



India-UK FTA - A New Opportunity

This editorial is based on [“India Calling with Quite A Lot Of Trade in Mind”](#) which was published in The Hindu on 05/02/2022. It talks about the significance of the formal Free Trade Agreement (FTA) negotiations initiated by India and the UK.

For Prelims: Free Trade Agreement (FTA), Types of FTAs, India’s FTAs with different countries, India-UK Ties, Post-Brexit Trade Treaty.

For Mains: India’s Bilateral Relations with UK, India-UK Free Trade Agreement and its significance for India, Free Trade Agreements.

The beginning of the year 2022 saw the formal launch of negotiations for an [India-United Kingdom free trade agreement \(FTA\)](#) which both of them envisage concluding by the end of 2022.

These negotiations were aimed at achieving a **“fair and balanced” FTA** and **cover more than 90% of tariff lines** so as to reach the bilateral trade target of around **\$100 billion by 2030**.

Besides goods, services and investments, this ‘new-age FTA’ has been suggested to include areas such as intellectual property rights, geographical indications, sustainability, digital technology and anti-corruption.

A U.K.-India trade agreement will **stimulate growth and employment in both countries** and will help **diversify supply chains** by making it easier and cheaper for more businesses to do business across borders.

India and Free Trade Agreement (FTA)

What is an FTA?

- A [Free Trade Agreement \(FTA\)](#) 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.
- The concept of free trade is the **opposite of trade protectionism** or economic isolationism.
- FTAs can be categorised as **Preferential Trade Agreement (PTA)**, [Comprehensive Economic Cooperation Agreement \(CECA\)](#), [Comprehensive Economic Partnership Agreement \(CEPA\)](#).

Where does India stand in terms of FTAs with Other Countries?

- 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 upgradation of the existing FTA](#), formally called the **Comprehensive Economic Partnership Agreement**.

India-UK FTA

Where do India and the UK currently stand in terms of Economic Ties?

- There are nearly **600 U.K. companies in India employing more than 3,20,000 people**.
 - Products manufactured in India, by companies like JCB and Hindustan Unilever, are **exported to over 110 countries across the globe** supporting the vision for an [Atmanirbhar Bharat](#).
- Also, **India is already a big investor into the U.K.**, especially in dynamic sectors such as [fintech](#), [electric vehicles](#) and [batteries](#).
 - In 2020-21, **India was the U.K.'s second largest source of investment** in terms of number of projects.
- However, given the size of the two economies — the fifth and sixth largest in the world — **India-UK trade relationship in particular has underperformed**. An FTA will change that.

What Significance does this FTA hold for the UK?

- The UK has made a trade pact with **India, one of its [post-Brexit](#) priorities** as it seeks a greater role in the [Indo-Pacific](#).
 - **India is at the heart of the U.K.'s Indo-Pacific 'tilt'**, which has generated considerable interest around the world.
- While the U.K. will also be launching trade negotiations with Canada, Mexico and the Gulf to underscore its 'Global Britain' credentials, a **trade deal with India along with its membership in the [CPTPP](#)** remains critical in anchoring the U.K. economically to the Indo-Pacific.
- The U.K. recognises the importance of a free and open Indo-Pacific to global stability and prosperity, and has made clear its intentions to deploy strategic assets to this end.
 - Partnerships like [AUKUS](#) and FTAs with countries like India **gives London a greater voice in the Indo-Pacific region**.

How Significant is this FTA for India?

- Trade deals with the UK could **boost exports for large job-creating sectors** such as [textiles](#), leather goods, and footwear.
 - India is also expected to register a quantum jump in the **export of Marine Products** through the recognition of 56 marine units of India.
- There is also great potential for **increasing exports in service sectors like IT/ITES, Nursing, education, healthcare**, including [AYUSH](#) and audio-visual services.
- The UK is a permanent member of the UN Security Council, and one of the strategic partners of India.
 - Strengthening bonds with the trade would seek **UKs support at global issues** like [standoff with China](#) in the Ladakh sector of the [Line of Actual Control \(LAC\)](#) and [claim for permanent seat at UNSC](#).

What can be the Underlying Challenges?

- **Delays in Signing FTAs:** Interim **agreements, which reduce tariffs on some products**, can however in some cases lead to significant delays in achieving comprehensive FTAs.
 - India, in 2004, signed an interim trade agreement with Thailand to reduce tariffs on 84 goods, but the agreement was **never converted to a full-fledged FTA**.

- **Possible Challenges WTO may Pose:** Interim FTA do not graduate into full FTAs can also face challenges from other countries at the [World Trade Organization \(WTO\)](#).
 - The WTO rules **only permit members to give preferential terms** to other countries if they have bilateral agreements that **cover “substantially all the trade” between them.**

What is the Way Forward?

- **Towards Stronger Indo-UK Ties:** Through its Indo-Pacific tilt, the U.K. is finally carving out a direction and purpose to its post-Brexit foreign policy. And it is this prioritisation that has opened up a new window for New Delhi and London to quickly finalise their FTA.
 - India is showing a newfound flexibility in engaging with its partners on trade. Moreover, **strategic partnerships without strong economic content would have no meaning in the Indo-Pacific**, where **China’s economic clout is growing by the day.**
 - It is a unique “now or never” moment and the two sides seem willing to seize it despite the challenges.
- **Opportunities for India:** India has an extraordinary opportunity to transform its economy and society in the next 30 years.
 - Freer trade with the U.K. will help through **greater access to a highly open and competitive market**, offering valuable opportunities for India’s booming companies — for example giving **Bengaluru’s start-ups direct access to London’s** capital markets.
 - Lower barriers coupled with greater regulatory certainty would **incentivise new small and medium-sized enterprises** to export their goods and services.

Drishti Mains Question

Discuss the importance that the launch of formal Free Trade Agreement (FTA) between India and UK holds for the two countries.