Europe India Chamber of Commerce

Newsletter

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Report of the

Europe India Chamber of Commerce - European Policy Centre

Open Policy Dialogue on

"EU - India Relations and the Emerging World Order: Strengthening Ties for Common Interest"

Brussels 9 October 2023

This was the first time in Brussels that a Think Tank Policy Dialogue on EU-India relations was organised. This open policy dialogue took place within a month of India hosting the G20 summit in New Delhi.

The following was the structure of the Dialogue:

Welcoming remarks
- Mr Ricardo Borges de Castro, Associate Director and Head of the Europe in the World Programme, EPC

Opening remarks
His Excellency Santosh Jha, India's Ambassador to EU, Belgium and Luxembourg
- Dr Ravi K Mehrotra, Chairman, EICC
- Mr Christophe Kiener, EU Chief Negotiator for the FTA with India, DG Trade, European Commission

Policy dialogue
- Mr Pankaj Saran, Convenor, NatStrat, India
- Mr Dominic Boucsein, Head of International Trade and Foreign Policy, Eurochambres
- Dr Garima Mohan, Senior Fellow, Indo-Pacific Programme, The German Marshall Fund of the United States
- Dr Amaia Sánchez-Cacicedo, Non-resident Associate Analyst for South Asia, European Union Institute for Security Studies (She joined remotely from Spain)
- Ms Fanny Sauvignon, Researcher, Centre for European Policy Studies
- Moderator Ms Shada Islam, Senior Adviser, EPC

Key observations by Panellists and Speakers:

Key issues discussed: Strategic challenges and opportuni2es in EU-India rela2ons: the state of the Free Trade Agreement nego2a2ons; India's digital muscle vs. Europe's regula2on; Russia's invasion of Ukraine, India's role as poten2al peace broker; The EU's Indo-Pacific Strategy and India; India's G20 Presidency and its geopoli2cal impact; India's growth and the race for economic leadership in the Global South

The geopolitical landscape is witnessing tectonic transformations, underscored by events such as war in Ukraine that sent ripples through Europe and the unanticipated health crisis sparked by Covid-19, which has nudged nations towards self-reliance rather than cooperation. Adding to this flux is an uncertain economic climate that is pushing nations towards crisis and cumulatively this has been underscoring the need for credible global partnership.

Political, economic, and strategic convergences will generate their own momentum to accelerate the pace of the transformation. An India-EU relationship of maturity, substance and strength can have a major impact on the emerging world order in this century.

For a long time, the rise of India has not attracted due attention within the EU and in the larger Europe. There is not much presence or debate about India's role in the world, especially in post-Brexit Brussels. Although it is India's century, Europe is yet to realise that today's India is very different from the one just five years ago. It has become the voice of the global south and is now ready to navigate global economy. What Europe needs is a proper understanding of India's global role and its stakes in India.

Several mutual interests are involved, especially considering the EU is India's 3rd largest trading partner and 2nd largest export destination. Although multiple challenges remain unaddressed, both the EU and India have shown a willingness to conclude a bilateral Free Trade Agreement (FTA), which would benefit both regions, especially given the challenges posed by the current global economic environment. While EU sees India as a partner to preserve democratic principles in global affairs, there is lack of understanding of India's global influence and its identity in the emerging world order, which shapes its response to events such as Russia's war on Ukraine.

As the global economy grapples with the looming threat of a recession in 2023, countries worldwide are feeling the effects of weakened growth. However, amidst this economic uncertainty, India stands strong, defying the odds and projecting a promising future. With its robust economy and soaring GDP, India is emerging as a global powerhouse, presenting unparalleled opportunities for entrepreneurs and foreign investments. The country is set to surpass Japan and Germany to become the world's third-largest economy in the next three / four years and will have the third-largest stock market by the end of this decade, thanks to global trends and key investments the country has made in technology and energy.

The Dialogue touched on topics such as: the rise of India as a strategic player and its importance for the EU; assess the current state and challenges of EU-India relations; and how has the EU's Agenda for Action 2025 endorsed in 2020 boosted strategic and economic relations between the two partners. This Think Tank Conference was organised within a month of India hosting the G20 Summit in New Delhi on 9-10 September.

The Policy Dialogue brought together selected business and thought leaders, policy makers, security experts, representatives of the European Commission and European Parliament, trade bodies.

Representatives of the Missions of EU countries, G20 countries and selected Asian countries are also being invited. More than 75 participants were present in the event.

With a restructuring of the global order, continuous assault on rules-based order, and China's rise as a common strategic adversary, the costs of their inability to work together in the global governance arena can be much higher for both countries today.

EU-India Relations and issues of global importance

The structure of EU-India relations in the background of international political, security and economic institutions, needs to be reviewed from the perspective of today's realities and future needs. In my view, the free trade negotiations must be concluded, and new international order should be at the centre of the attention.

One of the unexpected announcements at the G20 Summit was a trade corridor designated and proposed by select member countries. The India-Middle East-Europe Corridor (IMEC), announced during the Summit, holds significant potential for enhancing economic integration, trade, investments, and fostering cooperation among the participating countries on multiple fronts.

This ambitious project has the potential to revolutionize global trade dynamics. The IMEC is expected to facilitate international trade by creating a consolidated trade route that will reduce trade costs, promote market access, and encourage investment opportunities between the participating countries. I believe that a free trade agreement between EU and India will be one of the most important pillars for the success of IMEC.

India attaches great value to multilateral issues where it can assert its leadership. New Delhi's taking up the issue of solar energy and becoming a bridge between the developing and the developed world in terms of finance and technology to mitigate climate change is a key example. Rather than considering India's leadership ambition of the developing world as a red mark against it, the EU should take advantage of India's goodwill with the Global South under a mutually agreed-upon strategy to mitigate the existing divide.

India's evolving view of the international order, shifting from concerns about a "unipolar Asia" dominated by China to a more proactive engagement with the United States, EU and its allies, has altered the dynamics of multilateralism in the Indo-Pacific.

Both are facing challenges to the strength of democratic institutions at home, including real and perceived challenges to a peaceful world. In a world where challenges to these values abound, the EU and India are increasingly indispensable democratic partners in building a better world.

Free Trade Agreement

If the present negotiation is successfully concluded, it is politically and economically crucial for both sides. In political terms, from the EU's perspective the free trade agreement (FTA) with India will be its first with an emerging economy, will support the EU's aim of employing FTAs to foster partner countries' integration into the world economy, and will strengthen its role in global trade governance.[3] From India's perspective, it will boost Prime Minister Narendra Modi's "Make in India" campaign and his ambition to establish India as a regional leader and global manufacturing centre. Furthermore, the FTA will strengthen India's attempts to harness its growing domestic economy and middle class to support its rise as a global economic power.

One of the reasons for India going slow on FTA with EU could be that India first wants to test the ground realities with Britain with which it is negotiating FTA and they plan to come out with the FTA framework in the very near future. FTA with the UK could be a model on which India could do the negotiation further. I can therefore say that the fate of the EU-India FTA depends upon the outcome of UK-India FTA negotiations.

In economic terms, a well-negotiated agreement will boost trade and investment flows between the two regions. The EU is India's largest trading partner and investor as well as its main source of technology transfer.

India is concerned over the European Union's Carbon Border Adjustment Mechanism (CBAM) designed to push local industries to invest in new technologies to bring down carbon emissions, while also raising the issue in bilateral talks. India sees the proposed levy as discriminatory and a trade barrier, and would question its legality while citing that New Delhi was already following the protocols pledged in the U.N. climate agreement, said another government official involved in the team dealing with WTO matters. It is important that EU should addresses concerns over tariffs proposed on imports of high-carbon goods such as steel and iron ore from India.

Important take away on FTA: With or without FTA, EU-India relations will become stronger.

In their free trade negotiations, both EU and India have technically resolved disagreement over several major issues such as Customs and Trade Facilitation, Sanitary and Phytosanitary Measures, Services and Investment, Digital Trade, Government Procurement,

Anticompetitive Conduct, Merger Control and Subsidies, Small and Medium-Sized Enterprises, Energy and Raw Materials, Good Regulatory Practices, Sustainable Food Systems, Dispute Settlement, Trade and Sustainable Development, Mutual Administrative Assistance in Customs Matters, Anti-Fraud, Capital Movements, and Temporary Safeguard Measures. Now they are engaged on the following: Investment Protection Agreement, Geographical Indications Agreement, Intellectual Property, and CABM.

India's Presidency of G20 Summit

Many speakers spoke about success of G20 Summit which was held in New Delhi on 8-10 September. It was accepted and observed that with G20 Presidency, India has strived towards a more equitable world bringing together leaders of the developed and developing nations to discuss and create solutions to global governance challenges.

The G20 summit has contributed to making India world-ready and the world India-ready. In a significant diplomatic victory for India's presidency, the G20 summit adopted a New Delhi Leaders Declaration. The announcement about the consensus on the declaration and its subsequent adoption came hours after India circulated a new text to the G20 countries to describe the Ukraine conflict.

There is no denying the fact that a new world order is in the making and India is in the centre stage of global politics. India very well understands all the predicaments of changing dynamics of geopolitics and has been attempting to see how the members of international community in general and the G20 in particular align with the peace. India has shown to the world that it will never leave any stone unturned in achieving global peace and stability. India has always been finding ways to create a win-win situation for all and never believes in zero sum game.

India's recent trajectory over the last decade India is charting a new course for itself in the regional and global economic and political landscape. As a leader of the Global South, India has strategically positioned itself as a trailblazer and frontrunner, with diverse achievements attributed to itself across varied spheres. This was evident in G20 Summit.

India's Digital Transformation

Mr. Pankaj Saran was the key presenter on the digital transformation. There was interesting discussion on India's digital transformation and how the world can benefit from India story. India's Continued Focus on Digital Infrastructure Development and Emergence as a Remarkable Power in the Realm of Digital Payments Ecosystem. India's revolution is propelled by the consolidated effects of its various digital initiatives including the most prominent ones like Aadhaar digital ID and UPI (Unified Payments Interface).

India is uniquely positioned to digitalize its economy and 1.4 billion people, and in playing an instrumental role across countries and regions globally, increasing its influence and global stature. This enables India to harness technology to address gaps related to financial inclusion in the society and propel grass-roots level entrepreneurship and innovation, while aiding digital literacy, social issues related to women's empowerment and governance delivery, in the process.

EU-India Trade and Technology Council

The European Union and India have held their first ministerial meeting of the Trade and Technology Council (TTC) this year in Brussels. The TTC is a key forum to deepen the strategic partnership on trade and technology between the two partners. Geostrategic challenges have reinforced the EU and India's common interest in ensuring security, prosperity and sustainable development based on shared values. The partnership with India is one of the most important relationships for the upcoming decade and strengthening this partnership, including through the TTC, is a priority.

The mega-regional initiatives encourage the creation of global value chains in which production is split across countries to exploit each nation's comparative advantage, driving down costs while raising standards. At present, India is hardly integrated into the value chains of European companies, and the mega-agreements could divert investment away from non-members, with potentially devastating effects for India.

The China factor

Repeated recent engagements are an opportunity for India and European countries to iron out their differences over the perception of strategic threats emerging from Russia and China. There have been several high-level visits from to EU to India and India has responded with great charm and sincerity. These back-to-back engagements should give momentum to India's relations with European countries.

This is also an opportunity for India and European countries to iron out their differences over the perception of strategic threats emerging from Russia and China.

India has traditionally championed the principles of strategic autonomy and non-alignment as core guiding tenets of its foreign policy. However, in recent years there have been marked shifts, most notably in its security and economic ties with the EU, that suggest a recalibration of India's outlook. This development can be attributed to the growing influence of the 'China factor' in India's calculations – a potential game-changer in EU-India relations.

Both the EU and India realise that China's increasingly assertive international stance and a high tolerance for risk (including the South China Sea) with its presence in the Asia Pacific region, requires them to work together to counterbalance this challenge. The EU must pay attention to both of these nuclear powers with patriotic sentiment mixed with military strength. India should be cautious to temper China the ever-growing superpower, given their interdependent economies.

EICC Chairman Dr Ravi K Mehrotra hosted a Reception after the event.

India to surpass Japan to become 2nd largest eco in Asia by 2030: S&P Global

Synopsis

India is projected to overtake Japan and become the world's third-largest economy by 2030, with a GDP of $7.3 trillion, according to S&P Global Market Intelligence. The country's rapid economic expansion is driven by strong growth in domestic demand, increased foreign direct investment, and a growing middle class, the report said.

India, the world's fifth largest economy in the world, is likely to overtake Japan to become the world's third-largest economy with a GDP of USD 7.3 trillion by 2030, S&P Global Market Intelligence said in its latest issue of PMI. After two years of rapid economic growth in 2021 and 2022, the Indian economy has continued to show sustained strong growth during the 2023 calendar year.

India's gross domestic product (GDP) is expected to grow 6.2-6.3 per cent in the fiscal year ending in March 2024, being the fastest-growing major economy this fiscal year. Asia's third-largest economy grew by a stellar 7.8 per cent in the April-June quarter.

"The near-term economic outlook is for continued rapid expansion during the remainder of 2023 and for 2024, underpinned by strong growth in domestic demand," S&P Global said.

The acceleration of foreign direct investment inflows into India over the past decade reflects the favourable long-term growth outlook for the Indian economy, helped by a youthful demographic profile and rapidly rising urban household incomes.

"India's nominal GDP measured in USD terms is forecast to rise from USD 3.5 trillion in 2022 to USD 7.3 trillion by 2030. This rapid pace of economic expansion would result in the size of the Indian GDP exceeding Japanese GDP by 2030, making India the second largest economy in the Asia-Pacific region," it said.

By 2022, the size of the Indian GDP had already become larger than the GDP of the UK and also France. By 2030, India's GDP is also forecast to surpass Germany.

The US at present is the world's largest economy with a GDP of USD 25.5 trillion. It makes up for a quarter of the world's GDP. China is the second largest economy with a GDP size of about USD 18 trillion, which is almost 17.9 per cent of the world GDP. Japan is a distant third with USD 4.2 trillion GDP, followed by Germany with USD 4 trillion GDP. S&P Global said the long-term outlook for the Indian economy is supported by a number of key growth drivers.

"An important positive factor for India is its large and fast-growing middle class, which is helping to drive consumer spending. The rapidly growing Indian domestic consumer market as well as its large industrial sector have made India an increasingly important investment destination for a wide range of multinationals in many sectors, including manufacturing, infrastructure and services," it said.

The digital transformation of India that is currently underway is expected to accelerate the growth of e-commerce, changing the retail consumer market landscape over the next decade. This, S&P Global said, is attracting leading global multinationals in technology and e-commerce to the Indian market.

"By 2030, 1.1 billion Indians will have internet access, more than doubling from the estimated 500 million internet users in 2020," it said.

"The rapid growth of e-commerce and the shift to 4G and 5G smartphone technology will boost home-grown unicorns like online e-commerce platform Mensa Brands, logistics startup Delivery and the fast-growing online grocer Big Basket, whose e-sales have surged during the pandemic. The large increase in FDI inflows to India that has been evident over the past five years is also continuing with strong momentum evident even during the pandemic years of 2020-2022.

"India's strong FDI inflows have been boosted by large inflows of investments from global technology MNCs such as Google and Facebook that are attracted to India's large, fast-growing domestic consumer market, as well as a strong upturn in foreign direct investment inflows from manufacturing firms," it said.

Overall, India is expected to continue to be one of the world's fastest-growing economies over the next decade.

"This will make India one of the most important long-term growth markets for multinationals in a wide range of industries, including manufacturing industries such as autos, electronics and chemicals to services industries such as banking, insurance, asset management, health care and information technology."

(Economic Times, 24/10/2023)

IMF raises India GDP growth forecast by 20 bps to 6.3%

The International Monetary Fund (IMF) has raised its India’s GDP growth forecast for the current financial year by 20 basis points (bps) to 6.3%, mainly due to “stronger-than-expected” consumption during April-June quarter.

India's GDP grew 7.8% in the first quarter of FY24, as against 6.1% in January-March. The share of private final consumption expenditure in the country's GDP in April-June rose to 57.3% from 55.0% in January-March.

A growth rate of 6.3% is in line with the World Bank's forecast for the year, but 20 bps lower than the Reserve Bank of India's forecast. For FY24, the IMF has retained India's GDP forecast at 6.3%.

The multilateral funding agency has kept its global growth forecast for 2023 unchanged at 3.0%. It has raised the United States' GDP forecast in the current year by 30 bps to 2.1%, but has cut China's growth projection by 20 bps to 5.0%.

"China's property sector crisis could deepen, with global spillovers, particularly for commodity exporters," the IMF said.

For 2024, the agency has projected the global growth rate at 2.9%, 10 bps lower than its previous estimate.

"The global recovery from the COVID-19 pandemic and Russia's invasion of Ukraine remains slow and uneven. Despite economic resilience earlier this year, with a reopening rebound and progress in reducing inflation from last year's peaks, it is too soon to take comfort," the IMF said in its latest World Economic Outlook report.

"Economic activity still falls short of its pre-pandemic path, especially in emerging market and developing economies, and there are widening divergences among regions," it said.

On price pressures, the IMF has projected global inflation to decline steadily, from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024. For India, the multilateral agency has forecasted CPI inflation to average 5.5% in FY24, which is 10 bps higher than the RBI's forecast; and for FY25, the forecast stands at 4.6%, as against the RBI's 4.3% projection.

"…near-term inflation expectations have risen and could contribute—along with tight labor markets—to core inflation pressures persisting and requiring higher policy rates than expected. More climate and geopolitical shocks could cause additional food and energy price spikes," the IMF said.

The agency noted that central banks across the world need to restore "price stability" while using policy tools to relieve potential financial stress when needed. "Effective monetary policy frameworks and communication are vital for anchoring expectations and minimizing the output costs of disinflation.".

(Financial Express, 11/10/2023)

EU's CBAM: Taxing trade for transition amid global climate concerns

Carbon Border Adjustment Mechanism strains global trade, questions Paris Agreement's ethos, writes Advocate Jatinder Cheema

EU is at the onset of implementing its much awaited carbon emission reporting regulation while it finds itself embroiled in several lawsuits on the subject of climate change. We shall soon be witnessing additional challenges in other parts of the world as degrees climb up even marginally on the Thermo Hygrometer.

The Carbon Border Adjustment Mechanism (CBAM), EU's tool against carbon leakage, places a carbon border tax and a reporting requirement on some commodities imported into the EU in an effort to lower carbon emissions. It became effective on October 1, 2023, it will be phased in to take full effect on January 1, 2026.

In addition to describing the transitional methodology for calculating embedded emissions produced throughout the production process of CBAM items, the Implementing Regulation also outlines the transitory reporting requirements for EU importers of "CBAM goods". During the transitional period of the CBAM, traders will simply be required to report on the emissions included in their imported goods covered by the mechanism, without making any compensatory payments. This will allow for the definitive approach to be adjusted by 2026 while also giving businesses enough time to plan in a predictable way.

On January 1, 2026, EU businesses importing goods into the EU covered by CBAM will need to buy certificates. The CBAM will ensure that the carbon price of imports is equal to the carbon price of domestic production based on the premise that EU's primary climate objective is not compromised by payment of a fee for the embedded carbon emissions by overseas producers generated in the production of specific goods imported into the EU. Thereby, avoiding carbon leakage between EU and non-EU goods.

CBAM is anticipated to have a large financial impact. For instance, it has been estimated that by 2030, when the carbon price in the EU is anticipated to approach €100 per tonne, from the current price of under €82 per tonne , importers from the EU will incur higher expenditures of around €2 billion per year. These calculations suggest that by 2032, the cost of iron and steel imported by the EU from India could increase by more than 30% making EU products less expensive leaving Indian supplies no room to compete. Additionally, since the scope of CBAM is anticipated to expand to include additional products in the future, inflationary pressures may eventually be felt more widely.

The European Union is seeking to shift some of the cost of their environmental reform onto foreign producers by enacting a carbon border tax. Predicting the final outcomes and the degree of global trade distortion maybe challenging at this stage however, impact on the Asia-Pacific area is discernible. The subsidies would be eliminated from 2025 till 2035, whereas the border protection would be introduced in 2026. This introduction of a carbon border tax without simultaneous phasing out of fossil fuel subsidies is incontrovertibly an avoidable swindle.

Exporters from the Asia Pacific region dominate these industries, and they are all susceptible to rising trade costs when trying to reach the EU market or negative displacement effects in third-country markets when exports are diverted away from Europe. This reinforces that CBAM is merely opportunistic protectionism for Europeans. The planned EU CBAM is viewed as being protectionist and having the potential to harm small cement and steel companies in India, and other exporting nations of CBAM goods.

Given the difficulties of calculating the amount of carbon emitted by taxable imports, particularly those that are part of intricate supply networks, and determining the extent to which foreign governments have already domestically charged such emissions, discord is inescapable. Even more challenging is doing it without favouring any particular nation, as mandated by the World Trade Organisation (WTO).

Instead, the idea that shortcomings in environmental policy should be corrected directly at their source, and not through proxies is widely accepted. The Japan Business Council in Europe (JBCE) highlighted that CBAM must abide by WTO regulations. The European Union should prioritise environmental policy overpressure that affects commerce by decreasing fossil fuel subsidies and increasing public investment in green technology. If CBAM imports from WTO members are differentiated depending on the carbon content of the goods, it may be in violation of the most favoured nation criterion. For example, the developing nations will have far fewer resources to reduce GHG emissions, which will result in higher adjustment carbon pricing at the border and may put them in a disadvantageous trading position against the MFN status, a hallmark of various Free Trade Agreements.

Another question that remains unanswered, can EU countries honour one aspect of the Paris Agreement (Net Zero) and ignore the other part (common but differentiated responsibilities)? It is an admitted fact that developed countries have exploited the environment for far longer and in fact, continue to do so, hence, this begs the question that simultaneous application of CBAM on developed, developing, and under- developed nations alike is in stark contravention of the principle of common but differentiated responsibilities? CBAM cannot and does not withstand the test of common but differentiated responsibilities. It is imperative to remember that the true spirit of the Paris Agreement is in the developed nations working in tandem with the developing and exporting countries instead of being priggish and castigating them.

(Business Standard, 11/10/2023)

EU only wants free trade deal with India that gives it 'real' market access

Synopsis

European Union member states are pushing for a free trade agreement with India, but only if it provides real access to India's markets, according to Spanish Deputy Trade Minister Xiana Mendez. The EU wants greater access to Indian markets for its cars, alcoholic drinks, and agri-food products, while India is seeking easier visa access to the EU for Indian professionals.

European Union member states want to close a free trade deal with India, but only if it grants real access to the Asian country's markets, Spanish Deputy Trade Minister Xiana Mendez said on Friday at an EU meeting chaired by her country.

The EU and India last year revived negotiations to forge a free trade agreement that could act as a counterbalance to China's growing influence in the Indo-Pacific region, but the bloc has deemed India's proposals so far as too soft to lead to a comprehensive pact.

"We've felt a political impetus on India's behalf and we want to reinforce the negotiations," said Mendez who represented the Spanish rotating presidency of the European Council at a meeting of trade ministers in the Spanish city of Valencia.

"There is an enormous interest from the member states, but only if there will be an access to the real market, without which the deal would be emptied."

The EU is seen wanting greater access to Indian markets for its cars, alcoholic drinks and agri-food products such as cheese, while India is seen benefiting more in services and would like easier visa access to the EU for Indian professionals.

The European Union also expects to reach an agreement with the United States on steel trade by the end of the year, said Mendez.

"We knew it wouldn't be possible to reach a solution today (at an EU-U.S. summit in Washington)...The solution has to be sophisticated and complex. The main proposal is to finalise the deal with the United States before the end of the year," she said.

The United States has suspended import tariffs on EU steel and aluminium imposed by former U.S. President Donald Trump in 2018, but on condition that both sides agree by the end of this month on measures to address overcapacity in non-market economies, such as China, and promote greener steel.

Mendez said the sides reached a definitive solution on the issue of duties, as opposed to a temporary fix, but were still negotiating on the problem of excess capacity and decarbonising the industry.

(Economic Times, 21/10/2023)

India, UK trade ministers review progress of talks on proposed FTA

These investment treaties help in promoting and protecting investments in each other’s country.

India and the UK on Saturday reviewed the progress of negotiations of the proposed free trade agreement (FTA), talks for which have reached the final stage. The progress was reviewed by Commerce and Industry Minister Piyush Goyal and UK Secretary of State for Business and Trade Kemi Badenoch in Osaka, Japan. Both ministers are in Japan for the Group of Seven (G7) trade ministers meeting in Osaka. “Discussed the progress of India-UK free trade agreement negotiations with UK Secretary of State for Business and Trade Kemi Badenoch,” Goyal said on social media platform X.

Negotiations between senior officials of India and the UK are on to bridge differences on issues such as rules of origin and services sector, with an aim to conclude the talks for the proposed FTA at the earliest. India and Britain launched the talks for a trade agreement in January 2022, with an aim to conclude them by Diwali last year (October 24, 2022), but the deadline was missed due to political developments in the UK. There are 26 chapters in the agreement, which include goods, services, investments and intellectual property rights. An investment treaty is also being negotiated as a separate agreement between India and the UK.

These investment treaties help in promoting and protecting investments in each other’s country. The main point of contention in this pact is the mechanism for settlement of disputes. The Indian industry is demanding greater access for its skilled professionals from sectors like IT, and healthcare in the UK market, besides market access for several goods at nil customs duty.

On the other hand, the UK is seeking a significant cut in import duties on goods such as scotch whiskey, automobiles, lamb meat, chocolates and certain confectionary items. Britain is also looking for more opportunities for UK services in Indian markets in segments like telecommunications, legal and financial services (banking and insurance).

The bilateral trade between India and the UK increased to USD 20.36 billion in 2022-23, from USD 17.5 billion in 2021-22. Further, Goyal also held bilateral meetings in Osaka with US Trade Representative (USTR) Katherine Tai; World Trade Organization (WTO) Director General Ngozi Okonjo-Iweala; Japanese Economy, Trade and Industry Minister Nishimura Yasutoshi; Japanese trading and investment major Matsui and Co; Director and Chair of Board of Directors Tatsuo Yasunga, and Australian Trade and Tourism Minister Don Farrell. “Held a productive discussion on scaling up the India-US trade and investment ties with USTR Katherine Tai,” he said. With the WTO chief, the Indian minister deliberated upon greater cooperation to ensure free and fair trade among member countries.

(Financial Express, 28/10/2023)

More delay in India-UK FTA, India 'struggling to differentiate between what it needs & wants'

Synopsis

The free trade agreement between India and the United Kingdom is facing further delays due to disagreements, particularly regarding trade in goods and services. India is struggling to differentiate between its wants and needs in the negotiations. The two countries were expected to sign the proposed agreement at the end of this month, but progress has slowed.

The much anticipated free trade agreement between India and the United Kingdom is likely to be delayed yet again owing to certain differences between the two countries, especially on the question of trade in goods and services, the Financial Times reported on Wednesday.

The report, citing officials, claimed that progress has slowed in the opening up Indian markets to British professional services, including law and accountancy firms.

The report goes on to claim that India is currently struggling to differentiate between what it wants and what it needs. A senior British official told the business daily that “the risk in any negotiation is that if you focus too hard on what you ‘want’ at the expense of what you ‘need’, you might end up with neither”.

Fruition of the deal would mark India's first comprehensive deal with an industrialised nation. The Economic Times recently reported that India and the UK were likely to sign a proposed FTA in the last week of this month. To this extent, India extended an invitation to the UK PM to visit India on October 28 and ink the ambitious pact.

According to official UK Department for Business and Trade (DBT) figures, UK-India bilateral trade was worth an estimated 36 billion pounds in 2022.

“We have never set a deadline. I think this is very optimistic briefing for newspapers. We are very close. It is possible, but I wouldn't be setting that sort of deadline. We will finish when we finish,” UK Business and Trade Secretary Kemi Badenoch told a UK parliamentary panel recently when asked about the prospect of a return visit by UK PM Rishi Sunak over the cricket World Cup in India to sign off on an FTA.

When probed about the progress of the FTA, Sunak on the sidelines of the G20 Summit in India said that he 'won't rush things'.

The government earlier this month said that both the countries were getting closer to seal the deal and were ironing out certain differences. Commerce Secretary Sunil Barthwal said that the deliberations on tough issues are underway.

"These negotiations are in the advanced stage. These are going on, and we are ironing out the differences. We should wait till these negotiations are over because the 13th round is going on," he said.

There are 26 chapters in the agreement, which include goods, services, investments and intellectual property rights.

A majority of these chapters are closed and for the remaining issues, high-level engagements at various levels are ongoing.

The Indian industry is demanding greater access for its skilled professionals from sectors like IT, and healthcare in the UK market, besides market access for several goods at nil customs duties.

On the other hand, the UK is seeking a significant cut in import duties on goods such as scotch whiskey, automobiles, lamb meat, chocolates and certain confectionary items.

Britain is also looking for more opportunities for UK services in Indian markets in segments like telecommunications, legal and financial services (banking and insurance).

(Economic Times, 18/10/2023)

India's high quality labour-intensive goods to get benefit from FTA with UK; though overall gains limited: GTRI

Synopsis

In 2022-23, India's merchandise exports to the UK were valued at USD 11.41 billion and out of this, USD 6 billion worth of goods such as petroleum products, medicines, diamonds, machine parts, airplanes, and wooden furniture entered Britain at zero levy, it said.

India's high quality labour-intensive goods such as apparel, footwear, carpets and cars will benefit from the removal of import duties by the UK, under the proposed free trade agreement between the two countries, according to think tank GTRI. However, the overall gains for India will be limited because most of the goods from here are already entering the UK at low or zero tariffs (import or customs duties), the Global Trade Research Initiative (GTRI) said.

In 2022-23, India's merchandise exports to the UK were valued at USD 11.41 billion and out of this, USD 6 billion worth of goods such as petroleum products, medicines, diamonds, machine parts, airplanes, and wooden furniture entered Britain at zero levy, it said.

"The FTA is expected to have a limited impact on increasing these exports because over half of Indian products already enter the UK with low or no tariffs. The average duty on goods imported from India into the UK is 4.2 per cent," GTRI Co-Founder Ajay Srivastava said.

However, there will be gains from reducing duties for Indian exports worth USD 5 billion and those items include textiles, apparel (shirts, trousers, women's dresses, bed linen), footwear, carpets, cars, marine products, grapes, and mangoes.

"These products face relatively low to moderate tariffs in the UK," he said.

Citing examples, the think tank said that duties on yarn and fabric are 4 per cent, while tariffs on shirts, trousers, women's dresses, and bed linen range from 10 per cent to 12 per cent.

Similarly, handbags and trunk cases attract 8 per cent tariffs, levies on footwear vary from 4 per cent to 16 per cent.

These products will benefit from the FTA's tariff reductions by the UK.

Chief negotiators of both the countries are negotiating the pact in the national capital and talks are at a crucial stage, as the negotiations are expected to close by end of this month.

GTRI added that while the duty elimination in the UK can help Indian exports, significant growth requires improvements in product quality and signing an FTA alone may not lead to a substantial increase in India's labour-intensive goods exports.

For instance, India's textiles and apparel exports to Japan did not see significant gains from the free trade agreement, Srivastava said.

From 2007-09 to 2019-21, India's exports to Japan grew from USD 257.7 million to USD 368.6 million, a cumulative growth of 43.1 per cent, while India's global exports grew by about 67.9 per cent during the same period.

Therefore, the modest increase in exports to Japan may be attributed to natural growth factors rather than the FTA, he added.

Further, UK exporters would gain immediately after India eliminates high tariffs on most British products, it said.

India's merchandise imports from the UK were USD 8.96 billion in 2022-23. Out of this, it said, 91 per cent of total merchandise imports from the UK enter India on payment of average to high tariffs duties.

For example, the tariff on cars is 100 per cent and on Scotch whisky and wines are 150 per cent.

The simple average tariff in India on goods imported from the UK is 14.6 per cent, it added.

According to GTRI, British products which will gain from the FTA (free trade agreement)-led tariff reductions include precious metals (silver, unwrought platinum and gold, diamonds); metal scrap (aluminium, copper waste); petroleum products; scotch and other alcohol; machinery (turbojet, taps, valves); medicine; and make up items.

The UK exported USD 2.7 billion worth of precious metals; and USD 374 million worth of Scotch and other alcohol into India during 2022-23.

On automobiles, it said: "for luxury cars like those from JLR, Bentley, Rolls-Royce, and Aston Martin, the UK might want zero tariffs, but India could reduce them from 100 per cent to 50 per cent. India might also consider allowing a few thousand units at a 25 per cent tariff".

It added that India could reduce tariffs from 150 per cent to 50 per cent over a few years, similar to what it did for Australian wines.

These sectors in India have had high tariff protection, even more than agricultural products. Significant tariff cuts, especially for wines, will help the Indian market grow.

On Rules of Origin, an important issue in the agreement, GTRI said India tends to prefer more conservative rules compared to most developed countries, leading to extended discussions and negotiations in its FTA talks, including with the UK.

"However, India may need to be more flexible in its Rules of Origin framework, especially as its firms in sectors like chemicals, electronics, and synthetic textiles are increasingly using imported inputs," it said.

Rules of Origin ensure that products from third countries do not receive FTA benefits unless they undergo significant transformation in the exporting country.

(Economic Times, 16/10/2023)

India-UK trade talks in final stages: Commerce Secretary

The proposed FTA between the two countries, negotiations for which were started in January of 2022 covers 26 chapters of policy areas.

Negotiations between India and UK for a free trade agreement are at an advanced stage and both sides are working on ironing out differences that still remain, Commerce Secretary Sunil Barthwal said Friday.

“We are negotiating tough issues which remain,” he said while not elaborating on the issues.

The secretary said he was in the UK last week for discussions with his counterparts and this week a delegation of negotiators from the UK are in New Delhi for the continuing with the 13th round of talks which began on 18th of last month.

IIP rises to 14-month high of 10.3% in August; manufacturing robust

The proposed FTA between the two countries, negotiations for which were started in January of 2022 covers 26 chapters of policy areas. “Majority of chapters are closed or are in advanced stages of negotiations.”

FE has reported the possibility of the agreement being signed by the end of this month.

While less contentious issues have been sorted out, protracted negotiations are still on issues of interest to India like greater access for its skilled professionals from sectors like IT, and healthcare in the UK market, besides market access for several goods at nil customs duties.

On the other hand, the UK is seeking a significant cut in import duties on goods such as scotch whiskey, automobiles, lamb meat, chocolates and certain confectionary items. Britain is also looking for more opportunities for UK services in Indian markets in segments like telecommunications, legal and financial services (banking and insurance).

If the negotiations conclude successfully, the FTA would be India’s first with a developed country which could set a template for other similar pacts it is seeking like with the European Union.

Another team from the UK is also in India to negotiate the Bilateral Investment Treaty with officials of the Ministry of Finance that will be signed along with the FTA.

The UK is an important trade and investment partner for India. The bilateral trade between India and the UK increased to $ 20.36 billion in 2022-23 from $17.5 billion in 2021-22.

On FTA negotiations with the European Union, the secretary said that the sixth round of negotiations would be held in Brussels from Monday. During the fifth round of negotiations in June, negotiations on 20 policy areas were held.

(Financial Express, 14/10/2023)

India-UK Free Trade Agreement to be signed by month-end

Talks concluded, Sunak may be in India for signing the pact.

The much-awaited India-UK Free Trade Agreement (FTA) is set to be signed by both countries by month-end here, with all outstanding issues having been resolved, an official source told FE.

UK Prime Minister Rishi Sunak will travel to India late October to sign the ambitious agreement that is expected to spur two-way trade in goods and services between the two economies as well as increase capital flows in the form of foreign direct investment.

Early last month, Sunak while being here for the G20 Leaders' Summit had said he and prime minister Narendra Modi were keen to see a "comprehensive and ambitious trade deal" concluded, but said that there was "still some hard work to be done," and that, the pact must "work for both the countries."

"All the contentious issues in the proposed FTA have been resolved," an official aware of the negotiations told FE.

However, the Bilateral Investment Treaty (BIT) will be signed later as common ground has not been reached so far, he added. Till a BIT is signed, the India-UK Infrastructure Financing Bridge will address any bilateral issues in investments, the official added.

BIT, the Rules of Origin and intellectual property rights (the latter two under the FTA) were some of the issues that were proving to be contentious in the negotiations. From the Indian side, the demand for easier visas for professionals was seeing some resistance from the UK.

The differences in services have been sorted out on the lines of the UK's FTA with Australia which came into force from May 2023, the source said.

The FTA talks between India and the UK started in early 2021.

In the services sector, the UK demanded national treatment for its services businesses and greater freedom for its professionals to operate in India. This has been agreed to. National treatment means treating foreigners and locals equally with regard to rules and regulations. It also means equal access to opportunities for overseas operators and not doing anything that puts them at a disadvantage.

The areas of services that the UK was interested in are financial services, business and professional services, and transport services. It also wanted a liberalised visa regime for its business travellers to give them greater opportunities to operate in India.

"In services, professionals moving from India to the UK or the other way round are most likely to be Indian nationals or of Indian origin, so the issues have been sorted out," the source said.

With the ongoing diplomatic spat with Canada likely to affect the flow of Indian professionals to Canada, the UK FTA could provide some succour to India. India has halted FTA negotiations with Canada.

In FTA with the UK, Australia has secured ambitious commitments on the mutual recognition of professional qualifications and providing greater certainty for skilled professionals entering the UK labour market. Among the other issues, the duties on whiskey and automobiles were the two most sensitive issues in the FTA talks as far as India was concerned.

In the auto sector, the reduction of tariffs on imports from the UK would be calibrated in a way that its impact on local manufacturing is minimal. In the spirits trade also both the countries have narrowed their positions on immediate duty cuts, speed of cuts in coming years and other conditions.

In wines and other spirits India may reduce import duty from 150% to 100% and then bring it further down to 50% over the 10-year period. The UK had demanded a reduction of duty to 75% straight away and then bringing it down to 30% in the next three years.

Notwithstanding the high duties, the import of scotch whiskey has grown to 7.5 million cases in the calendar year 2022 from 5.5 million cases in 2021 driven by Mumbai. Total bottled liquor imports in 2022 were 8 million cases.

In traditional export sectors like textiles, leather UK has agreed to India's demand for bringing down duties to zero.

India's merchandise exports to the UK increased 9.03% on year in FY23 to touch $ 11.4 billion while imports rose 27% to $8.9 billion. FDI from the UK stood at $1.7 billion in FY23 as against $1.6 billion in the previous year. India's main exports to the UK are ready-made garments and textiles, gems and jewellery, engineering goods, petroleum and petrochemical products, transport equipment, spices, machinery and instruments, pharmaceuticals and marine products.

The main imports from the UK include precious and semi-precious stones, ores and metal scraps, engineering goods, professional instruments other than electronics, chemicals and machinery.

(Financial Express, 5/10/2023)

UK PM Rishi Sunak says hopes to get free trade deal with India done

Synopsis

British Prime Minister Rishi Sunak has expressed his commitment to strengthening ties between India and the UK, including the possibility of a free trade agreement. During a reception by the Conservative Friends of India, Sunak reflected on his recent visit to India for the G20 Summit and highlighted the potential for cooperation in various sectors.

British Prime Minister Rishi Sunak has reiterated his commitment to closer India-UK ties across different sectors, including a free trade agreement (FTA) between the two countries.

Addressing a reception by the diaspora group Conservative Friends of India (CFIN) on the sidelines of the ongoing Conservative Party conference in Manchester on Monday evening, the British Indian leader began by reflecting upon his "successful" first visit to India as Prime Minister for the India-led G20 Summit last month.

"I've just come back from my first trip to India as Prime Minister and that was very successful," said Sunak.

"Everybody here already knows just how strong the relationship between our two countries is. At the G20, we really saw a glimpse of what the future of that relationship can be, with closer cooperation on absolutely everything from trade to defence, innovation, security, research, and I hope... a free trade deal, and we can get it done," he said.

The 43-year-old politician, who is leading his first Conservative Party conference as leader of the governing party, went on to say that he hopes to build on the success of his first India visit to work together as two "great democracies, shaping the future of the world for the long term".

"We're working together as partners to build a better future for all our citizens," he added.

His visit to New Delhi for the G20 Leaders' Summit in early September had also concluded with a commitment to an India-UK FTA, even as Sunak told reporters that he "won't rush things".

Later in the month, amid a diplomatic standoff between two of its close allies - India and Canada - over the contentious issue of pro-Khalistan extremism, Sunak's spokesperson at 10 Downing Street had reiterated that trade talks with New Delhi remain on track.

"Work on the trade negotiations will continue as before... when we have concerns with countries we're negotiating trade deals with, we'll raise them directly," the spokesperson told reporters.

According to official UK Department for Business and Trade (DBT) figures, UK-India bilateral trade was worth an estimated 36 billion pounds in 2022.

"We have never set a deadline. I think this is very optimistic briefing for newspapers. We are very close. It is possible, but I wouldn't be setting that sort of deadline. We will finish when we finish," UK Business and Trade Secretary Kemi Badenoch told a UK parliamentary panel recently when asked about the prospect of a return visit by Sunak over the cricket World Cup in India to sign off on an FTA.

Earlier, Badenoch had reviewed progress on the trade talks with her Indian counterpart, Commerce and Industry Minister Piyush Goyal, during a visit to India in August coinciding with Round 12 of the FTA negotiations.

(Economic Times, 4/10/2023)

High on G20 bonhomie, India readies 4th summit with African Union

Keen to capitalise on the growing geopolitical support from African nations after the recently concluded G20 Summit, India is working with the African Union to hold the fourth India-Africa Forum Summit later this year in Kenya's Nairobi, sources said.

Prime Minister Narendra Modi is expected to attend the mega meet along with as many as 50 African leaders, they added.

First held in New Delhi in 2008, the India-Africa Forum Summit marked India's initial diplomatic efforts to seek a comprehensive partnership with the African bloc of nations as a whole, at a time when China had begun its own outreach. Subsequently, the second and third summits were held in the Ethiopian capital of Addis Ababa in 2011 and New Delhi in 2015.

But despite a plan to hold it every three years, the summit has been postponed since then owing to the Covid pandemic, among other reasons. The upcoming summit will be held in late November or early December, the sources said.

"There had been an expectation that the fourth summit would be held during India's presidency of the G20 when engagements between Africa and India reached unprecedented levels. A summit would showcase the diverse and strong ties that have grown between both the powers in the past eight years," a senior diplomat from an African embassy posted in New Delhi said.

In January, India virtually held the 'Voice of the Global South' summit, which was attended by 47 of the 54 African nations. Their recommendations were adapted into India's official G20 agenda. Subsequently, a sustained push by India saw the African Union being inducted as a permanent G20 member. Before this, only one country, South Africa, from the entire African continent had been part of the G20.

Trade and infra ties

The government is working on initiatives aiming to deepen economic relations and infrastructure ties between India and Africa, which may be announced at the summit, an official said.

While Africa is a huge market encompassing a $3 trillion economy and 1.3 billion people, internal trade between African economies remains much lower than their trade with external partners. Meanwhile, its trade with China has massively increased to make Beijing Africa's second-largest trading partner overall, after the European Union.

New Delhi hopes to change that by pitching India as an alternative source for many product categories, which are located geographically closer. As of 2022, India was the third-largest trading partner for Africa, accounting for 7 per cent of exports ($32.3 billion) and 5 per cent of imports ($28 billion), a paper by the International Monetary Fund showed in May.

The Exim Bank, which provides export financing and government-directed lending to other countries, is already supporting over 300 small Indian companies to expand business in Africa. With nearly $75 billion of investments by Indian companies, India is among the top five investors in Africa.

The official G20 dialogue forum with the global business community, the Business20 (B20), had extensively worked on African economic integration under India's G20 presidency. The subject has evinced special interest from the Prime Minister since it is an area where he wants to leave a legacy, Bharti Airtel Chairman Sunil Bharti Mittal, who headed the B20 council, had earlier told Business Standard.

Sources said B20 suggestions in this regard would be discussed at the upcoming summit and efforts made to deploy Indian solutions to key socio-economic challenges, wherever necessary. The recommendations include quickly establishing Africa's digital and physical infrastructure based on India's Jan Dhan-Aadhar Mobile trinity of technologies, developing African food systems, and easing in logistics and trade barriers.

The India-Africa Forum Summit will also discuss how to better channel investments by Indian infrastructure companies into the continent, which has a massive funding deficit in the infrastructure space.

African Union became a permanent G20 member, thanks to India's sustained push.

As Africa's trade with China is increasing, India pitches itself as an alternative source for many product categories.

(Business Standard, 3/10/2023)
