

## Increasing foreign equity cap deciding factor for Free Trade Agreement with EU

Pressure is mounting on the Indian government to increase the foreign equity cap on the insurance sector within the budget session, making it the deciding factor for the Free Trade Agreement (FTA) negotiations between India and the European Union.

The FTA talks assume significance as India and Germany prepare for the upcoming second joint cabinet-level meeting in Berlin next week.

The FTA will feature on the agenda during the forthcoming visit of Prime Minister Manmohan Singh to Berlin where he will be accompanied by cabinet colleagues like foreign minister Salman Khurshid and industry minister Anand Sharma among others.

India and Germany are also expected to deliberate on a green corridor for investments in alternative energy up to 1 billion and investments in the Delhi-Mumbai industrial corridor. The insurance bill is awaiting the nod from lawmakers in Parliament as the government is still working on a consensus formula acceptable to all political parties.

[The bill](#), introduced in the winter session, may be taken up after the recess in the budget session if the government is able to convince BJP. While the UPA does not have the required numbers in the Rajya Sabha, its position in the lower house too is precarious with its ally DMK walking out of the government. EU and India have been in negotiations for a FTA for over five years but EU is unlikely to conclude the agreement without an increased FDI cap in the insurance sector, a major area of interest for European finance companies, and a compromise on the customs levies on automobiles.

The pressure to open up the insurance sector as a mandatory condition for trade negotiations to proceed comes even as EU prepares itself to begin negotiations with the US for an FTA, in a clear departure from the earlier stand.

The EU has also begun a similar exercise with Japan. The US and Japan put together would account for 60% of the global trade and negotiations with these trade partners would attract greater attention and focus, leaving little space for countries like India, a person close to the trade talks said. The developments in India, which have taken a toll on the economy, have also impacted investment decisions from the EU.

Apart from regulatory uncertainties, the political climate has also come as a hurdle to investment decisions as companies wait and watch to see how reforms progress in India.

*(Economic Times)*