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India & EU resume FTA talks

The EU, even after the Brexit, continued to be India's largest export destination (as a bloc) in FY22, though it has lost some appeal.

Senior officials from India and the EU resumed the much-awaited negotiations for a proposed free trade agreement (FTA) here on Monday, after a gap of almost nine years. Both the sides are set to focus on the "deliverables" first during the course of the negotiations, before moving on to contentious matters, sources told FE.

Duty-free access to the EU market for labour-intensive industries, mainly textiles and garments, will be among India's key demands.

The negotiations restart at a time when the US and the EU, India's top markets that accounted for as much as 44% of the country's merchandise exports in FY22, are staring at a recession. Any collapse in economic growth in these economies could, therefore, potentially put the brakes on the resurgence in India's exports witnessed in FY22.

Before the negotiations began, commerce and industry minister Piyush Goyal met European Commission executive vice-president Valdis Dombrovskis on June 17 and "discussed ways to fast track negotiations".

Formal negotiations between the two sides for the FTA were stuck over stark differences after 16 rounds of talks between 2007 and 2013. The EU insisted that India scrap or slash hefty import duties on sensitive products such as automobiles, alcoholic beverages and dairy products, and open up legal services. Similarly, India's demand included greater access to the EU market for its skilled professionals, among others. However, both the sides have now decided to take the negotiations to their logical conclusion.

The EU, even after the Brexit, continued to be India's largest export destination (as a bloc) in FY22, though it has lost some appeal. The country's outbound shipments to the EU jumped 57% on year in FY22 to \$65 billion, albeit on a contracted base. Similarly, its imports from the EU jumped 29.4% last fiscal to \$51.4 billion.

In April, the EU and India decided to set up a trade and technology council to boost bilateral ties, as the bloc's president Ursula von der Leyen met Prime Minister Narendra Modi here. This move underscored growing co-operation between New Delhi and Brussels, as the US is the only other country that has a technical agreement with the EU, along the lines of the one signed with India now. The council is aimed

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at providing political-level oversight of the entire spectrum of the India-EU ties and to ensure closer coordination.

India signed an FTA with the UAE in February, New Delhi's first such pact with any economy in a decade, and sealed another trade deal with Australia in April. Currently, it is also negotiating FTAs with the UK and Canada. The Gulf Cooperation Council, too, has evinced to sign an FTA with India.

The negotiations are a part of India's broader strategy to forge "fair and balanced" trade agreements with key economies and revamp existing pacts to boost trade. The move gained traction after India pulled out of the China-dominated RCEP in November 2019.

India, EU resume negotiations for free trade pact

India had started negotiations for a trade pact with the EU in 2007, but the talks stalled in 2013 as both sides failed to reach an agreement on key issues, including customs duties on automobiles and spirits, and the movement of professionals.

India and the European Union (EU) on Monday resumed negotiations, after a gap of over eight years, for a comprehensive free trade agreement, a move aimed at strengthening economic ties between the two regions. Senior officials from both the sides will hold discussions till July 1.

India and the EU "today kick-start 1st round of trade negotiations in #NewDelhi," Ugo Astuto, Ambassador of the European Union to India and Bhutan, said in a tweet. India and the 27-nation bloc on June 17 formally resumed negotiations on the proposed agreements on trade, investments and Geographical Indications (GI). India had started negotiations for a trade pact with the EU in 2007, but the talks stalled in 2013 as both sides failed to reach an agreement on key issues, including customs duties on automobiles and spirits, and the movement of professionals.

Commerce and industry minister Piyush Goyal in Brussels on June 18 had said India wishes to engage with the world on modern products and look at areas where it can gain in terms of new technology and investments. "All cards are on the table and we are coming with an open heart and an open mind... Agreements do not have to always be about gain or demands, I think agreements also have to be which is good for both negotiating teams and for the people," he had said. India's merchandise exports to EU member countries stood at about USD 65 billion in 2021-22, while imports aggregated to USD 51.4 billion.

A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory. Typically, such a name conveys an assurance of quality and distinctiveness, which is essentially attributable to the place of its origin. The famous goods which carry this tag include Basmati rice, Darjeeling tea, Chanderi fabric, Mysore silk, Kullu shawl, Kangra tea, Thanjavur paintings, Allahabad surkha, Farrukhabad prints, Lucknow zardozi and Kashmir walnut wood carving.

Commenting on the pact, Federation of Indian Export Organisations (FIEO) vice president Khalid Khan said that the agreement would help in significantly promoting exports. "Sectors like apparel, leather and engineering would get a major boost if we get zero-duty access in the EU," Khan said.

(PTI, 28/6/2022)

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India, EU trade pact to help open doors for several domestic sectors

Synopsis

India's merchandise exports to EU member countries stood at about USD 65 billion in 2021-22, while imports aggregated to USD 51.4 billion. A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory.

The proposed free trade agreement with the European Union, when implemented, will provide greater market access for several domestic sectors such as textiles, leather and sports goods in the EU market, commerce and industry minister Piyush Goyal said on Monday. After a gap of over eight years, India and the EU on June 17 formally resumed negotiations for agreements on trade, investments and Geographical Indications (GI).

The next round of negotiations will take place from June 27 till July 1 here.

India had started negotiations for a trade pact, dubbed the Bilateral Trade and Investment Agreement (BTIA), with the 27-country economic bloc in 2007, but the talks stalled in 2013 as both sides failed to reach an agreement on key issues, including customs duties on automobiles and spirits, and the movement of professionals.

Goyal said that the EU is a large market with 27 countries which are prosperous. It is one of the largest trading blocs, having a big share of the world's market.

"It will open the doors, we believe, to our textiles, leather, pharma, sports goods, some agri products, handicrafts, handlooms. All this will get a bigger market. Our exports will increase," he told reporters here.

EU, he said, has strength in modern technologies, high-end precision equipment and "we will get the benefit of their modern technologies".

In the services sector also, both sides would get an opportunity to support each other and expand trade.

"We will get a larger flow of investments from Europe. It will be a win-win for both the countries," he added.

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A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory.

(Economic Times, 21/6/2022)

India, EU trade pact to help unleash significant untapped potential: Piyush Goyal

Synopsis

India and the EU on June 17 formally resumed negotiations on the proposed agreements, after a gap of over eight years. Goyal said they were here to relaunch the negotiations for a fair, equitable and balanced free trade agreement (FTA) between the EU and India.

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With India and the European Union (EU) formally resuming negotiations for proposed agreements on trade, investments and geographical indications (GI), Commerce and Industry Minister Piyush Goyal has said implementation of these pacts would help unleash the significant untapped potential for enhancing economic ties between the two regions.

India and the EU on June 17 formally resumed negotiations on the proposed agreements, after a gap of over eight years.

Goyal said they were here to relaunch the negotiations for a fair, equitable and balanced free trade agreement (FTA) between the EU and India.

"We have our teams in place...It will further strengthen our relations. Our bilateral trade has grown significantly in the last few months...There is a significant untapped potential which we will hope to unleash with the execution of these three agreements -- trade , investment and GIs," he told reporters.

India had started negotiations for a trade pact, dubbed the Bilateral Trade and Investment Agreement (BTIA), with the 27-country economic bloc in 2007, but the talks stalled in 2013 as both sides failed to reach an agreement on key issues, including customs duties on automobiles and spirits, and the movement of professionals.

Asked about the key demands from the Indian side, Goyal said India wishes to engage with the world on modern products and look at areas where it can gain in terms of new technology and investments.

"All cards are on the table and we are coming with an open heart and an open mind... Agreements do not have to always be about gain or demands, I think agreements also have to be which is good for both negotiating teams and for the people," he said.

He added that there was a time when India was "super sensitive" on issues like gender and sustainability, but in the last few years, the country has demonstrated to the world "very deep commitment on these subjects".

"We are looking at technology, we are looking at long term larger finance and low cost in order to transition much faster on the sustainable side," he added.

European Commission Executive Vice-President Valdis Dombrovskis said both sides are aiming for an ambitious and comprehensive FTA.

When asked about the major demands of the EU on automobile, wines and sustainability issues, he said, "According to WTO (World Trade Organisation) standards, these kinds of agreements have to cover essentially all trade. There can be some specific exemptions...As regards sustainability, I will say no modern agreement in the EU is possible without ambitious trade and sustainable development chapters."

These chapters typically cover issues related to employment, broader environment, human and labour rights, he added.

"The next round of negotiations will take place from June 27 till July 1 in New Delhi. We are pursuing an ambitious timeline and we aim to conclude the talks by the end of 2023," Dombrovskis said.

The EU and India are already major trading partners, with an annual trade of 120 billion Euros. The EU is India's third largest trade partner, accounting for almost 11 per cent of Indian trade in 2021.

India is the EU's 10th most important trading partner, accounting for just over 2 per cent of EU trade in 2021. This relatively small share of overall EU trade in goods points to a large untapped potential, he added.

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Typically, such a name conveys an assurance of quality and distinctiveness, which is essentially attributable to the place of its origin.

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(Economic Times, 18/6/2022)

India among top 10 global economies for FDI in 2021 despite decline in investment to \$45 bn: UN

Inflows remain highly concentrated and six economies (China, Hong Kong, Singapore, India, the United Arab Emirates and Indonesia, in that order) accounted for more than 80 per cent of FDI to the region.

Foreign Direct Investment inflows to India declined USD 19 billion to USD 45 billion in 2021 but the country still remained among the top 10 global economies for FDI last year, the United Nations said on Thursday.

According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report, flows of foreign direct investment recovered to pre-pandemic levels last year, hitting nearly USD 1.6 trillion.

However, the prospects for this year are grimmer as global FDI in 2022 and beyond will be affected by the security and humanitarian crises caused by the Ukraine war, by macroeconomic shocks set off by the conflict, by energy and food price hikes, and by increased investor uncertainty.

India, which had received USD 64 billion in FDI in 2020, recorded a decline in FDI inflows in 2021 at USD 45 billion. But India was still among the top 10 economies for FDI inflows in 2021, ranking 7th after the US, China, Hong Kong, Singapore, Canada and Brazil. South Africa, Russia and Mexico rounded up the top 10 economies for FDI inflows in 2021.

"Flows to India declined to USD 45 billion. However, a flurry of new international project finance deals were announced in the country: 108 projects, compared with 20 projects on average for the last 10 years," the report said, adding that the largest number of 23 projects was in renewables.

Large projects include the construction of a steel and cement plant in India for USD 13.5 billion by Arcelormittal Nippon Steel (Japan) and the construction of a new car manufacturing facility by Suzuki Motor (Japan) for USD 2.4 billion.

Outward FDI from South Asia, mainly from India, rose by 43 per cent to USD 16 billion.

The report noted that the war in Ukraine will have far-reaching consequences for international investment in economic development and the Sustainable Development Goals (SDGs) in all countries. It comes as a fragile world economy was just beginning an uneven recovery from the effects of the pandemic.

The report said the direct effects of the war on investment flows to and from Russia and Ukraine include the halting of existing investment projects and the cancellation of announced projects, an exodus of multinational enterprises (MNEs) from Russia, widespread loss of asset values and sanctions virtually precluding outflows.

It added that to date, MNEs from China and India account for a negligible share of FDI stock in Russia (less than 1 per cent), although their share in ongoing projects is larger.

The report said despite successive waves of COVID-19, FDI in developing Asia rose for the third consecutive year to an all-time high of USD 619 billion, underscoring the resilience of the region. It is the largest recipient region of FDI in the world, accounting for 40 per cent of global inflows.

The 2021 upward trend was widely shared in the region, with South Asia the only exception, where FDI inflows declined by 26 per cent to USD 52 billion in 2021 from USD 71 billion in 2020 as the large M&As (mergers and acquisitions) registered in 2020 were not repeated.

Inflows remain highly concentrated and six economies (China, Hong Kong, Singapore, India, the United Arab Emirates and Indonesia, in that order) accounted for more than 80 per cent of FDI to the region.

The report noted that international project finance announcements in industrial real estate have also grown continuously for several years, with no let-up during the pandemic. In 2021, deal numbers tripled to 152 projects with a value of USD 135 billion. Large projects include the construction of a steel and cement manufacturing plant in India for USD 14 billion and the construction of a 960-hectare pharmaceutical park in Vietnam for USD 10 billion.

Further it said that more than 60 per cent of greenfield investments are in developed economies, especially in Europe (45 per cent). Of the Research and Development (R&D) investment in developing economies, India captures almost half of all projects.

In developing economies, United States MNEs targeted India in 8 per cent of the deals, mostly buying minority stakes to gain access to the market and to local innovative solutions.

For example, eBay (United States) jointly with Microsoft (United States) and Tencent (China), acquired an undisclosed minority stake in online retailer Flipkart (India), for \$1.4 billion in 2017. Similarly, Paypal (United States) acquired undisclosed minority stakes in a range of Indian companies across several industries, including software providers, online brokerage systems, professional services and electronic

payments (Moshpit Technologies, Speckle Internet Solutions, Scalend Technologies, Freecharge Payment Technologies).

It added that four Chinese companies accounted for 11 per cent of the deals and invested a relatively higher share in developing-economy MNEs (34 per cent) than their developed counterparts did. "They invested especially in Asia, with shares divided equally between India and South-East Asia," it said.

The report noted that investment facilitation measures undertaken by nations accounted for almost 40 per cent of all measures more favourable to investment. Many new measures concerned the simplification of administrative procedures for investment.

For example, India launched the National Single-Window System, which will become a one-stop shop for approvals and clearances needed by investors, entrepreneurs and businesses.

(Financial Express, 11/6/2022)

India jumps 6 places to 37th rank on IMD's World Competitiveness Index; Denmark tops chart

Denmark has moved to the top of the 63-nation list from the third position last year, while Switzerland slipped from the top ranking to the second position and Singapore regained the third spot from fifth, a global study showed on Wednesday.

India has witnessed the sharpest rise among the Asian economies, with a six-position jump from 43rd to 37th rank on the annual World Competitiveness Index compiled by the Institute for Management Development, largely due to gains in economic performance. Denmark has moved to the top of the 63-nation list from the third position last year, while Switzerland slipped from the top ranking to the second position and Singapore regained the third spot from fifth, a global study showed on Wednesday.

Others in the top 10 include Sweden at the fourth position, followed by Hong Kong SAR (5th), the Netherlands (6th), Taiwan (7th), Finland (8th), Norway (9th) and the USA (10th). Meanwhile, the top-performing Asian economies are Singapore (3rd), Hong Kong (5th), Taiwan (7th), China (17th) and Australia (19th). After a stable but stagnant five years, 2022 witnessed significant improvement in the competitiveness of the Indian economy, IMD said, adding that this is largely due to gains in economic performance (from 37th to 28th).

The domestic economy has experienced a stratospheric rise from 30th to 9th position in a year, Institute for Management Development (IMD) noted. The labour market, a key sub-factor in the business efficiency parameter, moved up from 15th to 6th, while management practices and business attitudes and values also made major leaps.

"With Prime Minister Narendra Modi having made major improvements in the context of retrospective taxes in 2021, India appears to have restored the trust of the business community. Its re-regulation of a number of sectors, including drones, space and geo-spatial mapping, also likely played a role in the country's stellar performance in the 2022 WCR," economists at IMD World Competitiveness Centre said.

India is also a driving force in the global movement to fight climate change and Modi's pledge of net-zero by 2070 at the COP26 summit in November 2021, sits in harmony with its strength in environment-related technologies in the ranking. The challenges that India faces include managing trade disruptions

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and energy security, maintaining high GDP growth post the pandemic, skill development and employment generation, asset monetisation and resource mobilisation for infrastructure development.

The top five attractive factors of India's economy for business are – a skilled workforce, cost competitiveness, dynamism of the economy, high educational level and open and positive attitudes. The IMD World Competitiveness Ranking (WCR) found that inflationary pressures are affecting the competitiveness of national economies along with COVID, and the invasion of Ukraine by Russia.

The three most important trends found to be impacting businesses in 2022 are inflationary pressures (50 per cent), geopolitical conflicts (49 per cent) and supply chain bottlenecks (48 per cent) with COVID being the fourth (43 per cent). "Inflationary pressure is affecting most economies," said Christos Cabolis, Chief Economist at the WCC.

"Other global challenges affecting the competitiveness of countries include variants of COVID-19 with respect to the number of infected people around the world; differing national policies to address COVID (the 'zero-tolerance COVID' policy versus the 'moving on from COVID' policy); and the invasion of Ukraine by Russia." Meanwhile, China slipped one spot this year, reversing its strong upward trend of recent years, signalling a poor economic recovery exacerbated by its zero-COVID strategy.

China improved its business efficiency, more specifically productivity, and increased its real GDP growth rate compared to the last year. "Going forward, China needs to restructure the economy from manufacturing to high-value services and from investment to consumption. It also needs to build a unified national market to enhance long-term economic prosperity, and it will only achieve its socio-economic development goals by using a macroeconomic policy mix," explain the economists at IMD's WCC.

IMD business school in Switzerland and Singapore released the 2022 World Competitiveness Ranking. Its think-tank, IMD World Competitiveness Center, ranks 63 economies and assesses the extent to which a country promotes the prosperity of its people by measuring economic well-being via hard data and survey responses from executives.

(Financial Express, 16/6/2022)

British PM Boris Johnson hails India-UK FTA as 'biggest of them all'

Synopsis

It was during his visit to India in April that Johnson and Prime Minister Narendra Modi had announced that the negotiating teams on both sides must work towards a Diwali timeline for the completion of a draft free trade agreement. The teams are now in the midst of the fourth round of FTA talks, with the Commerce Secretary flying in from India for the ongoing negotiations in the UK.

British Prime Minister Boris Johnson on Monday reiterated the Diwali timeline for a draft India-UK free trade agreement (FTA), declaring that the proposed trade deal with New Delhi would be the biggest yet in the post-Brexit context.

In a statement to mark the start of the Commonwealth Heads of Government Meeting (CHOGM) in the Rwandan capital of Kigali on Monday, Johnson plugged for the "Commonwealth advantage" which added immense value to all 54-member countries of the organisation.

He pointed out how India, as the largest member of the grouping, will be at the same table as the smallest for CHOGM, indicating the diverse strengths of the Commonwealth.

"The Pacific archipelago of Tuvalu (population of 11,000) will be at the same table as India (population 1.3 billion). Yet for all the differences between us, we are joined by an invisible thread of shared values, history and institutions and of course the English language," Johnson writes in 'The Daily Telegraph' newspaper.

"All of this creates a unique opportunity for Britain whereby the Commonwealth - and only the Commonwealth - combines vast and rapidly growing markets with a real and quantified trading advantage. That is why we are mobilising the UK's regained sovereignty to sign free trade or economic partnership agreements with as many Commonwealth countries as possible. So far we've done 33, including Australia and New Zealand, and we're aiming for India, the biggest of them all, by Diwali in October," he said.

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The teams are now in the midst of the fourth round of FTA talks, with the Commerce Secretary flying in from India for the ongoing negotiations in the UK.

"Things are going so well, we are completing chapters so rapidly and making progress on the other chapters yet to be completed," Indian High Commissioner to the UK Gaitri Issar Kumar told reporters at a farewell event organised for the outgoing envoy by the Indian Journalists' Association (IJA) in London on Friday.

"The interesting thing which I learnt is that our Ministry of Commerce has opened up so many more areas to the UK, more than the other countries, and I am really happy that is happening. As the envoy of my government in the UK, I would really like to see this to be the best FTA of India with any country because I just feel there are so many complementary strengths... just the fact that we are engaging so intensively is a very good sign," she said.

During a visit to the UK last month, Commerce and Industry Minister Piyush Goyal had also indicated good progress towards the Diwali deadline.

"With the UK, we had agreed to do an early harvest agreement - basically, to grab the low-hanging fruits and leave the more difficult elements for the next stage... But the way things are progressing, we'll actually land up doing a full FTA with the UK by Diwali," he said at the time.

The focus of the FTA negotiations is on reducing the barriers to trade, cutting tariffs, and supporting companies to export.

According to the Confederation of British Industry (CBI), an FTA with India is expected to nearly double UK exports to India.

A trade deal is also expected to boost Britain's total trade by as much as GBP 28 billion a year by 2035 and increase wages across the UK regions by GBP 3 billion, according to industry estimates.

"A free trade agreement with the world's fastest growing economy is now within touching distance, and to clinch that deal a focus on lowering barriers to trade is now essential," said CBI President Lord Karan Bilimoria, who recently launched the UK India Industry Taskforce as a joint commission to increase cross-industry collaboration on the FTA talks.

According to the UK's Department for International Trade (DIT), India-UK bilateral trade currently stands at around GBP 24 billion a year.

In May last year, Johnson and Modi clinched an enhanced trade partnership with the goal to at least double bilateral trade to GBP 50 billion by 2030.

Industry experts hope this figure could be boosted further with the conclusion of the FTA.

(Economic Times, 21/6/2022)

When would FDI in India touch the milestone of \$100 billion a year?

Synopsis

FDI inflows comprise equity investments, reinvested earnings and other capital. In the recent set of data for 2021-22, which the Reserve Bank of India released last month, Karnataka was the top recipient state with 38% share in FDI equity inflow, followed by Maharashtra (26%) and Delhi (14%). Karnataka received foreign money mainly in sectors such as computer software and hardware, automobile and education.

India received foreign direct investment (FDI) worth \$165 billion in the last two years. These were pandemic years when the world reeled from Covid-19. But even when India was devastated by the second wave, companies from a record 101 nations poured money into 57 sectors in 2021-22.

They were willing to set aside Covid uncertainties to put their money in the India story. In fact, the combined inflows to India during the pandemic years—\$81.9 billion in 2020-21 and \$83.5 billion in 2021-22— were more than what it mopped up in the first six years of the Manmohan Singh rule (2004-05 to 2009-10) or the first three years of the Narendra Modi regime (2014-15 to 2016-17).

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As the global economic crisis worsens with the Ukraine war, will India be able to keep this going? Will it be able to attract \$100 billion FDI in a year? If so, when? GoI has not announced any target so far.

Deepak Bagla, MD and CEO of Invest India, argues FDI is not just about money; it is about global acknowledgement and trust. "We can have FDI inflows worth \$100 billion annually in 24 to 36 months, provided we have a supporting global ecosystem," he says.

"About 500 CEOs can contact me or our minister (KT Rama Rao) any day, anytime. If a message is dropped, we respond. They can settle any issue instantly. The existing investors are our brand ambassadors"

— JAYESH RANJAN, Principal Secretary, Industries & IT, Telangana

In addition to Russia's invasion of Ukraine, some other factors contributing to an increasingly unpredictable financial environment are high inflation and interest rates, concerns about an impending recession in some parts of the world, supply chain bottlenecks and shortage of inputs such as semiconductors. "Yet, India's pace of growth will attract investors. It is the fastest growing large economy in the world," says Bagla.

Invest India is an investment promotion and facilitation agency under the Department for Promotion of Industry and Internal Trade. Bibek Debroy, chairman of the Economic Advisory Council to the Prime Minister, argues the number can surpass the \$100 billion mark. "In three years from now, annual FDI inflow upwards of \$120 billion is plausible," he says. EVR Ramana Reddy, Karnataka's additional chief secretary who helms key departments such as commerce, industries and IT, says India should attain the \$100 billion FDI mark "very soon", provided the startup ecosystem remains intact.

"Out of 100 unicorns created in India last year, 40 happened to be from Karnataka. Startups played a key role in our FDI inflows too," he says. India's FDI data since 2000-01 reflects a roller-coaster ride, at times witnessing a dramatic rise, for instance a 155% y-o-y jump in 2006-07, and then occasional slips such as a 26% shrinkage in 2012-13. Such swings in data make it difficult for analysts to project future FDI trends. In the last 22 years, gross FDI rose y-o-y in 17 years and fell on five occasions (2002-03, 2003-04, 2009-10, 2010-11, 2012-13).

In the past decade, FDI inflows contracted only once – in 2012-13. Top five contributors to India's FDI equity inflow for the entire period (2000-22) are Mauritius (27% of the total), Singapore (22%), US (9%), the Netherlands (7%) and Japan (6%). In 2021-22, Singapore was the top investing country, followed by the US and Mauritius. However, India's net foreign investments, a figure arrived at by subtracting the outflow (Indians buying assets abroad or foreigners selling assets in India), have not been robust particularly during the second year of the pandemic.

Net FDI fell to \$39.3 billion in 2021-22 from \$44 billion a year ago "due to higher outward FDI by India and repatriation by foreign investors", according to an RBI bulletin issued last month. With more and more Indian companies buying assets in foreign soil, it is likely that there will be pressure on net FDI in the coming years as well. Net numbers, however, don't take away from the fact that India has been receiving more foreign money during the pandemic. It's mainly because most sectors are open for 100% FDI under the automatic route.

FDI Inflows to India (\$ bn)

Year	FDI Inflow	% Growth (y-o-y)
2011-12	46.5	34
2012-13	34.2	(-) 26
2013-14	36	5
2014-15	45.1	25
2015-16	55.5	23
2016-17	60.2	8
2017-18	60.9	1
2018-19	62	2
2019-20	74.3	20
2020-21	81.9	10
2021-22	83.5	2

Note: Figures for 2020-21 and 2021-22 are provisional
Source: RBI

An emphasis on ease of doing business plus the recent rounds of reforms in FDI policy in sectors such as insurance, defence, petroleum and telecom have bulked up the kitty. Former Union industry secretary Ajay Dua says it is time for India to aggressively look out for foreign capital in the manufacturing sector by showcasing its production-linked incentive (PLI). "Most of India's FDIs come via mergers and acquisitions.

We need to target more FDI inflows into greenfield manufacturing projects. We must constantly improve the PLI scheme and use it to attract FDI," he says. The PLI scheme is believed to be the key reason why FDI in manufacturing went up by 76% in 2021-22.

"We can have FDI inflows worth \$100 bn annually in 24 to 36 months, provided we have a supporting global ecosystem"

— DEEPAK BAGLA, MD and CEO, Invest India

STATE OF PLAY

While Govt's policy initiatives were helpful, India's FDI journey would not have been this remarkable (from \$4 billion in 2000-2001 to \$83.5 billion in 2021-22), had states not competed with each other to

roll out the red carpet for foreign investors. FDI equity inflow from October 2019 to March 2022 shows Maharashtra (27% of total inflow), Karnataka (23%) and Gujarat (19%) were the top FDI recipients.

The other states attracting large FDIs include Delhi, Tamil Nadu, Haryana and Telangana. In 2021-22, 30 states and Union territories received FDIs, including northeastern states like Meghalaya (\$1.09 mn) and Nagaland (\$0.013 mn). Karnataka's additional chief secretary Reddy says the state reached out to 1,500 global companies in the last one year, with 400 of them responding positively.

"This targeted approach will continue this year too. In Davos recently, our chief minister (Basavaraj Bommai) held meetings with 25 top CEOs. We instantly received an investment commitment of about `60,000 crore," he adds. In neighbouring Telangana, about 500 CEOs of companies operating in the state are given the mobile numbers of IT and industries minister KT Rama Rao and principal secretary of industries and IT Jayesh Ranjan. "About 500 CEOs can contact us any day, anytime. If a message is dropped, we respond.

They can settle any issue instantly. The existing investors are our brand ambassadors," says Ranjan, adding that in the eight years of the state's existence, Telangana received \$35 billion worth of FDI of which 24% was repeat investment. As states fiercely compete with each other to woo foreign investors, multinationals often deploy a smart tactic of negotiating with states simultaneously, creating almost a bidding war.

"The companies have learnt some tricks. They will first meet us and then will go to Telangana or some other states for further concession. We have strong ecosystems and also robust and ready manpower. Yet we are forced to dole out incentives in all sectors""

— EVR RAMANA REDDY, Additional Chief Secretary, Karnataka

"True, if a foreign company wants to invest in India but finds another state offering better incentives, we bring in our policy of 'meet and beat'. Means, we better that offer," says Ranjan. A healthy race among states to woo foreign capital will help India accelerate the pace of reaching the \$100 billion FDI milestone.

'\$120 billion FDI inflow plausible in three years'

By Bibek Debroy, Chairman, Economic Advisory Council to PM

FDI is desirable because it brings technology, efficiency and better management practices, enabling India to become part of the global supply chain. FDI is preferable to imports from other countries because multiplier benefits occur in India and also because FDI aids exports. Depending on the product, there is both a domestic consumer market, which is increasing, and a cheaper production base for exporting, the last especially important because firms are seeking to diversify from former host destinations. From India's perspective, financing current account deficits through nondebt-creating in owes like FDI are superior to inflows that create debt.

The government has progressively liberalised FDI entry. Defence, oil refineries, telecom, power exchanges, stock exchanges and insurance are cases in point. (For specific sectors, FEMA rules have been amended.) This is in addition to improving the business climate, which benefits domestic and foreign investors alike. The numbers speak for themselves. From just over \$45 billion in 2014-15, FDI

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inflows have increased to over \$83 billion in 2021- 22. A large chunk of this is in the form of actual equity.

Global rankings show India remains an attractive investment destination and this has been reinforced in the course of the post-Covid recovery. At this rate, three years from now, annual inflow of upwards of \$120 billion is plausible. Sectors not only indicate India's comparative advantage (including that in R&D), but also the desirable outcome of reducing import dependence. Not just computer software, but computer hardware and drugs and pharmaceuticals come to mind. Add to that automobiles, telecom services, financial services, trading and a sector that India emphasises, renewable energy. Bilateral trade and investment agreements, now that WTO is in a bit of a limbo, facilitate FDI inflows and FDI doesn't always mean inward FDI inflow into India. There is FDI outflow from India too. That's precisely the reason India has been reviewing existing stock of such regional and bilateral agreements and is in the process of negotiating fresh ones.

For instance, other than Singapore, Mauritius and Cayman Islands, countries such as the US, Netherlands and the UK are major sources of FDI inflows. Quantum and nature of FDI is a function of the source country and the destination. While in an overall sense, the destination is India, FDI actually materialises in specific states and is thus dependent on the investment and business climate of that state.

Most FDI inflows have come into Karnataka, Maharashtra, Delhi, Tamil Nadu, Gujarat and Haryana. There is, of course, a methodological problem in this, since investments, domestic and foreign, are shown against wherever corporate headquarters are located, not where manufacturing actually takes place. Nevertheless, this vindicates the perception about some states being more attractive destinations than others.

While liberalisation occurs at the level of Union government, many subsequent clearances (land, labour, water, electricity, environment) occur at state level, not to speak of transport and legal infrastructure. The reaction of states will determine whether, three years from now, annual inflows are \$120 billion, or considerably higher.

(Economic Times, 5/6/2022)

India, UK need to address several non-tariff barriers to clinch trade deal by Diwali

Synopsis

Heald, who served as chief executive officer of UKIBC from 2010 to 2020, said addressing the non-tariff barriers would "give the free trade agreement absolute credibility as far as the businesses are concerned, both in the UK and India."

A number of non-tariff barriers, like rules related to investor protection, intellectual property rights, and harmonisation of governance and standards, are among the key sticky points in the Free Trade Agreement (FTA) that India and the United Kingdom target to sign by Diwali this year.

"The UK businesses, as well as the Indian businesses, want the equal focus to be given to non-tariff barriers, particularly the technical barriers to trade and investment," Richard Heald, Executive Chair, UK India Business Council (UKIBC), told ANI in an interview.

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He said there are a number of non-tariff barriers that both countries need to address in order to have a comprehensive trade deal. "It's not only about tariff barriers but also non-tariff barriers," he said.

He said the non-tariff barriers that the two countries need to address include the issues around rules of origin, harmonisation of governance and standards, confirmation of rules around intellectual property rights, and investor protection.

Heald, who served as chief executive officer of UKIBC from 2010 to 2020, said addressing the non-tariff barriers would "give the free trade agreement absolute credibility as far as the businesses are concerned, both in the UK and India."

India and the UK announced their intention to have a comprehensive free trade agreement during a virtual summit held in May 2021 between Prime Minister Narendra Modi and his British counterpart Boris Johnson. Formal negotiations on the proposed FTA between the two countries started early this year.

The third round of talk was held on May 6 in a hybrid mode with some of the teams meeting in New Delhi and the majority joining virtually.

During the third round of negotiations, "draft treaty text was advanced across the majority of chapters. Technical experts from both sides came together for discussions in 60 separate sessions covering 23 policy areas," as per a joint statement released after the meeting.

India's Commerce and Industry Minister Piyush Goyal visited London in the last week of May to take the negotiations forward. After the meetings with UK negotiators, Goyal had expressed hope that the FTA would be signed by Diwali.

The fourth round of negotiations is due to be hosted by the UK this month.

During a summit meeting held in April 2022, prime ministers of India and the United Kingdom set the timeline of Diwali 2022 (October 24) for formalisation of the FTA.

On the expectation of meeting the Diwali deadline, Heald said the leadership of the two countries has shown a strong political will to meet the deadline.

"A substantial progress has been made. Indian negotiating team and UK negotiating team have been meeting every five weeks or so for the discussion," he said expressing hope that the FTA deal between the two countries would be signed by the end of this year.

He said the FTA would be designed to ease and facilitate not only the existing activities but also look at the areas and issues that would appear in the future.

Heald said the UK India Business Council has been pitching for the removal of tariffs as well as non-tariff barriers between the two countries. The UK India Business Council is the sole accredited UK Government Overseas Business Network Initiative provider for India.

Asked about the impact of the Russia-Ukraine conflict on the FTA negotiations, Heald said, "I don't think that will affect the actual content of the FTA. However, it might affect the time."

On the proposed FTA negotiations between India and the European Union (EU), Heald said it would be more complicated as India would be required to deal with 28 countries, which are members of the EU.

"Here you are dealing bilaterally between UK and India. When you are dealing with the EU, you have to deal with 28 countries. I am not saying that the priority is being given to the EU or the UK, all I am saying is that, in practice, a bilateral agreement is easier than dealing with a multiplicity of opinions of nation," he said.

India is scheduled to restart FTA negotiations with the EU on June 17 in Brussels. Commerce and Industry Minister Piyush Goyal is scheduled to lead the Indian side at the negotiations.

India and the EU held 16 rounds of talks between 2007 and 2013. The talks have been stalled for the last nine years on several issues related to tariff and non-tariff barriers. (ANI)

(Economic Times, 14/6/2022)
