



## RSTV PERSPECTIVE: INDIA-UK FTA



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**Context:** Britain said it will only sign the the India-U.K. Free Trade Agreement (FTA) when there is one that “meets the UK’s interests.

### What Is a Free Trade Agreement (FTA)?

- A free trade agreement is a pact between two or more nations to reduce barriers to imports and exports among them. **Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.**
- FTAs usually cover trade in goods (such as agricultural or industrial products) or services (such as banking, construction, trading).
- FTAs can also cover other intellectual property rights (IPRs), investment, government procurement and competition policy.

***The concept of free trade is the opposite of trade protectionism or economic isolationism.***

### How a Free Trade Agreement Works:

- In the modern world, free trade policy is often implemented by means of a formal and mutual agreement of the nations involved.
- For example, a nation might allow free trade with another nation, with exceptions that forbid the import of specific drugs not approved by its regulators, or animals that have not been vaccinated, or processed foods that do not meet its standards.

### India-UK FTA: Background

- India and the United Kingdom have a multi-dimensional strategic partnership, and are actively engaged in bilateral trade. The two countries agreed to begin formal negotiations for an FTA in January 2022, aiming to advance trade and investment relations between them.

- The UK and India are now in the final stages of negotiating a free trade agreement. The consensus is that there can and will be an announcement by Diwali – a deadline agreed by Prime Minister Narendra Modi and Boris Johnson on his last official visit to India in April.
- UK is concerned but that India is trying to extract a few further concessions in the contentious areas of imported whisky and automobiles. India is also, pushing for relaxation on visas for Indian workers to the UK which has long been a bone of contention.
- Amid all these, there are growing fears that the proposed India-UK free trade agreement (FTA), currently in its final stages of negotiation is likely to be watered down.
- The FTA is important for both countries as it would provide a boost and create a robust framework of overall trade and investment between the two countries.

#### Which country does the U.K. have an FTA with?

- After Brexit (U.K. coming out of European Union), and Britain can now sign trade pact with other nations.
- **UK.-Australia FTA:** U.K. signed an FTA with Australia on December 17, 2021, eliminating almost 99% of tariff on both sides, allowing free flow of goods between the two countries. This pact will help Britain access the Pacific Rim through the **Comprehensive and Progressive Trans-Pacific Partnership**.
- Comprehensive and Progressive Trans-Pacific Partnership is an 11-nation trade conglomerate including Australia.

#### Which are the countries with which India has FTAs?

- As of 2022, India had 13 FTAs, including the South Asian Free Trade Area, and with Nepal, Bhutan, Thailand, Singapore, Japan and Malaysia. The 13 also include the agreements with Mauritius, UAE and Australia signed during the last five years. Additionally, India has also signed six limited Preferential Trade Agreements.

#### Level of India-UK Trade:

- India is UK's 12th largest trading partner and accounts for 1.9% of UK's total trade in four quarters to the end of 2022. UK is the seventh largest export destination for India. The trade balance maintained by India with UK has largely been a surplus.
- Top three services exported from India to UK are technical, trade-related and other business services, professional and management consulting services and travel.

#### The proposed FTA:

- Apart from reducing tariffs, the FTA also looks at lowering non-tariff barriers, particularly technical barriers to trade around rules of origin, investor protection and IPR.
- MoUs on joint recognition of certain educational qualifications and an outline pact on healthcare workforce have already been signed.
- Also, both UK and India have set up panels for a totalization deal being advocated by India and permitting Indian legal services for the UK.

#### What does an FTA with UK mean for India?

- India's trade would see a quantum jump when the free trade pact is signed, from £23.3 billion through an Enhanced Trade Deal to £50 billion post-FTA.
- With India set to becoming the world's third largest economy by 2050, India would become the U.K.'s most preferred partner.
- A trade deal between the UK and India is a huge opportunity to deepen our already strong trading relationship worth GBP 24.3 billion a year, which will benefit businesses and sectors right across both our countries.

- For India, there are many benefits from access to UK technologies, advanced research and development facilities, London's financial institutions and wealthy consumers.

#### What does an FTA with India mean for UK?

The government claimed the key benefits of a trade deal with India include:

- Reduced barriers to trade in goods.
- Increased opportunities for UK services and investment.
- Supporting innovation and trade in the digital era.
- More jobs for UK workers.
- Creating opportunities for businesses across the UK, including small- and medium-sized enterprises.

#### What is India seeking from the U.K.?

- **Removing all trade bottlenecks.**
- **Green trade:** India is also seeking cooperation from Britain to **reduce its carbon footprint by 45%** and promoting green energy.

#### What are the sectors that will benefit?

- **Agriculture:** The second Green Revolution, aimed at increasing food production in India to 400 million tonnes in the next 15 years, is led by plant ecology scientist Howard Griffiths of Cambridge University under **Transforming India's Green Revolution by Research and Empowerment for Sustainable food Supplies (TIGR2ESS)** would strengthen alliance between Indian and British experts in social policy and science, hydrology and crop science.
- **Education:** India would allow more U.K. universities to open their branches in the subcontinent after the FTA.

#### Why is this deal important?

- In a post Brexit era, the India-UK FTA would be **a crucial step for the UK to reduce the dependency on EU and establish independent trade ties outside of the EU**. India on the other hand could use this opportunity to **further boost the "Make in India" programme** and secure strategic deals in the sectors of defence, cyber security, R & D and health care where UK has predominantly been a strong player.
- The FTA between India and the UK **will significantly help bring down the current trade barriers and restrictions** on transfer of goods and services between the two countries and is likely to boost investments, exports and imports across sectors.
- India being a tech giant and in the era of so many start-ups would enable the new/ mid-sized companies to have access to the U.K. market. On the other hand, the U.K. will have a much wider market coverage in the Indo-Pacific region. Moreover, the **FTA will enhance the job-creating sector** since India is one of the big investors in the U.K. Removal of tariffs would lead to increased competition in industries such as- automobiles and pharma.
- One of the important aspects that could help India is that the **UK is a permanent member of the security council** and strengthening bonds with the UK could be of help to India in issues such as its standoff with China. Also, **it may help India become a permanent member in the security council considering India and UK are 5th and 6th largest economy in the world**.

#### Background of relations:

- India and the United Kingdom share historic ties since several centuries.
- The two countries have a Strategic Partnership since 2004 and enjoy a multi-faceted relationship spanning across trade and economy, health, science & technology, defence & security, people-to-people relations, climate change and close cooperation on multilateral issues.
- There have been regular high level visits

### **Bilateral Institutional Engagements:**

- The India-UK Foreign Office Consultations
- The India-UK Disarmament and Non-Proliferation Dialogue
- India-UK JWG on Counter Terrorism
- India and UK also regularly meet under the UN Dialogue, Policy Planning Dialogue, Strategic Dialogue, Cyber Dialogue and Home Affairs Dialogue to discuss cooperation in specific sectoral areas.

### **Economic Cooperation:**

- Merchandise trade between the two countries was US\$15.45 billion in 2019-20 with the trade balance in favour of India.
- During the period of April to August 2020, India's merchandise export to the UK was USD 2.33 billion and Import was USD 1.47 billion, totalling USD 3.80 billion.
- India invested in 120 projects and created 5,429 new jobs in the UK to become the second-largest source of foreign direct investment (FDI) after the US in 2019 according to the Department for International Trade (DIT) inward investment statistics for 2019-2020.
- UK is the 6th largest inward investor in India, after Mauritius, Singapore, Netherlands, Japan, and USA with a cumulative equity investment of US \$28.39 billion (April 2000 - June 2020), accounting for around 6% of all foreign direct investment into India.

### **Defence:**

- India and the UK signed the Defence and International Security Partnership (DISP) in November 2015 to provide a strategic roadmap and direction to the evolving India-UK Defence Relations.
- Defence Consultative Group at Defence Secretary level last met in 2019.
- The virtual Defence Equipment Sub-Group (DESG) meeting was last held in 2020.
- The secretarial level talk was focused on issues about defence production and defence industry collaboration.
- Around 70 defence related companies across the UK supply various goods for aircraft/helicopter manufacturing/overhaul at HAL like ejection seats, fuel tank kits, hydraulic pumps, engine spares etc and support legacy platforms like Jaguar, Mirage & Kiran.
- Maritime cooperation is another area where engagement is increasing.
- UK is deploying Carrier Strike Group in Indian Ocean region this year in line with its strategic tilt to Indo-Pacific.

### **Education, Research and Innovation:**

- UK is among the favoured destinations for Indian students to pursue higher education.
- India was one of the biggest beneficiaries of UK's new liberalised point-based immigration system.
- Around 50000 Indian students are currently studying in UK.
- UK is India's second largest partner in Science and Technology collaborations. The two sides are collaborating under institutionalized mechanisms like UK-India Education and Research Initiative (UKIERI) and through UK Research and Innovation (UKRI) programmes.
- UK identifies India as a key development partner. Further, the two sides are discussing Global Innovation Programme, which will support Indian sustainable innovations to be scaled up and transferred to select developing countries. GIP builds on the success of Invest Global, a pilot project that was supported by DST and ex-DFID as part of the Millennium Development Alliance.

#### Climate and Environment:

- India and UK closely engage on climate related issues through various mechanisms including the Ministerial Energy Dialogue (Sep, 2018), and Joint Working Groups on Climate, Power and Renewables.
- India-UK Green Growth Equity Fund is mobilising institutional investments in the renewable energy, waste management, electric mobility and environment sub-sectors in India.

#### Health:

- Health sector collaboration is a key element of India-UK Strategic Partnership.
- The Joint Working Group on Health and Life Sciences regularly meets to prioritise and coordinate bilateral cooperation in the health sector.
- The successful partnership between Oxford University, AstraZeneca and SII on Covid19 vaccine demonstrated the potential of Indian and UK expertise working together to solve international challenges.
- The two sides are also working on pandemic preparedness, Antimicrobial Resistance (AMR), Zoonotic research, non-communicable diseases, digital health, ayurveda and alternate medicines, as well as health worker mobility.
- An MOU was signed in April 2018 during the visit of PM Modi to the UK.

#### Multilateral Collaboration:

- UK has been supportive of India's permanent membership of UNSC since 2004 and voted favourably in the roll-over decision on UNSC reforms to the 70th session of UNGA.
- UK is also a strong supporter of India's membership of the NSG, MTCR, Australia Group and Wassenaar Arrangement.
- UK and India are the current co-chairs of CDRI. UK is also a member of ISA and supports its activities.

#### Indian Diaspora:

- The Indian Diaspora in UK is one of the largest ethnic minority communities in the country, including approximately 1.6 million British nationals of Indian origin and about 3,51,000 NRIs living in the UK equating to almost 2.5 percent of the UK population and contributing 6% of the country's GDP.

#### Advantages and Disadvantages of Free Trade Agreement:

##### Pros:

- 1) **Comparative Advantage:** The idea that everyone benefits when countries produce and sell freely what they do most efficiently. In other words, everyone should specialize in what they do best and governments should intervene as little as possible in the process.
- 2) **Protectionism is expensive:** Basically, tariff and non-tariff barriers (NTBs) result in higher prices for consumers. Barrier costs are passed on to consumers, or consumers are forced to buy more expensive domestically produced goods.
- 3) **Competition:** The idea that competition fosters lower prices, efficiency in production, and innovation.
- 4) **Functionalism:** The argument that cooperation in one area (such as trade) promotes cooperation in other areas. In theory, the drug problem, immigration problems, etc. are more forthrightly addressed.
- 5) **Interdependence:** The idea that free trade leads to interconnections that make conflict too costly. In other words, dependency undercuts the likelihood of war. (Europe is a commonly cited example).
- 6) **Economic Growth:** Because free trade promotes economic growth, pressing social problems, such as unemployment, environmental deterioration, or illegal immigration can be alleviated.
- 7) **Defense against protectionism elsewhere:** Regional free trade agreements help offset the danger of protectionism elsewhere and secure markets for exporters. In other words, they give leverage against other large economic entities, like the European Union.

8) **Introduction of capital and technology:** For poorer countries, free trade can promote the introduction of capital and technology into their economies.

9) **Democratization:** Some think free trade even promotes democracy because it promotes discipline and transparency.

#### Cons:

1) **Threats to domestic industries/jobs:** Most mainstream economists want to dismiss these threats because they say free trade also creates jobs and growth. But labor unions and domestic industries use this argument to push protectionism. Clearly, free trade agreements can cause dislocations, and attendant ripple effects, in an economy, even if they create a bigger economic pie.

2) **Infant Industries:** Poorer countries have argued that they needed to protect “infant industries” so they can get them off the ground in the first place. Most economists see this as a valid argument, but argue that it then becomes hard to take the protections off.

3) **Too much dependency on a few products:** Specialization through comparative advantage could make an economy (especially a smaller economy) too dependent on a few resources or products. If demand falls in those areas, economic catastrophe could ensue.

4) **Nice free traders can finish last:** In the real world there are governments which control exports and imports, heavily subsidize their producers, or erect NTBs which limit trade. In this world, nice free traders can finish last. The US allowed discriminatory practices from others after WWII, but fights them now that it no longer represents the majority of the world economy.

5) **Security is endangered:** Protectionists sometimes argue that a country should not become so dependent that it cannot defend itself. For example, the US should not let its shipbuilding industry die simply because ships can be built cheaper in other places. Steel is another example.

6) **Cultural Imperialism:** Similarly, countries in Latin America and elsewhere (France is commonly cited) worry about cultural imperialism (Hollywood; rock and roll bands) and the loss of historic industries (French wines).

7) **Trade is a powerful policy tool:** When dealing with other countries trade leverage should not be given up because of a belief in economic rationalism. Similarly, we should not give up our sovereignty over trade matters to regional or international bodies. They shouldn't be able to claim our laws are unfair barriers to trade.

8) **Harmonization downward:** Free trade could force countries to lower their environmental, labor, or other standards in order to compete. Also, such standards could be declared unfair trade practices by regional or international bodies.

#### India and FTAs:

- India has been talking free trade agreements with several partners – both bilateral and regional – over the past two years in a bid to boost export-oriented domestic manufacturing.
- New Delhi has set an ambitious export shipment target of US\$450-\$500 billion by FY23.
- Our current FTAs are with Sri Lanka, Singapore, ASEAN, Malaysia, Japan and Korea. We are also part of South Asia FTA, covering Pakistan, Nepal, Bangladesh and other countries in the region.
- FTAs with Canada, Australia, UAE, Israel and now with the UK are in different stages of negotiations.
- **India pulled out of the RCEP in 2019** citing risks to protecting the interests of its domestic manufacturers.
- A similar situation has played out with other trade agreements with India believing that its domestic industry has benefitted less than that of the counter signatories.
- Still, signing new FTAs and renegotiating existing trade agreements for more favourable terms is one way of mitigating the impact of leaving the RCEP.

#### Way Ahead:

- India needs to **approach FTAs strategically and must think about mutual benefits or win-win situations** where a FTA with India benefits our partners too, as much as it should benefit us.
- This is necessary, for these FTAs will be much more valuable strategically to us in the pursuit of our larger goals than just providing us with a counter to China.



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- Further, India needs to ensure that **technology sharing and transfers** are included in our FTAs or general trade agreements with countries or blocs like Germany, Japan, Taiwan, Korea and even the USA. This will not only help India get **access to new and cutting-edge technologies necessary to move up the industrial value chain**, but also offer us a crucial advantage over China, whose pursuit of foreign tech transfers has been constrained by the lack of adequate intellectual property protection laws.
- **Moving up the value chain in manufacturing** also requires **easier access to raw materials**. Our future FTAs or trade agreements must enable access to raw materials from resource rich countries like Australia, New Zealand, South Africa, Brazil, Chile, Argentina, Indonesia, Malaysia, USA and Canada.
- Another important aspect of India's FTA should be **Infrastructure development to support India's trade with its neighbours**. India is geographically closer to South Asian nations as compared to China, however the proximity isn't an advantage today because China has much better infrastructure built to improve connectivity with South Asia. India will have to make this part of its FTA policies in order to be really benefitting from trade with its neighbours in South Asia.

<https://youtu.be/r9kvL9t1dU8>