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GLOBAL ECONOMY

In February, the global economy exhibited signs of deceleration amid escalating trade tensions, fluctuating financial markets, and mixed economic indicators across major economies.

Global Growth Projections

The United Nations projected a global economic growth rate of 2.8% for 2025, consistent with the previous year's performance. This subdued growth is attributed to ongoing conflicts and persistent inflationary pressures. Notably, China, the United States, India, and Indonesia are expected to contribute primarily to this growth.

Trade Tensions and Policy Responses

*I*n early February, U.S. President Donald Trump announced a 25% tariff on imports from Mexico and Canada and a 10% tariff on Chinese goods, aiming to reduce the U.S. trade deficit. These measures were projected to decrease U.S. imports by 15% and generate approximately $100 billion in federal revenue. However, they also posed significant risks to the economies of Mexico and Canada, given their heavy reliance on exports to the U.S.

Financial Market Reactions

Financial markets reacted negatively to these developments. The S&P 500 entered negative territory for the year, driven by fears of an economic slowdown and renewed trade war concerns. Technology stocks, particularly Nvidia, experienced substantial declines, contributing to broader market downturns. European and Chinese stock markets also faced declines, while the U.S. dollar strengthened amid investor uncertainty.

Regional Economic Indicators

- **United States**: The U.S. economy showed resilience with solid growth, supported by consumer and public-sector spending. However, there were signs of a potential slowdown, with rising jobless claims and concerns over the impact of trade policies on business investment.
- **Euro Area**: Economic activity remained subdued, reflecting the lingering effects of a weak fourth quarter in 2024. The European Central Bank responded by cutting its benchmark lending rate to 2.5%, marking the sixth reduction since June, to stimulate growth amid weakening inflation and trade uncertainties.
- **China:** China's exports grew by 2.3% in January and February, falling short of the anticipated 5% growth, while imports declined by over 8%.This weakening trade performance is attributed to global trade uncertainties, including U.S. tariffs. The government maintained an economic growth target of around 5% for 2025 despite these challenges.

GLOBAL / INDIAN ECONOMY

Inflation and Monetary Policy

Inflationary pressures varied across regions. In Europe, inflation slowed to 2.4% in February, nearing the European Central Bank's target, prompting further monetary easing. In contrast, the U.S. faced persistent inflation above the Federal Reserve's target, leading to speculations about additional interest rate cuts amid ongoing trade war impacts.

Outlook

Overall, February 2025 was marked by economic uncertainty, with trade tensions and policy responses influencing global growth trajectories. While some economies showed resilience, the broader outlook remained cautious, with potential risks stemming from escalating trade disputes and fluctuating financial markets.

INDIAN ECONOMY

India's economy experienced notable developments reflecting a strategic shift towards stimulating economic growth amid easing inflationary pressures.

Monetary Policy

The Reserve Bank of India (RBI) reduced the policy repo rate by 25 basis points to 6.25% during its Monetary Policy Committee (MPC) meeting. The MPC maintained a neutral stance, emphasising a balanced approach to sustaining growth while keeping inflation aligned with targets.

In addition to the rate cut, the RBI announced a US$10 billion three-year dollar/rupee swap auction to infuse approximately 870 billion rupees into the banking system. This measure aimed to address liquidity shortages and ensure effective monetary policy transmission, reflecting the RBI's commitment to maintaining adequate system liquidity.

Gross Domestic Product (GDP)

India's economy grew by 6.2% year-on-year in the October-December quarter of 2024, driven by increased government and consumer spending. The government projects a further acceleration in the current quarter, anticipating a growth rate of 6.6% for January-March 2025. For the fiscal year 2025-26, the RBI forecasts GDP growth at 6.7%, indicating a cautiously optimistic outlook for economic expansion.

Foreign Reserve Exchange

As RBI data shows, a slight dip in India's reserves declined by US$1.8 billion to US$638.7 billion in the week ending February 28. This decrease follows a US$4.8 billion increase in the previous week when reserves reached US$640.5 billion. The decline is attributed to a US$493 million reduction in foreign currency assets, which now stand at US$543.4 billion, and a US$1.3 billion decrease in gold reserves, totalling US$73.3 billion.

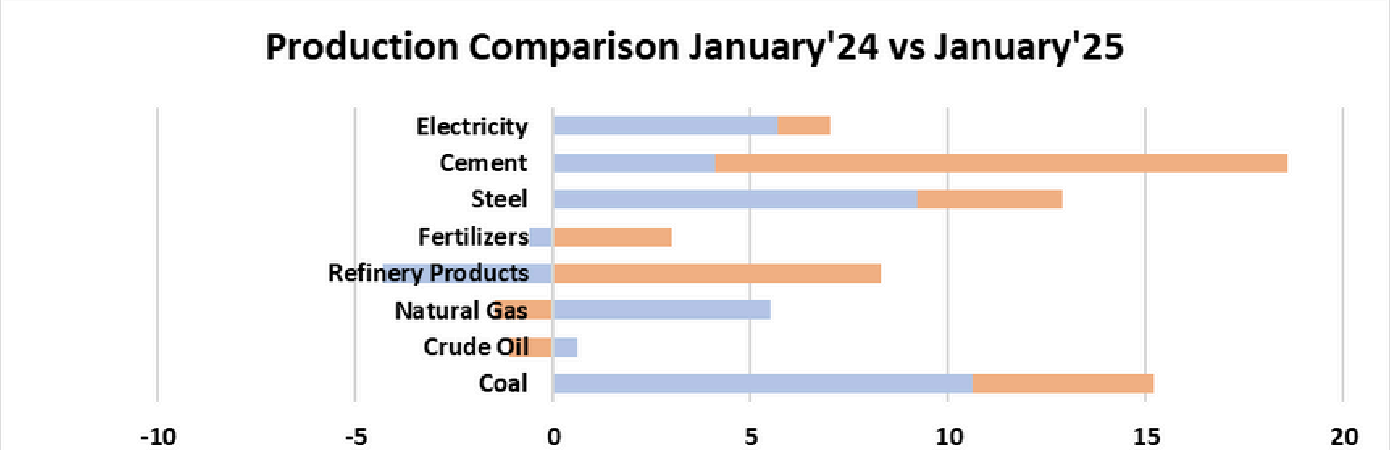
Despite this dip, the reserves remain significantly higher than the all-time high of US$704.9 billion recorded at the end of September 2024.

Items (in USD Million)	31 Jan - 7 Feb	7 Feb – 14 Feb	14 Feb – 21 Feb	21 Feb– 28 Feb
1 Total Reserves	638261	635721	640479	638698
1.1 Foreign Currency Assets	544106	539591	543843	543350
1.2 Gold	72208	74150	74576	73272
1.3 SDRs	17878	17897	17971	17998
1.4 Reserve Position in the IMF	4069	4083	4090	4078

Source: RBI

Performance Index of Eight Core Industries (ICI)

The cumulative growth Index of Eight Core Industries (ICI) from April – January 2024-25 stands at 4.4%. In January 2025, ICI experienced an increase of 4.6% compared to January 2024, with positive growth recorded in Coal, Refinery production, Fertilizer, Steel, Electricity and Cement. The ICI, which comprises Cement, Coal, Crude Oil, Electricity, Fertilizers, Natural Gas, Refinery Products, and Steel, accounts for 40.27% of the Index of Industrial Production (IIP).



	Coal	Crude Oil	Natural Gas	Refinery Products	Fertilizers	Steel	Cement	Electricity
Jan-24	10.6	0.6	5.5	-4.3	-0.6	9.2	4.1	5.7
Jan-25*	4.6	-1.1	-1.5	8.3	3	3.7	14.5	1.3

Source: Ministry of Commerce and Industry

WORLD TRADE UPDATES

Greening Trade: Harmonising Customs for Environmental Goods

As the world moves towards sustainable trade, the WTO committee on market access discussed modernising HS codes to better reflect green goods and environmental policies.

Disclaimer. Image created by AI

Various countries highlighted different approaches to integration -

- **European Union:** The EU shared its approach to tracking products regulated under fluorinated greenhouse gases, ozone-depleting substances, and deforestation laws. The EU proposed that the World Customs Organization (WCO) develop a project to classify green technologies and circular economy products better, improving trade efficiency and traceability.
- **United Kingdom:** The UK emphasised the challenges in differentiating environmental products based on production processes and end-use under HS codes. It presented a case study on the lack of precise HS categories for recycling and textile waste, which hampers monitoring efforts. The UK suggested that WTO members enhance cooperation to address these classification gaps.
- **Dominican Republic:** The country reported on its integration of Multilateral Environmental Agreements (MEAs) into its customs system, establishing a Green Customs Department to monitor sensitive products. Jamaica highlighted its plastics pollution, hazardous waste, and renewable energy policies but noted challenges such as limited stakeholder awareness and interagency coordination within the Caribbean Community (CARICOM).

FTAS/ BILATERALS

India- EU Trade Pact Talk Accelerate Amid US Protectionism

The December deadline for an EU-India trade deal has added urgency as both sides seek new partners amid U.S. protectionism. The 10th round of talks in Brussels follows a February commitment by European Commission President Ursula von der Leyen and Prime Minister Narendra Modi to conclude a deal by the end of 2025—a "really ambitious commitment," according to EU trade spokesperson Olof Gill.

The EU remains India's largest trading partner, with bilateral trade surging by 90% in the past decade to reach €124 billion (2023-24). However, key hurdles remain. The EU pushes lower tariffs on automobiles, wine, and dairy, while India seeks relaxed visa rules for its businesses and workforce. A major sticking point is India's demand for exemptions from the EU's Carbon Border Adjustment Mechanism (CBAM), which it views as a trade barrier. Indian steel, aluminium, and cement exports could face 20-35% tariffs under CBAM, even with a free trade agreement.

Additionally, India is pressing for lower tariffs on textiles to remain competitive with Vietnam and Bangladesh. Meanwhile, the EU's deforestation and supply chain due diligence regulations, seen as potential trade hurdles, add to the complexity of negotiations.

UAE, Central African Republic signed CEPA to increase market access

The United Arab Emirates (UAE) and the Central African Republic (CAR) have recently signed a Comprehensive Economic Partnership Agreement (CEPA) to enhance trade and investment opportunities across key sectors. This agreement seeks to reduce or eliminate tariffs, remove non-tariff trade barriers, and boost agricultural, infrastructure, and technology investments.

Source: Arabian Business

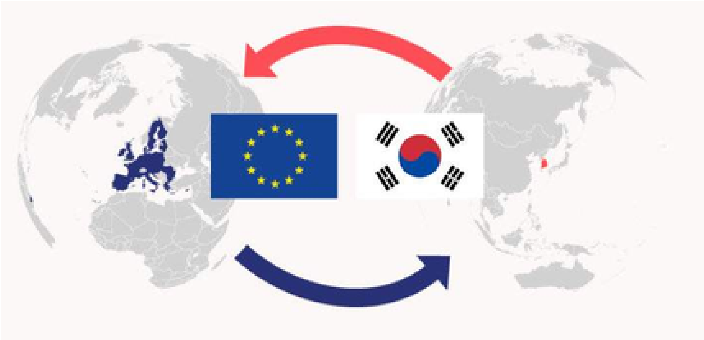
The CEPA is expected to significantly increase bilateral trade, with projections estimating a surge beyond AED3.67 billion (approximately US$1 billion) over the next five to seven years. Notably, non-oil trade between the two countries reached over AED925 million in 2024, reflecting a substantial 75% increase from the previous year.

Both nations focus on products for exports, providing a high level of trade liberalisation, with the UAE granting a 98% tariff removal, while CAR extends 99.5% of tariff removal.

The UAE's non-oil exports to the CAR include essential consumer goods such as food products, textiles, and electronics, as well as machinery and pharmaceuticals that support key sectors across Africa. Meanwhile, the CAR exports agricultural products, including coffee, cotton, and cassava, to the UAE and valuable mineral resources such as gold and diamonds.

South Korea and EU Finalise Digital Trade Agreement

South Korea and the EU have concluded negotiations on a Digital Trade Agreement (DTA) to enhance electronic trade and cooperation in the digital economy. The DTA was confirmed during the 12th Korea-EU FTA Trade Committee meeting in Brussels. Since negotiations began in October 2023, seven official rounds have been held to address the complexities of digital trade, which traditional trade norms struggle to define due to rapid advancements in information and communication technology (ICT).

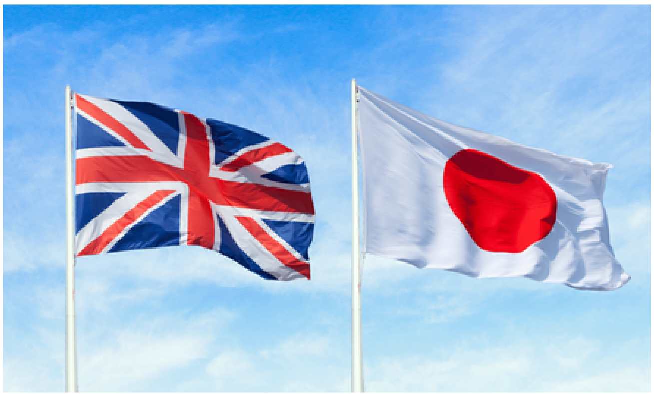


Beyond digital trade, the meeting also covered various market access and regulatory concerns, including:

- **Sanitary and Phytosanitary Measures:** South Korea urged the EU to expedite import approvals for Korean fresh beef.
- **Automobiles & EV Subsidies:** Discussions included concerns over French electric vehicle subsidies and their impact on Korean manufacturers.
- **Market Access Challenges**: Talks addressed EU battery regulations, offshore wind policies, steel safeguards, fluorinated gas regulations, and the CBAM.
- **Trade and Sustainable Development (TSD)**: Both sides reaffirmed their commitment to sustainable trade practices.

Recognising the evolving nature of global trade, South Korea and the EU agreed to establish a "Committee on Emerging Trade and Economic Issues" under the Korea-EU FTA to address future trade challenges, including supply chain resilience.

Japan-UK Economic 2+2: Strengthening Economic Security and Trade



Japan and the United Kingdom convened their first Economic 2+2 Ministers' Meeting, reaffirming their commitment to a rules-based global economic order. The discussion explores areas of cooperation where the UK and Japan can jointly mitigate global risks to economic growth and trade.

Economic Security and Supply Chains

Both nations emphasised the importance of economic resilience amid global trade uncertainties and pledged to enhance cooperation on critical and emerging technologies, particularly quantum computing. They highlighted the need for stronger supply chain resilience, especially critical minerals vital for net-zero goals and digital transformation. Concerns were raised over economic coercion, market-distorting subsidies, and forced technology transfers. At the same time, both countries reaffirmed their sanctions against Russia and expressed concern over China's support for Russia's defense industry.

Free and Open International Trade

Both side's ministers reaffirmed their commitment to the WTO's multilateral trading system and called for strengthening its functions in negotiation, rule enforcement, and dispute resolution. They emphasised the importance of a level playing field in global trade, particularly in addressing non-market policies and climate-related trade issues. Japan welcomed the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and agreed to work together to maintain its high standards and modern trade regulations.

Energy Security and Clean Energy Transition

Japan and the UK discussed energy security risks and clean energy collaboration, welcoming agreements on offshore wind energy, robotics, and nuclear technology. Both nations reaffirmed their commitment to achieving net-zero emissions by 2050 and stressed the need to reduce reliance on energy from unreliable sources. They also agreed to promote clean energy projects in third countries, strengthening their role in global sustainability efforts and energy security.

Engagement with the Global South

Recognising the growing importance of emerging economies, both nations committed to enhancing engagement with the Global South to promote sustainable development, fair trade, and economic growth.

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INDIA

Gujarat's driving digital transformation creating data centres

The Gujarat Global Capability Center (GCC) Policy (2025-30) aims to position the state as a premier destination for multinational GCC, fostering innovation, digital transformation, and economic resilience. With INR 10,000 crore investment targets and the goal of attracting 250 new GCC units, the policy focuses on AI, cybersecurity, financial services, R&D, and cloud computing. Gujarat's proactive governance, strong FDI inflows (~US$64 billion since 2000), and thriving IT/ITeS ecosystem make it a natural hub for GCC expansion.

Disclaimer. Image created by AI

The policy offers generous CAPEX and OPEX incentives to attract and support businesses, including up to INR 200 crore capital support for mega projects and 15% reimbursement on operational expenses such as lease rentals, bandwidth, cloud computing, and patent filings. Additional incentives include interest subsidies, EPF reimbursements, electricity duty waivers, and skilling incentives, making Gujarat a cost-effective and competitive location for global firms.

The policy focuses on upskilling talent, fostering research collaborations, and enhancing the ease of doing business to enable state leadership in GCCs. With a business-friendly environment, digital infrastructure advancements, and a skilled workforce, Gujarat is set to become a global powerhouse for GCCs, paving the way for sustained economic growth and technological leadership.

Karnataka's Industrial and PPP Policies: A Dual Strategy for Economic Growth

Karnataka is taking a comprehensive approach to economic growth by integrating industrial expansion with infrastructure development through two key policies—the Karnataka Industrial Policy 2025-30 and the Public-Private Partnership (PPP) Policy. While the industrial policy aims to attract INR 7,50,000 crore in investments and create 20 lakh new jobs by strengthening high-tech manufacturing and sunrise sectors, the PPP policy facilitates private sector participation in infrastructure development across 109 sectors, including transportation, healthcare, education, and urban infrastructure.

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INDIA

Karnataka Industrial Policy 2025-30

The Karnataka Industrial Policy 2025-30 is designed to position Karnataka as Asia's leading destination for high-tech manufacturing investments. It focuses on key sectors such as electronics, aerospace, electric vehicles, biotechnology, AI, and renewable energy.

The policy provides flexible financial incentives, allowing industries to choose between capital expenditure (CAPEX) subsidies or Production-Linked Incentives (PLI) to suit different investment models. Special incentives promote employment generation, women's workforce participation, sustainability initiatives, and R&D integration with manufacturing. Karnataka's revamped Single Window System ensures faster approvals, AI-powered digital assistance, and dedicated nodal officers to support investors. Additionally, the policy emphasises regional industrial growth with differentiated incentives for underdeveloped areas, ensuring balanced development across the state.

Karnataka Public-Private Partnership Policy

To bridge infrastructure gaps and attract private investment, the PPP Policy introduces investment-friendly frameworks across 109 sectors, including energy, agriculture, housing, and tourism. It adopts a 'Swiss Challenge' approach, allowing private players to propose unsolicited infrastructure projects, which the government can open for competitive bidding, ensuring transparency and innovation.

The policy sets investment thresholds between INR 25-50 crore for most sectors and INR 200-500 crore for large-scale projects like irrigation, making room for both large investors and MSMEs. The government will also provide financial support for projects with high social relevance in backward areas, ensuring inclusive development. Additionally, asset monetisation strategies will help generate funds for new infrastructure projects, strengthening Karnataka's economic foundation.

Together, these policies enhance Karnataka's competitiveness, foster sustainability, and ensure inclusive economic growth by creating a business-friendly environment and improving critical public infrastructure.

Madhya Pradesh Strengthening MSME for Economic Expansion

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INDIA

The Madhya Pradesh MSME Development Policy 2025 is designed to drive industrial growth, employment generation, and sustainability by empowering the micro, small, and medium enterprises (MSMEs) sector.

The policy prioritises ease of doing business, infrastructure development, and sector-specific incentives, ensuring a robust support system for enterprises across diverse industries. By targeting INR 10 crore investment promotion assistance, 50% infrastructure reimbursements, and quality certification support, the policy aims to enhance competitiveness and resilience in the MSME sector.

To boost sectoral growth, the policy offers capital subsidies and operational incentives for industries such as textiles, pharmaceuticals, power loom, and apparel. Export-oriented and SC/ST/women-owned enterprises receive additional investment benefits, while medium enterprises (INR 10-50 crore investments) enjoy 40% capital investment support and infrastructure reimbursements up to INR 1 crore. Sustainable growth is further incentivised through energy audit grants, environmental certifications, and subsidies for adopting green technologies.

With a strong emphasis on digital infrastructure, R&D, and skilling initiatives, the policy fosters an investment-friendly ecosystem for enterprises of all sizes.

OPINION COLUMN

The Importance of Rules of Origin (RoO) for Market Access

Saloni Goyal

In the dynamic landscape of global trade, the quest for beneficial market access drives nations to forge Free Trade Agreements (FTAs). Among the vital components of these agreements is the concept of Rules of Origin (RoO). This framework serves as a mechanism to determine the national source of a product, impacting tariffs and trade negotiations significantly. Understanding the necessity and implications of RoO is crucial for professionals engaged in international business, particularly in the context of India's FTAs.

Defining Rules of Origin

According to the WTO, Rules of Origin are the criteria used to define the national origin of a product. They are essential for implementing trade measures such as tariffs and quotas. Under FTAs, products must meet specific origin requirements to qualify for preferential treatment.

Need for Rules of Origin

1. **Ensuring Fair Trade Practices**: RoO prevents abuse of preferential trade arrangements. By establishing clear criteria, countries can avoid situations where third-party countries exploit the reduced tariffs meant for FTA partners. This preserves the intent of the agreement and protects domestic industries.
2. **Encouraging Local Production:** By mandating that a certain percentage of a product's components must originate from the FTA partner countries, RoO incentivizes local manufacturing. For example, India's agreements often stipulate that a significant portion of the product must be sourced from India or the partner country to qualify for reduced tariffs. This promotes economic development and job creation within the region.
3. **Facilitating Custom Procedures:** Clear RoO aids customs authorities in verifying the origins of goods, leading to smoother customs clearance processes. This efficiency is crucial for businesses as it reduces delays in trade and effectively lowers compliance costs.
4. **Supporting Economic Policy Goals**: Governments utilize RoO to support broader economic strategies, including the protection of emerging industries or promoting exports in certain sectors. For instance, India focuses on sectors like textiles and pharmaceuticals in its FTAs, using RoO to nurture these critical industries while enhancing global competitiveness.

An Example: India's FTAs and RoO

India, as part of its strategic trade policy, has inked several FTAs with countries and regional groups. The Comprehensive Economic Partnership Agreements (CEPAs) with nations like Japan and South Korea include specific RoO clauses that actively shape trade dynamics.

The India-South Korea CEPA, with the Change in tariff sub-heading (CTSH), must have a significant local content percentage of 35% to qualify for tariff concessions, compelling Indian manufacturers to source materials locally.

With recently signed FTAs with UAE and Australia, India agreed to more stringent RoO, i.e., Product Specific Rules (PSRs), including value addition thresholds (40%), change in tariff heading (CTH), and process-based criteria. These PSRs are designed to ensure that only goods with substantial domestic transformation qualify for preferential tariffs, thereby preventing third-country transshipment.

Moreover, these FTAs encompass various methods of determining origin, such as substantial transformation or value addition thresholds. Each approach has its implications for businesses seeking to navigate the complexities of international supply chains.

Conclusion

Rules of Origin are a must for market access in FTAs, particularly in the Indian context. They play various roles, ranging from ensuring equitable trade practices to promoting local production and economic policy support.

Learning these rules is of utmost importance for trade professionals, as they directly impact market strategies, compliance frameworks, and overall business success in an increasingly competitive global market. As India continues to expand its network of FTAs, the importance of RoO will only increase, requiring businesses to remain competent and proactive in adjusting to these rules.

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