



# Europe India Chamber of Commerce

## Newsletter

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**October 2024**

### **UK celebrates Diwali with hopes of a 'magic moment' for India FTA deal**

Says as the new government, we're still extremely keen to be getting on with our trade deal, which was meant to be signed a couple of Diwalis ago.

The UK is very keen to clinch the Free Trade Agreement (FTA) with India and is building towards that magic moment, Britain's minister in charge of the Indo-Pacific said during a special Diwali reception in London.

Catherine West, parliamentary under-secretary of state in the Foreign, Commonwealth and Development Office (FCDO), referenced the previous Conservative government's Diwali 2022 deadline to complete the FTA negotiations as she reiterated the recently elected Labour government's commitment to get the deal done. The FTA negotiations, which were paused for general elections in both countries, are aimed at significantly enhancing the estimated GBP 38.1 billion a year bilateral trading partnership.

As the new government, we're still extremely keen to be getting on with our trade deal, which was meant to be signed a couple of Diwalis ago. But we don't mind, what's a Diwali between friends, said West, addressing the FCDO's gathering of parliamentarians, community leaders and professionals at Lancaster House to celebrate the Festival of Lights.

Our new Comprehensive Strategic Partnership is in the works, and all of these things go to building towards that magic moment where we light the candle on the free trade agreement. While I'm thinking of a lot of different things (this Diwali), it would be good to light the candle on that deal. Please pray for those negotiations, so we can have the light that goes on to the best positive feelings and the magic that you do get when you get a deal, she said.

The event included Hindu prayers, symbolic lighting of candles and also marked celebrations of Bandi Chhor Divas celebrated by the Sikh community as a symbol of light overcoming darkness under the guidance of Guru Hargobindji. The celebrations at the historic 19th century mansion near Buckingham Palace followed Prime Minister Keir Starmer's Diwali celebrations at 10 Downing Street in London on Tuesday evening.

We value and respect your heritage and traditions, and recognise the strength of our shared values and the celebration of Diwali a time of coming together, of abundance, and welcome, said Starmer in his message for the British Indian community.

The light triumphing over the darkness is really important in the world today, because there's no doubt that we live in a more volatile world now than we have for some time. There seems to be a lot of

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darkness across the world, and having that celebration of the light over darkness is very, very important. It gives us hope, it steadies us, he said.

As in the past few years, the stairways of the prime ministerial office-residence were adorned with Indian floral decorations and Starmer followed in the footsteps of predecessor Rishi Sunak to light diyas on the steps of the world-famous black door.

The festivities involved spiritual messages, music and dance highlighting the central Diwali message of good overcoming evil. Renowned Kuchipudi dance artist Arunima Kumar and her young students, Arushi Nagaraju and Aishwarya Gupta, presented 'Jyotir', a traditional dance offering symbolising the victory of good over evil and the values of righteousness, integrity and enlightenment.

(Business Standard, 31/10/2024)

### **Piyush Goyal asks for respect in three areas for faster India-EU free trade agreement**

#### Synopsis

Piyush Goyal, speaking at the 18th Asia Pacific Conference of German Business in New Delhi, advocated for a deeper strategic partnership and a Free Trade Agreement between India and the EU, emphasizing mutual respect in negotiations and highlighting the synergies between India's scaling capabilities and Germany's precision engineering.

Piyush Goyal, India's commerce minister, emphasized the potential for a deeper strategic partnership between India and the European Union (EU), at the 18th Asia Pacific Conference of German Business on Friday in New Delhi.

He advocated for mutual respect and understanding in the negotiations of Free Trade Agreement (FTA) between the two sides.

"India can offer a very large market with 1.4 billion aspirational and younger. I believe in India, EU, deeper engagement, possibly an FTA will benefit both sides. You have technologies, you have ideas, you have innovations, but you have high costs of manufacturing, high cost of providing those services." said Goyal

Goyal identified three key areas where respect is essential to expedite the FTA process.

He stated, "If you respect three things the FTA can happen very fast- Respect each other sensitivities, if we respect each other's sensitivities, with Australia, with UAE, the very first decision we took was we respect each other's sensitivities and not encroach on issues which can moment."

Goyal added, "Second, if you respect the sensitivity of USD 1,000 per capita economy with a USD 60,000 per capita economy, where our people also aspire to reach that 60,000 if not more. We have to respect that. We have to return that transition, that opportunity, to get there, India is no more a pushover."

Goyal underscored India's growing influence in the Asia-Pacific region, stating, "We do believe we (India and German) can deepen this strategic partnership significantly. Asia Pacific region, home to 60 per cent of the world's population, expected to house two thirds of the global middle class in the next decade, is where the action is."

He added, India's robust macroeconomic foundation, with unprecedented infrastructure development, makes it an attractive destination for global investors.

"We are building infrastructure never seen before, phase, and therefore we are in a sweet spot where reform, resilience and readiness for the future is available for businesses from across the world today, we stand stronger, smarter." said Goyal.

He added, "Prime Minister Narendra Modi being re-elected in these turbulent times for the third Time, once again as the leader of the country, and ready and willing to work three times faster, three times harder than three times more outcomes in his third term, so that India becomes the world's third largest economy in the next three years friends."

The minister emphasized the potential for collaboration between India and Germany, leveraging Germany's expertise in precision engineering and India's strength in scaling up infrastructure, both physical and digital.

Goyal emphasised, "Germany perfected the art of precision engineering, India's are mastered the art of scaling up, whether it's physical or digital or social infrastructure, we are operating at a scale that very few countries can match together."

"We can combine your precision and our large scale to create something truly extraordinary, not just for our nations, but for the world. The synergies between India and Germany can drive unprecedented growth as We gather over the next two days, this conference will be key to identifying emerging trends and tactic local challenges," he added (ANI).

(Economic Times, 25/10/2024)

### **No free trade pact if EU insists on opening up dairy biz: Piyush Goyal**

#### Synopsis

Goyal said that first the sensitivities between the 27 countries of the EU and 27 states of India need to be respected. "If we respect each other's sensitivities, like with UAE, Australia and EFTA, we respected each other's sensitivities, and not encroach on issues which can hurt. For example, dairy, I just cannot open up dairy. If the EU insists that I open up dairy, there is no FTA," he said at the Asia-Pacific Conference of German Business.

NEW DELHI: There will be no free trade agreement with the European Union if the bloc insists on India opening up its dairy sector, commerce and industry minister Piyush Goyal said Friday.

Goyal said that first the sensitivities between the 27 countries of the EU and 27 states of India need to be respected. "If we respect each other's sensitivities, like with UAE, Australia and EFTA, we respected each other's sensitivities, and

not encroach on issues which can hurt. For example, dairy, I just cannot open up dairy. If the EU insists that I open up dairy, there is no FTA," he said at the Asia-Pacific Conference of German Business.

Australia did its first FTA with India without dairy as they respected India's issues.

Insisting that the two sides need to respect each other's sovereignty, he said:

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"We are no longer a pushover. We don't negotiate from a position of weakness".

Emphasising that the per capita income of EU member countries is much higher than that of the Indian states, Goyal said: "I may be growing apples in one state, which does not permit me to open apples". "If we respect (these) things, the FTA can be done very honourably, admirably and fast," Goyal said.

He also said there is a need to focus the energies on trade and on promoting investments and deeper strategic partnerships to push the talks. "It will have to be a political decision and the negotiations cannot be left to the bureaucracy alone," the minister said.

(Economic Times, 25/10/2024)

### **India takes a break from negotiating fresh FTAs as it revisits strategy**

Negotiations are temporarily on hold even for the FTAs where talks have been initiated but are not at an advanced stage, like Peru and Chile, but could continue if approval comes from the top

India has pressed the pause button on all fresh free trade agreements as it is revisiting its negotiating strategy in order to have more "meticulously" planned pacts.

The idea is to avoid giving unintended concessions, check third country goods (mostly from China) coming in from partner countries, help industry gain more market access, reject stringent sustainability rules and be more balanced in terms of give and take, sources said.

"The SOPs (standard operating procedures) for the new FTA strategy are ready and a Cabinet note is being prepared by the Commerce Department. Past FTAs, including recent ones with the UAE and Australia, have been minutely studied to understand where things could have been done better and where things went wrong. New FTAs are likely to be negotiated once the SOPs are in place," a source tracking the matter told businessline.

Negotiations are temporarily on hold even for the FTAs where talks have been initiated but are not at an advanced stage, like Peru and Chile, but could continue if approval comes from the top. However, with partners such as the UK and the EU, where talks have progressed considerably, negotiations continue.

In the last five years, India's total imports from FTA partners (ASEAN, UAE, SAFTA, Australia, South Korea, Japan, Mauritius) increased by 37.9 per cent to \$187.92 billion while its exports increased by 14.48 per cent to \$122.72 billion, per an analysis done by research body Global Trade Research Initiative.

While some part of the trade was not using FTA concessions, the ASEAN countries, the UAE, Japan and the SAFTA nations appear to have gained disproportionately.

The idea behind the new strategy is to learn from past experiences. "For instance, after our experience with the UAE, where there are problems related to imports of gold, silver, platinum and dates, we don't want to repeat the same in our talks with, for instance, Oman," the source said.

The SOPs also talk about being more meticulous while giving concessions taking into account not only the present but future possibilities and risks.

"In one of the FTAs, the partner country started producing and exporting a particular item only after India gave concessions for it without realising the potential risks," the source pointed out.

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Similarly, the risk of third country items, especially Chinese products, coming into India at concessional duties routed through partner countries need to be more seriously addressed.

“Chinese items come into India through countries such as Indonesia and Vietnam taking advantage of the India-ASEAN FTA. This loop hole needs to be plugged through more stringent rules of origin,” the source said.

The SOPs also highlight the need to avoid non-tariff barriers such as sustainability issues, including labour standards and environmental norms, that are pushed by developed nations, and a more balanced approach while dealing with smaller nations, such as Sri Lanka or Bangladesh, to ensure that India gains proportionately.

The Commerce Department had organised a ‘chintan shivir’ on FTA strategy and SOPs for trade negotiations in May this year where brain storming sessions were held between officials and trade experts including past negotiators.

(Business Line, 20/10/2024)

### **India-EU leaders flag slow progress in free trade agreement talks**

Delphin and Goyal also highlighted the need to resolve constraints and regulatory hurdles faced by companies while doing business in India and the EU, respectively

Top government officials from India and the European Union (EU) on Friday acknowledged slower than expected progress in the proposed trade agreement and called for mutual cooperation and understanding to take the negotiations forward.

Commerce and Industry minister Piyush Goyal said that “extraneous elements,” having no relevance to trade or business, are hurting the interests of both trade and business.

They are slowing down the progress of India-EU Free Trade Agreement (FTA) negotiations, he said.

“The EU will have to decide whether they are looking at expanding trade, expanding business between the two sides, or whether they are looking at issues which are dealt with by other international organisations. We should be focusing more on our mutual engagements through our FTA on trade and business-related issues,” the minister said at the launch of the Federation of European Business in India (FEBI).

EU Ambassador to India Hervé Delphin, who was also there at the launch, pointed out that the progress in the FTA has been ‘marginal’ as both sides are yet to overcome the ‘fundamental differences’.

In order to finalise the trade agreement, according to Delphin, both sides need to re-calibrate, but also ensure that the trade deal is meaningful.

“Both sides must reflect on potential packages of mutual concessions, which would see both parties move into trade policy territory where they have never ventured so far. The EU will be ready to do its share, but this will also require India to cover a large part of the distance that still separates us for the time being. The time has come for such a political call,” he said.

In June 2022, India and EU kick-started formal negotiations towards an FTA that has been stuck for close to nine years. Nine rounds of negotiations have taken place till now and the next round is expected early next year.

Delphin and Goyal also called upon the need to resolve constraints and regulatory hurdles faced by companies while doing business in India and in the EU, respectively.

Delphin pointed out the need to address issues such as quality control orders, stringent import licences, legal uncertainties regarding investment protection and taxation, that European businesses grapple with in India,

Goyal touched upon 'unfair' trade practices, in the form of 'irrational' duties such as Carbon Border Adjustment Mechanism (CBAM) and deforestation-related duties.

Goyal also said that for over half a decade, India has been negotiating on such duties which are against the Most Favoured Nation (MFN) clause of the World Trade Organization (WTO) since the EU has been bringing in newer elements in the Indo-EU trade relationship.

"We have the same problem on standards that irrational standards are set by the EU which act as a trade barrier to expanding trade between India and the EU. We have people coming and telling us about the significant unfair trade practices on the European side... I have been requesting that India doesn't have any unfair trade practices, why should we be subject to additional duty also, and after six years, we may have to take other measures," said Goyal.

"The world today can't work on the principle of retaliation. It has to work on the principle of mutual cooperation and finding solutions," Goyal added.

(Business Standard, 11/10/2024)

### **Germany bets on India to reduce reliance on China**

- German cabinet heads to India for government consultations
- Trip comes as Germany tries to reduce reliance on China
- Major forum aims to foster more German-Indian business
- Trade with India hit record high despite elusive trade deal

BERLIN, Oct 23 (Reuters) - Chancellor Olaf Scholz leads a high-level delegation to New Delhi this week, betting that greater access to the vast Indian market can reduce Germany's reliance on Beijing even if India does not turn out to be the "new China".

From cars to logistics, German companies are largely optimistic about India's growth potential, tapping into a wealth of skilled young workers, a cheaper cost base and economic growth motoring at around 7%.

The visit comes at a delicate time for Germany, whose export-oriented economy faces a second year of contraction and worries over a trade dispute between the European Union and China that could rebound on German companies.

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Stung by its problematic reliance on cheap Russian gas before the Ukraine war in 2022, Germany has pursued a strategy of reducing its exposure to Beijing.

"India, the most populous country in the world, is a key partner of the German economy in the Indo-Pacific and plays a key role in the diversification of the German economy," Economy Minister Robert Habeck said on Wednesday.

"We must reduce critical dependencies and strengthen the resilience of German companies and their supply chains to and from Asia."

But China is still the biggest show in town.

German direct investments in India were around 25 billion euros (\$27 billion) in 2022, about 20% of the volume invested in China, said Volker Treier, head of foreign trade at the German Chamber of Commerce DIHK. He thinks that share could rise to 40% by the end of the decade.

"China will not disappear, but India will become more important for German companies," said Treier.

"India is the litmus test, so to speak. If de-risking China is to work, India is the key to it, because of the size of the market and the economic dynamism in the country."

Scholz, who will take with him most of his cabinet including the foreign and defence ministers, will meet Indian Prime Minister Narendra Modi on Friday before presiding over the seventh round of Indian-German government consultations.

Habeck will arrive a day earlier to open the biennial Asia-Pacific Conference of German Business.

#### CHINA + 1

German firms cite bureaucracy, corruption and India's tax system as investment hurdles, according to a study by consultancy KPMG and the German Chambers of Commerce Abroad (AHK).

They nonetheless see a bright future in India, with 82% expecting their revenues to grow in the next five years. Some 59% are planning to expand their investments, compared to just 36% in 2021.

For example, German logistics giant DHL plans to invest half a billion euros in India by 2026, tapping into a fast-growing e-commerce market.

"We see enormous growth potential in the Asia-Pacific region, of which India has a significant share," said division head Oscar de Bok.

Volkswagen (VOWG\_p.DE), opens new tab, which has been hit by falling sales in China and high production costs at home, is considering new tie-ups in India for joint production. It has two factories already and signed a supply deal with local partner Mahindra in February.

"I think we shouldn't underestimate the potential in India in terms of a market ... and in terms of regulatory uncertainty between the U.S. and China," said the group's finance chief Arno Antlitz in May.

Similarly, Cologne-based engine maker Deutz (DEZG.DE), opens new tab announced a deal this year with India's TAFE, the world's third-largest tractor maker, for subsidiary TAFE Motors to produce 30,000 Deutz engines under licence.

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"The main arguments for India are political stability and low labour costs," said Jonathan Brown, a managing director at BCG. "So you should have a 'China + 1' strategy in which India plays an important role."

Trade hit a new record in 2023 between Germany and India, which is expected to overtake Germany and Japan to become the world's third-largest economy by the end of the decade.

Negotiations for an EU-India free trade deal, years in the making, still have no end in sight.

"The hurdles to gaining a foothold in the market are high," said BCG's Brown. "But once you're there, you have great potential. What doesn't work is just selling German products locally."

(Reuters, 24/10/2024)

### **Swiss companies set sights on India as \$100 bln trade pact promises more opportunities**

#### Summary

EFTA countries have signed free trade agreement with India

Deal includes pledge to invest \$100 billion in India

Companies looking to benefit from India's strong economic growth

ZURICH, Oct 28 (Reuters) - Investments in India by Swiss companies such as engineering group ABB (ABBN.S), opens new tab and transport firm Kuehne+Nagel (KNIN.S), opens new tab are on the rise, with a \$100 billion regional trade deal expected to further open it up to businesses long geared towards China.

India's appeal has already reflected a broader shift among businesses in Europe eager to balance the costs of a U.S.-China trade spat and recognition that the Chinese economy is, by comparison to India, losing steam.

But the trade and economic partnership (TEPA) signed in March with the European Free Trade Association, whose biggest member is Switzerland, is likely, when ratified, to provide an extra incentive to Swiss investment as it will slash tariffs on exports from chocolates to watches and machinery.

Under the deal, EFTA, whose other members are Norway, Iceland and Liechtenstein, will invest \$100 billion in India and will benefit from easier and cheaper access to the Indian market of 1.4 billion people. India expects the agreement to boost its exports of pharmaceuticals, clothing and machinery.

"India is now really booming," said Morten Wierod, CEO of ABB, an electrical and industrial automation supplier expanding its Indian footprint after its orders there increased by an average of 27% per annum in the last three years.

To meet demand, ABB has been building factories, offices and showrooms in India, with eight projects completed since 2023, increasing its workforce from 6,000 to 10,000 since 2020.

Now ABB's number 5 market, India is on track to become its third biggest after the U.S. and China in a few years, Wierod said.

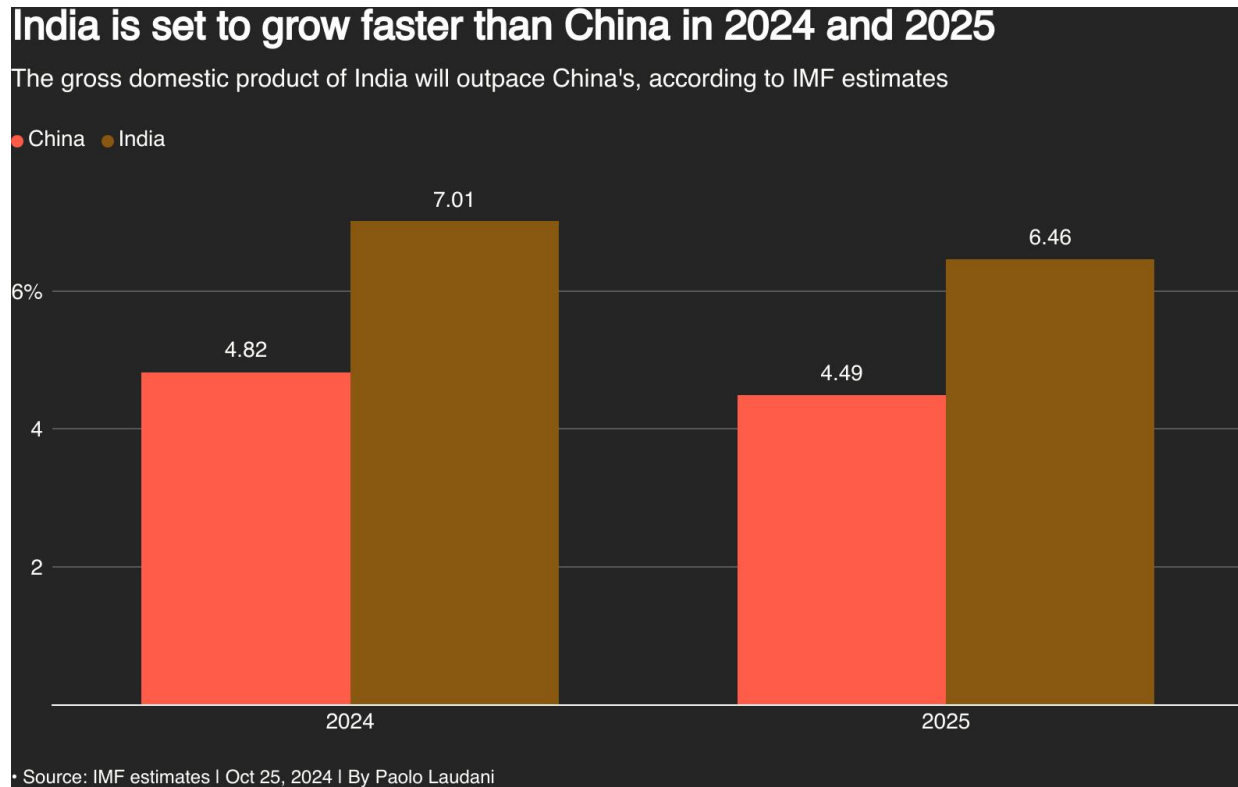
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"Our investments in India are supporting that growth, both with more local manufacturing, but with much more R&D so that you can make designs in India, for India," he said.

Although India is gaining importance, ABB is still committed to China, Wierod said, a view shared by other companies Reuters spoke to.



#### TARIFFS REDUCED

No companies Reuters spoke to said they were investing in India specifically because of TEPA, which has yet to come into force, but the Swiss government and business advocates expect the deal will boost trade and investments.

The pact still requires parliamentary approval, and is expected to become effective in either late 2025 or early 2026.

Rapid growth in India has fuelled Swiss interest. The IMF expects the Indian economy to grow 7% this year and 6.5% in 2025, outpacing forecasts of 4.8% and 4.5% for China. The IMF expects that trend to continue through the end of the decade.

China has long attracted more Swiss direct investment, but in 2021-2022 India took the lead, according to data from the Swiss National Bank.

"Doing business in China has become less easy as its economy there has been doing less well, and there is also the risk of large scale conflicts - economic or otherwise - with China," said Philippe Reich, chairman of the Swiss-Indian Chamber of Commerce, who called the trade deal a "game changer".

According to Reich, around 350 Swiss companies already operate in India, and more will follow.

TEPA will reduce tariffs on 94.7% of exports to zero from an average of 22% now, giving Swiss companies an edge over counterparts in the European Union and Britain, which are still negotiating agreements with India, business minister Guy Parmelin said.

In return for EFTA-based firms investing \$100 billion over 15 years - which aims to create 1 million jobs - India has promised to provide a favourable investment climate.

What this means has not been specified in detail beyond the tariff changes, but both sides have agreed to identify investment opportunities and help companies deal with problems.

"The TEPA will benefit everyone," Parmelin told Reuters, pointing to the reduction of tariffs and administrative burdens.

#### 'RED CARPET'

Florin Mueller, head of the Swiss Business Hub - part of the Swiss Trade Promotion Agency in Mumbai - said TEPA would put India "on the map" for Swiss companies and roll out a "red carpet for them to come and invest".

Smaller firms such as Feintool (FTON.S), opens new tab are setting up there. The precision component specialist is building its first Indian factory near the western city of Pune which will employ up to 200 people when it opens next year.

The plant, which will make parts for the reclining mechanism in car seats, will meet demand from Indian and international customers for a local supplier which makes it easier and quicker to get the right components.

"We see huge potential in India," said Feintool's India managing director Tobias Gries.

Swiss exports to India are still modest. India bought only 1.5% of total Swiss mechanical and electrical exports in 2023, though its share grew by nearly 8%.

Meanwhile, Kuehne+Nagel is increasing its India workforce to 4,800 from 2,850 since 2019, and opening new logistics centres in Chennai, Gurugram and Kolkata this year.

India managing director Anish Jha said government schemes such as India's National Logistics Plan, which has seen big investments in road, rail and ports, were helping.

The initiative is easing transport costs, fuelling growth and supporting Kuehne+Nagel, whose India revenues are rising at more than double the rate of the group overall.

"We see significant growth in India and we are committed to increasing our presence here," Jha said.

"We're very optimistic."

(Reuters, 27/2024)

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Editor: **Secretary General**

## US's 'Freedom to Fail' crucial as India emerges as powerful economy: Black Dragon Capital CEO

### Synopsis

Louis Hernandez Jr., CEO of Black Dragon Capital, states India's alignment with the US's 'freedom to fail' mindset fosters innovation and technological advancements. He highlights India's swift growth, educational emphasis, and potential to lead globally, while addressing generational shifts in work-life balance and AI's impact on jobs.

A characteristic that sets apart the United States, world's largest economy, is its "Freedom to Fail" concept, and India closely aligns with this mindset as it positions itself as a burgeoning global economic leader, said private equity firm Black Dragon Capital's CEO Louis Hernandez Jr.

In an interview with PTI, Hernandez, Founder and CEO of Black Dragon Capital, emphasised that embracing failure can lead to groundbreaking achievements, especially in a country that is rapidly emerging as a global technology leader.

"I feel like the US's primary advantage is its 'freedom to fail'. It's not there in the education system or healthcare. It's just that in our country, it's okay to fail. And you'll still be celebrated if you are innovative and come up with new

ideas. And I think India most closely matches that," he said, suggesting that India is beginning to adopt this mindset.

Hernandez, a former advisor to Infosys founder Narayana Murthy, said he believes that India's emerging economy, combined with its robust educational framework, creates an environment ripe for technological advancements. He noted that when he first engaged with the Indian market, it was primarily known for providing cost-effective technology solutions. Today, it stands as a "beacon of innovation", producing talent that leads major US tech companies, he said.

"India is growing faster and it's an emerging economy that emphasises education. And I think these ingredients create a country that will be leading in some time. The world is coming towards India's strengths," Hernandez said.

In discussing work-life balance--a topic increasingly relevant in today's work culture--the seasoned businessman acknowledged generational shifts in attitudes toward work. While younger generations may prioritize balance over long hours, their commitment to meaningful work remains strong, he asserted.

"We need to figure out how we align with their values. If you look at history, every next generation is complained about by the prior generation. So it's part of our responsibility to find how do we align with a mutual cause," he said.

Talking further about AI's sector-agnostic reach followed by rising concerns around jobs it will displace, Hernandez drew parallels with historical technological disruptions that ultimately led to new innovation and job creation opportunities.

"It will be disruptive. It will absolutely replace jobs, and people will have to be retrained. I may not enjoy the same level of concerns because I saw computers, which is my field, first be used for computational

innovation, replacing scientists who were doing this by hand, and then move into business arenas, introducing things and making each step in a process more efficient.

And then us realising the need to combine these steps," he said.

The human adoption curve is limited by only that which makes our lives better and doesn't create too much risk, he added.

(Economic Times, 24/10/2024)

### **European Union's deforestation regulation, carbon tax unfair: Piyush Goyal**

Major agriculture-exporting countries, including Brazil, India, Indonesia and the US, have raised objections to the EU Deforestation Regulation (EUDR)

The European Union's (EU) deforestation regulation and carbon tax are unfair and would impact Indian industries, Commerce and Industry Minister Piyush Goyal said on Friday.

He also said the EU's safeguard measures on some steel products are irrational too.

Addressing industry and representatives of EU here on the launch of Federation of European Business in India (FEBI), he said Indian industries are "confronted with unfair rules of deforestation, rules around CBAM (Carbon Border Adjustment Mechanism) and various other measures".

Major agriculture-exporting countries, including Brazil, India, Indonesia and the US, have raised objections to the EU Deforestation Regulation (EUDR).

The EUDR was adopted on May 16, 2023, and seeks to prevent the import of specified goods contributing to deforestation and forest degradation in the EU market.

The covered products include coffee, leather, oil cake, wood furniture, paper, and paperboard, with plans to expand the product list further.

However, the regulation has faced significant backlash from several major trading partners.

The Global Trade Research Initiative (GTRI) said India's exports of products like coffee, leather hides, and paperboard worth USD 1.3 billion annually to the European Union could be impacted due to the regulation.

Similarly, India has raised strong objections against the CBAM, under which EU has proposed to impose additional duty on seven carbon-intensive sectors, including steel, cement, fertiliser, aluminium and hydrocarbon products.

The CBAM or carbon tax (a kind of import duty) will come into effect from January 1, 2026.

Finance Minister Nirmala Sitharaman too has recently said the CBAM is unilateral and arbitrary and will hurt India's exports after its implementation by EU.

Last month, India proposed the imposition of retaliatory customs duties, under WTO norms, on certain value of goods imported from EU, as the two sides have failed to reach a consensus on the EU's safeguard measures on some steel products.

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Goyal said the developed world is taking such measures by "disrespecting" the multilateral agreements on climate change.

He said that in the Paris Agreement it was decided that the developed world -- which in the first place is responsible for the environmental problems of the world -- will contribute to the low-cost, long-term financing and will also provide grants and technology.

(Business Standard, 11/10/2024)

### **Indian businesses eye the UK for global expansion**

Indian businesses are eyeing expansion campaigns in the UK, according to research from Grant Thornton. However, while 89% of India's mid-market see the UK as the top market to grow into, many feel that a lack of a free trade agreement between the nations could be holding them back.

In spite of mounting human rights concerns relating to India's incumbent nationalist government, UK businesses are clamouring to get tap into the country's market. The country's GDP is anticipated to expand by 8.2% in the current fiscal year, in spite of the global economy's slower performance – and its huge population of 1.4 billion people, alongside its historically cheap labour market, means there is plenty of room for further expansion in the coming years.

At the same time, the country's geo-political positioning seems to have boosted its standing – with both the US and Britain viewing it as a counterweight against the growing economic influence of China across Asia. This has seen India also benefit from the US and UK both trying to underscore their strategic alliance with business ties – meaning investing in India now looks likely to pay off for firms on multiple levels.

Trade isn't only moving in one direction, however. The bullish performance of the Indian market has created many firms which are strong enough to turn to international expansion of their own. And thanks to the historic ties and economic bonds that are tightening by the year, most Indian businesses have their sights set on the UK as their next destination.

According to new research from business and financial advisory firm Grant Thornton UK, while 69% of UK executives are weighing up India as their most important market for expansion, 89% of India's businesses prefer Britain as the next location to grow into. The survey polled around 3,500 senior executives, and found that Indian mid-market businesses thought the UK was so attractive, due to its 'strong infrastructure', 'strong innovation ecosystem' and 'digital competitiveness'. Significant investments have already been made to this end. A group of Indian investors recently purchased a stake in the BT Group, demonstrate the continued interest from Indian investors in the UK, and UK assets.

But while Indian businesses recognise the opportunities for growth in the UK market, significant barriers remain that need to be addressed. The biggest barriers identified are the 'high cost of doing business' in the UK, 'high cost of regulatory compliance' and 'immigration policies and visas'.

Looking ahead, Anuj Chande, the head of South Asia business at Grant Thornton UK, commented, "The high cost of doing business here, due to high property rents and operational overheads, plus the costs that come from the reporting and compliance requirements of the UK's regulatory system, including high legal fees and audit expenses, can be a significant challenge for any international company to address.

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Editor: **Secretary General**

Combined with the complexity of the UK's immigration and visa policies, which require detailed business documentation and proof of economic contribution, it's evident that there are challenges for any business looking to invest here."

This has not been helped by the glacial pace at which talks over a free trade agreement (FTA) have progressed between the UK and India's governments.

The prospect of an FTA has been touted ever since the UK's Brexit vote in 2016, but official talks only kicked off in 2022. At the time, it was said that when a deal materialised, it would be the first FTA signed between India and a European country – but almost three years later, it is still being talked about as an "expected third trade agreement" since leaving the European Union – while India has already agreed a landmark first European FTA with Norway, Switzerland, Iceland and Liechtenstein.

In particular, migration, mobility, and a liberalised visa regime for Indian workers have proven to be a sadly predictable sticking point in the negotiations, with the Conservative administrations of Boris Johnson, Liz Truss and Rishi Sunak having each been pre-occupied with reducing immigration to the UK.

Former Home Secretary, Suella Braverman, explicitly fed into this, with remarks on Indian migrants constituting the largest number of "visa overstayers" in the UK. Looking ahead, with the UK population in decline, and a Labour government marginally less encumbered by the immigration rhetoric of the Tories, a resolution is said to be in sight – but with Keir Starmer's government having mostly sought to deliver more of the same on most other fronts so far, it remains to be seen as to whether that actually happens.

If the UK and India do finally make an effort to finalise their definitely-maybe FTA, it could be the factor which sees investments between the two economies finally kick into hyperdrive. A 73% majority of UK businesses agreed an FTA would encourage them to explore opportunities in India, while an even higher 92% of Indian executives said the same for the UK economy.

Chande added, "Streamlining regulatory processes and simplifying compliance, could help to alleviate operational burdens for Indian businesses looking to the UK. This would help facilitate their entry into the UK market and promote a more conducive environment for business growth."

Changes to the rules to improve trade between India and the UK would also be within Grant Thornton's interests. In 2023, the UK arm of the business announced it was drawing up plans to invest millions of pounds in its Indian sister firm. The plans emerged as talks continued for a bilateral free trade deal between the UK and India, which the government at the time suggested could conclude ahead of schedule – though that ultimately did not transpire, and a new government is now at the negotiating table.

(Consultancy UK, 2/10/2024)

### **RBI's forex reserves cross \$700 billion for the first time: What it means for India's economy**

RBI Governor Shaktikanta Das has emphasized the importance of maintaining a forex buffer to protect the economy during periods of market volatility.

India's foreign exchange reserves surged past \$700 billion for the first time in the week ending September 27, reaching a record \$705 billion, according to official data. This stockpile, the fourth-largest

in the world, has been bolstered by foreign inflows into the nation's stocks and bonds. The Reserve Bank of India (RBI) has used these reserves to stabilize the rupee, preventing extreme fluctuations in the currency, which remains near a record low.

Bank of America predicts the reserves could increase to \$745 billion by March 2026, providing the RBI with more leverage to manage the rupee's performance. "The central bank appears comfortable holding larger reserves to build buffers against external risks," analysts Rahul Bajoria and Abhay Gupta were quoted in a Bloomberg report, adding that India's reserves are strong compared to other emerging markets.

The buildup in reserves is supported by a balance-of-payments surplus, aided by a narrower current-account deficit. RBI Governor Shaktikanta Das has emphasized the importance of maintaining a forex buffer to protect the economy during periods of market volatility.

Bajoria and Gupta also pointed out that recent fluctuations in the USD/INR rate have given the rupee some room for limited appreciation. "Despite higher volatility, the RBI can continue its goals of accumulating reserves and maintaining currency competitiveness," they wrote.

Meanwhile, global tensions, particularly in the Middle East following Iran's missile attack on Israel, have led to rising oil prices. This conflict has raised concerns about potential disruptions in oil supply, which could influence interest rate decisions globally.

As central banks around the world, including the U.S. Federal Reserve, begin easing monetary policies, the RBI faces challenges. While the Indian economy has shown resilience, external risks, including rising geopolitical tensions, could impact growth and inflation. As a result, the RBI is expected to proceed cautiously in its future policy decisions.

Although India's economic growth remains solid, risks from global uncertainties and inflationary pressures persist. While inflation is currently declining, food and fuel prices remain areas of concern for the RBI, which is closely monitoring these developments before making any significant changes to its monetary stance.

(Business Today, 4/10/2024)

### **Next round of India-EU FTA talks in 2025**

The next round of India-European Union free trade agreement (FTA) negotiations is likely to be held in the first quarter of next year even as the two sides made limited progress on issues such as rules of origin and government procurement in the just concluded ninth round from September 23-27.

In government procurement, issues related to state owned enterprises, Make in India and its application to EU bidders and goods remain unresolved.

"Only issues related to sanitary and phyto-sanitary measures I, dispute settlement and good regulatory practices have made progress," said an official.

India and the EU re-launched negotiations for an FTA after a nine-year hiatus and started separate negotiations for an Investment Protection Agreement and an Agreement on Geographical Indications in June 2022.

Negotiators said that EU wanted India to give explanation on the foreign direct investment proposals it rejects, something that New Delhi is apprehensive about.

The positions of the two sides on the negotiations on origin rules, which are key to check FTA circumvention and cheap imports, and technical regulations and conformity assessment were different on some products. They discussed rules of origin for textile products, wood and paper products, chemicals, precious metals and related products, machinery and electronics.

On the other hand, discussions on market access in goods, sectoral annexes on cars, pharmaceuticals and disciplines relating to financial services, and recognition of professional qualifications were positive, they said.

"This was a restricted round and the aim was to make progress on the substance of the central issues and get the exact picture of the positions of the two sides," the official added.

The two sides continued discussions on investment liberalisation except services on the basis of a joint text.

(Economic Times, 6/10/2024)

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