



Impacts of a Free Trade Agreement (FTA) between India and the United Kingdom

Shramishtha Srivastava, Rahul Sharma

Asst. Professor

SRMS IBS Lucknow

Abstract

This research paper aims to analyze the potential impacts of a Free Trade Agreement (FTA) between India and the United Kingdom. The paper will examine the economic, political, and social implications of such an agreement, considering factors such as trade volume, investment flows, geopolitical considerations, and domestic industries. Through a comprehensive analysis of existing literature, economic data, and historical context, this paper seeks to provide insights into the opportunities and challenges associated with an India-UK FTA.

Introduction

On January 2022 a negotiation has been started between India & UK to form a **FREE TRADE AGREEMENT**. Free trade agreement is defined as “A agreement between two or more countries to reduce tariff & duties among those countries with purpose of free flow of goods & services .Under FTA goods & services can be traded among countries without any restriction & duties.”

India also has a FTA with Sri-Lanka knows as ISFTA which was signed on 28 December 1998.This FTA has increased trade & investment for both countries. India was Sri Lanka’s largest trading partner with an overall bilateral merchandise trade of US \$ 5.45 billion in 2021.

Similarly for gaining huge market access & attracting investment from abroad India & UK is negotiating for FTA. It will increase the size of economies of both countries. The India is commanding for greater market access for its skilled IT professionals, professionals from healthcare & other sectors in UK. Along with it India is demanding for market access for a number of goods at nil custom duties.

On the other hand, the UK is looking for a notable cut in import duties on goods comprise of automobiles, certain confectionary items, scotch whiskey and lamb meat and Britain is also looking up further opportunities for UK services into Indian markets in segments including legal and financial services like banking, telecommunications etc.

Main export items from India to UK are engineering goods, transport equipments, ready-made garments and textiles, pharmaceuticals and marine products, , gems and Jewelleries, spices, petroleum and petrochemical products, machinery and instruments. India’s main imports to UK encompass chemicals and machinery, ores and metal scraps, precious and semi-precious stones, professional instruments other than electronics, engineering goods.

In Europe, UK is the largest market for Indian IT services. In investment field out of the top investors in India UK is the one. In 2022-23 India is the recipient of USD 1.74 billion in FDI from UK. In 2021-22 FDI was USD 1 billion.

Under these agreements member countries eliminate or bring down the custom duties for maximum goods traded among them. Along with reducing tariffs they also alleviate norms of trading in service & investments.

India and Free Trade Agreement (FTA)

India has been demonstrating a new seriousness of purpose as it negotiates 16 new and enhancing several other trade pacts with nations as diverse as Canada, the US, the European Union and South Korea.

India is hoping to conclude its first FTA in over a decade with the United Arab Emirates in 2022. And another one with Australia is also in the offing.

Right before the launch of FTA talks with the U.K., India and South Korea also decided to expedite the up gradation of the existing FTA, formally called the Comprehensive Economic Partnership Agreement

India UK Trade Relations

Trade relations of India & UK is centuries old. Initially trade between both countries has started in 1600 when east India Company has formed. The trade was started with Indian spices. Afterwards they also started trading in cotton, silk, indigo, saltpeter and tea. British came as traders in India but gradually they took over the political control of nation & India became the colony of British. British took raw material at cheaper rates from India which includes cotton, silk, tea, jute etc. & they also use India as a large market of their products which they sell at high rates.

After independence trade relations of India & UK became stronger. From 1947 till the end of century India received Great amount of FDI from UK.

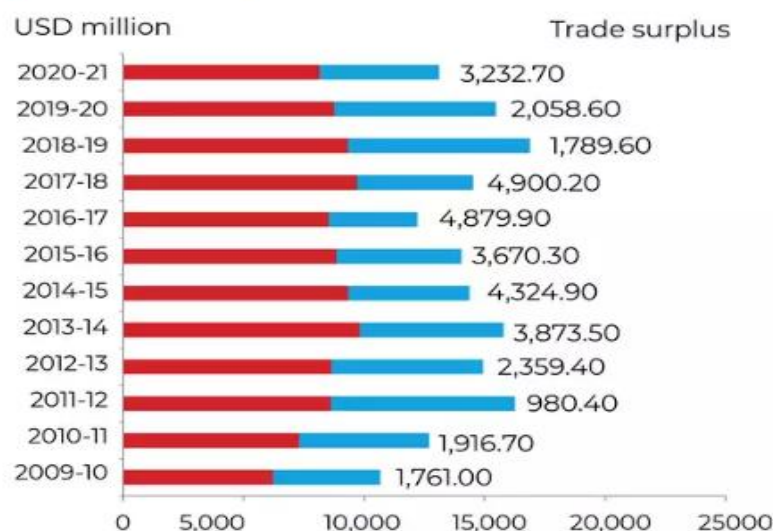
UK was among the leading countries to provide aid to India. Steel plant at Bhilai was established with its assistance. From the first decade of twenty- first century India started investing in foreign countries & became the exporter of capital.

India has emerged as potential powerhouse in twenty first century. Now India is not only market for imported goods but also a major investor in UK. TATA bought Jaguar & Corus.

India will be the UK's eleventh largest trading partner by the end of 2022. This accounted for 2.0% of total UK trade. India was the UK's thirteenth largest trading partner in terms of goods, and the tenth largest in terms of services. India-UK bilateral trade climbed 16% to USD 20.36 billion in 2022-23.

Trade in goods

■ Exports to UK ■ Imports from UK

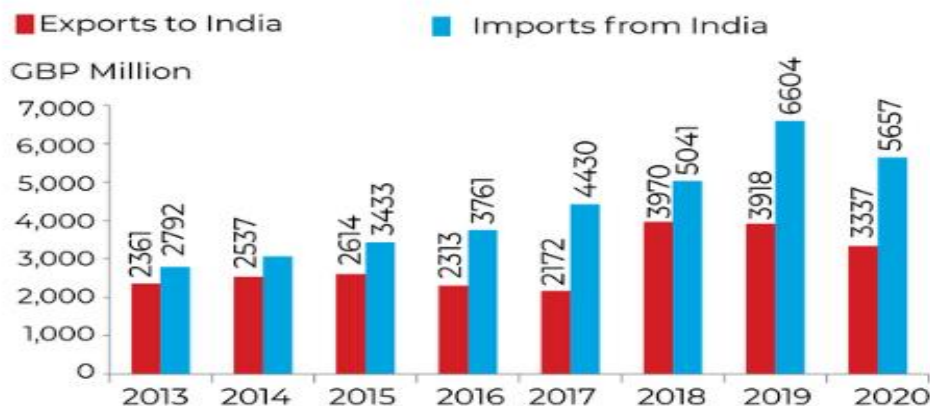


Source: CMIE, the period refers to India's fiscal year, services not included

The UK is already the seventh-largest export destination for India, and India's trade and investment relationship with the UK has been successful. Bilateral trade between the two countries (import and export) increase by 22.7 % from financial year 2009-10 to US\$ 13.1 billion in FY2020-21.

Trade in services between the two nations has increased

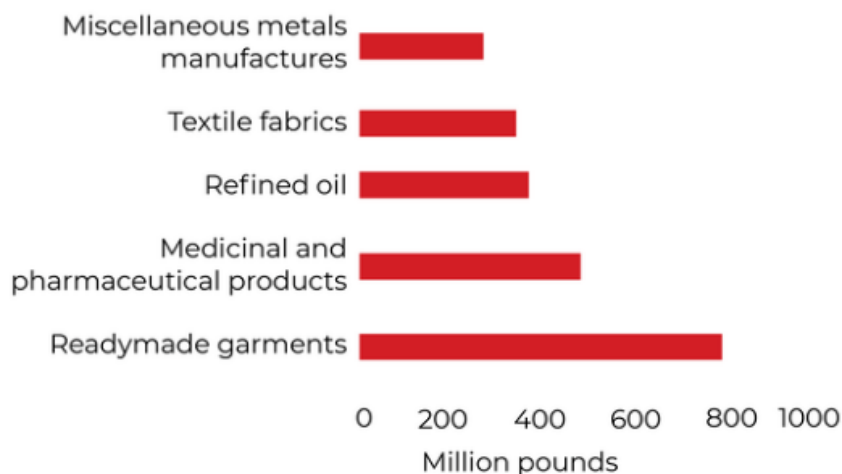
UK's trade in services exports to and imports from India



Source: Office of National Statistics, the period refers to calendar year

A majority of India's exports to the UK last year comprised readymade garments, medicinal and pharmaceutical products, refined oil, textile fabrics, and metal manufacturers. The top three services exports include technical, trade-related and other business services, professional and management consulting services, and travel

The top 5 UK goods imports in the four quarters to the end of Q4 2020, from India



Source: Department of International trade, UK

BACKGROUND OF INDO-UK FTA

Following the UK's exit from the EU, it now has its own trade policy, allowing it to ratify and implement new trade deals with other countries. Since exiting the EU, the United Kingdom has:

- Secured 'rollover' agreements with over 60 countries, largely replicating the effects of existing treaties between those countries and the EU; and

- Ratified a comprehensive economic partnership agreement with Japan, which built on the EU-Japan trade deal to which the UK was a party as an EU member.
- Agreed to two 'from scratch' trade treaties with Australia and New Zealand, which have yet to enter into force.

Boris Johnson, Prime Minister of the United Kingdom, and Narendra Modi, Prime Minister of India, announced an "**enhanced trade partnership**" as the first step in negotiating a comprehensive free trade agreement in May 2021. The government held a public consultation between May and August 2021 in preparation for trade talks with India.

In January 2022, the UK government released its negotiating objectives for the UK-India trade deal, and negotiations with India began the following month. In a letter to the House of Lords International Agreements Committee in June 2022, Lord Grimstone of Boscobel, then-minister for investment at the Department for International Trade, announced that the government hoped to conclude the "majority of talks by the end of October."

In terms of the impact on various sectors, the study said that the highest gains in economic activity may be seen in the UK transport equipment and electrical equipment manufacturing industries and motor vehicle sectors. The document stated that "certain agricultural and food sectors, as well as the textile industry, could face an increase in import competition". However, it stated that "consumers could also benefit from choicer and lower prices".

According to the negotiation objectives, India is a "important partner" for the UK, and a trade agreement with the country provides an opportunity to "deepen economic and strategic ties." According to the document, India is expected to be the third largest economy in the world by 2050, and a trade deal may allow UK and Indian enterprises to "benefit from lower trade costs, boosting economic activity in both countries' competitive strengths." According to the document, a trade agreement with India would suit the government's aim of "tilting towards the Indo-Pacific and championing free trade."

According to the negotiation objectives, the UK's economic ties with India were already strong, totaling £23.3 billion in 2019. The government predicted that a trade deal might enhance UK GDP by "around £3.3bn in 2035" (in 2019 prices), equating to a 0.12% to 0.22% increase in UK GDP depending on the depth of the agreed outcome, by 2035. The study said that the highest gains in economic activity could be seen in the UK transport equipment, electrical equipment manufacturing, and motor vehicle sectors. According to the study, "certain agricultural and food sectors, as well as the textile industry, may face increased import competition." It did, however, declare that "consumers could benefit from more choice and lower prices."

ISSUE OF NEGOTIATIONS

Following are the main issues of negotiation in FTA-

1. **Investment protection**- Currently, India and the United Kingdom do not have a bilateral investment treaty (BIT). India unilaterally cancelled the existing BIT in 2017. Based on its 2015 BIT approach, India will seek to negotiate a new BIT with the UK. Given the amount of continuing conflicts between the Indian government and UK corporations over investment protection, both parties are likely to negotiate a strong investment protection agreement to meet their respective concerns.
2. **Tariff barriers**- While the UK would expect India to lower tariffs on certain key UK export items such as food and drinks (including scotch and whiskey), automotive, chemicals and life sciences (including pharmaceuticals and medical devices), India would expect greater market access for its engineering and auto components, readymade garments, gems and jewelry, food and agricultural products. However, given the UK's already low MFN rates; it is likely to be less demanding on tariff barriers, particularly following the adoption of the UK Global Tariff (UKGT) in January 2021, which will replace the EU's Common External Tariff following Brexit. The UKGT ensures that, in the future, 60% of trade will enter the UK tariff-free under WTO terms or through current preferential access, and an FTA will raise favorable rates for Indian products. India is already working to ensure that its tariff policies are WTO compliant and do not create trade barriers for its chosen trading partners. India should be open to lower tariffs that are protectionist in character.
3. **Non – tariff & technical barriers**- While tariff reduction will be an essential issue of negotiation, non-tariff and technical barriers will be the primary emphasis for both sides. For example, India would expect the UK to be more flexible in terms of the WTO-plus sanitary and phytosanitary criteria (food safety, animal and plant health standards) that it imposed on Indian food, agricultural, and marine exports before to its exit from the EU. Indian exporters are also having problems with the UK's restrictions on sampling, testing, cargo rejection, and customs. In contrast, the UK would expect India to remove sectoral, non-tariff, and technical barriers (such as customs procedures, labeling, registration, certification, and licensing and approval requirements) in the areas of fruits and vegetables, automotive, life sciences, healthcare, digital and data services. Furthermore, the UK would expect India to strengthen its intellectual

property regime (particularly with regard to patentability criteria and enforcement, trademark enforcement, and brand protection) and bring its data protection regime (which is still in the legislative process) in line with the General Data Protection Regulation (GDPR), which the UK retained (with minor modifications) in domestic law even after its exit from the EU. Given that it has a substantial impact on operations in a variety of sectors; it will be an important topic for India to handle.

4. **Key issues in respect of trade in services-** Given that both India and the United Kingdom are prominent actors in the export of services, negotiations are likely to focus on reciprocal market access in the services sector. Based on existing trends, the United Kingdom is anticipated to prioritize more permissive Mode 3 access (cross-border investment and commercial presence) for information, communications, and technology (ICT), educational, financial, telecom, travel, retail, and energy-related services.

On the other hand, India has a higher competitive advantage in professional and computer-related services (including IT/IITes), as well as medical, financial, audio-visual, and tourism services, and is likely to pursue more permissive Mode 4 access (professional and student movement and presence). Access to Mode 4 has been a contentious issue between industrialized and developing countries (including India).

The UK is likely to be relatively flexible to allow greater access of talented and skilled professionals/workers/students from India under the Global Britain Plan (although domestic opposition cannot be ruled out!) , would expect India to do Mode 3: achieve access (commercial existence) through the liberalization of highly regulated professional services sectors such as reciprocal accounting, legal services, construction and auditing. Negotiations on trade in services are likely to require a balance between the two.

5. **Non-negotiable stance on clinical drug trial data-** India is actively negotiating with the UK on Intellectual Property Rights (IPR). But India will not yield to demands for data exclusivity and extended patent terms that would hinder domestic production of affordable, life-saving generic drugs. Officials emphasized that this is a position that should not be compromised.

Data exclusivity allows companies to obtain exclusive rights to the clinical data of their drug, preventing other manufacturers from bringing cheaper generic versions to market, even if they are not patent protected. In fact, data exclusivity can be used to extend drug patent terms beyond their original term by fine-tuning formulations and securing rights to clinical data. A patent term extension provides longer patent protection to make up for the time spent waiting for regulatory approval.

6. **Data protection-** India has also rejected any commitments in the area of data protection and related areas such as data localization. Due to India's lack of digital policies, the proposed free trade agreement (FTA) will need to include exemptions specifically to address the issue, the officials said.

7. **Government procurement-** Government procurement is also an area where India is open to negotiations, but officials argue that India's government procurement policy aims to support and encourage SMEs and no compromises in this regard are acceptable.

SIGNIFICANCE OF FTA FOR INDIA

FTA with UK will provide huge benefits to India economically as well as politically. Some of benefits are discussed below-

- Both countries are major exporters and importers of goods and services. The deal will give the UK broad access to the Indian market for exports such as Scotch whiskey, luxury cars and legal services. India is the third largest exporter of services after the UK and a trade deal would only increase market access for Indian services companies. Moreover, the two countries trade similar but different products. Allowing for more liberal imports of luxury cars would not pose a major threat to domestic automakers, which primarily cater to middle-class buyers. In 2018, the largest export industry between the UK and India was 'computer programming, consulting and related activities' for both countries. This further

suggests that the two countries have different, and perhaps complementary, capabilities within the same industry. As such, the job loss concerns inherent in such agreements are unlikely to be realized by this FTA.

2. This could have far-reaching benefits for India as it makes it an attractive investment destination for other developed countries as well. Following the successful partnership between Oxford AstraZeneca and the Serum Institute of India during the COVID-19 pandemic, several multinational companies have expressed interest in exploring similar cooperation opportunities between the two countries. If New Delhi and London reach a mutually acceptable understanding of intellectual property rights, the trade deal is likely to boost the two countries' pharmaceutical and pharmaceutical industries.
3. The New Education Policy (NEP) emphasizes that students gain work experience and technical training during their undergraduate studies. India should negotiate better terms for students to receive such education in the UK. London opposes opening its borders to immigrants, but is open to giving more students temporary work visas. The Skills India Program could benefit from the UK's vocational and technical course framework. In general, agreements on mutual recognition of qualifications (beyond IIT and IIM) will help India-trained workers to be globally competitive. Given the relative size of each market and the potential differences in practice, this would further increase the mobility of skilled workers between the two economies.
4. A trade deal with the UK could boost exports in large job-creating sectors such as textiles, leather goods and footwear.
5. With the approval of India's 56 Naval Forces, India is also expected to make breakthroughs in seafood exports.
6. Service sectors such as IT/ITES, Nursing, Education and Healthcare including AYUSH and Audiovisual services also have great potential for increased exports.
7. The UK is a permanent member of the UN Security Council and one of India's strategic partners. By strengthening trade ties, the UK will be called upon to help on global issues such as its confrontation with China in the Ladakh area of the Line of Actual Control (LAC) and its claim to a permanent seat on the UN Security Council.

SIGNIFICANCE OF FTA FOR UK

This Indo-UK FTA will reap great benefits to UK as well. Few of them are discussed below-

1. The UK has signed a trade deal with India, one of Britain's post-Brexit priorities calling for a bigger role in the Indo-Pacific. India is at the center of the UK's Indo-Pacific 'tilt' and is of great interest around the world.
2. The UK will also start trade talks with Canada, Mexico and the Gulf States to underscore its credibility as a 'global Britain', but a trade deal with India, coupled with CPTPP member states, remains a detriment to Britain's economic consolidation. It is essential. Indo-Pacific.
3. The United Kingdom recognizes the significance of a free and open Indo-Pacific to global stability and prosperity, and has stated its determination to deploy strategic assets to that purpose.
4. Partnerships such as AUKUS and FTAs with nations like as India provide London with a stronger influence in the Indo-Pacific region.
5. For the United Kingdom, FTAs with India would not only give them better access to one of the world's largest and fastest expanding markets, as well as manufacturing centers, assuring supply chain resilience, but would also boost their economic and political power in the Indo-Pacific region.
6. The UK appears to be tremendously driven to compete with the EU to ensure that this continues the case even after Brexit. The 'Global Britain' aspires to exert more influence in global affairs. An FTA with India will provide it with a strong partner in the Indo-Pacific region while also ensuring that it does not miss out on privileged access to one of the world's fastest developing significant economies.
7. For the United Kingdom, which is striving to establish itself as a major trade power following its exit from the European Union, the FTA with India represents a critical opportunity to acquire significant market access.

CHALLENGES OF INDO-UK FTA

1. The bones of the dispute revolve around rules of origin, with India's strict Customs and Rules of Origin Authority (CAROTAR) causing concerns among trading partners and making concessions in other areas.
2. In the services sector, as the economy continues to digitize, digital regulation is a challenge, addressing issues such as free and reliable cross-border data flows, data localization, and transmission requirements for source code and algorithms. India's insistence on maintaining redlines in these areas reflects the importance of these regulations in the national framework.
3. This podcast focuses on the critical role of public procurement in India, especially in protecting the interests of MSMEs (Micro, Small and Medium Enterprises). The impact of the pandemic on SMEs has reinforced the need to protect their interests in negotiations.
4. The exclusion of certain areas from investment protection agreements, in particular patents and compulsory licenses, is inconsistent.
5. However, interim agreements that reduce tariffs on some items could, in some cases, significantly delay the implementation of comprehensive free trade agreements. Interim FTAs that do not become full FTAs may also face challenges from other countries in the World Trade Organization (WTO). WTO rules only allow countries to give preference to other countries if they have bilateral agreements with them that cover "substantially all trade".

CONCLUSION

A Free Trade Agreement (FTA) between India and the United Kingdom holds the potential to usher in a new era of economic cooperation and bilateral trade relations. While the specific outcomes would hinge on the terms and conditions of the agreement, there are both positive impacts and challenges that warrant consideration.

The positive impacts of an India-UK FTA are multi-faceted. By reducing tariffs and trade barriers, the agreement could lead to a substantial increase in trade volume between the two nations. This heightened trade activity would not only bolster economic growth but also create new avenues for investment and job creation. Moreover, consumers on both sides stand to benefit from a broader array of goods and services at more competitive prices, thus enhancing overall living standards. The FTA could serve as a conduit for technology and knowledge transfer, as increased business interactions facilitate the exchange of best practices and innovation.

The impact of an India-UK FTA on trade balances should be vigilantly monitored, as a significant disparity in export growth could lead to unintended trade deficits for one party. The interplay between the FTA and existing trade agreements that both countries are party to must be navigated thoughtfully to avoid conflicts and ensure coherence in their international trade strategies. Geopolitical considerations also loom large; the negotiations and terms agreed upon could have broader geopolitical implications, shaping India's global trade relationships and its alignment with the UK's post-Brexit trade agenda.

In essence, an India-UK FTA offers the promise of enhanced economic ties and mutual benefits. It has the potential to foster economic growth, expand investment opportunities, and bring forth consumer advantages. However, these benefits must be balanced against the challenges of addressing sensitive industries, mitigating labour market concerns, and achieving regulatory coherence. The success of the FTA will hinge on meticulous negotiations that navigate these challenges and align with the broader economic and geopolitical interests of both countries.

The potential of an India-UK FTA extends beyond bilateral trade; it signifies an opportunity for both nations to strengthen their global trade strategies and deepen their economic partnerships. To realize this potential, pragmatic negotiations, stakeholder engagement, and careful implementation will be key. As the world economy evolves, a well-crafted FTA could position India and the UK at the forefront of a dynamic and interconnected global trading landscape, fostering prosperity and sustainable development for years to come.

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