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India, EU to begin next round of talks on free trade pact on Monday

Synopsis

Senior officials from India and the European Union will begin the ninth round of free trade agreement talks on Monday. The discussions aim to enhance bilateral trade and investments, addressing issues like carbon tax and deforestation regulations. Both sides will negotiate on goods, services, investment, and government procurement.

Senior officials of India and the 27-nation European Union (EU) will commence the next round of talks for a proposed free trade agreement from Monday here, an official said. The agreement is aimed at further boosting bilateral trade and investments between the two regions. The two sides are negotiating a free trade agreement, an investment protection agreement and an agreement on geographical indications (GIs).

"The five-day talks will start from September 23. It will be the ninth round of negotiations. Also, the concerns of Indian stakeholders regarding the EU's sustainability measures, such as CBAM, deforestation and others, will be discussed with the EU," the official said.

During the ninth round, both sides will discuss core trade issues covering goods, services, investment and government procurement along with necessary rules such as rules of origin, SPS (sanitary and phytosanitary), and technical barriers to trade.

The Carbon Border Adjustment Mechanism (CBAM) or carbon tax (a kind of import duty) will come into effect from January 1, 2026. It will initially be imposed on seven carbon-intensive sectors, including steel, cement, fertiliser, aluminium and hydrocarbon products.

India has raised concerns over these two regulations as it would have an impact on the country's exports to the bloc. According to think tank Global Trade Research Initiative (GTRI), the European Union's Deforestation Regulation (EUDR) would hit India's agricultural exports worth USD 1.3 billion to the EU starting December 2024.

The GTRI said that Indian firms are concerned about the potential negative impacts of regulations like the carbon tax, deforestation regulation, and supply chain regulation. "These regulations would adversely impact India's exports to EU.

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After implementation of the trade agreement, the EU products will continue to enter India at zero duties, but Indian products may pay 20-35 per cent tariff equivalent as CBAM charges. A suitable text may be inserted in the FTA chapters dealing with this possibility," GTRI Founder Ajay Srivastava said.

In June 2022, India and the European Union resumed the negotiations after a gap of over eight years. It was stalled in 2013 due to differences over several issues.

"Initially, from 2007 to 2013, multiple rounds of negotiations took place but were hindered by disagreements over market access, intellectual property rights, labour standards, and sustainable development. By 2013, the talks hit a standstill, particularly due to differences on tariffs for automobiles, wine, spirits, data security for Indian IT firms, and public procurement," it said.

It added that one of the major reasons for the delay is the differing aspirations between the two parties. The EU seeks tariff elimination on over 95 per cent of its exports, including sensitive agricultural products and automobiles, while India is comfortable opening up only around 90 per cent of its market and is hesitant to lower tariffs on bulk agricultural products, the GTRI said.

GTRI Founder Ajay Srivastava said that major Indian goods exports to the EU, such as ready-made garments, pharmaceuticals, steel, petroleum products, and electrical machinery, will become more competitive, if the pact gets concluded successfully.

Additionally, key services exports like telecommunications, other business services, and transportation services will also see substantial growth. On the other hand, the EU will benefit from increased exports of essential goods from India, including aircraft and parts, electrical machinery, diamonds, and chemicals.

"The services sector will also gain from the FTA, with enhanced trade in other business services, intellectual property services, and telecommunications and IT services. These sectors stand to gain the most from the FTA, driving economic growth and strengthening India's trade relations with the EU," Srivastava said.

The total trade has surpassed USD 200 billion in 2023. India exported USD 75.18 billion in goods and USD 31.13 billion in services to the EU, while the EU exported USD 63.44 billion in goods and USD 31.35 billion in services to India.

(Economic Times, 22/9/2024)

India to discuss carbon tariffs, trade barriers with EU at ninth round of FTA talks starting September 23: Commerce ministry

The two sides are expected to discuss rules of origin, non-tariff barriers like sanitary and phytosanitary conditions and trade The ninth round of talks between India and the European Union (EU) to discuss the free trade agreement (FTA) is set to begin from September in New Delhi.

The government is slated to take up the concerns of Indian businesses regarding carbon border adjustment mechanism and deforestation with the European Union, the Commerce Ministry said.

The two sides are expected to discuss rules of origin, non-tariff barriers like sanitary and phytosanitary conditions and trade remedies at the negotiations to be held from September 23-27.

The two sides held the eighth round of negotiations on 21 policy areas between June 24 and 28. The negotiations were formally relaunched in 2022. The countries are discussing 23 policy areas and chapters.

“There are further requests on FTA agreements with India,” Sunil Barthwal, Commerce Secretary, noted, highlighting that India is moving forward on all FTAs except with Canada.

India-Canada FTA talks were stalled as political relations between the two countries soured.

Negotiations with the UK will likely begin from October. Moneycontrol had reported that talks are likely to take some time to resume.

“There are things that are not in our control. We had elections, and then the UK had elections. So, we lost that period,” said Barthwal.

The commerce secretary also noted that India was trying to close negotiations with Australia before the country's elections.

(Moneycontrol, 17/9/2024)

India-EU FTA talks make headway, next round in Sept

New UK govt “very positive” on trade pact with New Delhi

India and the European Union (EU) made a lot of progress on the key issues surrounding the propsoed free trade agreement between them in the last round of negotiations in late June and the next round is expected to be held in late September, a senior official said.

In the latest round, discussions were held on all the 21 chapters or policy areas covered by the FTA with the aim of resolving divergences, joint secretary in the department of commerce Darpan Jain said.

“Progress was made in a number of chapters in terms of finding landing zones, especially on government procurement, digital trade, technical barriers to trade, and goods market access. In a number of areas we were able to make progress, Plan is now to hold more inter-sessional meetings in July and August and we intend to have another round in the last week of September,” he added.

The September talks will be the ninth round of negotiations. Along with the FTA, India and EU are negotiating a Trade and Investment Agreement, and a pact on Geographical Indications (GI).

India and the 27-nation bloc resumed negotiations on the FTA on June 17 2022 after a gap of over eight years. First attempt at FTA with the EU was made in 2007 and after many rounds of discussions the progress stalled in 2013 due to differences on issues of tariffs on automobiles, wines and spirits and freer movement of professionals. Brexit (exit of UK from EU) further complicated matters. The proposal for FTA was drawn afresh and discussions began again.

The EU is the biggest export market for India after the US. In 2023-24, exports to the EU stood at $ 75.9 billion, which was 1.4% more than 2022-23, even as overall exports faltered. Imports from the EU last financial year stood at $ 59.3 billion, which were 2.7% lower than in 2022-23.

On FTA negotiations with the UK, another official said that there is a change of government in that country and they will look at the current positions. “There is an eagerness on their part to do this deal with India. They are very positive.”

Britain’s newly-elected Prime Minister Keir Starmer spoke to Prime Minister Narendra Modi recently and said he stood ready to conclude an FTA that worked for both sides.

The India-UK FTA has 26 chapters or policy areas and the schedules in FTA deal with tariffs which each side will impose on goods from other countries under the agreement. So far India and Uk have held 13 rounds of negotiations on the FTA and the 14th round which started in January is in progress.

The policy areas covered by FTA are Intellectual Property, Government Procurement, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Competition, Rules of Origin, Trade Facilitation, Customs Cooperation, Small and Medium-Sized Enterprises, Trade and Sustainable Development, Labour, Gender, Digital Trade, Dispute Settlement, General Provisions and Transparency.

Experts say that while both sides are committed to the deal there could be adjustments in the view of Labour’s views on immigration and dependence on foreign workers. Key Indian demand in the services negotiations is greater access to Indian professionals to the UK market. The UK is seeking a significant cut in import duties on goods such as scotch whiskey, electric vehicles, lamb meat, chocolates and certain confectionary items. It is also looking for more opportunities for UK services in Indian markets in segments like telecommunications, legal and financial services

UK is India’s 16th largest trading partner with a total goods exchange of $ 21.3 billion dollars in the last financial year. India’s exports to the UK grew 13.3% to $ 12.9 billion while imports fell 6% to $ 8.4 billion.

Along with the FTA, India and the UK are also negotiating a Bilateral Investment Treaty. India and the UK are aiming to sign the investment agreement along with the FTA.

The UK is the sixth largest investor in India between April 2000 and March 2024. Its share in total FDI during the period was 5.17% of the total of $ 35 billion. For Indian investors the UK is the fifth biggest destination. Between 2000 and 2024 outbound FDI from India to the UK stood at $ 19 billion.

(Financial Express, 19/9/2024)

EU Competitiveness Report Calls for €800 Billion in Added Yearly Investments

Italian technocrat Mario Draghi says the EU needs the equivalent of three Marshall Plans—how would it get the money?

Brussels finally unveiled its long-awaited “Report on the Future of European Competitiveness,” written by former European Central Bank (ECB) chief Mario Draghi at the request of the European Commission. Although the document calls for “urgently” pouring up to €800 billion into the EU’s economy to avoid being left behind by the likes of the U.S. and China, there is little to no political appetite for it in member states.

The report was originally planned to be published last spring in the hope that it would generate public debate during the EU election campaign period. However, as the publication of the 400-page report was delayed over and over, enthusiasm in EU capitals diminished. Brussels may have one of the most ambitious economic reform plans in its history on the table, but very few countries have the means to foot the bill right now.

‘Genuine’ concerns

Despite member states generally lacking this sense of urgency, the situation is “really worrisome,” Draghi said during his press conference with EU Commission President Ursula von der Leyen on Monday, September 9th.

“For the first time since the Cold War, we must genuinely fear for our self-preservation,” Draghi said as a conclusion of his year-long analysis, adding, “The reason for a unified response had never been so compelling.”

The report identified three main areas of focus to help raise Europe’s lagging economic competitiveness and three main barriers to achieving it.

The first main “area for action,” as the document calls it, is about closing the “innovation gap” between the EU and other parts of the developed world, primarily the U.S. and China. American companies have spent €270 billion more on research and innovation (R&I) than their EU counterparts in 2021, while “inconsistent and restrictive” overregulation in Europe drove 30% of the most valuable European startups to relocate to the U.S.

The second area concerns finding an effective joint action plan for long-term decarbonization that not only saves the planet but also makes European energy prices affordable to increase competitiveness. Despite Europe pouring billions into “clean and cheap” energy sources, electricity still costs 2-3 times more in the EU than in the U.S., Draghi pointed out, largely because of the highest energy taxes in the world.

Continuing with the green transformation without structural reforms, therefore, will run “contrary” to economic growth, he explained. So to be clear, Draghi believes decarbonization is the solution to Europe’s energy price crisis, but only if it’s done in an even more centralized way.

Finally, the third area focuses on increasing Europe’s security and reducing its dependencies on foreign defense, energy, and resources. A leaked chapter on defense made headlines last week, but the other two dimensions are just as important. Europe must bring home its production lines and build up its own trading network with resource-rich nations or risk being at the mercy of a China-dominated world.

The “barriers” standing in Europe’s way are all portrayed as stemming from the common market not being sufficiently integrated, so the report calls for more economic and political centralization. These problems—overregulation and administrative burden; a fragmented common market that dilutes collective spending power; and the lack of efficient political coordination among so many governments—could all be solved with fewer but more focused legislative processes. This, the report suggests, could be achieved by planning for just one economy instead of 27.

Europe says ‘no’

While the enormous document deals with a lot of economic technicalities, it does not go into detail about the only thing that lawmakers were looking forward to: finances. There are very ambitious target figures, and Draghi said creating a common fund is “instrumental” to achieving the goal, but also refrained from giving too concrete recommendations about how to raise it due to the topic being “sensitive.”

But first, numbers. The report identifies the primary objective of injecting €750-800 billion “minimum annual additional investment”—from both private and public sources—into the bloc’s competitiveness based on the above-mentioned goals. This amount corresponds to about 4.5% of the EU’s GDP last year, roughly three times as much as the Marshall Plan which was the equivalent of 1-2% between 1948-51. This additional investment, the report claims, would “reverse a multi-decade decline across most large EU economies.”

Traditionally, four-fifths of productive investment in Europe has been undertaken by the private sector, and one-fifth by governments. That level of private sector investment is not realistic on such a massive scale as around 5% of the GDP, so the public sector will need to step up its game significantly, both by footing much more than its usual share and by financing fiscal incentives to raise the private sector’s willingness to invest in innovation.

As to how to raise this common fund of a few hundred billion euros, there are very few suggestions in the report. It’s clear, however, that the project is unimaginable without going into further joint debt—as in the case of the pandemic relief funds—and increasing the common EU budget, something that Draghi also called for. This could be done through several means, including massively increasing member states’ contributions and even creating the EU’s “own revenue sources,” such as direct EU taxes.

But as many diplomats familiar with the report noted in advance of its publication, there is very little chance that most of this plan will be implemented simply because Europe has no money, nor the will to spend more at this time.

“We keep hearing about this call for multi-hundreds of billions of euros. But how feasible is that in an environment where the Germans have a budget crisis, the Dutch have said they want to lower their contribution to the EU, and the French lack a government?” an unnamed diplomat told Politico.

Sven Giegold, the German state secretary for climate and economy, shared this opinion a few days ago when he talked about the content of the report. “We will not get this budget. So therefore we have to think more creatively, how to make use of existing pots of money,” he told the Brussels-based economic think tank Bruegel.

Nonetheless, until the EU Commission presents concrete legislative proposals based on Draghi’s recommendations—something Ursula von der Leyen has promised to do in the first one hundred days of her new administration—we won’t know the real support for a plan around the capitals.

(European Conservatives, European Parliament, 9/9/2024)

Swiss government submits India free trade agreement to parliament

Synopsis

The Swiss government has submitted its proposed free trade agreement with India to parliament, aiming to boost Swiss exports. The deal, involving the European Free Trade Association, includes lifting import tariffs on industrial products in exchange for $100 billion investment over 15 years. Parliamentary approval is pending.

The Swiss government has submitted its proposed free trade agreement with India to parliament, it said on Thursday, moving closer to a deal that could open up the world's most populous country to Swiss exports.

The agreement between India and the European Free Trade Association (EFTA) - which has also has Iceland, Norway and Liechtenstein as members - is a "significant milestone" in Swiss trade policy, the government said.

Under the agreement, India will lift import tariffs on industrial products from the four countries in return for investment of $100 billion over 15 years.

The deal, which was signed in March, requires parliamentary approval before becoming effective. The Swiss parliament is expected to debate the treaty in the upcoming spring and winter sessions, the government said.

The treaty, which has followed 16 years of negotiation, will reduce tariffs on nearly 95% of Swiss products that are exported to India.

"India is now the world's most populous country. In particular, the growing middle class means that there is significant potential for growth," the government said.

"When the agreement comes into force... This will strengthen the competitiveness of Swiss exports in India," it added.

Although the Indian market is potentially huge, Swiss exports to the country are currently tiny - making up only 0.7% of Swiss sales abroad in 2023, according to information from the Federal Customs Office.

(Economic Times, 5/9/2024)

India backs Rules of Origin in auto sector under India, UK trade pact

'Rules of Origin' provision prescribes minimal processing that should happen in the FTA country, UK in this case, so that the final manufactured product may be called originating goods in that country.

India is insisting on strict adherence to the Rules of Origin' during free trade agreement (FTA) negotiations with the UK in the automobile sector, Commerce Secretary Sunil Barthwal on Tuesday said.

He said that the 'Rules of Origin' have to be such that they do not impact the Indian automobile sector negatively.

"FTA with the UK is in the pipeline...we are negotiating. We are also very keen to see that not only do we open up the automobile market, but we also see that we do not unduly lose the level playing field vis-a-vis the UK.

"And we looked at their Rules of Origin very, very closely. We negotiated with them (the UK), and we told them that Rules of Origin have to be such that they do not impact negatively our automobile sector market," Barthwal said here while addressing leaders of the auto industry.

The 'Rules of Origin' provision prescribes minimal processing that should happen in the FTA country, the UK in this case, so that the final manufactured product may be called originating goods in that country.

Under this provision, a country that has inked an FTA with India cannot dump goods from some third country in the Indian market by just putting a label on it. It has to undertake a prescribed value addition in that product to export to India. Rules of Origin norms help contain the dumping of goods.

The secretary said that the government has rolled out the production linked incentive (PLI) scheme for the auto sector "for a certain period and it should not be disturbed through the FTA, till that phase is over".

"So, we have also taken care of that till the time the PLI scheme is there. In fact, that is a policy decision that it (PLI) should not be disturbed, and you should reap the full benefits of the PLI within the sector," he added.

The fiscal incentive scheme was approved in 2021 with a budgetary outlay of Rs 25,938 crore to boost the domestic manufacturing capabilities of the automobile industry, including electric and hydrogen fuel cell vehicles.

The scheme aims to incentivise high-value advanced automotive technology vehicles and products such as sunroofs, adaptive front lighting, automatic braking, tyre pressure monitoring systems and collision warning systems, among others.

The India-UK talks for the proposed agreement began in January 2022. The 14th round of talks stalled as the two nations stepped into their general election cycles.

There are pending issues in both the goods and services sectors.

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, electric vehicles, 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 two countries are also negotiating a bilateral investment treaty (BIT).

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

The bilateral trade between India and the UK increased to USD 21.34 billion in 2023-24 from USD 20.36 billion in 2022-23.

Barthwal also said that there are huge export opportunities for the automobile sector in the global markets such as the European Union and the African nations.

Africa has potential for two-wheelers, tractors, agri vehicles like harvesters and public transport.

"The US of course (is a big market but), there is protectionism which is coming. They are also keen to develop their manufacturing. But I think the market is so huge that everybody is eyeing that market, and we should also eye that market," he added.

(Business Standard, 11/9/2024)

India-UK FTA within finger-touching distance: NITI Aayog CEO

Synopsis

The Free Trade Agreement (FTA) between India and the UK is nearing completion, with both sides just a step away from finalizing the deal, according to NITI Aayog CEO B.V.R. Subrahmanyam. Negotiations for the FTA, which began in January 2022 and were paused due to elections in both countries, aim to significantly boost the existing GBP 38.1 billion annual bilateral trade.

The Free Trade Agreement (FTA) being negotiated between India and the UK is in the final stages with both sides within finger-touching distance to clinch an agreement, NITI Aayog CEO B.V.R. Subrahmanyam said here on Wednesday. The FTA, negotiations for which were launched in January 2022 before being stalled due to general elections in both countries, is aimed at significantly enhancing the estimated GBP 38.1 billion a year bilateral trading partnership.

During the signing ceremony for the new UK-India Infrastructure Financing Bridge (UKIIFB) agreement, both sides were keen to stress that the bilateral partnership is not being held "hostage" to the FTA even as the newly elected governments on both sides remain committed to it.

"I think this is a deal that is in the last slab. The two sides I would say are not even at hand-shaking distance, the fingers are touching. It's just a question of that extra five inches and you can grab the deal," Subrahmanyam said while addressing a panel discussion on the future of India-UK trade.

"The relationship between two countries should not be hostage to a trade deal... India-UK partnership has many, many dimensions to it - infrastructure finance, climate, technology... FTAs enable a sense of familiarity to get things accelerated, in addition to massive opportunities, not only in goods but in services on both sides. It's a perfect fit, perfect match," he said.

The UKIIFB, signed between NITI Aayog and City of London Corporation in London on Wednesday, is aimed at facilitating international investments into India's ambitious infrastructure projects and is seen as a sign of the economic partnership moving at pace unencumbered by the FTA talks.

"I'm not betraying any negotiating secrets when I tell you, we believe we are close. But, of course, the proof of the pudding is not just in the eating, but in ensuring that it comes out of the oven at the right time. So, we are in the process of sort of getting the last bits in place and those are always the hard yards," said Indian High Commissioner to the UK Vikram Doraiswami.

"But the FTA, in totality, is a very important part but (only) one part of the larger strategic relationship we seek to have the UK... that includes opportunities such as this UKIIFB to look at the financial services sector and essentially create a long-term viable channel for capital to be deployed profitably in India for the benefit of both economies; to look at technology; to look at research and innovation," he said.

Ben Mellor, Director at the UK's Foreign, Commonwealth and Development Office (FCDO) India and Indian Ocean Directorate, noted that the newly elected Labour government had the India FTA - talks for which began under the former Conservative regime - as a manifesto commitment.

"It is something that we will seek to get agreement on as soon as possible. I think we need to be very realistic about the prospects and the challenges that still remain to get the deal across the line," said Mellor, "The deal will deliver economic opportunity, growth and jobs in both our countries. Therefore, it is really important for those of us who are strong believers in the UK-India relationship to continue to make the case for why a good, substantial free trade agreement is in both our country's interests. But an FTA is not the only thing that speaks to that relationship," he said.

UK Business and Trade Secretary Jonathan Reynolds had announced at the end of July that teams would be "entering negotiating rooms as soon as possible", with the trade talks expected to pick up from the fourteenth round where they were left off.

Chris Hayward, Policy Chairman of the City of London Corporation, indicated that things are going through a "verification process" of what has been agreed so far and to assess the outstanding issues to take the FDA forward.

"We've just got a new government. They're going to take a bit of time, and it's right that they should have that time to move forward... the aspiration of both countries is to try to arrive at an FTA," said Hayward, who reiterated the City of London's hopes for the deal to be "heavily focused on the services sector".

(Economic Times, 4/9/2024)

India can become $10 tn economy by 2032; beat US, China in manufacturing: Report

Synopsis

India is set to add USD 1 trillion to its GDP every 1.5 years over the next six years, aiming to become a USD 10 trillion economy by 2032. This growth will be driven by the manufacturing sector and initiatives like 'Make in India,' with exports projected to account for 25 per cent of GDP by 2030.

India is set to add $1 trillion to its GDP every 18 months over the next six years, marking a rapid economic transformation, according to a report by IDBI Capital. With this momentum, the country is on track to become a $10 trillion economy by 2032, positioning itself as the world’s third-largest economy by 2030.

"By adding USD 1tn every 1.5 years going forward, India is forecasted to emerge as the third-largest global economy over the next six years," said the report. The report highlighted that India's accelerated growth will be driven primarily by the manufacturing sector, which is projected to contribute 32% to the incremental Gross Value Added (GVA). Key initiatives such as "Make in India"

are expected to play a pivotal role in bolstering the nation's manufacturing capabilities and positioning India as a global manufacturing hub.

It also noted the rapid pace of India's economic expansion. While it took 63 years, from 1947 to 2010, to reach a GDP of $1 trillion, the country achieved $2 trillion by 2017 and $3 trillion by 2020, reflecting a sharp uptick in growth over the past decade.

According to the report, although the COVID-19 pandemic caused a slight delay, pushing the timeline for reaching a $4 trillion GDP to the end of 2024, India is now poised for rapid growth in the coming years.

Between 2024 and 2032, India is projected to reach a $10 trillion GDP, fuelled by robust demand in manufacturing, strong export potential, and supportive government policies like the Production Linked Incentive (PLI) schemes. The report also said that India will surpass leading global economies in manufacturing, overtaking nations such as the US, China, Germany, South Korea, and Japan in the Industrial Production Index (IIP).

"India to overtake top 5 economies in manufacturing IIP ...US, China, Germany, South Korea and Japan... India has the potential to grow on similar lines supported by policy reforms and favourable business climate," the report added.

The report highlighted India's growing export potential, forecasting exports to make up 25% of the GDP by 2030, reaching USD 2 trillion. This marks a substantial rise from USD 61 billion in 2000 to an expected USD 776.7 billion by 2024. The report noted that India's manufacturing and export growth is driven by several key factors: rising domestic demand due to increasing disposable incomes, the global realignment of supply chains, significant export potential, and a supportive financial environment. With both public and private capital expenditures on the rise, coupled with a favorable demographic dividend, India is well-positioned to emerge as a global economic powerhouse.

(Economic Times, 22/9/2024)

Ten Years of India’s Act East Policy: Strengthening Ties and Boosting Growth

India's Act East Policy, launched in 2014, has significantly strengthened its diplomatic, economic, and strategic ties with Southeast Asia and the Indo-Pacific region, marking a key shift in the nation's foreign policy over the past decade.

India’s Act East Policy, marking its 10th anniversary this year, has evolved into a cornerstone of the nation’s foreign policy, significantly enhancing relations with Southeast Asia and the broader Indo-Pacific region. This strategic policy shift has not only deepened diplomatic and economic ties but has also positioned India as a pivotal player in regional geopolitics.

The policy, launched in 2014 under Prime Minister Narendra Modi, aimed to shift India’s focus from its immediate neighbourhood to the broader Asia-Pacific region, emphasizing economic cooperation, cultural ties, and strategic collaboration. Over the past decade, the Act East Policy has yielded substantial outcomes, especially in terms of trade and investment.

Bilateral Trade

Bilateral trade with ASEAN nations has nearly doubled, surging from USD 65 billion in 2015-16 to USD 120 billion in 2023-24. India’s exports to ASEAN have also seen a notable rise, from USD 31 billion in

2016-17 to USD 44 billion in 2022-23. Moreover, India has attracted around USD 160 billion in investments from ASEAN, underscoring the economic success of the policy.

Diplomatic Engagements

This year, as India celebrates a decade of the Act East Policy, there have been significant diplomatic engagements, underscoring the policy's importance. Prime Minister Modi's historic visit to Brunei, the first by an Indian Prime Minister, reinforces India's commitment to this strategic policy.

Additionally, the visits of Vietnam's Prime Minister and Malaysia's Prime Minister to India, both within the first 100 days of the current government, have elevated bilateral ties. Relations with Vietnam are now characterized as a Comprehensive Strategic Partnership, while ties with Malaysia were similarly elevated during the recent visit.

Furthermore, the upcoming visit to Singapore is expected to further solidify India's Act East Policy, enhancing cooperation across various sectors. In the first 100 days of the government, the President of India also travelled to Fiji, New Zealand, and Timor Leste, signalling India's continued commitment to strengthening ties in the broader Indo-Pacific region.

As India continues to build on the successes of the past decade, the Act East Policy remains a vital tool in fostering regional stability, economic growth, and strategic partnerships. The next decade promises even greater opportunities for collaboration and mutual growth, reinforcing India's role as a key player in the Asia-Pacific.

(Financial Express, 4/9/2024)

Textile exports to remain strong amid global shifts, FTA negotiations with UK and EU will offer additional growth opportunities

Synopsis

The Indian textile industry is set for growth in 2024, driven by rising export demand, stable cotton prices, and geopolitical conditions. Increased consumer spending in key sectors and potential Free Trade Agreements with the UK and EU also contribute to this positive outlook. However, logistical challenges and sustainability norms pose near-term hurdles.

New Delhi: The Indian textile industry is set to experience developments in 2024, driven by improving demand in export markets, resilient consumer spending in key sectors, and favourable geopolitical conditions, according to the B&K Securities report.

In the ready-made garments (RMG) sector, the demand offtake in export markets is anticipated to show substantial improvement in 2024.

While domestic demand is expected to remain moderate due to lower discretionary spending and overstocking from the previous fiscal year, the recovery in export demand is promising. The domestic market could see a boost in the second half of FY25, supported by an increase in wedding days and festive season, although the rise in realisations is likely to be marginal.

The export growth in RMG is expected to be driven by a combination of factors including restocking by Western retailers, increased demand for spring-summer collections, and a general uptick in retail sales.

The anticipated interest rate cuts in the US will further stimulate demand. India's RMG exports will also benefit from stable cotton prices and uninterrupted supply, enhancing cost competitiveness on the global stage.

The ongoing crisis in Bangladesh, a major player in the global RMG market, presents a temporary tailwind for Indian exporters.

However, the benefits for India are expected to be short-lived due to differences in product portfolios and Bangladesh's trade agreements with the European Union.

Over the medium to long term, India could see more substantial gains as global buyers continue to diversify their supply chains away from China and Bangladesh, particularly as Bangladesh faces challenges such as rising wages and the loss of its Least Developed Country (LDC) status by 2029.

The home textiles segment is poised to continue its growth trajectory, primarily driven by robust consumer spending in the United States, which accounts for approximately 60 per cent of India's home textile exports.

The market share of Indian players in the US has been steadily increasing, supported by the China+1 strategy adopted by big box retailers to diversify their supply chains.

India's competitive advantage in raw material costs and increased domestic capacity will likely sustain its dominance in the US home textiles market.

The Free Trade Agreement (FTA) negotiations with the UK and the European Union offer additional opportunities for growth, potentially leading to higher margins and increased market share for Indian players.

While the industry is on a positive trajectory, it faces near-term challenges such as logistical disruptions due to the Red Sea crisis and uncompetitive domestic cotton prices. Moreover, as sustainability becomes a major theme in Western markets, Indian textile companies will need to invest in compliance with these evolving norms to remain competitive.

(Economic Times, 4/9/2024)

Can India weave its way to becoming the world’s next textile hub?

In the journey to becoming the world's textile hub, India faces daunting challenges such as low cotton yield and high domestic prices. Yet, opportunities are compelling, and can be tapped with innovation, government support, and foresight.

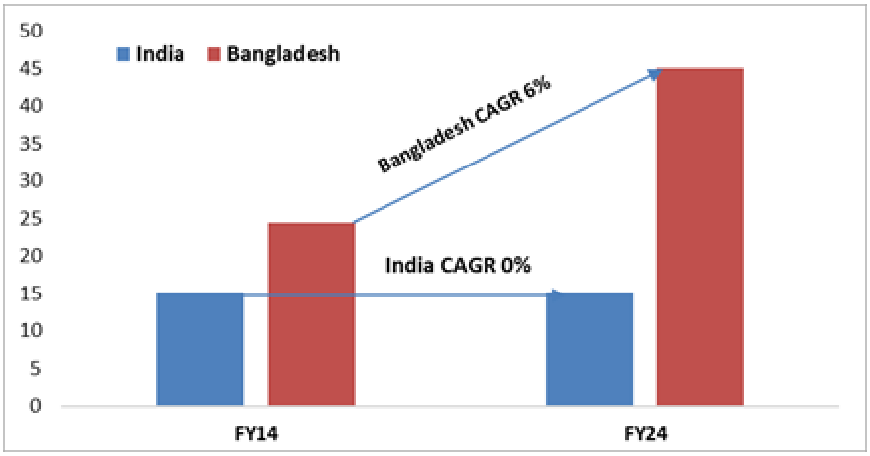
At the heart of India’s textile industry lies a fundamental problem -- low cotton yield.

India, a country with a rich heritage in textiles, is once again at the forefront of discussions on global trade. The recent political unrest in Bangladesh has opened the door for India to potentially reclaim its leadership in the global textile market. However, while the opportunity is large and tempting, the path forward is riddled with challenges that could either propel India to the top or leave it trailing behind.

A tale of two textile giants: India vs Bangladesh

The global textile industry has been dominated by a few key players, with India and Bangladesh standing tall among them. India's textile industry is massive, valued at approximately $150 billion, with exports contributing around $40 billion. On the other hand, Bangladesh, though smaller in size, punches above its weight with exports totalling about $45 billion, driven primarily by its ready-made garment (RMG) sector.

India's ready-made garment exports are 1/3rd of Bangladesh at $15 billion and are almost stagnant since 2015. The competition is fierce, and while India has the scale, Bangladesh has carved out a niche with its efficiency and export-oriented approach.



Ready-made Garment exports in $billion over the past 10 years

Cotton conundrum: The yield problem

At the heart of India's textile industry lies a fundamental problem -- cotton yield. India and China are the world's largest cotton producers, each churning out around 6 million tonnes annually. But here's where the story takes a twist. China manages this feat using just 3.2 million hectares of land, while India requires more than 13 million hectares for the same output. The maths doesn't add up in India's favour.

India's average cotton yield is a meagre 460 kg per hectare, significantly lower than the global average of 780 kg per hectare (again World average is deflated due to very low cotton yield in India). Compare this to China's Xinjiang region, where yields soar to 2,000 kg per hectare, or Brazil's 1,800 kg per hectare, and the issue becomes glaring. Poor seed quality, fragmented land bank and outdated technology are dragging down India's potential, and unless addressed, this could be the Achilles' heel that undermines India's textile aspirations.

The MSP dilemma: A blessing or a curse?

To support its farmers, the Indian government has been increasing the Minimum Support Price (MSP) for cotton, with a hike of 9 percent for the 2023-24 season and recent hike of 7.3 percent for 2024-25. While this move is well-intentioned, aiming to offset rising cultivation costs, it brings with it a host of challenges.

The increase in MSP may offer short-term relief to farmers, but it also raises questions about sustainability. Higher MSPs make Indian cotton more expensive, especially when international prices are falling. Over the past six months, global cotton prices have dropped by 30 percent, making Indian cotton less competitive in the international market.

Add to this the import duties imposed by India to protect domestic farmers, and you have a scenario where raw material costs for textile manufacturers skyrocket. This price discrepancy between domestic and international markets not only impacts profitability but also threatens India's position in the global textile arena.

Spinning a new strategy: Impact on cotton spinning

The ripple effect of these challenges is felt most acutely in the cotton spinning industry. When international cotton prices were high, Indian yarn exports flourished. But as global prices plummeted, the tables turned. Now, with domestic cotton prices propped up by MSP and import duties, Indian yarn is struggling to find its footing in the global market.

The surplus yarn that can't be exported is being funnelled into the domestic market, causing an oversupply that drives down prices. For Indian spinning mills, this is a double whammy -- reduced export competitiveness and shrinking margins at home. Without a strategic shift, the future looks uncertain for this critical segment of the textile value chain.

The road ahead: Challenges and opportunities

India's journey to becoming the world's next textile hub is far from straightforward. The challenges are daunting -- low cotton yield, high domestic prices, availability and higher prices for manmade fibres and fierce global competition. Yet, the opportunities are equally compelling. With the right mix of innovation, government support, and strategic foresight, India can weave its way back to the top.

The world is watching, and the stakes are high. Will India rise to the occasion, or will it let this opportunity slip through its fingers? The answer lies in how well it can address its internal challenges and leverage the new seeds of change being sown today. The fabric of India's future in textiles is being woven as we speak, and only time will tell if it's a tapestry of success.

(The Mint, 1/9/2024)

US, India partners to explore semiconductor supply chain opportunities

Synopsis

The US Department of State is collaborating with India's Semiconductor Mission to enhance the global semiconductor ecosystem under the ITSI Fund, established by the CHIPS Act of 2022. This partnership aims to create a resilient and secure supply chain, benefiting both nations and contributing to global digital transformation.

The US Department of State is partnering with the India Semiconductor Mission of the Union Electronics and IT Ministry to explore opportunities for growing and diversifying the global semiconductor ecosystem under the International Technology Security and Innovation (ITSI) Fund, created by the CHIPS Act of 2022.

This partnership aims to create a more resilient, secure, and sustainable global semiconductor value chain.

Speaking at the event, US Deputy Assistant Secretary of State for Trade Policy and Negotiations, J Robert Garverick, from the Bureau of Economic and Business Affairs (EB), said, "The Department of State is partnering with the Government of India to explore opportunities to grow and diversify the global semiconductor ecosystem under the International Technology Security and Innovation Fund. President Biden signed the CHIPS Act in the US two years ago, establishing the ITSI Fund to promote the development of a secure global semiconductor supply chain and telecommunications networks."

The initial phase includes a comprehensive assessment of India's existing semiconductor ecosystem and regulatory framework, as well as workforce and infrastructure needs.

He also said, "Insights gained from this review will serve as the foundation for potential joint initiatives to strengthen this critical sector. The US and India are key partners in ensuring that the global semiconductor supply chain keeps pace with the ongoing global digital transformation. Our cooperation underscores the potential to expand the Indian semiconductor industry to benefit both nations and much of the rest of the world. Our global partnership will extend to supply chain logistics." ..

The US Department of State anticipates that key Indian stakeholders, including state governments, educational institutions, research centres, and private companies, will participate in this analysis, which will be steered by the India Semiconductor Mission.

Akash Tripathi, CEO of the India Semiconductor Mission (ISM), stated, "To extend our partnership with the US, we are announcing that we will be engaging in and conducting a study with them to access the ITSI Fund. The US needs to study the entire ecosystem to understand the gaps and needs of the semiconductor industry in India. We are happy to partner with them in facilitating this study. We intend to complete the study in the next couple of months so that we can access the ITSI Fund and further boost our semiconductor ecosystem in its entirety."

In August 2022, US President Joe Biden signed the CHIPS Act, a US law that allocated new funding to boost domestic manufacturing and research of semiconductors in the United States.

The CHIPS Act also created the ITSI Fund, which provides the US Department of State with USD 500 million (USD 100 million per year over five years, starting in Fiscal Year 2023) to promote the development and adoption of secure and trusted telecommunications technologies, secure semiconductor supply chains, and other programmes and initiatives with US allies and partners.

(Economic Times, 9/9/2024)
