Europe India Chamber of Commerce

Newsletter

Issue: 187 Volume: 18 **May 2024**

India seeks UK carbon tax exemption in free trade deal talks

Exclusive: India seeking to use approach of UK election as bargaining chip and any exemption would be controversial.

India is demanding an exemption from the UK's planned carbon tax as part of negotiations aiming to finalise a free trade deal before the UK election.

India's negotiating team have spent this week in London in a surprise set of talks to try to overcome the remaining hurdles to an agreement.

Rishi Sunak is eager to get the trade deal over the line and had hoped to clinch it last month.

India has used the limited time Sunak has left before a general election as a bargaining chip. A UK government official said Indian negotiators were "saying they have five years to plan ahead, this government has five months".

The talks are taking place as India's six-week general election campaign, starting on Friday, is about to get under way. Opinion polls in India suggest Narendra Modi's Bharatiya Janata party will win for the third time running. UK polling, meanwhile, suggests Sunak's Conservative party is on course for a defeat.

India's commerce minister said on Monday that there were "very few pending issues" and that a deal was close to being finalised.

The UK government official, who has been briefed on progress in the talks, said India was asking to be exempted from the UK's planned carbon border adjustment mechanism (CBAM) on the basis that it is a developing country.

India had raised concerns about the application of a CBAM – a planned tax on the import of carbon-intensive goods such as steel, glass and fertiliser – at an earlier stage in the talks. The tax would affect Indian steelmakers looking to export to the UK.

Any decision to exempt India from a carbon tax would be controversial. The plans are designed to reduce emissions and support UK steel producers by levelling the playing field with countries that have a lower or no carbon levy.

The discussions this week continue the 14th formal round of negotiations between the UK and India. The round was declared closed last month before India's election campaign, but a second UK government official said it was kept open at India's request.

The discussions this week, which involve India's chief trade negotiator, have been kept under wraps in the UK but made it into the Indian press.

India has also been asking for more concessions on visas for Indian workers and a social security agreement, both longstanding issues in the negotiations. The talks in London are due to conclude on Friday but may continue remotely next week.

Before the talks on Monday, India's commerce secretary, Sunil Barthwal, told the media: "A team is going to the UK this week. There are very few pending issues left in the negotiation. A couple of key priority issues to seal the deal are being ironed out to have a balanced outcome."

India is a notoriously tough negotiator on trade. Last month its government signed a £79bn trade deal with the European Free Trade Association, a bloc made up of Norway, Switzerland, Iceland and Liechtenstein, 16 years after talks began.

The UK and India launched trade negotiations in January 2022 while Boris Johnson was prime minister. Johnson said he wanted the deal to be "done by Diwali" in October 2022, but that deadline has been overshot by 18 months.

A Department for Business and Trade spokesperson said: "The UK and India continue to work towards an ambitious trade deal that works for both countries. While we don't comment on the details of live negotiations, there are no plans to change our immigration policy to achieve this free trade agreement. The business and trade secretary has always been clear she will only sign a deal that is fair, balanced and ultimately in the best interests of the British people and the economy".

(The Guardian, 19/4/2024)

"India Surpasses China's Growth Rate...": European Parliament Policy Expert

India's GDP growth exceeded China's annually for the past few years, with India's growth averaging over 7.5 per cent in 2023, while China's is 5.2 per cent.

Brussels : Pointing out the sustained growth of the Indian economy over the past decade, European Parliament think tank expert, Angelos Delivorias said that India's GDP growth exceeding that of China reflects New Delhi's emergence as a formidable economic powerhouse in the global arena.

"India has surpassed the growth rate of China, and experts think that it will continue doing so, at least in the short term," remarked Delivorias, underlining India's unprecedented economic momentum.

India's GDP growth exceeded China's annually for the past few years, with India's growth averaging over 7.5 per cent in 2023, while China's is 5.2 per cent. India's GDP is also expected to reach 7 per cent by 2026, while China is expected to reach 4.6 per cent. The IMF projects China's 2024 growth at 4.6 per cent, declining towards 3.5 per cent in 2028.

Angelos, with a specialisation in external policies (including India), is a policy expert at European Parliamentary Research (EPRS), which provides comprehensive research and analytical support to the Members of the European Parliament.

With India's ambitious infrastructure projects and recent strides in space exploration, Delivorias highlighted the nation's comprehensive economic strategy.

"And apart from high GDP growth, India has done significant investments in national infrastructure projects to sustain that economic growth. It takes part in international infrastructure projects and last year we even see that it has a complete space programme. It landed on the moon. So it has a comprehensive economic strategy in that respect," the European Parliament policy expert said in an interview by EPRS on the rise of 'India, why it matters, and what this means for the EU'.

He also emphasised that India's strategic significance burgeoned in the Indo-Pacific region amid the changing geopolitical tides.

"India has increased its diplomatic importance as part of its strategy over the last decade," Delivorias noted, adding, "Its prominence grows in the Indo-Pacific region due to current geopolitical evolutions."

He also said that against the backdrop of China's Belt and Road Initiative and increasing assertiveness in global affairs, India's rise holds profound implications for the European Union and the wider international community.

"What I mean by that is that since the announcement of the Belt and Road Initiative on behalf of China, since its more aggressive stance in the South China Sea, since the Russian invasion of Ukraine, we see that the Indo-Pacific as an area and this Southern Asia as a region grows in importance, both for us, the European Union, both for the West in general, and also for its regional partners," said Angelos.

He also drew parallels between India and China's demographic pyramid noting that the former's is younger than that of the latter's, which will lead to New Delhi's GDP continued growth in the ensuing years.

"From the economic perspective, the fact that India is the largest population on the planet, but also its population is younger, if we see the demographic pyramid of India, we see that it's younger than China's, implies that it has more people in the labour market and it has less expenditures in the health sectors or for pensions, which means it can keep growing its GDP in the next few years," he added.

(Times of Oman, 9/4/2024)

Indians can now apply for a multiple entry Schengen visa with longer validity

Synopsis

The European Commission's new visa 'cascade' regime simplifies Schengen visa access for Indian nationals, enabling long-term multi-entry visas. This enhances travel flexibility within the Schengen area, reflecting the deepening EU-India relationship and cooperation on migration policy.

The European Commission has introduced a new visa "cascade" regime for Indian nationals seeking Schengen visas, allowing for more straightforward access to multiple entry visas with extended validity periods. This new regime, effective from April 18, replaces the standard rules of the Visa Code and offers significant advantages for Indian travellers.

Under the new rules, Indian nationals residing in India can be issued long-term, multi-entry Schengen visas valid for two years after lawfully obtaining and using two visas within the previous three years. This initial two-year visa can then be followed by a five-year visa, provided the passport has sufficient validity remaining. This extended validity allows travellers to move freely within the Schengen area for short stays of up to 90 days within any 180-day period.

The Schengen area, comprising 29 European countries, including 25 EU states, offers a unique travel experience. The following countries are part of the Schengen area: Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, along with Iceland, Liechtenstein, Norway, and Switzerland.

This move is part of the EU-India Common Agenda on Migration and Mobility, aiming to strengthen cooperation between the EU and India on migration policy, including facilitating people-to-people contacts. The enhanced visa regime highlights India's importance as a key partner for the EU and reflects the deepening relationship between the two entities.

While these Schengen visas grant freedom of travel across the Schengen area, they do not permit employment. Therefore, holders must abide by the rules and regulations governing their stay in the Schengen area. As the European Commission implements this new regime, Indian nationals with established travel histories will find it easier to obtain long-term multi-entry visas, making travel to Europe more accessible and convenient.

(Economic Times, 22/4/2024)

World Bank raises India forecast, sees Indian GDP growing at 7.5%

The overall growth in South Asia is expected to be at 6 percent in 2024, driven mainly by the growth in India coupled with recovery in Pakistan and Sri Lanka’s GDP.

The World Bank in its latest South Asia Development update on April 2 has projected that the Indian economy will grow at 7.5 percent in 2024, revising its earlier projections higher by 1.2 percent for the same period. Meanwhile, the overall growth in South Asia is expected to be at 6 percent in 2024, driven mainly by the growth in India coupled with recovery in Pakistan and Sri Lanka’s GDP.

Additionally, the output is expected to grow by 5.7 percent in FY 24/25 in Bangladesh along with a high inflation and restrictions on trade and foreign exchange constraining the economic activities.

As per the report, with the projected growth of 6 percent in 2025, South Asia is expected to be the fastest growing region in the world for the coming two years. “In India, which accounts for the bulk of the region’s economy, output growth is expected to reach 7.5% in FY 23/24 before returning to 6.6 percent over the medium term, with activity in services and industry expected to remain robust,” the bank said in its report.

Following the contraction in FY 22/23, Pakistan’s economy is expected to grow by 2.3 percent in FY 24/25 as business confidence improves. In Sri Lanka, output growth is expected to strengthen to 2.5% in 2025, with recoveries in reserves, remittances and tourism.

“South Asia’s growth prospects remain bright in the short run, but fragile fiscal positions and increasing climate shocks are dark clouds on the horizon,” said Martin Raiser, World Bank Vice President for South Asia. Raiser further added that to make growth resilient, countries need to adopt policies to boost private investment and strengthen employment growth.

Franziska Ohnsorge, World Bank Chief Economist for South Asia, said, “South Asia is failing right now to fully capitalise on its demographic dividend. This is a missed opportunity.” Ohnsorge emphasised that if the region employed as large a share of the working-age population as other emerging markets and developing economies, its output could be 16 percent higher.

According to the report, inflation in India has remained within the Reserve Bank of India’s 2–6 percent target range since a spike in mid-2023, and the policy rate has remained unchanged since February 2023. However, food price inflation has been elevated, partly reflecting a weak harvest due to El Niño. Further, the World Bank said that economic activity in India surprised on the upside in 2023Q4, with growth of 8.4 percent from a year ago. “The expansion was supported by rapid increases in investment and government consumption. More recent survey data point to continued strong performance,” report said.

In February, India’s composite purchasing managers index (PMI) stood at 60.6, well above the global average of 52.1 (a value above 50 indicates expansion). Growth in FY 2023/24 is estimated to have exceeded earlier forecasts, it said. Financial conditions in India have remained accommodative. Domestic credit issuance to the commercial sector (including public and private borrowers) grew by 14 percent (year-on-year) in December 2023, the fastest pace since 2013. Financial soundness indicators continued to improve. The nonperforming-loan ratio fell to 3.2 per cent last year, well below its recent peak, in March 2018, of about 11 percent.

Regulatory capital totalled 17 percent of bank assets in the second quarter of 2023, surpassing both regulatory requirements and peer averages. FDI as a share of GDP fell in 2023, but a rebound in foreign portfolio investment inflows in FY 2023/24 contributed to foreign reserves rising 8 percent in the year to January 2024, reaching a level sufficient to cover about 11 months of imports, the World Bank report said. “In India, output growth is projected to reach 7.5 percent in FY 2023/24 on the back of robust growth in Q3 of FY 2023/24. Growth is expected to moderate to 6.6 percent in FY 2024/25 before picking up in subsequent years as a decade of robust public investment yields growth dividends,” the bank added.

Moreover, the expected slowdown in growth between FY 2023/24 and FY 2024/25 mainly reflects a deceleration in investment from its elevated pace in the previous year. “Growth in services and industry is expected to remain robust, the latter aided by strong construction and real estate activity. Inflationary pressures are expected to subside, creating more policy space for easing financial conditions,” it said. The report also added that over the medium term, the fiscal deficit and government debt are projected to decline, supported by robust output growth and consolidation efforts by the central government.

(Financial Express, 4/4/2024)

India's trade dependence on EU, China sees spike: UNCTAD report

According to the UNCTAD estimates, which are based on national statistics, India’s reliance on EU and China rose by 1.2 per cent annually, while it declined in the case of Saudi Arabia by 0.6 per cent.

India’s dependence for trade on the European Union (EU) and China is rising as global trade has seen a restructuring along the geopolitical lines in the past two years, according to a report by the United Nations Conference on Trade and Development (UNCTAD).

According to the UNCTAD estimates, based on national statistics, India’s reliance on the EU and China rose by 1.2 percent annually in 2023, while it declined in the case of Saudi Arabia by 0.6 percent.

The increase in dependence comes at a time when the country is trying to reduce its imports from China and other countries by emphasising manufacturing goods locally, backed by schemes, such as production-linked schemes (PLI) and Quality Control Orders (QCOs).

According to the report, this supply chain shift has happened following the Covid-19 pandemic and the Ukraine-Russia war, which led to a record increase in prices of food and fuels.

“During the last two years, the geographical proximity of international trade has remained relatively constant, showing minimal nearshoring or far-shoring trends. However, since the latter part of 2022, there has been a noticeable rise in the political proximity of trade.

This indicates that bilateral trade patterns have been favouring trade between countries with similar geopolitical stances (a pattern generally referred to as friend-shoring), it further said.

At the same time, the report also noted that there has been an increasing concentration of global trade to favour major trade relationships, although this trend has softened in the last quarter of 2023.

The war has pushed Russia more towards China as its dependence on the latter grew by over 7.1 percent. A major reason for the growing dependence has been oil, which was imported heavily by China and India after the EU reduced its share.

On the other hand, Ukraine’s dependence on the EU rose by 5.8 percent, while Russia’s declined by 5.3 percent. Meanwhile, the US also saw its dependence on China reduce by 1.2 percent. However, the UK saw its reliance on the EU jump by 1.6 percent.

In terms of sectoral data, trade decline was reported for most sectors except for pharmaceuticals, transportation equipment, and road vehicles, which received a boost from the sale of electric vehicles, the report said.

The report further noted that the value of global merchandise trade has experienced continuous decline since mid-2022. However, the trade in services maintained growth throughout most of the period. “Overall, the global trade update projects that global trade in 2023 will amount to approximately $31 trillion, contracting by close to $1 trillion (or 3 percent) compared to the record high of 2022,” the report said.

(Money Control, 1/4/2024)

Govt has taken up issue of ban on imports of Russian diamonds by EU, G7: S Jaishankar

Synopsis

India's External Affairs Minister, S Jaishankar, has highlighted the government's concern over the ban on Russian-origin unpolished diamonds by the EU and G7 nations, which could adversely affect the domestic diamond polishing industry, particularly in Surat, Gujarat. Jaishankar emphasized efforts to delay, soften, or prevent the ban altogether, considering it a priority issue.

The Indian government has taken up on priority the issue of ban on imports of Russian-origin unpolished diamonds by the European Union (EU) and G7 nations as the measure will end up hurting the domestic diamond polishing industry mainly centred in Gujarat's Surat city, said External Affairs Minister S Jaishankar on Monday.

The initial stage of an EU and G7 ban on imports of Russia-origin diamonds via third countries came into effect in early March, a step taken as part of sanctions on Moscow in response to its invasion of Ukraine. "Our effort is to delay (the initial stage of ban), soften it, and best of all, not let this happen at all. For us, this has become a priority issue, and we will try to find out a

solution in coming days," Jaishankar said here. He was responding to a question on how the ban is going to hurt the Surat diamond industry, which polishes 90 per cent of the world's rough diamond.

Jaishankar said at an interaction with young business leaders organised Representative by the Disha Foundation in Surat that the 27-member EU has imposed sanctions on imports of Russian diamonds, and G7, the group of the world's wealthiest nations, is also going in that direction.

The countries which have banned the imports of Russian rough diamonds via third countries as part of sanctions on Russia in response to its invasion of Ukraine are only consumers and their employment does not depend on it, the minister noted.

"Their idea is to hurt Russia. And this subject is completely different from blood diamonds. Prime Minister (Narendra) Modi has himself raised the issue with different leaders and sent me to different countries, including Belgium (which currently holds the EU's rotating presidency), to discuss the issue with the government there," Jaishankar emphasised.

Sanction have been currently imposed on 1 carat diamond, and the issue can be resolved if there is a ceasefire (between Russia and Ukraine), but this is not likely to happen any time soon, he said. "If the war continues, it will create challenges (for the Indian diamond industry). We are holding discussions collectively and on a bilateral basis over the issue.

Only a few days ago, PM Modi talked to the Belgian Prime Minister (Alexander De Croo), and our (Union Commerce) Minister Piyush Goyal

is going to follow up on this in the next few days," Jaishankar informed. The government's effort is to make the EU and G7 countries understand that their decision ends up hurting the third person and not the target (a reference to Russia), the minister pointed out.

As far as the challenges that the Surat textile industry faces from Bangladesh and Vietnam are concerned, the Indian government's effort to enter into a Free Trade Agreement with the EU will help tackle them as the sector will be a big beneficiary of such a business pact, he noted.

In his interaction, Jaishankar stressed that instead of following the 'China Plus One' strategy, entering into the new supply chain being created across the world and gaining a foothold in the digital world through India's reputation of trustworthiness will help the country's industry. The strategy encourages companies to diversify their supply chain and manufacturing activities away from China to mitigate risks.

(Economic Times, 1/4/2024)

India's FTA with EFTA: Catalyst for Viksit Bharat in Europe

India is the fifth-largest trading partner of EFTA preceded by the European Union, USA, Britain and China. India's total two-way trade was $25 billion as of 2023.

India recently concluded the Trade and Economic Partnership Agreement (TEPA) with the European Free Trade Association (EFTA) comprising Iceland, Liechtenstein, Norway, and Switzerland, marking a significant milestone for Indian enterprises and services organizations. This agreement is a result of 15 years of negotiations and holds immense transformative potential for India's economic landscape. India is the fifth-largest trading partner of EFTA preceded by the European Union, USA, Britain and China. India's total two-way trade was $25 billion as of 2023.

The FTA grants Indian businesses unhindered access to EFTA markets, to 92.2% of tariff lines with duty-free access to India's animal products, fish, processed food, and vegetable oils covering 99.6% of India's exports. India has tabled 105 sub-sectors with commitment of 128 sub-sectors with Switzerland, 114 with Norway, 107 with Liechtenstein, and 110 with Iceland. Switzerland, being the largest trading partner of India followed by Norway, with more than 300 Swiss companies, apart from banks, would enhance Indo-Swiss relationship further. Currently, Indian IT majors have major exports to Switzerland.

India, in turn, has included 82.7% of its tariff lines covering 95.3% of EFTA exports, primarily Gold. The agreement would keep the effective duty on Gold unscathed. The agreement has respected the PLI sensitivity of pharma, medical devices and processed food sub-sectors. Sectors such as dairy, soya, coal and sensitive agricultural products are kept in the exclusion list. With an anticipated influx of US$100 billion in investment, Indian companies are poised for an unprecedented global expansion. Moreover, the commitment to creating one million jobs over a 15-year span supports the Indian economy's growth ambitions.

The TEPA, hence, would allow our manufacturers to access specialized inputs from the EFTA region, it would create a favourable trade ecosystem, and boost made-in-India goods and services exports. TEPA will set the platform to make India a manufacturing services hub for the world, and, thus, give impetus to "Make in India" and "Atmanirbhar Bharat Abhiyan". India can become the prime sourcing partner to the EFTA region in the sectors of Manufacturing, Machinery, Banking and Financial Services and Insurance, Pharmaceuticals, Chemicals, Infrastructure and Connectivity, Food Processing and Transport and Logistics. The agreement also sets the stage for potential joint ventures among the countries and thus help India diversify imports away from China.

TEPA would also catapult India's aspirational workforce and create direct jobs and better facilities for vocational and technical training. Technology collaboration and access to cutting-edge technologies in precision engineering, health sciences, renewable energy, Innovation and R&D would further enhance the potential of the Indian services sector. Indian companies can look to Switzerland, with 40% of its services exports to the EU, as a base for extending its market reach to the EU. The agreement would support a simplified VISA process, recognition of professional diplomas and enhanced family access for Indian professionals.

In a nutshell, the TEPA would provide the much-needed boost to Viksit Bharat aspirations, by opening access for Indian exporters and skilled workforce to the large European markets. However, meticulous implementation of the agreement would be paramount to work around increased competition risks and global trade dynamics. That said, the agreement surely has the potential to be a testament to assert India's position and influence in international collaborations.

(Prashant Kapoor is a Leader, India-Europe Corridor; and Dipayan Ghosh is a Partner, India-Europe Corridor at KPMG in India.)

(Financial Express, 8/4/2024)
