the vaccine front, Das said, the economy was likely to record a growth of 0.1 per cent in Q3 and 0.7 per cent in Q4.

With regard to inflation, ADO said, it is expected to ease in the coming months, and the 4 per cent update projection for 2021-22 is maintained.

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As a result, ADO revised India’s inflation from 4.5 per cent to 5.8 per cent for the current fiscal.

(PTI, 11/12/2020)

India to use election machinery to deliver 600 million COVID vaccines using standard cold storage: Govt expert

Government has lined up cold storage facilities with temperatures between 2 to 8 degrees Celsius (36 to 48°F), said V.K. Paul, who heads the group of experts on vaccine administration for COVID-19 that advises PM Narendra Modi.

NEW DELHI: India will deploy its vast election machinery to deliver 600 million doses of COVID-19 vaccines to the most vulnerable people in the next six to eight months through conventional cold chain systems, the expert leading the initiative said on Friday.

The government has lined up cold storage facilities with temperatures between 2 to 8 degrees Celsius (36 to 48°F), said V.K. Paul, who heads the group of experts on vaccine administration for COVID-19 that advises Prime Minister Narendra Modi.

Paul said these preparations meet the requirements of what he said were the four emerging candidates in the race for India's vaccine.

"The four that I can see, including Serum, Bharat, Zydus, and Sputnik need normal cold chain. I see no problem for these vaccines," he told Reuters in an interview.

Serum Institute of India, the world's largest vaccine maker, is already mass producing and stockpiling AstraZeneca's Covishield shot, while Indian biotech players Bharat Biotech and Zydus Cadila are developing their own vaccine candidates.

"Indian regulators are considering three vaccines from Pfizer Inc , AstraZeneca and Bharat Biotech for emergency-use authorisation"

— Three Frontrunners

And last month, Indian pharmaceutical player Hetero inked a deal with Russia's RDIF to manufacture over 100 million doses of the Russian Sputnik V COVID-19 vaccine per year in India.

The government expects the first approvals "very soon" from the independent drug regulator for emergency use, he said.

"I am hoping at the earliest because we are ready."

The government, however, was yet to have formal talks on pricing and had no firm purchase orders, he said.

"The Indian companies know the government will give a fair and reasonable price."

SUPPLIES AND STORAGE

At present, Indian regulators are considering three vaccines for emergency use authorisation, including those from Pfizer Inc , AstraZeneca and Bharat Biotech.

But, Pfizer's limited stockpiles and its extreme storage condition requirements at minus 70 degrees Celsius or below, would likely limit its use in India, which lacks such infrastructure.

"In a theoretical scenario, where there is no vaccine with conventional cold chain requirement, minus 70 degrees Celsius capacities will have to be created, and we will do so," Paul said.

Paul said the government is also in talks with Moderna , which also has requirements for ultra-cold storage.

India does not anticipate supplies from either Pfizer or Moderna until the second half of next year, said Paul.

"We would like to work with them (Moderna) to make that vaccine available in India, and (ensure) that vaccine is also manufactured in India - for us and for other countries. This is the call we have given to Pfizer also and we are in touch with them as well."

Paul said India may still consider granting Pfizer emergency use authorisation, despite it not having conducted safety and immune response trials in India, but said that decision would be taken by the drugs regulator.

"As of now, it is a norm or standard operating procedure that any vaccine marketed in India should have human study results from the Indian subjects," he said.

India has the world's second highest caseload of coronavirus behind the United States, but its death rate has been far lower.

Still, Paul said the immediate task was to protect lives and the government had prepared a plan to administer vaccines to 300 million people - or 600 million doses at two jabs each - in the first part of the programme.

This would be made up of 260 million people above the age of 50, an estimated 10 million below the age of 50 with serious co-morbidities and 30 million frontline workers, who have borne the brunt of infections.

"The way it looks as of now, optimistically, it appears possible to cover the above population of 300 million in six to eight months' time."

(Economic Times, 12/12/2020)

EU-UK Trade and Cooperation Agreement: protecting European interests, ensuring fair competition, and continued cooperation in areas of mutual interest

After intensive negotiations, the European Commission has reached today an agreement with the United Kingdom on the terms of its future cooperation with the European Union.

President of the European Commission, Ursula von der Leyen said: "It was worth fighting for this deal because we now have a fair and balanced agreement with the UK, which will protect our European interests, ensure fair competition, and provide much needed predictability for our fishing communities. Finally, we can leave Brexit behind us and look to the future. Europe is now moving on."

The European Commission's Chief Negotiator, Michel Barnier, said: "We have now come to the end of a very intensive four-year period, particularly over the past nine months, during which we negotiated the UK's orderly withdrawal from the EU and a brand new partnership, which we have finally agreed today. The protection of our interests has been front and centre throughout these negotiations and I am pleased that we have managed to do so. It is now for the European Parliament and the Council to have their say on this agreement."

The draft Trade and Cooperation Agreement consists of three main pillars:

A Free Trade Agreement: a new economic and social partnership with the United Kingdom

The agreement covers not just trade in goods and services, but also a broad range of other areas in the EU's interest, such as investment, competition, State aid, tax transparency, air and road transport, energy and sustainability, fisheries, data protection, and social security coordination.

It provides for zero tariffs and zero quotas on all goods that comply with the appropriate rules of origin.

Both parties have committed to ensuring a robust level playing field by maintaining high levels of protection in areas such as environmental protection, the fight against climate change and carbon pricing, social and labour rights, tax transparency and State aid, with effective, domestic enforcement, a binding dispute settlement mechanism and the possibility for both parties to take remedial measures.

The EU and the UK agreed on a new framework for the joint management of fish stocks in EU and UK waters. The UK will be able to further develop British fishing activities, while the activities and livelihoods of European fishing communities will be safeguarded, and natural resources preserved.

On transport, the agreement provides for continued and sustainable air, road, rail and maritime connectivity, though market access falls below what the Single Market offers. It includes provisions to ensure that competition between EU and UK operators takes place on a level playing field, so that passenger rights, workers' rights and transport safety are not undermined.

On energy, the agreement provides a new model for trading and interconnectivity, with guarantees for open and fair competition, including on safety standards for offshore, and production of renewable energy.

On social security coordination, the agreement aims at ensuring a number of rights of EU citizens and UK nationals. This concerns EU citizens working in, travelling or moving to the UK and to UK nationals working in, travelling or moving to the EU after 1st January 2021.

Finally, the agreement enables the UK's continued participation in a number of flagship EU programmes for the period 2021-2027 (subject to a financial contribution by the UK to the EU budget), such as Horizon Europe.

A new partnership for our citizens' security

The Trade and Cooperation Agreement establishes a new framework for law enforcement and judicial cooperation in criminal and civil law matters. It recognises the need for strong cooperation between national police and judicial authorities, in particular for fighting and prosecuting cross-border crime and terrorism. It builds new operational capabilities, taking account of the fact that the UK, as a non-EU member outside of the Schengen area, will not have the same facilities as before. The security cooperation can be suspended in case of violations by the UK of its commitment for continued adherence to the European Convention of Human Rights and its domestic enforcement.

A horizontal agreement on Governance: A framework that stands the test of time

To give maximum legal certainty to businesses, consumers and citizens, a dedicated chapter on governance provides clarity on how the agreement will be operated and controlled. It also establishes a Joint Partnership Council, who will make sure the Agreement is properly applied and interpreted, and in which all arising issues will be discussed.

Binding enforcement and dispute settlement mechanisms will ensure that rights of businesses, consumers and individuals are respected. This means that businesses in the EU and the UK compete on a level playing field and will avoid either party using its regulatory autonomy to grant unfair subsidies or distort competition.

Both parties can engage in cross-sector retaliation in case of violations of the agreement. This cross-sector retaliation applies to all areas of the economic partnership.

Foreign policy, external security and defence cooperation is not covered by the Agreement as the UK did not want to negotiate this matter. As of 1 January 2021, there will therefore be no framework in place between the UK and the EU to develop and coordinate joint responses to foreign policy challenges, for instance the imposition of sanctions on third country nationals or economies.

The Trade and Cooperation Agreement covers a number of areas that are in the EU's interest. It goes well beyond traditional free trade agreements and provides a solid basis for preserving our longstanding friendship and cooperation. It safeguards the integrity of the Single Market and the indivisibility of the Four Freedoms (people, goods, services and capital). It reflects the fact that the UK is leaving the EU's ecosystem of common rules, supervision and enforcement mechanisms, and can therefore no longer enjoy the benefits of EU membership or the Single Market. Nevertheless, the Agreement will by no means match the significant advantages that the UK enjoyed as a Member State of the EU.

Big changes coming: getting ready 1 January 2021

Even with the new EU-UK Trade and Cooperation Agreement in place, there will be big changes on 1 January 2021.

On that date, the UK will leave the EU Single Market and Customs Union, as well as all EU policies and international agreements. The free movement of persons, goods, services and capital between the UK and the EU will end.

The EU and the UK will form two separate markets; two distinct regulatory and legal spaces. This will create barriers to trade in goods and services and to cross-border mobility and exchanges that do not exist today – in both directions.

The Withdrawal Agreement

The Withdrawal Agreement remains in place, protecting amongst other things the rights of EU citizens and UK nationals, the EU's financial interests, and crucially, peace and stability on the island of Ireland. The full and timely implementation of this agreement has been a key priority for the European Union.

Thanks to intensive discussions between the EU and the UK in the Joint Committee and the various Specialised Committees, the Withdrawal Agreement – and the Protocol on Ireland and Northern Ireland, in particular – will be implemented on 1 January.

On 17 December, the EU-UK Joint Committee met to endorse all formal decisions and other practical solutions related to the implementation of the Withdrawal Agreement. As part of these mutually agreed solutions, the UK has agreed to withdraw the contentious clauses of the UK Internal Market Bill, and will not introduce any similar provisions in the Taxation Bill.

Next steps

The entry into application of the Trade and Cooperation Agreement is a matter of special urgency.

The United Kingdom, as a former Member State, has extensive links with the Union in a wide range of economic and other areas. If there is no applicable framework regulating the relations between the Union and the United Kingdom after 31 December 2020, those relations will be significantly disrupted, to the detriment of individuals, businesses and other stakeholders.

The negotiations could only be finalised at a very late stage before the expiry of the transition period. Such late timing should not jeopardise the European Parliament's right of democratic scrutiny, in accordance with the Treaties.

In light of these exceptional circumstances, the Commission proposes to apply the Agreement on a provisional basis, for a limited period of time until 28 February 2021.

The Commission will swiftly propose Council decisions on the signature and provisional application, and on the conclusion of the Agreement.

The Council, acting by the unanimity of all 27 Member States, will then need to adopt a decision authorising the signature of the Agreement and its provisional application as of 1 January 2021. Once this process is concluded, the Trade and Cooperation Agreement between the EU and the UK can be formally signed.

The European Parliament will then be asked to give its consent to the Agreement.

As a last step on the EU side, the Council must adopt the decision on the conclusion of the Agreement.

(EUROPA PRESS RELEASE, 24/12/2020)

India asks EU to remove non-tariff barriers, standards to increase trade

Synopsis

"We will look for Sweden and EU to also opening its doors a little wider, removing some of the non-tariff barriers or standards which are very often unachievable for any country in the world almost other than Europe so that there I reciprocity in trade with Europe and Sweden and expand business on both sides," Goyal said.

Commerce and industry minister Piyush Goyal on Friday asked the European Union to remove non-tariff barriers and standards so as to increase bilateral trade. At the CEO forum and Sweden-India strategic business partnership, he said that these barriers are "very often unachievable for any country in the world almost other than Europe".

"We will look for Sweden and EU to also opening its doors a little wider, removing some of the non-tariff barriers or standards which are very often unachievable for any country in the world almost other than Europe so that there I reciprocity in trade with Europe and Sweden and expand business on both sides," Goyal said.

The minister also said India and Sweden will in the next three months draw up a roadmap to increase bilateral partnership.

"While Sweden and India score high on the partnership, the sad part is that in merchandise trade for the last 3-4 years, we have been falling and that is not a good sign," he said.

India-Sweden bilateral trade in FY20 was $1.86 billion, down 12% from $2.11 billion in FY19.

(Economic Times, 12/12/2020)

FDI growth story to 'go well' in 2021 too

Synopsis

Irrespective of the global slowdown and the COVID-19 pandemic, FDI into India recorded a significant jump, according to Secretary in the Department for Promotion of Industry and Internal Trade (DPIIT) Guruprasad Mohapatra.

The high growth story of foreign direct investments into India will "go well" in the new year too as there is a growing interest among overseas investors about the country amid the government's continuing reform measures to further improve the business climate.

With relaxed FDI norms, defence production will be among the areas that will be looked at for fresh overseas investments in the months ahead while easing compliance burden of businesses will be a priority area.

Irrespective of the global slowdown and the COVID-19 pandemic, FDI into India recorded a significant jump, according to Secretary in the Department for Promotion of Industry and Internal Trade (DPIIT) Guruprasad Mohapatra.

Facebook's huge investment in Mukesh Ambani's Jio Platform helped India receive around USD 43.5 billion FDI during the January-September 2020 period and going ahead, the bullish trend is expected to continue.

"There was a global slowdown. We also thought that the growth patterns of FDI in India, which was very very encouraging, might decline post-COVID. But the decline has not happened and the FDI continues to grow well and now the general revival is there in the economy. I do not have any anxieties now, it (FDI growth) should go well in 2021," Mohapatra told PTI.

In the wake of the COVID-19 pandemic, the government imposed a nationwide lockdown in late March to curb spreading of infections and the move had also severely impacted economic activities.

The government has relaxed FDI norms in sectors such as defence production and that is also one of the areas "which one will look forward to", Mohapatra said.

According to him, some big ticket investments will keep happening as "overall there is an interest in India's growth story" particularly now because the worst part of the pandemic is over.

After taking a lot of steps to significantly improve the ease of doing business, Mohapatra said, now the government is working to reduce compliance burden of businesses.

"This is a priority of the government. Every compliance which is a burden needs to be removed and this includes de-criminalisation of civil wrongs," he emphasised.

In the World Bank's Doing Business report released last year, India's ranking improved 14 places to the 63rd position among 190 economies. The country was at the 77th spot in the previous year.

Among several areas, the government has relaxed FDI norms in coal mining, contract manufacturing, and single-brand retail trading.

The DPIIT is also looking at easing the norms in areas like AVGC (Animation, Visual Effects, Gaming and Comics).

Foreign direct investment equity inflows into India crossed the USD 500 billion milestone between April 2000 to September 2020, strengthening the country's credentials as an investment destination.

About 29 per cent of the FDI came through the Mauritius route. It was followed by Singapore (21 per cent), the United States, the Netherlands, Japan (each 7 per cent) and the United Kingdom (6 per cent). The other big investors have been from Germany, Cyprus, France and Cayman Islands.

Since 2015-16, FDI inflows have been recording significant growth. In that fiscal, the country received FDI worth USD 40 billion, an increase of 35 per cent over the previous year.

In 2016-17, 2017-18, 2018-19 and 2019-20, FDI stood at USD 43.5 billion, USD 44.85 billion, USD 44.37 billion and USD 50 billion, respectively.

The key sectors which attracted the maximum FDI include services segment, computer software and hardware, telecommunications, trading, construction development, automobile, chemicals, and pharmaceuticals.

Although FDI is allowed through the automatic route in most of the sectors, in certain areas such as telecom, media, pharmaceuticals and insurance, government approval is a must for foreign investors.

Under the government approval route, a foreign investor has to take prior approval of the respective ministry or department whereas for the automatic route, an overseas investor is only required to inform the Reserve Bank of India (RBI) after an investment is made.

At present, FDI is prohibited in as many as nine sectors. They are lottery business, gambling and betting, chit funds, nidhi company, real estate business, and manufacturing of cigars, cheroots, cigarillos and cigarettes using tobacco.

In April this year, the government made prior approval mandatory for foreign investments from countries that share land border with India to curb "opportunistic takeovers" of domestic firms following the COVID-19 pandemic, a move which was aimed at restricting FDI from China.

Experts opined that the government would continue to ease FDI norms and investments into the country would record growth rates in 2021 too.

Pratibha Jain, Delhi Head and Partner at Nishith Desai Associates, said there is a global recognition of the Indian growth potential due to its young and large population, educated middle class, and also being the world's second-largest Internet user base.

"All of these make India an undeniable candidate for investment by global investors," Jain said.

Rumki Majumdar, Economist at Deloitte India, said that strong FDI inflows into India in 2020 despite growth contraction due to the pandemic signals strong confidence among global investors.

"This trend will likely continue as we pencil in growth in double digits in fiscal year 2022 after a contraction in fiscal year 2021... High global liquidity and low bond yields will push global investors to seek alternate destinations for higher returns; India is likely to be one such destination," Majumdar said.

She also said that for India to realise its potential as the FDI destination in the coming years, what will be important is to keep the foot on the pedal and build on forward-looking initiatives through digitisation, identifying areas and strengths for indigenous production, and comprehensive and uniform policies across the nation.

Gunjan Shah, Partner (Private Equity, Merger and Acquisitions and General Corporate) at Shardul Amarchand Mangaldas, said, "I would expect the trend to continue in 2021, especially in the pharmaceuticals, retail and technology sector".

Shah, however, pointed out that some of the problems foreign investors currently face in investing in India is inconsistency in interpretation of laws, frequent changes to the laws and lack of coordinated approach among different regulators in the country.

"India can become a major foreign investment hub by solving some of these problems," Shah said.

FDI is important as India would require huge investments in the coming years to overhaul its infrastructure sector to boost growth. Healthy growth in foreign inflows helps maintain the balance of payments and the value of the rupee.

(Economic Times, 24/12/2020)

Foreign companies to now get access to Indian space technology

India has now amended its transfer of Technology (ToT) policy for the space sector to allow foreign companies direct access to technologies developed by Isro and the department of space (DoS) for the first time.

Isro has at least 500 technologies ready for transfer, of which about 400 are already with more than 233 Indian private firms and are open to more firms. Now, foreign firms can also access most of these technologies, but dual-use and other sensitive patented technologies will have restrictions.

"ToT activities are primarily intended for domestic utilisation of DoS-Isro developed technologies by Indian industries. However, in the context of liberalisation and globalisation, ToT requests from foreign firms will be encouraged as per guidelines issued by the government," the ToT Policy and Guidelines-2020, reviewed by TOI, reads.

Such requests though, will be reviewed and processed on a case-to-case basis and terms of licensing will be arrived at considering the merits of organisation, intellectual value of the technology and its commercial potential, among other things.

K Sivan, secretary, DoS, told TOI that earlier, technologies were open only to Indian industries but it’s time to push more technologies to the market, and the decision to give foreign firms access to DoS/Isro technologies will help this.

"Allowing foreign firms access to our technology has two objectives: To bring more talent and investment to India and to ensure that Indian products enter the global market. So, foreign firms wanting access to our technology will need to invest in India either by directly setting up businesses here, or through tie-ups with Indian firms," Sivan said.

In another first, the space agency will now allow Indian private firms to work on taking space research to the market by developing products in collaboration with Isro.

"Processes and prototypes developed in the laboratory need an extra development or scale up to be successful in the market. This specific customised development could take place with the help of an interested industry under the guidance of a concerned scientist/engineer," the policy reads.

Isro centres will facilitate incubation efforts and decide on modalities and under this programme, firms will be allowed to work directly with Isro on product creation, moving away from the existing system where private firms get fully developed technologies/products to assemble or manufacture.

"The first right of refusal for technology transfer shall be given to industrial partner collaboration with Isro and DoS will decide on the incubation opportunities for start-ups and MSMEs," the DoS said.

PV Venkatakrishnan, director, Isro Capacity Building Programme Office (CBPO), said: "We've already been encouraging both R&D and entrepreneurship among the youth through various programmes spread across national institutions. Now, we want to be able work closely with the industry on developing products, or improving existing products, for which they will receive support. The modalities will be worked out."

The newly formed New Space India Limited (NSIL), a central PSU, has been mandated for commercialising the technologies developed by DoS/Isro. The technologies that are approved for transfer will be transferred to NSIL through an internal agreement enabling the latter to transfer the technologies with technical support extended from Isro towards hand-holding and training the industry.

Incentives for Isro scientists

The policy envisages to create a technology transfer organisation at Isro and ToT will be organised through a centralised Technology Transfer Group (TTG). This centralised office will interface with all Isro centres through centre-level ToT Cells (TTC). The TTG will be responsible for getting proposals reviewed by the Centralised ToT Committee (CTTC).

Further, it will formalise adequate recognition in the form of incentives and awards for successful technology transfer cases at various Isro centres/units.

Isro scientists and engineers will be motivated to take up technology transfer activities in addition to regular project activities they are engaged in.

ToT to NGOs and community-based organisations

Arguing that NGOs and other community-based organisations (CBOs) play an important role in development of weaker sections of community as well as service delivery in local and rural areas, the policy says these organisations can access 'spin off' technologies which may have wider societal applications.

"NSIL will not have to pay ToT cost to DoS and must, on a non-exclusive basis, transfer technologies to NGOs and CBOs with suitable rebates in licensing fee/royalty. Such decisions may be taken by NSIL appropriately," the policy reads.

However, NSIL is barred from committing to any funding or investment from its side for successful application of such technology.

(Economic Times, 5/12/2020)

India and UK to move forward on trade talks as Boris Johnson plans visit

Synopsis

Britain's Dominic Raab said the two foreign ministers "would like to nudge our trade negotiators along and see what we can achieve." "What I think we recognise is the possibilities of a deeper trading relationship. The contours of our economies would allow that and we, certainly, as foreign ministers see a very powerful strategic case," Raab said after four hours of talks with Jaishankar.

India and Britain will push negotiations on trade ties, their foreign ministers said after talks in New Delhi on Tuesday, as both countries seek to restart economies battered by the coronavirus pandemic.

Indian Foreign Minister S. Jaishankar said trade ministers from both countries had held discussions and there was "a serious intent" to deepen trade.

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"What I think we recognise is the possibilities of a deeper trading relationship. The contours of our economies would allow that and we, certainly, as foreign ministers see a very powerful strategic case," Raab said after four hours of talks with Jaishankar.

Trade and investment will be high on the agenda of Prime Minister Boris Johnson, who will travel to New Delhi in January, his first bilateral visit since taking office.

Earlier this year, trade minister Piyush Goyal said India was open to engage with Britain on a preferential trade agreement, ultimately leading to a free trade agreement.

India pulled out of the Regional Comprehensive Economic Partnership, an Asia-Pacific free trade agreement, last year due to fears over China's access to its markets. Britain is seeking fresh deals, having cited the freedom to strike bilateral agreements as a benefit of leaving the EU.

Trade between Britain and India totalled more than 20 billion pounds ($26.60 billion) in 2018, according to Britain's Department for International Trade.

(Economic Times, 16/12/2020)

Surviving the coronavirus pandemic: Important lessons from Germany's Mittelstand

BERLIN|FRANKFURT: In Germany's industrial heartland, engineering firms have come up with a recipe for surviving the coronavirus pandemic.

Keep spending on research and development even if sales drop, build a financial buffer so you can craft a long-term business plan, be flexible with dealers to keep supply chains intact, have an innovative mindset and see crises as opportunities.

It's certainly a strategy that is paying off for some of the small and mid-sized "Mittelstand" companies (SMEs) that together provide almost 60% of all jobs in Germany, according to Reuters interviews with six chief executives.

Commerzbank, the biggest lender to Mittelstand firms, also told Reuters that the number of companies going into "intensive care" was lower than it had feared and there was no rush by its clients to get new credit lines.

Stihl, for example, took an unusual step when lockdowns hit sales of its chainsaws, lawn mowers and hedge trimmers - it carried on making them and helped some of its struggling retailers stay afloat by extending their payment terms, Chief Executive Bertram Kandziora told Reuters.

The gambit paid off.

After a tough couple of months, demand soared for Stihl's tools as people stuck in lockdowns spruced up their gardens. Since May, Stihl has enjoyed double-digit sales growth and is working on Sundays to fill its orders.

To be sure, the landscaping industry has been a sweet spot during the crisis but Stihl's ability to navigate the lean lockdown months reflects a particular advantage of Mittelstand firms - they are typically family owned, with long-term horizons and strong balance sheets to see them through rough patches.

SMEs in Germany are also generally larger than in other European Union states, surveys by the European Statistics Office, Eurostat, show. Moreover, 90% of German companies - specialist engineering firms featuring prominently among them - are family controlled, says the BVMW Mittelstand association.

Don't hit the brakes

The upshot is that fewer German SMEs turned to banks for loans in the April-September period than similar companies in Spain, Italy and France, a European Central Bank survey shows.

An August survey by management consulting firm McKinsey of over 2,200 SMEs in five European countries showed fewer German firms feared they would have to postpone growth programmes than companies in France, Italy, Spain and the United Kingdom. "Due to the fact that the majority is still family owned, the equity ratio is high and offers a good cushion for difficult times," said McKinsey partner Niko Mohr, a Mittelstand expert.

Stihl, a family business founded in 1926, took the decision not to become hostage to banks several decades ago.

It has since built up its equity ratio to 70% to ensure it can take business decisions independently of any lenders who may be more focused on the short term.

"Because of the negative attitude of the banks, the family owning the company then came to the conclusion that they should not let the banks dictate their policy but should in future finance the company from their own resources," Kandziora said.

Arburg GmbH, a family-owned manufacturer of injection moulding machines for plastics processing near Stuttgart, also went into the pandemic with solid finances, which allowed it to look through the crisis.

"The corona pandemic has no impact on our medium- and long-term development and production strategy," Arburg managing partner Michael Hehl told Reuters. "We firmly believe that it would be completely wrong to put the brakes on innovation now."

A survey in September survey by Germany's Mechanical Engineering Industry Association (VDMA) showed a majority of members aim to maintain or raise investment budgets next year, with nearly a fifth planning an increase of 10% or more.

'Huge opportunity'

Success stories like Stihl's belie a mixed COVID-19 picture in Germany. Across all sectors, one in 11 firms is threatened by insolvency, a survey of 13,000 companies by the Association of German Chambers of Industry and Commerce (DIHK) showed.

Patrik-Ludwig Hantzsch at Germany credit agency Creditreform expects 24,000 corporate insolvencies in Germany in 2021 after 16,000 to 17,000 this year.

And businesses more reliant on monthly cash flow are suffering. The German hotel and restaurant association (DEHOGA) said a survey last month of 8,868 businesses in the sector found 71.3% of them feared for their existence.

Commerzbank, however, says many industrial Mittelstand companies have the financial buffers to ride out the storm.

The bank has a team closely scrutinizing the health of its clients, studying everything from business models to figures on customer traffic and holding regular discussions with managers. It is expecting a modest rise in insolvencies once a waiver introduced to keep firms afloat during the crisis is lifted in January, but not the massive rise predicted by some.

"There isn't a mad rush (for credit)," said Christine Rademacher, head of financial engineering at the bank. "Many of our customers have a buffer and no liquidity issues."

Koerber in Hamburg is another Mittelstand company - with businesses from artificial intelligence to machines to package toilet paper - that went into the pandemic with solid finances and it has no intention of taking its foot off the pedal.

"We have made and will continue to make sustained and significant investments in research and development and further digitisation this year and next year. The demand for digital solutions has been given a further enormous boost by corona - this is a huge opportunity for us," Chief Executive Stephan Seifert told Reuters.

Creative destruction?

In Munich, construction equipment maker Wacker Neuson said it is reviewing some of its investments, but it too is keeping up its R&D.

"The crisis is a balancing act between cost optimisation, a much shorter planning horizon and pressure to innovate," said Chief Executive Martin Lehner.

The ebm-papst Group, which makes electric motors and high-tech fans, has also kept R&D investment stable this year despite a drop in turnover of almost 30% in April. "Now we are catching up month by month," said Chief Executive Stefan Brandl.

The company based in Mulfingen is looking to benefit from three trends: air quality, which is at a premium due to the pandemic; digitalisation, which it can serve with fans to cool servers; and demand for products that use less electricity.

For many survivors, the crisis is also accelerating change.

One such company is MAHLE GmbH, which makes auto parts from electric powertrains to air conditioning. It plans to close two German plants and cut other costs to adjust to technological change in its sector and reduced demand due to the pandemic.

But despite an expected drop in sales of about 20% this year, Chief Executive Joerg Stratmann said it is maintaining R&D at a "high level", such as spending millions on a development centre near Stuttgart with 100 engineers that opened recently.

It remains to be seen whether the Mittelstand is undergoing "creative destruction" - the term popularised in the 1940s by Austrian economist Joseph Schumpeter to describe unviable firms folding to make way for more dynamic enterprises.

But those firms in the right sector with healthy balance sheets say they're ready to adapt with confidence.

"We want to seize the opportunity of this crisis," said ebm-papst's Brandl.

(Economic Times, 2/12/2020)

EU rights watchdog warns of pitfalls in use of artificial intelligence

Synopsis

The Vienna-based EU Agency for Fundamental Rights (FRA) urged policymakers in a report issued on Monday to provide more guidance on how existing rules apply to AI and ensure that future AI laws protect fundamental rights.

The European Union's rights watchdog has warned of the risks of using artificial intelligence in predictive policing, medical diagnoses and targeted advertising as the bloc mulls rules next year to address the challenges posed by the technology.

While AI is widely used by law enforcement agencies, rights groups say it is also abused by authoritarian regimes for mass and discriminatory surveillance. Critics also worry about the violation of people's fundamental rights and data privacy rules.

The Vienna-based EU Agency for Fundamental Rights (FRA) urged policymakers in a report issued on Monday to provide more guidance on how existing rules apply to AI and ensure that future AI laws protect fundamental rights.

"AI is not infallible, it is made by people - and humans can make mistakes. That is why people need to be aware when AI is used, how it works and how to challenge automated decisions," FRA Director Michael O'Flaherty said in a statement.

FRA's report comes as the European Commission, the EU executive, considers legislation next year to cover so-called high risk sectors such as healthcare, energy, transport and parts of the public sector.

The agency said AI rules must respect all fundamental rights, with safeguards to ensure this and include a guarantee that people can challenge decisions taken by AI and that companies need to be able to explain how their systems take AI decisions.

It also said there should be more research into the potentially discriminatory effects of AI so Europe can guard against it, and the bloc must further clarify how data protection rules apply to the technology.

FRA's report is based on more than 100 interviews with public and private organisations already using AI, with the analysis based on uses of AI in Estonia, Finland, France, the Netherlands and Spain.

(Economic Times, 14/12/2020)
