



## EDITORIAL ANALYSIS

**Time: 10 min**

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### India-UK FTA - Significance & Challenges

**Syllabus: GS3/ Indian Economy & Related Issues, Growth & Development**

**In Context**

- India and the UK are close to concluding the free trade agreement (FTA) that has been in the works since January 2021.

**What is FTA?**

- A Free Trade Agreement (FTA) is a formal pact between two or more countries aimed at reducing barriers to imports and exports, promoting the exchange of goods and services across international borders.
- It allows for trade without government tariffs, quotas, subsidies, or prohibitions, fostering economic cooperation.
  - FTAs facilitate trade by lowering or eliminating barriers between nations.
  - Free trade opposes trade protectionism or economic isolationism.

**About India-UK FTA**

- **About:**
  - When signed, India-UK FTA would be the most comprehensive deal inked by India with any developed country.
  - An early conclusion of the FTA is expected to give a fillip to bilateral trade.
    - The bilateral trade between India and the U.K. increased to \$20.36 billion in 2022-23 from \$17.5 billion in 2021-22.
- **India's demands:**
  - The Indian industry is demanding greater access for its skilled professionals from sectors like IT, and healthcare in the UK market, besides market access for several goods at nil customs duties.
- **UK's demands:**
  - The U.K. is seeking a significant cut in import duties on goods such as scotch whiskey, automobiles, lamb meat, chocolates and certain confectionary items.

- Britain is also looking for more opportunities for U.K. services in Indian markets in segments like telecommunications, legal and financial services (banking and insurance).
- The UK has shortlisted products such as cement, chemicals, glass, iron and steel, non-ferrous metals, non-metallic minerals, paper and pulp, refining, fertilizers, and power generation.

### **Significance**

- **Newer strategies:**
  - India is seen breaking from the look east policy for trade deals **that saw widening deficits** with Japan, South Korea, and ASEAN countries.
  - The government is counting on economic integration with Western and African nations to fuel export growth.
- **Need for ‘China-plus one’ policy:**
  - The disruption of supply chains during the pandemic brought home to Western companies the risks of over-dependence on China, and the need for a ‘China-plus one’ policy.
  - Australia’s tensions with China, along with the complementarities with the Indian economy, presented a case for a trade deal with India; similar factors brought India and UK to opt for FTA negotiations.
- **Trade deals with other RCEP members:**
  - India, after exiting the China-dominated Regional Comprehensive Economic Partnership (RCEP), has been looking at trade deals with the UK, Australia, the EU and, until recently, Canada, to hold off China in the region.
- **Template for future agreements:**
  - When signed, the India-UK FTA will serve as a template for an agreement with India’s second-largest trade partner, the European Union (EU).
- **For UK:**
  - For a post-Brexit UK, these talks represent a chance to access newer markets.

### **Advantages for India**

- **India as a bigger exporter to the UK:**
  - For India, protecting its domestic industry remains a priority, especially given the focus on Make in India, but at the same time it hopes to become a bigger exporter to the UK.
- **Boost for Indian Exports:**
  - India’s labour-intensive sectors such as apparel and gems and jewellery have seen a steep decline in market share over the last five years.

- Indian textile exports face tariffs walls as high as 10% in the UK; a trade deal could put India on par with competition such as Bangladesh, and revive textile exports.
  - However, the British Parliament has been warned in a report that granting zero-duty access to Indian textiles under the FTA could bring stress on Least Developed Countries such as Bangladesh.
- **Boost for other negotiations:**
  - The trade pact could also boost India's negotiations in at least two other deals:
    - One with the European Free Trade Association—the four-nation bloc of Iceland, Liechtenstein, Norway and Switzerland—and
    - An interim trade pact with Canada.

### Issues & Challenges

- **Deeper access for British goods:**
  - Many Indian exports to the UK already enjoy low or zero tariffs, while British exports to India such as cars, Scotch whisky, and wines, face considerable tariffs of 100-150%.
  - Tariff reductions on these goods will potentially offer them deeper access into Indian markets.
  - The average tariff on goods imported from India into the UK is 4.2% but the average tariff in India on goods imported from the UK is 14.6%.
- **Possible imposition of carbon tax:**
  - Like the EU, the UK is looking to impose a levy on metal imports based on carbon emissions.
  - An EU-style carbon border adjustment mechanism (CBAM) will **hurt India's exports** to the UK even if India wins significant removal of tariffs.
  - The UK's carbon **tax could be harsh**, as one of its aims is to reduce dependence on **Russian energy imports**.
- **Issue of rules of origin:**
  - Rules of origin are the basis for extending duty concessions.
  - Each trade pact contains a set of rules of origin that prescribe the norms to be fulfilled to meet the 'originating status' criteria in the exporting country.
  - This is to ensure that countries with a trade agreement do not dump goods from a third country after just affixing a label on them.
- **Other issues which need resolution include:**
  - Intellectual property rights (IPRs);
  - Social security agreement;

- Duty concessions on electric vehicles, scotch whiskey, lamb meat, chocolates and certain confectionary items;
- Liberalisation of norms in services sectors like banking and insurance.

### **Suggestions**

- India could use the negotiations to **eliminate non-tariff barriers (NTBs)** that have historically been a concern for exporters, especially for agri exports.
  - NTBs often **come in the form of regulations**, standards, testing, certification, or pre shipment inspection that are aimed at protecting human, animal, or plant health and the environment.
  - Vegetable and fruit exporters often face strict limits imposed by European economies on pesticides and other contaminants in agri imports.
  - In manufacturing too, **Indian products face high rejection** based on conformity assessments and technical requirements.
- It is essential for both countries to become proactive and prompt in finalizing the bilateral agreement to rejuvenate the existing bilateral trade between India and the UK.

### **Daily Mains Question**

**[Q]** What is the significance of India's potential free trade agreement (FTA) with the UK? Examine the issues & challenges in a way. Suggest ways to deal with them.