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India - UK FTA

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Why is in news? What is the proposed India-UK Free Trade Agreement, and why the UK may benefit more

External Affairs Minister S Jaishankar discussed the India-UK Free Trade Agreement (FTA) with Britain's Prime Minister Rishi Sunak and Foreign Secretary David Cameron this week.

External Affairs Minister Jaishankar said in London that the FTA was "very much the focus of what the Indian and British systems are negotiating, and we hope that we will find a landing point that works for both", PTI reported.

News Summary:

About the India-UK FTA:

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).**

India's earlier FTAs with ASEAN and Japan yielded moderate results for India. India has taken its learnings from its earlier approach to FTAs.

Under its new approach, India has recently signed **three trade pacts with Mauritius, UAE and Australia.**

All the future trade pacts with countries like Canada, Israel, GCC, EU and EFTA will be negotiated under this new approach.

India-UK FTA negotiations hold importance for both the Indian and the British government.

The FTA consists of 26 chapters, out of which 21 chapters have been negotiated. There are some contentious issues, which are delaying the finalisation of the India-UK FTA.

Advantage for India:

India's labour-intensive sector like apparel/textile and gems and jewellery face high tariffs in the UK (Indian Textiles attract 10% tariff). The proposed FTA will bring down the tariffs and **help revive India's labour-intensive sectors.**

The proposed FTA is expected to **increase exports of Indian service sectors** like IT/ITES, Nursing, education, healthcare, including AYUSH and audio-visual services.

Elimination of Non-Tariff barriers for Indian exports like testing, certification and pre-shipment inspections have been a major concern for Indian agri-exporters. For ex- Rejection of Indian rice due to pesticide residue.

After India's exit from RCEP, these FTAs with UK, EU, GCC will **help in diversification of India's trade partners.**

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By **strengthening trade bonds** with UK, India can seek UK's support on issues like standoff with China and claim for permanent seat at UNSC.

Advantages for UK:

The proposed FTA gives a further **push to the strategy of reducing the risks of over-dependence** of the British economy on China after the COVID-19 experience. Eg. Push to 'China-plus one' strategy

The FTA seeks to **lower the Indian tariffs imposed on imported EVs and alcoholic products** from UK. (Currently, 70% to 100% duty is imposed by India on imported cars).

The search of UK for **new trade partners after Brexit** is the reason UK is pushing for the deal with India since 2016.

India and the UK are also **signing a bilateral investment treaty (BIT)** alongside the FTA that can provide an avenue to improve UK's investments into India. This will be a **win-win situation for both** countries

Challenges:

India is pushing for strict Rules of origin. Rules of Origin (ROO) determines the national source of a product. For ex- India fears dumping of European alcoholic drinks like gin, vodka and Irish whiskey, into India via UK.

After Brexit, UK has adopted a strict policy on granting work permits to foreigners. India is **pushing for relaxation in the work permit policy.**

UK is looking to **impose carbon tax on metal imports** on lines of EU's **carbon border adjustment mechanism (CBAM)**. This tax will hurt Indian manufacturing sector's exports such as cement, iron and steel and glass sector.

Strong IPR regime is being pushed by UK. For ex- UK which is a leader in life science innovation, is **pushing for stronger IPR regime** in the medical sector while this is being opposed by India which is the largest manufacturer of generic drugs in the world.

India is **yet to finalize its domestic laws on digital trade and data protection.** Hence, it is exercising caution in making commitments in the proposed FTA.

Any interim and incomplete FTA would **attract violation of the Most Favoured Nation (MFN)** principles of the WTO.

Discussions on the India-UK FTA are going in details to **address complexities related to global value chains.** India is negotiating hard for outcomes, which favour its ambition to become an alternative to China in the GVC.

India is also **concerned to protect its domestic industry**, which will face tremendous competition from the UK beverage companies.

Way Forward:

India is one of the fastest-growing large economies of the world and FTA with the UK has played a significant role in enhancing the trade volume of the country.

However, according to policymakers, FTAs signed by India with the UK have not brought the expected tangible benefits and, on the contrary, have hurt the country's manufacturing sector due to liberal rules of origin.

Therefore, there is a need for a detailed assessment of FTAs in terms of goods, services and investment flows by all the stakeholders involved.