

TRADE AND INVESTMENT BULLETIN

Inside THE ISSUES

- 1. ESG AND INVESTMENTS –**
Road to Net zero: Investments and innovation in technology
- 2. POV –**
G20: India and forging international alliances
- 3. THE INDIAN ENTREPRENEUR –**
The future of Digital Trade in India
- 4. BARE TRUTH –**
FTX Collapse and Impact on India



Road to Net zero:

Investments and innovation in technology



Achieving net zero carbon emissions is practically the talk of the town. The world is in the middle of a transition to a decarbonised energy system. Net zero emissions will require significant economic transformation to remain on our needed climate pathway.

The Paris Agreement, a legally binding international treaty, aims to limit global warming to 1.5 degrees Celsius compared to pre-industrial levels. The agreement speaks of fully realising technology development and transfer to improve resilience to climate change and reduce GHG emissions. In a survey by Mitsubishi Heavy Industries (MHI) Group, held during the World Economic Forum's Annual Meeting 2020 at Davos, a mere 35% of respondents said the target could be achieved. In contrast, 44% of respondents were not convinced.

With accelerating climate change and the threat that unchecked emissions will make the annual economic costs of climate change unbearable, countries are turning to technological innovations that can provide tremendous public health and environmental benefits on a large scale. We are all looking for ways to cut the amount of carbon we use and release into the atmosphere.

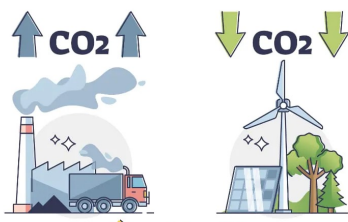
The good news is that many existing technologies can already cut pollution and reduce greenhouse gas emissions. Studies have suggested that nearly 40 per cent of the necessary emissions reduction could come from technologies that are either still in the R&D phase or demonstrated but not yet mature. The remaining 60 per cent could be achieved by widely deploying proven, mature technologies.

Three modes of innovation currently exist in the technology regime: -

- a) **Incremental Change** – Encompasses upgradation and improvement within a technological regime, such as improvements in the fuel economy of engines
- b) **Disruptive Change** – Introduction of new functionality within a new or existing technological regime, such as fluorescent lights replacing incandescent lights
- c) **Radical Change** – A complete shift in technology and mechanisation to the electrification of the hydrocarbon energy system.

Any effective plan to drastically cut GHG emissions may take steps to deploy the low-emission technologies already in use and promote the development of new, need-of-the-hour technologies. Some of the suggested technological interventions recommended to bring about a breakthrough in climate change mitigation space can be broadly categorised into incremental, disruptive, radical, **and policy changes**.





- **Carbon Offsetting and Offset Integration**

With an anticipated potential market size of \$200 billion by 2050, the carbon offset market is crucial for countries and organisations to achieve their net-zero emissions targets globally. However, the business is plagued by issues with trading and certification of carbon offsetting. Technology can facilitate near-real-time REC validation and provide a market for quick and inexpensive carbon offsetting. Offset integration would give an organisation access to a large pool of offsets worldwide, facilitating trade and emissions planning, easing administrative burdens, and optimising the timing of REC purchases and retirement.

- **Air Cleansing through DAC Systems**

Technologies that remove carbon dioxide from the atmosphere are helpful if we want to get to net-zero emissions and critical if we want to drive down CO2 levels to where they were before the Industrial Revolution. The Direct Air Capture (DAC) model is powerful and can easily be replicated across settings.

- **Solar Microgrids**

Climate technologies may be adopted quickly if they also address the pain points of energy consumers in today's times. Solar microgrids, which generate, store, and distribute clean energy to homes and facilities in a local network, are the potential solution that may help accomplish climate mitigation and adaptation simultaneously.

- **Switching to Electric Vehicles**

Electric vehicles have the most significant decarbonisation potential in the current times due to the high dependence of people on motor vehicles. The increased movement towards electric vehicles has delivered considerable emission reductions, and with subsequent innovations in EV batteries, we can witness faster adoption of Electric Vehicles.



- **Unleashing Hydrogen's Potential**

While solar and wind are renewable sources of energy which have proven to reduce emissions, they are also highly nature-dependent sources of energy (weather, season geography etc.). Hydrogen, which produces no carbon emissions when burnt, is a potential option. It can be made by splitting water using electricity from wind and solar sources and provides a way to store renewable energy for later use. With the declining cost of renewables and the scaling-up of hydrogen deployment, hydrogen production costs are expected to fall by 30 per cent by 2030. Increasing hydrogen energy storage technologies could lead to further reductions in the price of variable renewable electricity systems.

Technology and Policy Support

Government technology-policy measures can encourage innovation and help create markets for GHG-friendly technologies by providing incentives and support for developing and deploying new technology. The government may also provide knowledge dissemination and learning support to help individuals undertake breakthrough research in the technology space to combat climate change.

While these are some of the suggested interventions that have already been initiated or may be undertaken soon, leveraging technology and innovation as a response to climate change can effectively prepare the populations to undertake pre-emptive measures. What must be noted is that personal breakthroughs may only account for minute changes. Only with institutional support can we introduce and enforce policy/structural changes (tax subsidies, R&D programmes, regulations, tariff reductions etc.) that are the need of the hour and can help us address the negative impacts of climate change.

G20: India and forging international alliances

Alliances, partnerships and coalitions are the defining words of cooperation in the 21st century. Globalisation is at the centrepin of world affairs. Forging new multilateral and bilateral partnerships based on furthering mutual interest is changing the rules of the game.

India has taken over the presidency of the G20 at a time when the world is witnessing challenges of rising conflicts, climate change and economic recession. The G20 boasts of having as its members 20 countries which include most of the world's large economies, accounting for over 70% of the gross world product (GDP) and is home to over two third of the world population.

In its presidency year, India aims to bring the world together guided by the ethos of "Vasudhaiva Kutumbakam" - the world is one family - under one roof to discuss, deliberate and devise solutions for dealing with traditional and non-traditional challenges being faced by the world. However, at a time when the European conflict is at its peak bringing all stakeholders together will be one of the challenges for India.

India's agenda for G20 is based on five pillars of sustainable and equitable development; leveraging technology for social development and economic transformation; promoting a sustainable lifestyle for a better environment; ensuring climate financing, and strengthening international institutions for a more prosperous 21st century.

Forging new unilateral and multilateral partnerships within the G20 based on multi-stakeholder consultation will help the Indian leadership get there. Despite unusual challenges in every decade, the pace of development in the 21st century has been a testimony to the strength of global cooperation.

The first and foremost will be the agenda of development. The world today is more conscious of the developmental choices that it is making. Lifestyle for sustainable development has become policy makers' and practitioners' guiding mantra. Leveraging technology to minimise environmental damage, working on energy diversification patterns to slow the extinction of conventional energy sources, and not stalling development in the name of environmental protection will be the highlights as India takes to lead the discussions. Bringing together thought leaders from all 20 countries to build an understanding of accountability and accessibility in the exploitation of resources for development will be the second significant achievement for the Indian leadership after the declaration of the International Solar Alliance.





The second agenda ranking high on India's G20 priorities is the case of leveraging technology. One of the highlights of learnings from mitigating the Covid pandemic was the importance of data availability in coming up with solutions. The access to real-time data from responsible sources led the medical fraternity to devise solutions faster than the rate of multiplication of the virus leading to successful containment. Thus, building a multi-stakeholder partnership amongst the member nations to ensure the availability of relevant and sufficient data for development will also rank high on India's technology agenda.

The Declaration of a multilateral alliance for tech collaboration will help India further its push for ensuring tangible actions in the quest for equitable development and bridging the existing digital divide. Success stories of the indigenously developed Unified Payments Interface (UPI) system and the use of the JAM (Jandhan – Aadhar – Mobile) trinity to disburse social benefits will help India set the agenda for a global tech alliance.

The world is at a crossroads where it has just come out of a life-ravaging pandemic and is staring into the eye of a much talked about European recession, the coming together of the leadership of some of the most developed and large-scale economies at such a time will also bring the question of sustainability of global finance and continuity of global supply chain. The challenge of international cooperation to reduce the risk of food insecurity and preparing for the looming energy crisis due to supply chain disruption in the backdrop of the Russia-Ukraine conflict will also have a massive impact on India's presidential agenda of G20.

The aim of coming together of not just the administrative leadership but also the thought leadership of member nations of any multilateral grouping is to forge new alliances and take global cooperation to newer heights. The presidency of India in G20 for 2023 is all the more crucial on the crevices of a fractured world. The following year will not only be a year of creating opportunities but a year for India to build new alliances and harness the existing ones to provide greater meaning to its tagline of "One Earth, One World, One Future".

The future of Digital Trade in India



In the aftermath of the COVID-19 pandemic, digitalisation has become an inalienable part of all essential services, transforming how business is conducted. The pandemic provided a strong impetus for companies and individuals to adopt digital tools and showed an increasing reliance on digital delivery to continue services' trade despite restrictions at the time. Over the past decade, India has made tremendous advances in digitalisation across various sectors and departments to emerge as one of the fastest-growing digital powers in the world.

Digitalisation has played an essential role in supporting broader economic activity and better facilitating trade across borders. Digital transformation has also significantly reduced the costs of international trade and connected many businesses and consumers globally.

As the government's digital transformation initiatives, such as the JAM trinity (Jan Dhan, Aadhar, Mobile) under its "Digital India" strategy, have enabled rapid financial inclusion of the most vulnerable sections of society and aided in the creation world class digital products, a focus on digital trade is the logical next big step for the country to grow its exports and boost the growth of the economy.

For India, Digital trade will offer significant domestic and export growth opportunities for domestic companies, including those in non-digital sectors, and holds immense promise for sustaining India's remarkable economic growth momentum and addressing various socio-economic challenges the country is facing.

- In 2018, the economic value of digital trade-enabled benefits to the Indian economy was estimated to be around US\$35 billion. This figure is estimated to grow more than 14 times and reach an estimated US\$512 billion by 2030, according to a report by the Hinrich Foundation.
- As per the Internet and Mobile Association of India (IAMAI), a 1% decrease in international internet bandwidth could lead to a loss for India of about USD 696.71 million in the total volume of goods traded.

India has traditionally hesitated to engage in Plurilateral agreements on digital trade and governance issues for fear of being arm-twisted into accepting global rules that could hamper domestic policymaking. At a more bilateral level, however, India's Free trade agreement (FTA) negotiations with several countries contain a digital trade clause as part of the agreement.





Digital trade has become an essential element of almost all major FTAs India has signed or is currently negotiating with different countries.

- India's Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE) included digital trade clauses.
- The India-Australia FTA is pursuing opportunities in digital trade as part of the trade agreement. The Australian government is also keen to explore a digital services agreement with India under a Comprehensive Economic Cooperation Agreement in the future.
- India and European Union (EU) negotiators also seek convergence on complex issues such as digital trade and data protection as part of the Free trade agreement.

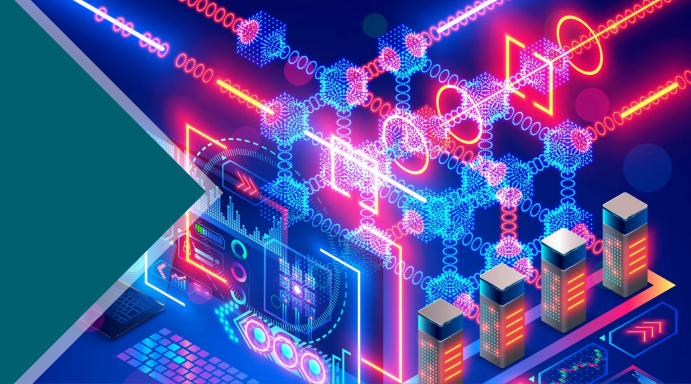
India aims to build a comprehensive regulatory regime for data and broader digital trade, covering privacy, cybersecurity, law enforcement, and industrial policy. The government has been taking gradual but practical steps towards cross-border data flows with adequate protections at a bilateral level.

Further, the government's recent initiatives, such as the new data protection bill, which has eased data localisation norms, also create opportunities for India in the sphere of digital trade. Further, its readiness to engage in FTAs with countries holding a complete chapter on digital trade shows its willingness to embrace the opportunities brought by digital trade and connect its digital value chains.

However, utilising the gains from digital trade would require a deft policy approach and have the government refrain from imposing undue red tape on digital enterprises, restricting cross-border data flow and work to create an appropriate legal framework for facilitating digital trade.



FTX Collapse and Impact on India



In November 2022, FTX, the biggest cryptocurrency exchange in the world, filed for bankruptcy. This shocked cryptocurrency investors because the fall had a global impact. FTX was highly illiquid to the public despite billing itself as "the most regulated exchange on the globe." It had \$9 Bn in liabilities and only \$900 Mn in sellable assets. As a result, the exchange was left with nowhere to go when investors started liquidating their positions on FTX.

The collapse of FTX, which was considered a credible player in the crypto market, has highlighted the vulnerability of the crypto economy. That an apparently financially sound company, valued at \$32 billion not very long ago, could also collapse this way exposes the fault lines of loosely regulated crypto markets.

Throughout the world, 2022 has been a challenging year for cryptocurrency investors. Many investors are apprehensive of the blockchain phenomena in light of Terra Luna's collapse and FTX's subsequent bankruptcy.

Impact on India

The most alarming event to damage the cryptocurrency industry recently is the FTX debacle, which has discouraged many Indian crypto investors.

According to Indian crypto exchange Giottus, the fall of FTX has reportedly impacted nearly 5 Lakh Indians. Further, the FTX collapse is expected to affect more than 130 companies worldwide.

The trouble with FTX actually had little effect on trade volumes on Indian crypto exchanges because of their minimal exposure to FTX and the FTT token, which is a crucial consideration. However, the fact that monthly trading volumes for nearly all Indian crypto exchanges are less than 50% of what they were in January of this year highlights the impact of the recent crypto tax imposed by the Indian government and the wave of negative news sweeping the global crypto community.

While waiting for clarity on future rules and regulations governing crypto assets in the country, Indian crypto exchanges have understood the need for strong self-regulation and have so far operated successfully.





Customers are left stuck since they are unable to withdraw their money. In the upcoming days, the crypto sector will likely feel the repercussions of this, although only for a short time. This fallout provides compelling evidence for the necessity of decentralised systems like Defi. There will be more openness and broad use of a decentralised system. This crash will compel Web3 companies to create better products and provide efficient guidelines for assessing systemic risk.

Investors are learning to embrace the lack of transparency in the crypto exchange market. Most participants agree that a regulatory framework is necessary for cryptocurrencies as an asset class to guarantee consumer protection and transparency.

Way Forward

The FTX collapse ought to serve as a wake-up message to regulators who have either taken a wait-and-see stance or turned to inadequate methods to govern the cryptocurrency industry. Regulation must act quickly to establish the legal standing of crypto assets under current laws and bring exchanges and other market intermediaries under its purview.

According to experts, as there are no regulations in place currently in India, there is a need to develop a robust framework. A global agreement must be attained on the legal framework governing digital assets. Due to the global nature of such assets, there cannot be isolated policies for them. Instead, they must seek to establish a transparent environment where investors are informed of the associated risks.

In addition to leading by example by bringing the industry under its regulatory purview, the government should agree on global norms and principles for cryptocurrency regulation when India assumes the G20 presidency.



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.).



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for providing solutions to help clients achieve their goals

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STEWARDSHIP

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