

TRADE AND INVESTMENT BULLETIN

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Emerging trends in Carbon Credit

As has been seen in the past, new challenges often beget new trading instruments that are traded in new markets, and Carbon Credits as a trading instrument are no exception. They are the result of a multi-country initiative aiming for the reduction of emissions to combat the century's biggest challenge, Climate Change.

The permission to emit one tonne of carbon dioxide or the equivalent quantity of another greenhouse gas is granted by a carbon credit, which is a marketable permit or certificate. In essence, a Carbon Credit serves as a financial offset for the businesses that generate greenhouse gases. Reducing carbon dioxide and other greenhouse gas emissions from industrial activity to further mitigate the consequences of global warming is the major objective of the generation of Carbon Credits.

The introduction of such credits was ratified in the Kyoto Protocol in 1997. The Paris Agreement establishes the rules for further facilitating the markets for Carbon Credits and verifies the use of carbon credits. As per a report by the Corporate Finance Institute, two kinds of Carbon Credit are trading in the world currently. These are:

- Voluntary emissions reduction (VER): A carbon offset that is exchanged in the over-the-counter or voluntary market for credits.
- Certified emissions reduction (CER): Emission units (or credits) created through a regulatory framework to offset a project's emissions.

The main difference between the two is the presence of a third-party certifying body that regulates the CER as opposed to the VER.

The Institute of International Finance's (IIF) Taskforce on Scaling Voluntary Carbon Markets (TSVCM) projects that the demand for carbon credits may rise by a factor of 15 or more by 2030 and by a factor of up to 100 by 2050. In total, the carbon credit market may be valued at more than \$50 billion in 2030.



There are several reasons for the emergence of new opportunities in the Carbon Credit Market:

Changing public attitude to Carbon emissions and Climate Change:

There has been a growing emphasis on growth that is supported by sustainability and clean practices, as has been seen over the previous few years. Consumers have also become more aware of how a Company is manufacturing its products or delivering its services, prompting them to adopt clean and green technologies. Even for India, some of India Inc.'s biggest names such as **as Reliance Industries, the Adani Group, TCS, HDFC Bank, Wipro, Mahindra & Mahindra, JSW Energy, ITC, and Dalmia Cement** have declared net-zero targets. We are expected to see an increase in the number of organizations announcing their net zero strategy and pledges as this knowledge and the pressure that results from it continue to develop.

Agreement on the creation of a Global Credit Offset trading market:

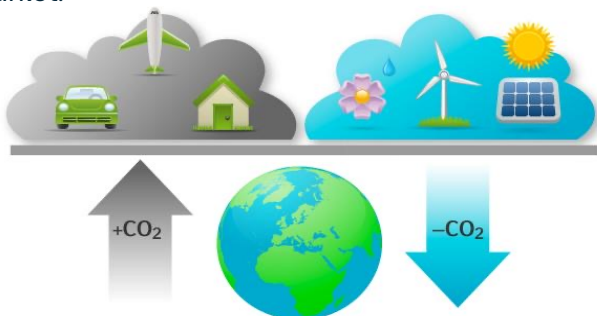
Article 6 of the Paris Agreement, which outlines a framework for the development of a voluntary global Carbon Credit trading market, is one of the paths that the agreement offered for nations to use to cut their emissions. Six years of discussions over this protocol concluded on November 13, 2021, when negotiators from almost 200 nations reached an agreement on the final regulations implementing Article 6 as part of the Glasgow Climate Pact. This is a significant step in achieving standardization in the Carbon Credit market, internationally.



Carbon markets as a tool to finance projects: As stated earlier, Carbon Credits are used as a tool by businesses to compensate for their GHG emissions. The biggest polluters that exceed the allowed emission limits can now support initiatives like reforestation that lower atmospheric carbon dioxide (CO₂), thereby balancing their emissions equation. Therefore, by establishing a monetary value for decreasing greenhouse gas emissions, carbon markets are emerging as an additional source of income for sustainability-related initiatives.

Increased attractiveness due to the flexible nature of Carbon Markets: In the area of compliance, Carbon Credits work as a tool for permission, where the companies get permission to emit Carbon, keeping regulatory requirements in check. The businesses that have extra credits can then sell them to other businesses. On the other hand, Carbon Credits are used in the voluntary-market space voluntarily rather than to satisfy regulatory criteria. They help businesses fulfill their financial obligations to the company and encourage investment in programs that reduce and eliminate carbon emissions. Those countries and companies that cannot easily reduce emissions can still operate but at a relatively higher cost.

As global efforts toward decarbonizing both developed and developing economies increase, the demand for a structured and transparent Carbon Credit mechanism will also increase, creating more opportunities in the carbon trading market.



However, the need of the hour in the Carbon Credit market is to get significant reforms and interventions across areas:

1. Planning

- Availability of high-quality data about carbon emissions sector-wise.

2. Regulatory

- Uniform and universally accepted accounting.
- Assessment and verification methodologies based on shared principles.
- Appropriate risk management services to protect investors.

3. Economic

- Ensuring a continuous supply of carbon credits which will come from technology-based removal, natural carbon sequestration, and reduced deforestation, among other areas.

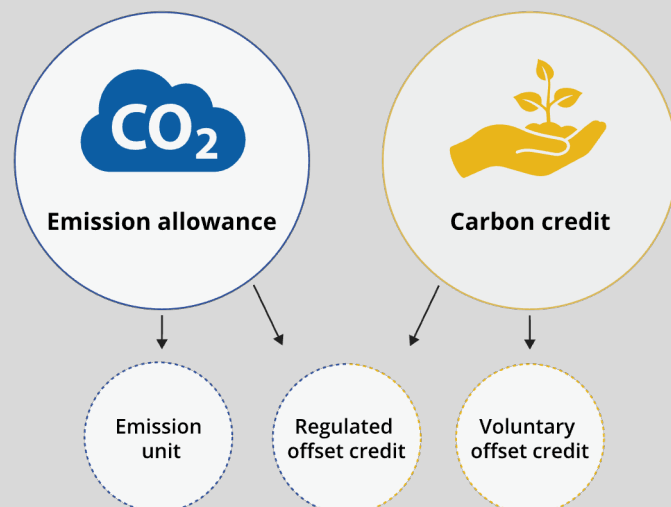
4. Information

- Carrying out a detailed campaign for various stakeholders to increase awareness of Carbon Credit markets.

5. Technological

- Technology enabled emission tracking, monitoring, and reporting mechanisms.

The above interventions will contribute to increased investor confidence in the Carbon Credit market, thereby increasing the demand for this trading instrument even further.



IPEF trade pillar into a trade agreement?



The Indo-Pacific Economic Framework (IPEF) was announced at a meeting of the QUAD and currently consists of 14 members, including the US. The framework aims to strengthen the economic partnership among participating countries and adds a much-needed economic dimension to the QUAD. The importance of IPEF can be gauged from the fact that the Indo-Pacific covers half the population of the world, and the participating countries represent 40 percent of the global GDP.

The IPEF takes place at a time when India is pursuing a revised trade policy, has signed FTAs with important economies like the UAE and Australia, and is now negotiating FTAs with the EU and the UK.

India's shift in trade strategy aligns with the IPEF, where it is now entering into FTAs with countries with which it shares a complementary trade relationship. India also has the advantage of having pre-existing trade agreements with many IPEF members already in place, such as the India-ASEAN FTA.

While the IPEF holds great potential as an enabler of growth and trade in the Indo-Pacific, it is not a traditional trade agreement like the Regional Comprehensive Economic Partnership (RCEP), or the Trans-Pacific Partnership as the United States will not be providing incentives such as lower tariffs or greater market access to its markets. As per the US trade representative leading the negotiations on the trade pillar, market access would be off the table because traditional trade agreements have led to a considerable backlash in the United States. This may prove to be a limitation that restricts the grouping from reaching its full trade potential as some other multi-lateral trade groupings have managed to as many members of the IPEF would like access to the US market. However, without market access, it's unlikely that there will be many new commitments in the trade pillar, instead focussing more on other aspects of the agreement.

India and the IPEF

India has always been a strong proponent of open markets with clear laws, and it has benefited much from trade liberalisation as a whole. India can afford to be more open to broader trade agreements where it has traditionally been reluctant to better integrate with the global economy and supply chains due to the shifting geopolitical landscape and the government's focus on enhancing domestic export and manufacturing capabilities through new developments like the PLI schemes and other initiatives. The IPEF also gives India the option to take a more proactive approach to issues like digital commerce, and the agreement's vast breadth offers the chance to collaborate across a variety of industries, giving it a great deal of freedom to be more accommodating to its members.



IPEF Trade Pillar

Though the specific terms and details of the IPEF framework are still being worked out, four major pillars have been identified under the IPEF. These include the trade pillar, supply chains resiliency pillar, clean energy and decarbonization pillar and tax and anti-corruption pillar. The trade pillar under the IPEF will cover three general issues: digital trade, labor, and the environment.



India can stand to benefit if the trade pillar of the IPEF eventually turns into a trade agreement. As all future trade agreements are likely to envisage cooperation in several sectors such as clean tech manufacturing, climate change, digital trade, supply chain resiliency, and aim for common standards in labour rights, environmental protections, etc., India can leverage its experience in the digital domain and renewable energy sector to contribute and adopt best global practices.

One of India's major concerns regarding the Regional Comprehensive Economic Partnership (RCEP) was the presence of China and the possibility of cheap Chinese goods flooding the domestic market when the country was trying to reduce its exposure to China due to increased tensions.

The IPEF is a step toward tackling China's dominance in the region and complements efforts by multinational companies to diversify their production supply lines away from China, an initiative that began with the COVID-19 pandemic. As businesses look for alternatives to China, the countries in the Indo-Pacific Framework, such as India are likely to be thought of as more dependable partners for U.S. businesses, seeing increased investments.

Further, domestic pressures from joining broader trade agreements may also compel positive domestic policy changes in the system, and bring India in line with global best practices, similar to how China joining the WTO compelled domestic reforms in the country, making it more attractive for investments.

The Indo-Pacific Economic Framework (IPEF) is a positive step toward the integration of like-minded economies in an increasingly uncertain world, connecting security, climate, and economy into one broader strategy that can prove to be immensely beneficial for India.



Is the Indian start-up system ready to play a larger role in the industry supply chain or is the growth too skewed?



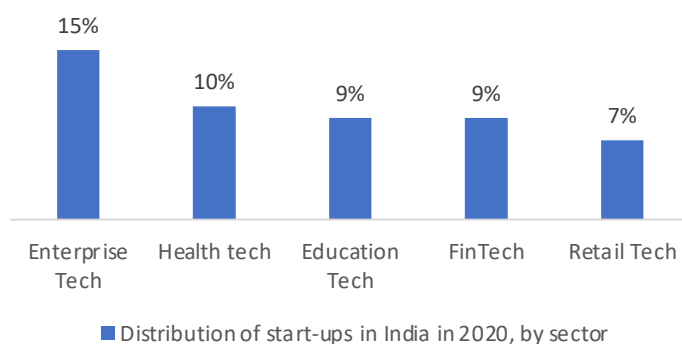
India is currently in the midst of its start-up boom, boasting more than 100 unicorns presently operating across the country. Almost three-fifths (63) of the country's unicorns have been produced in just the past two years.

While India possesses a robust start-up ecosystem, ranking third not just in the startup ecosystem but also in the number of unicorns, most of its start-ups are in the tech domain, and not nearly enough are currently engaged in the Manufacturing space. According to the Reserve Bank of India's Pilot Survey on the Indian Startup Sector conducted between November 2018 and April 2019, only 5.9% of the start-ups were engaged in the manufacturing or industrial engineering sector in India.

More manufacturing start-ups are required for India to integrate into global value supply networks. India has a great possibility to play a bigger role in global supply chains due to changes in supply chains throughout the world and the government's drive for domestic manufacturing through various assistance programs.

As per Statista, in 2020, health technology, financial technology, educational technology, and retail technology were the top five sectors that accounted for roughly 50 percent of India's new start-ups.

Distribution of start-ups in India in 2020, by sector



Source: [Distribution of start-ups in India in 2020, by sector](#), Statista

Despite the country becoming the world's third-largest start-up ecosystem, Indian start-ups are yet to be recognized for world-class Engineering innovation. Recent years though have seen massive improvements take place in R&D and innovation within the sector with the country improving its rankings by 35 places from 81 in 2015-16, to 46 in 2021, in the Global Innovation Index, 2021.

Start-ups in Manufacturing

The Indian start-up sector can contribute immensely to the growth of the domestic manufacturing sector, majorly disrupting the traditional manufacturing, logistics, and supply chain sector.

Government measures such as the Production Linked Incentive (PLI) scheme have had a positive effect on the domestic start-up sector, especially those engaged in new and emerging sectors with the government recently releasing a list of 23 domestic drone start-ups as beneficiaries under PLI scheme and open to increasing drone PLI scheme benefits for start-ups.

However, factors such as the capital-intensive nature of the manufacturing industry and the requirement of large investments, a long timeframe, and extensive R&D hold back many tech start-ups and investors from becoming a deeper part of the conventional manufacturing sector with start-ups requiring a much longer time frame to establish themselves compared to other industries.

Currently, the most funded start-ups in the country belong to the E-commerce and Fintech sectors. To encourage more start-ups in the manufacturing sector in the country, more investors should be encouraged and supported by the government through incentives to invest in start-ups working to bring the latest emerging technologies to the domestic manufacturing sector and produce world-class products, helping Indian manufacturers become a more substantial part of global supply chains.

Expert Speak

Smita Purushottam

CHAIRPERSON

The Science, Indigenous Technology and Advanced Research Accelerator (SITARA).

Smita Purushottam started the Science, Indigenous Technology & Advanced Research Accelerator (SITARA) to promote the development of a high-tech, scientifically advanced Nation after she retired from the Indian Foreign Service. She has served in diverse capacities in India's missions in Berne, Caracas, Berlin, London, Beijing, and Brussels and on the Soviet/ Russian, SAARC, Bhutan, and other desks in MEA/ MOD. She has actively pursued her academic interests at Harvard, IDSA, and other institutions and has been publishing on the need to learn lessons from the economic reforms and innovation ecosystems in different parts of the world.

India's trade deficits and persistently devaluing rupee can only be fixed if India moves to a high-tech trajectory of growth, thus improving the competitiveness of its manufacturing sector. For this it needs a Whole Government approach, encompassing trade, FDI, R&D, and domestic procurement policy. Piecemeal solutions do not work.

Technological prowess powers high growth and competitiveness. Rich nations, barring Petro-States, have historically invested heavily in technology. Robert Solow, the Nobel Prize-winning Economist, confirmed that 87.5% of American growth between 1909-1949 was accounted for by technological progress. US Government support for fundamental research in transformative technologies (Internet, semiconductors, GPS, etc) was extended over several decades before these could be commercialized and accounted for 30% of US GDP growth between 1994-2000. The US-China Technology War shows us that technology is the foundation of geopolitical power.

China understood this early on, with President Xi Jinping promulgating the Innovation Driven Development Strategy in 2016, making technology the foundation of comprehensive national

strength and national security, and proclaiming that technology is "the core combat capability". Today China is reported to have cracked 7 nm chip technology as a direct result of its technology-focused strategy. China is therefore still dominating global supply chains despite decoupling. Meanwhile, India has racked up a US\$73.3 billion trade deficit with China. India's global electronics trade deficit in 2021-22 increased to US\$42.3 billion from US\$32.5 billion the year before, with 70% accounted for by China. Hence the assembly-driven "growth" strategy is making haste slowly.

India too needs an R&D and technology-focused development strategy to create competitive companies, which is essential for National Security. Protectionism is a short-term and necessary measure that every developed country has adopted, but concluding FTAs before we upgrade India's technological capabilities, regardless of the impact on domestic industrial and agricultural growth, is opening the path to irreversible de-industrialization. It is no coincidence that following India's signing ITA-1 and other FTAs with ASEAN, South Korea, and Japan – manufacturing value addition has



declined from 18% of GDP in 1995 to 14% in 2021. SITARA has protested to PMO on this as it would put to rest any hope of India nurturing its own competitive, high-tech sectors. Current FTAs extend beyond trade to investment, public procurement, and other areas and severely curtail Government's Industrial Policy space. For example, including domestic procurement in FTAs contradicts Hon'ble Prime Minister's Atmanirbharta campaign and the Government's Preference to Make in India policies, which foreign lobbies have been trying to undermine since 2013 when the first PMI was sought to be launched. At stake is a US\$500 billion market which should be used to grow the Indian economy rather than being gifted to foreign companies. In this context, it is highly ironic that the West, and particularly the United States, is reverting to Industrial Policy, even as neoliberal acolytes preach the path of de-industrialization to us.

There are some positive indications – the Ministry of Defence is progressively encouraging indigenization, and slowly (a bit too slowly) “intelligentising” its weapons park, where China has a head-start as a rapidly rising AI power. Some long-awaited steps are being taken in telecommunications, with the ban on Chinese telecom equipment, the cancellation of the BSNL tender which outrightly favored foreign equipment vendors, and the Communications Minister's laudable directive to use only indigenous technology in BSNL's 4G and 5G networks and the promulgation of the Design-led incentive scheme which prioritizes domestic R&D and value addition, all of which our organization SITARA has been campaigning for. Earlier, the PLI did not have incentives for domestic value addition and was thus only perpetuating import-intensive production.

Much more needs to be done. The private sector must be given the role of Lead Integrator in defence production and the acquisition

procedure must be replaced by a Defence Production Procedure, as all countries with advanced defence industries have done. R&D investment support and incentives in strategic sectors such as defence and Information & Communications Technologies (ICTs) must be in the billions, not a few paltry millions. India must move to an indigenous telecommunications network for National Security and economic growth, as ICTs power every aspect of national life. Indigenous 5G technology must be deployed on India's borders. Private telcos must be given tax breaks to incentivise the procurement of domestic equipment. The Government's Orders on Make in India should be strictly followed in all programs, tenders, smart grids, Smart Cities etc. and the Government's annual procurement spend of US\$500 billion must encourage domestic companies.

We also have to keep in mind the enormous challenges that climate change is going to pose to agriculture, so a speedier move to High Tech industrial growth with its attendant multipliers could provide our citizens with an alternative means of quality sustenance.



EXPERT
TALKS

Is the rise in infrastructure investments post covid sustainable?

One of the key cogs in the economy's progress is infrastructure. It not only promotes economic growth but also contributes significantly to the enhancement of the country's quality of living. To have a sustainable infra-system is not just desirable but also a necessity. This is further accentuated by the rapid growth in population, both urban and rural along with the rapid, albeit somewhat haphazard, urbanization of the Indian cities. For instance, urban areas and cities in India had grown from 35 million in 2001 to 53 million in 2011, while the number of people living in urban areas had increased from 286.1 million in 2001 to 377.1 million in 2011 and the number of towns had risen from 5161 to 7935 within the same period.

Having realized the ever-rising demand, the government stepped up its infrastructure spending manifold over the last couple of years through many flagship initiatives; be it Smart Cities mission, Bharatmala, Industrial freight corridors across the length & breadth of the country, Gati Shakti, or the Expansion of Metro lines & Airports in Tier 2 & Tier 3 Cities. The government has committed to spending USD 1.4 Trillion by 2024 to build the best-in-class infrastructure, which is likely to boost the expansive growth of the sector. The National Infrastructure Pipeline (NIP), a first-of-its-kind initiative involving the whole government was introduced in August 2020 to enhance citizens' quality of life by building world-class infrastructure across India. The NIP intends to stimulate the economy to increase employment opportunities across a variety of

industries, improve citizens' quality of life, and make growth more inclusive.

The government is aiming at holistic development through the NIP and working to ensure the availability of adequate funds by pooling funds from the State governments, as well as Private sectors; wherein, the centre has a 39% stake in the NIP, respective states have a 40% share in the program and the remaining 21% fund is to be sought from the private sector.

The pandemic-induced slowdown further made it imperative to increase public expenditure to elevate the aggregate demand and given the fact that the infrastructure sector is among the sectors with the highest multiplier effect and equitable distribution potential, this sector was a clear choice. In addition, augmenting infrastructure helps to enhance the overall productive capacity of the economy and its global competitiveness, thus enabling us to gain from the Plus One Strategy.





Over the past several years, the infrastructure industry in India has experienced tremendous growth due to large budget allocations, substantial subsidies, tax breaks, and government initiatives. On the other hand, it has also led to significant environmental harm, air and water pollution, accelerated climate change, and frequent natural catastrophes. The consequences of unprecedented and uncontrolled infrastructural development in form of Global warming, untimely rain, draughts, and hurricanes are some of the few disasters we have experienced in the recent past. Therefore, it's critical to strike a balance between environmental protection and economic prosperity, placing sustainability at the centre of our efforts.



India is putting up an incredible amount of work to construct sustainable infrastructure. Recent government initiatives also make a major shift in favor of sustainability. There is a growing focus of government on the activities related to sustainable infrastructure. These include its rapid increase of the share of renewable energy in the energy mix, pushing for faster adoption of EVs by creating the necessary infrastructure and promoting green buildings, etc.

The major challenges for sustainable development are the requirement of huge capital for the long term, innovative technology, planning & speed of execution. These have been rightly understood and addressed by the government by using technology & policy enablement. Commercial banks, National Development Banks, and refinance agencies are giving priority to sustainable infrastructure for financing. Green Bonds & Infrastructure Bonds have emerged as an important tools for raising funds.

Through these bonds, National Development Banks like IDFC began generating funds for India's infrastructure development, and other businesses like PFC, REC, and IREDA were also doing the same by raising affordable, long-term capital for investments in energy production and conservation with the benefits being given to investors in terms of tax savings. The National Clean Energy Fund (NCEF) has been established to finance sustainable infrastructure projects which are highly capital intensive, this agency has provided funds, especially to renewable energy projects.

In addition, the government only recently established the value engineering idea by releasing a government order, which permits the use of alternative designs, materials, or technology to build cost-effective projects and increase durability and safety. The Centre has ordered NHAI and others to apply the concept to all highway, tunnel, and bridge projects being undertaken in the country. This change will instil confidence in concessionaires, who have been apprehensive that adverse views would be taken about any alternative technologies, so they avoided any deviations from the specifications so far and feared long-term risks upon them of adopting such innovative practices. The order mentions that it will now "dispel such apprehensions and mindset".

However, there is still a long way to go because we have already begun to experience the heat of global warming, cyclones, unseasonably cold weather, droughts, etc. One nation cannot battle this issue alone; instead, organizations like the UN or other international organizations around the globe, must come together to construct sustainable infrastructure. Various nations must work together to achieve this aim, putting aside their political and financial objectives in the process.

About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc.), and with varied specialization (engineers, lawyers, tax professionals, management, etc.).



PASSION

for providing solutions to help clients achieve their goals

RESPECT

For all and alternate viewpoints

INTEGRITY

of thoughts and actions

MASTERY

of our chosen subject to drive innovative and insightful solutions

US

Representing the Primus collective, where each individual matters

STEWARDSHIP

for building a better tomorrow



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