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Morning Trade UK: Eye on India — Inflation nation — Power play

by Graham Lanktree • 5 HOURS AGO • 9 MINUTE READ

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MORNING
TRADE UK

By GRAHAM LANKTREE

with Sarah Anne Aarup and Sydney Diack

SNEAK PEEK

— A new geopolitical calculus is driving India and Britain to restart long-dormant trade negotiations. What can they achieve?

— Despite strong exports, U.K. manufacturing activity fell back in July amid staff shortages and inflation.

— Brussels is putting forward a plethora of new unilateral trade defense powers. Does it plan to use them?

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DRIVING THE DAY

LOOKING TO INDIA: A new geopolitical calculus involving Brexit and China is driving India and Britain to restart long-dormant trade negotiations this year. The change means a high chance of striking a deal, reckons Suresh Surana, founder of consultancy RSM India.

New calculus: "As far as India is concerned, because of our geopolitical development with China and other neighboring countries, we have scaled down trade with these

countries," Surana told Morning Trade UK. Beijing and Delhi have been involved in a string of border clashes in recent months.

The Brexit factor: Brexit and the resulting "restricted access to the EU market" means the U.K. would also "like to look at newer markets," Surana said.

EU move: India has has restarted trade negotiations with the EU after an eight-year hiatus, which the Hindu Business Line reports are due to start in September. India is also speaking with Australia to jumpstart dormant talks.

British gambit: Public consultations for the U.K.'s talks with India wrap up at the end of the month. In May, British and Indian Prime Ministers Boris Johnson and Narendra Modi demonstrated their commitment to tightening trade ties with the announcement of £1 billion in cross-border business investments.

Areas of opportunity: Although barriers to India's highly protected markets for cars, agriculture and liquor are likely to remain to one degree or another, Surana said, there are big areas of opportunity.

Infrastructure interest: There's a "lot of synergy" between Britain and India as they have a shared language and similar democratic and legal structures, Surana explains. On top of that, he adds, India is undertaking massive infrastructure projects, including highways, expressways, power stations, smart cities, airports and metro projects. More than 20 cities are moving ahead with metro rail projects alone.

Despite the pandemic, India's economy continues to grow rapidly. Last week, the International Monetary Fund cut its forecasts for India's GDP growth this year, revising it down three percentage points from 12.5 percent to 9.5 percent. Feeding that growth, Surana said, "can only be possible if we find new avenues" for trade.

Banks and insurance: With large projects underway, India's firms "need to raise capital, both equity and debt, at a competitive rate" to realize them, Surana said. Interest rates at Indian banks, he said, are "still pretty high" to back infrastructure projects and the purchase of manufacturing equipment. The U.K.'s "very well developed capital market," he said, will find opportunities here.

India is also "one of the most underinsured countries," Surana said. Britain's expertise in financial and business services is in demand. India's large domestic market also provides plenty of opportunities for FinTech firms as more people use digital payments.

Tech-topia: Surana reckons there's also plenty to get excited about for U.K. tech companies, with major firms like Microsoft, Google and Oracle, already boasting "huge development centers in India" because the cost of developing is 30 to 40 percent of what it would cost in the U.S. or the European market.

Tariff ask: Yet when it comes to getting rid of Indian tariffs Britain has singled out, like 150 percent on whisky and up to 125 percent on cars and trucks, Surana is less sure big changes are possible.

India wants to develop its core industries, he said, and "liquor and luxury cars are not in that area." Additionally, liquor is a source of tax revenue for India's 28 states. "So they may be a little bit more reluctant to lower some of those high tariffs," he said.

Sensitive areas: "When you do a free trade agreement, there will always be some carve-outs," he said. "Both countries," he said, "have to protect certain critical sectors."

Yet that still leaves many areas "where there is a synergistic and complementary ability to build a globally competitive business," he explained. "And that is what one should look for."

QUICK HITS

ABBOTT IN INDIA: U.K. Board of Trade member and former Australian Prime Minister Tony Abbott is traveling to India early this month to talk trade — on behalf of the Australian government. The Guardian reports Abbott filed a conflict of interest declaration because of his unpaid role in Britain as an adviser to U.K. Trade Secretary Liz Truss. Morning Trade UK is told there is no U.K. government involvement in the trip. U.K. Board of Trade advisers are unpaid and don't conduct trade negotiations.

SCOTTISH FARMERS' FEARS: The Scottish National Party reckons farmers and crofters are being left "high and dry" by the U.K. government's failure to put the Trade and Agriculture Commission on a statutory footing, accusing Westminster of a lack of consultation and scrutiny. More from The Courier here.

RESHORE NO MORE: Labour accused the government of failing to get behind business ambitions to bring offshored jobs back to the U.K. after a scheme to support "reshoring" was quietly shelved. The Independent reports.

STRATEGIC GENIUS? The Irish Times profiles Ireland's next ambassador to London, Robert Wyatt, a key strategist during the Brexit negotiations.

DATA PAGE

MANUFACTURING PRESSURE: Despite strong exports, manufacturing activity in Britain fell back in July after peaking in May, weighed down by staff shortages and increasing costs for parts.

Activity on the IHS Markit/CIPS Purchasing Managers' Index fell to 60.4 in July after reaching an all-time high of 65.6 in May and then slowing to 63.9 in June. July's index

was the lowest since March but indicates continuing expansion (a rating of 50 shows flat activity).

Pound for pound: Shortages of raw materials and components plus a squeeze on staffing weighed on manufacturers and drove price rises. Some 72 percent of survey respondents reported increasing prices.

The price rises on inputs like chemicals, commodities, electronics, food, metals, timber, packaging products and cardboard are passing through to consumer prices. Input prices are skyrocketing as delays continue to weigh on delivery times.

Export surge: Some firms pointed out Brexit continues to weigh on exports to the EU. Nevertheless, new export business continued to surge ahead in July, driven by demand from the U.S., EU, China, Russia and the Middle East. Exports will continue to be constrained by the same factors felt throughout the manufacturing sector.

Scarce times: Labor shortages among workers and truck drivers and scarcity of components "are stifling many businesses," said Rob Dobson, Director at IHS Markit. A surge in manufacturing growth globally driven by lifting pandemic restrictions continues to lengthen supply chain delivery delays and is causing factories to stockpile, inflaming the problem.

Dobson said it looks like these issues "are unlikely to be fully resolved until 2022" and that the near future is one of constrained growth and high inflation.

Signs of hope: Yet the index data shows "some tentative evidence that pipeline inflationary pressures faced by manufacturers may have peaked," said Martin Beck, senior economic advisor at Ernst & Young's ITEM Club. The sign, he said, is in the survey's measure of growth in the cost of manufacturers' inputs falling back from June's record pace.

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THE EU'S TRADE ARMS RACE: This year, Brussels introduced or is planning to put forward a plethora of new unilateral trade defense powers, and "it's hard not to conclude that the EU is gearing up for a fight," writes Sam Lowe, trade expert at the Centre for European Reform. "At the very least it is amassing a lot of firepower."

Bazooka build-up: These include a stronger enforcement regulation to allow the EU to retaliate when an adversary appeals 'into the void' at the WTO, a law to tackle unfair foreign subsidies in the single market, and an international procurement instrument to retaliate against countries that don't give EU companies a fair shot at public tenders. And on October 27, the Commission is set to unveil its anti-coercion proposal for a law to better hit back against countries like the U.S. or China economically bullying the bloc.

Is it just deterrence? "But is this firepower in the 'if we have a lot of weapons we won't need to use them because everyone knows we have a lot of weapons' sense, or the 'purchasing lots of weapons because we want to fight a war' sense? Or maybe even the 'use the weapons a little bit so that people know you are serious so hopefully you don't have to keep using them' sense?" Lowe muses.

We come in peace, Commission insists: The Commission's DG Trade chief Sabine Weyand insists the anti-coercion tool would only be used for de-escalation when a country has breached international rules and with the aim to bring the dispute back to the WTO. "We are not going to shoot from the hip," she said.

EXPORTS

EXPORTING WITH CHARACTER: Small branded clothing retailer Character.com — think Star Wars, Peppa Pig, Marvel and Harry Potter — is getting £3 million in backing from the government on a loan to export globally.

The 85-employee firm is the first Welsh business to get support from UK Export Finance's General Export Facility (GEF), launched in May to help small and medium-sized firms get bank loans to spur exports.

Recipe for growth: The Swansea firm is run by husband and wife team Stephen and Karen Hewitt and has a turnover of more than £50 million. They plan to use the loan to scale the business.

Export foundation: The loan is being made by Barclays bank and the GEF allows the U.K. government to guarantee up to 80 percent of it. UK Export Finance stepped up in 2020 to support more exports than ever before amid the impact of Brexit and the pandemic.