



India-UK Free Trade Agreement: The time has come

Brexit and “Global Britain”

Brexit came into effect on 31 January 2020 with the transition period ending on 31 December 2020. Even though the UK has signed a deal with the EU, Brexit comes as a significant change for its economy, given that it was an EU member since 1973. In this context, it is important to note that under the "Global Britain" strategy of the UK government issued in March 2021, it has set out its security, defence, development, and foreign policy through the publication “Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy”. The review described a tilt towards the “Indo-Pacific” region and acknowledged its increasing geopolitical and economic importance over the next decade.

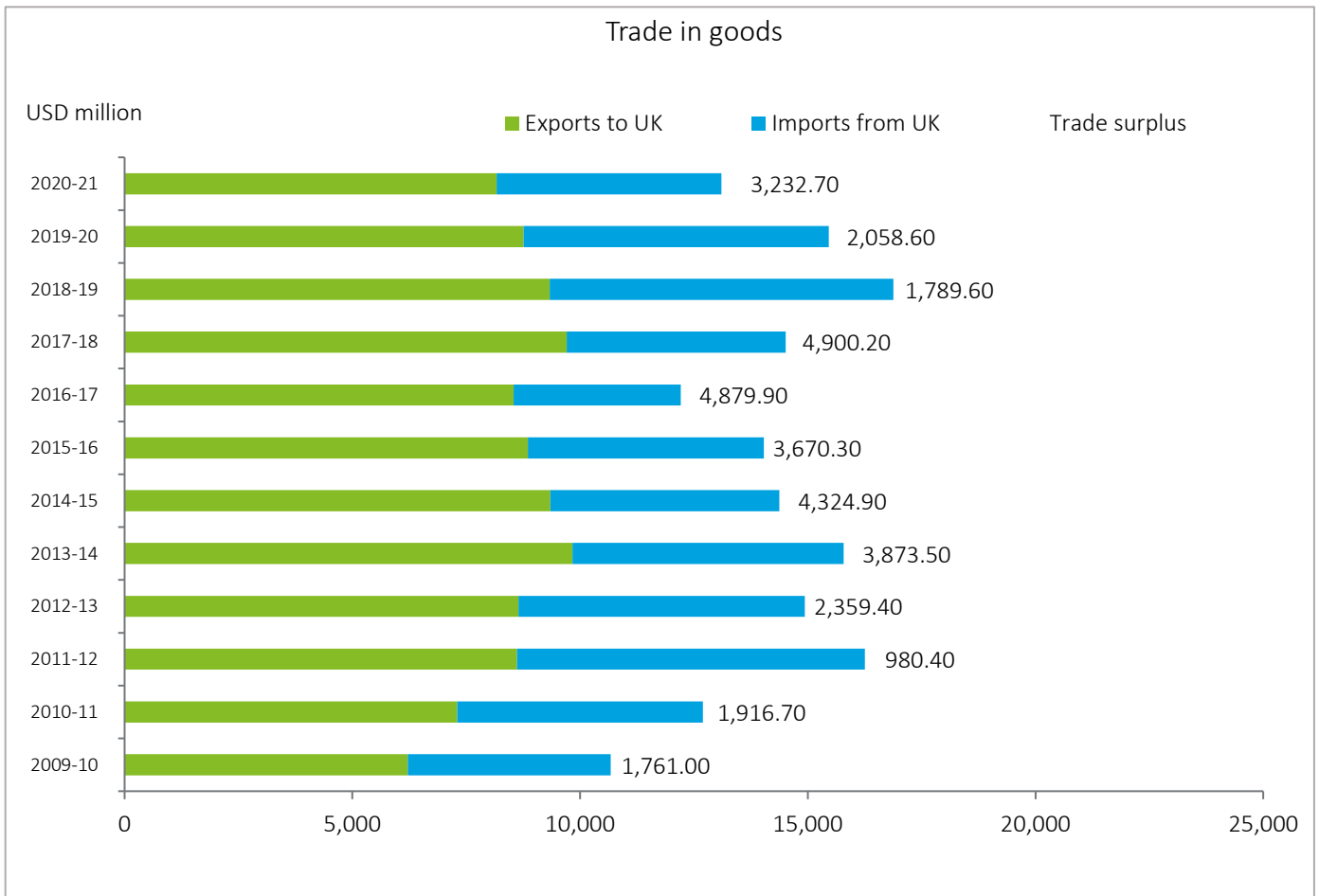
As part of its new trade policy, the UK has been negotiating trade agreements with several countries on a war footing, even amidst the pandemic. Apart from rolling over most of the trade agreements between the EU and other countries, the UK had concluded an independent Free Trade Agreement (FTA) with Japan even before the UK’s deal with the EU. The UK and India’s Prime Ministers recently launched the “Enhanced Trade Partnership” (ETP) and announced their intent to negotiate a comprehensive FTA. They also agreed to continue removing trade barriers and have set an ambitious target of more than doubling UK-India trade by 2030, including the consideration of an Interim Trade Agreement to deliver an “early harvest”.

India–UK FDI and foreign trade

Today, India is amongst the top two source markets for FDI into the UK.¹ Indian companies play a significant role in UK’s economy by creating jobs and contributing to taxes. Despite the uncertainty over Brexit, the number of Indian firms operating in the UK increased from 800 in FY2017-18 to 850 during FY2019-20, employing over 110,793 people.² The UK is the largest European source of remittances to India and is the sixth-largest FDI source with a cumulative equity investment of US\$29.6 billion during April 2000 and September 2020, accounting for around 6 percent of total FDI into India during this period.^{3,4} The services sector attracted the highest FDI, accounting for a 10.15 percent share of total investment from the UK.⁵

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 (export and imports together) increased by 22.7 percent from FY2009–2010 to US\$13.1 billion in FY2020–2021 (**figure 1**); imports from the UK increased by 11 percent, while Indian exports to the UK went up by 31 percent over this period.⁶ With exports to the UK growing considerably faster than imports from the country, India has maintained a trade surplus with the UK since 2004.

Figure 1: India’s merchandise trade surplus with the UK has increased over the years



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

In recent years, services trade between the two nations is progressively becoming significant vis a vis trade in goods (in value terms), and the trend is expected to continue in the years ahead. In 2019, the UK imported £6.6 billion worth of services from India and exported £3.9 billion, leading to total services trade of £10.5 billion (**figure 2**). India’s services exports to the UK grew at a CAGR

¹ CMIE data; <https://economictimes.indiatimes.com/news/international/business/india-moves-up-a-rank-to-become-second-largest-source-of-fdi-for-uk/articleshow/76897637.cms>

² India-UK brief April 2021- Ministry of External Affairs

³ High commission of India, London

⁴ Department for promotion of industry and internal trade, https://dipp.gov.in/sites/default/files/Table_No_11_DEC_20.pdf

⁵ CMIE data

⁶ CMIE data

of 20.6 percent between 2016 and 2019 and contributed to significant employment in India.⁷ Services trade, however, fell in 2020 due to COVID related disruptions.

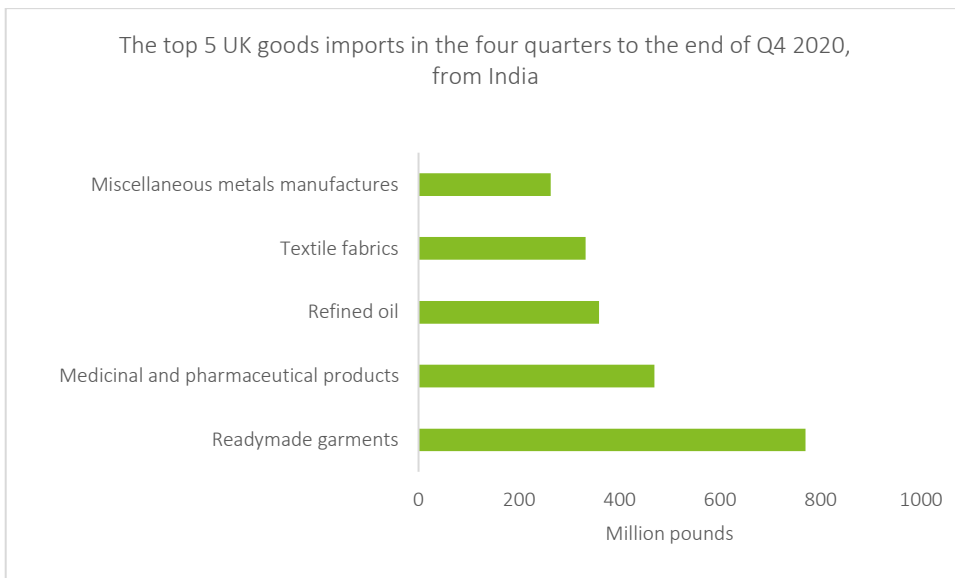
Figure 2: Trade in services between the two nations has increased



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 (figure 3).⁸ The top three services exports include technical, trade-related and other business services, professional and management consulting services, and travel.

Figure 3. Readymade garments is the largest exported goods from India to the UK



Source: Department of International trade, UK

Note - This POV document is the first in the series of Deloitte’s POVs on India-UK ETP, which will be shared as the negotiation progresses between the two countries.

⁷ Office of National Statistics, UK, <https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktotaltradeallcountriesnonseasonallyadjusted>
⁸ Department of international trade, UK, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/985785/india-trade-and-investment-factsheet-2021-05-14.pdf

India's experience with other FTAs

India has considered FTAs as an important tool to boost its trade and investment and has signed more than 18 trade agreements to date, including those with ASEAN countries (Japan, Korea, Singapore, Thailand, Sri Lanka, Malaysia), SAARC countries, and SAFTA countries. It is interesting to note that India is one of the top Asian countries with a maximum number of FTAs, either in operation, under negotiation, or at a proposed stage. Looking at some major trade agreements entered by India, such as the ASEAN–India FTA, India–Japan CEPA, and India–Korea CEPA, it can be noted that metal, textile, machinery, cement, agriculture, and gem and jewellery are key sectors on which tariff concessions have been made in the past.

As a result of these trade agreements, there has been a substantial increase in trade volumes between India and these countries. As per Ministry of Commerce and Industry data, the bilateral trade between India and other SAFTA member countries increased from US\$6.8 billion during 2005–06 to US\$28.5 billion during 2018–19. India has signed only five FTAs in the last 11 years; only one since 2012.⁹ This apparently conservative approach may be explained by the fact that India's trade deficit with several major trading partners (Japan, Korea, and ASEAN countries) increased after these trade agreements, suggesting rising import dependence on these nations.¹⁰

Enhanced Trade Partnership (ETP)

From India's perspective, the ETP includes an intent to promote greater links between GIFT City and the UK financial services ecosystem. This collaboration has already started with leading UK banks being front-runners in setting up operations in IFSC. The intent is also to encourage UK companies to invest in India's manufacturing sector by taking advantage of the Production Linked Incentive (PLI) scheme. India would also be looking to enhance its exports of other goods, the supply of which, under the PLI scheme, is being enhanced substantially. Further, the UK's new points-based immigration system should give highly skilled Indians relatively easier access to the UK in the post-Brexit era, as the EU nationals will no longer enjoy the benefits of free movement to the UK. Further, India and the UK recently signed a Migration and Mobility MOU with the intention to implement the India–UK comprehensive Migration and Mobility Partnership (MMP) by April 2022. India would look to utilise these relaxations to scale up exports of IT/computer services and business services.

A new "Global Innovation Partnership" (GIP) has also been launched, the main objective of which is to support the transfer of inclusive, climate-smart innovations from India to select developing countries. The ETP also intends to promote UK financing and to mobilise UK expertise in green and sustainable infrastructure projects in India, and to enable Indian companies to raise funding in the London market, including through listings and bond issuance. The two governments have signed an MoU for cooperation in the field of telecommunications/ICT, meant to enhance cooperation in telecoms infrastructure, including telecoms diversification and disaster resilience. Both the governments are looking forward to deepening their defence collaborations in cyber and key military technologies, including complex weapons, maritime technology, and combat air systems.

Outlook of India–UK FTA

As part of the trade deal, the UK will be looking for tariffs to be cut on goods such as cars and whisky and market access in areas including digital and data, and legal services (subject to regulatory changes). Chemicals and drugs and pharmaceuticals feature amongst the fastest-growing sectors, where the two countries have huge investments and will likely continue in the near term. Additionally, sectors such as communication and technology offer significant opportunities for UK exporters to tap into the Indian market. The UK is also keen to reduce its dependence on China, which presents India with an opportunity to increase its share of supplies in categories where China has a big presence: Fashion (including apparel accessories and footwear), homeware and furniture, electrical machinery, and general industrial machinery. It may be noted from agreements recently concluded by the UK with other APAC countries (including Singapore and Japan) that the key sectors included automobiles, textiles, pharmaceuticals, food and beverage, machinery, chemicals, and agriculture. The UK may be interested in concessions on similar products in the FTA with India.

⁹ ADB database, <https://aric.adb.org/database/fta>

¹⁰ <https://economictimes.indiatimes.com/blogs/et-commentary/indias-trade-with-its-fta-partners-experiences-challenges-and-way-forward/>

A brief snapshot of high-level sectoral benefits under existing/upcoming trade agreements of India and the UK is summarised below:

Recent major agreements		Sectors focused upon for preferential tariff
India (between 2009 and 2021) with	ASEAN, Malaysia, Japan, Korea, Mauritius	All sectors with a specific focus on animal products, wood and articles, paper and paperboard, cement and ceramic, arms and ammunitions, iron and steel, organic chemicals, machinery, textile, mineral, organic chemicals, gem and jewellery, nuclear reactor and related machinery, electrical machinery,
United Kingdom (between 2019 and 2021) with	The US, Japan, Australia; Iceland, India, Liechtenstein and Norway (the EEA EFTA States), Turkey, Mexico, Canada, amongst others.	Agri- food products such as Wheat products, Doughs and cake mixes, leathers and hides, Food preparations (including those containing wheat, barley, cocoa, tea and coffee), milk powder, certain cheeses, manufacturing (industrial goods, electrical control units used in cars, rail cars and components, turbojet engines and control panels for electric vehicles, industrial ethanol), coal and steel, digital trade and data, financial services, creative industry, fashion, security field (Five eyes arrangements), intellectual property

India has entered into customs cooperation agreements with some countries to facilitate trade by ensuring accurate assessment of customs duties, efficient clearance of goods, and effective information and intelligence sharing. It recently approved such an agreement with the UK, which will come into force from the first day of the month since its ratification and signing by both parties. The FTA negotiations will begin later this year and negotiating strategies may also have to work with their respective local business associations, covering considerations of small and medium enterprises too. Also, policies will need to be developed that liberalise trade for both economies from a medium- to long-term perspective. After Brexit, there has been mutual interest from both countries, whereby India can fulfil some of the UK's needs, which were earlier fulfilled by the EU. Also, the UK can now independently enter into an agreement, leaving aside some roadblocks in the India-EU FTA.

Conclusive remarks

The Indian diaspora in the UK accounts for over 1.6 million people, contributing significantly to prosperity on both sides.¹¹ Both leaders acknowledged the power of this "living bridge" between the two countries as a source of strength to the bilateral relationship. Over the past year, the two countries have worked in close collaboration to develop and manufacture vaccines, and the UK (as part of the international community) has helped India deal with the second wave of the pandemic. At the UK's invitation, the Indian Prime Minister had recently attended the G7 meeting virtually.

With the ETP in place, both countries can unlock new opportunities to bring together people, ideas, and institutions that share a common history. There cannot be a more opportune time for both economies to bounce back post COVID-19 and align their business interests towards a brighter future.

In fact, the action has already begun with the UK launching a 14-week public consultation process to finalise its list of offers and requests to its Indian counterparts. So, watch this space!

¹¹ <https://mea.gov.in/Portal/ForeignRelation/induknw.pdf>



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