Department for
International Trade

An information note for the consultation relating to a Free Trade Agreement between the United Kingdom and India

Contents

1. Introduction

The Government's ambition is to secure free trade agreements (FTAs) with countries covering 80% of UK trade by the end of 2022. The Department for International Trade (DIT) aims to secure an ambitious programme of FTAs to benefit the whole of the UK and support businesses of all sizes across different sectors of the economy. The department is conducting a public consultation, seeking views from a wide range of stakeholders, to inform our negotiation objectives and understanding of the economic, environmental and social impacts of an FTA with India.

Free trade agreements promote trade and investment, secure access for UK exporters to the markets of today and the future, give consumers access to a greater range of products at lower prices, and makes the UK more innovative, competitive and prosperous.

Trade agreements have these effects by reducing trade barriers between countries. Barriers can be taxes charged on goods as they cross borders (tariffs), or different rules and regulations that can add to trade costs. Trade and investment barriers make it more difficult and costly to trade or invest with businesses in partner counties. Reducing these barriers can help the flow of trade in goods, services and money for investment between countries. They help businesses access new markets they previously were not able to.

FTAs are expected to enhance economic growth and prosperity by:

- increasing import and export flows;
- increasing investment flows (both outward and inward);
- enhancing productivity through a more efficient allocation of resources and greater openness to international competition.

The UK has a strong bilateral relationship with India. Following the UK-India Joint Trade Review in 2018, both nations are seeking a deeper trade and investment relationship. The bilateral investment relationship supports around 400,000 jobs in each other's economies.[1]

1 Source: Eurostat Foreign Affiliates Data, number of employees in Indian owned businesses in the UK (2017) and the number of employees in UK owned businesses in India (2018), most recent available data used.

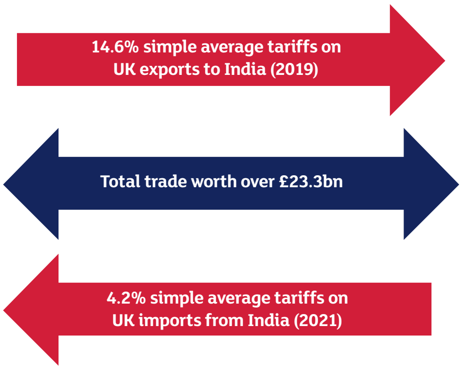
The aims of this information note are to:

- provide stakeholders with background evidence to support the consultation,
- clarify some of the terminology relating to FTAs, and
- provide information to respondents wishing to submit evidence setting out their views on the priority areas and expected impacts of an FTA with India.

The note helps define what a trade agreement can contain, provides a brief overview of the historic trade and investment relationship between the UK and India, sets out the evidence on the impacts of FTAs and summarises the measures that could be limiting the trade between the UK and India.

UK

- 6th largest economy
- Population of 66.8 million
- £2.45 trillion GDP
- Services are a larger proportion of the UK's economy than India's

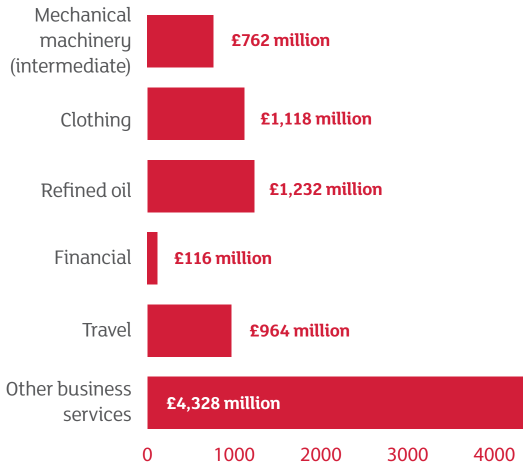


India

- 5th largest economy
- Population of 1.37 billion
- £7.17 trillion GDP
- Agriculture and industry represent a higher proportion of India's economy than the UK's

Key exports from the UK to India in 2019

Key imports from the India to the UK in 2019



The simple average tariff on goods...

...exported to india from the UK (2020) is

14.6%

...exported to india from the UK (2020) is

4.2%

India applies non-tariff measures to trade, including...

193

technical barriers to trade.

236

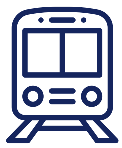
sanitary and phytosanitary restrictions to trade.

India's highest tariff on exports from the UK are in...

alcoholic beverages (150%)

Compared to the UK, India is relatively more restrictive in the trade of...

rail freight transport services



legal and accounting services

Infographic sources: World Bank Development Indicators, GDP (current US $). ONS;UK Economic Accounts; ONS, Trade in goods: country-by-commodity exports; UK trade in services: service type by partner country, non-seasonally adjusted, ONS; WTO TAO (analysed at 8-digit level; current UKGT schedule; WTO Integrated Trade Intelligence Portal; OECD STRI Further details on these values can be found within the text.

2. Definition and scope of a free trade agreement

A free trade agreement is an international agreement which removes or reduces tariff and non-tariff barriers to trade and investment between partner countries.

Trade and investment barriers make it more difficult and costly to trade or invest overseas. By removing or reducing them, FTAs can make it easier for businesses to export, import and invest. They can also benefit consumers by providing a more diverse and affordable range of imported products.

FTAs do not prevent governments from regulating in the public interest – for example, to protect consumers, the environment, animal welfare and health and safety. Equally, trade agreements do not require governments to privatise any service or prevent governments from expanding the range of services they supply to the public. For example, the UK Government has been clear about its commitment to protecting public services, particularly including the NHS. No future free trade agreement would affect the fact that it would remain up to the UK and devolved governments to decide how to run our publicly funded health services.

Types of provisions included in free trade agreements

The provisions included in free trade agreements (FTAs) vary across agreements. The World Bank has created a database that summarises the content of all FTAs that were in force and notified to the World Trade Organisation (WTO) until 2015.[2] It covers 279 FTAs. For each agreement, the commitments are classified in one of 52 categories (outlined in Table 1 below) and distinguished according to whether or not they are legally enforceable.

The World Bank classifies 18 of the 52 areas of policy cooperation as "core" provisions.[3] These are provisions which the World Bank identify as most meaningful from an economic point of view and have appeared most frequently in FTAs. "Non-core" provisions – which sometimes go beyond areas directly associated with trade and investment – have appeared less frequently in FTAs. As with all provisions, their inclusion typically depends upon the specific objectives of an agreement and the preferences of the partners involved.

2 Horizontal Depth: A New Database on the Content of Preferential Trade Agreements.

3 See page 5 on "Horizontal Depth, A New Database on the Content of Preferential Trade Agreements", World Bank Policy Research Working Paper 7981.

Over time the scope and depth of FTAs has generally grown, including provisions addressing trade in services and investment. FTAs increasingly address domestic policies inhibiting trade and investment, known as "behind the border" barriers.

A comprehensive trade agreement goes further than just eliminating tariffs between partner countries. For example, a comprehensive FTA could cover a number of areas such as intellectual property, sanitary and phytosanitary measures, recognition of standards, environment and provisions to reduce the cost of trading in services and investing cross borders.

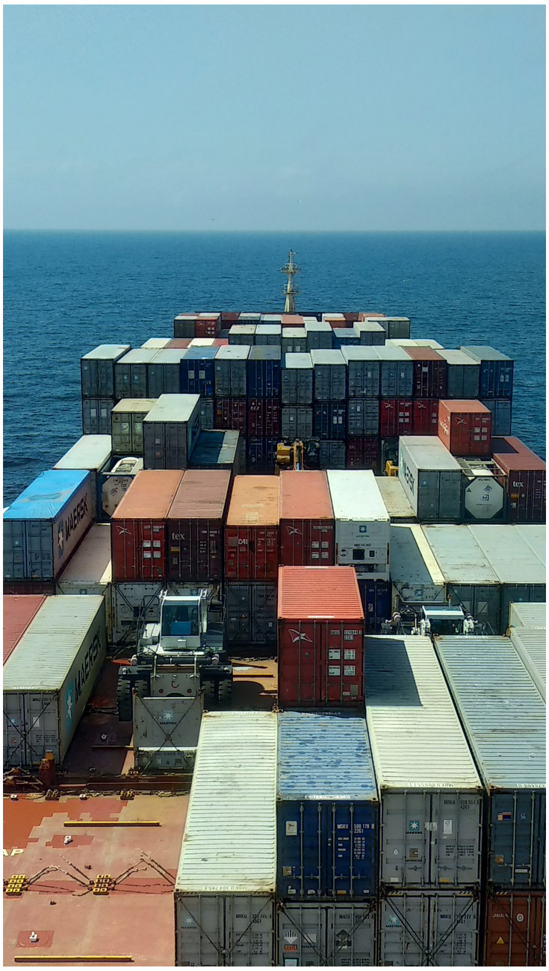
Table 1: Areas of policy cooperation in free trade agreements and economic partnership agreements

"Core" provisions (as defined by World Bank)	· Tariffs on industrial goods · Tariffs on agricultural goods · Customs administration · General Agreement on Trade in Services (GATS) · Export taxes · Sanitary and Phytosanitary (SPS) · State Trading Enterprises	· Technical Barriers to Trade (TBT) · Trade Related Aspects of Intellectual Property Rights (TRIPS) · Countervailing measures · Anti-dumping · State Aid/Subsidies · Public Procurement	· Trade Related Investment Measures (TRIMS) · Intellectual Property Rights (IPR) · Competition Policy · Investment · Movement of capital
"Non-core" provisions	· Anti-corruption · Environmental laws · Labour market regulation · Consumer protection · Data protection · Agriculture · Political dialogue · SMEs · Social Matters · Visa & Asylum · Approximation of legislation · Audiovisual · Civil protection	· Innovation policies · Cultural cooperation · Economic policy dialogue · Public administration · Statistics · Education and training · Energy · Financial assistance · Health · Human Rights · Illegal immigration · Regional cooperation · Taxation	· Illicit drugs · Industrial cooperation · Information society · Mining · Money laundering · Nuclear safety · Research and technology · Terrorism

Source: World Bank "Content of Deep Trade Agreements Database".

3. Areas of interest in our consultation

Our public consultation provides stakeholders with the opportunity to express their views about a UK-India FTA. We are particularly interested in views about:



- Which areas of a potential future free trade agreement you want the UK government to prioritise on trade talks with India?
- Are you facing challenges or constraints when attempting to trade or invest in India, and if so, how significant is this on your business activity?
- How do you expect your business to respond to a comprehensive FTA? For example, might you begin exporting to, or importing from, India? Or look to invest in India or attract investment from India, increase output or hire more workers?
- How do you expect your business to respond to the removal of Indian tariffs in an FTA with India?
- Is your business trading products related to the environment and/or a low carbon economy with India?

4. Trade and investment relationship between the United Kingdom and India

A Free Trade Agreement between the UK and India would represent an important opportunity to deepen our bilateral trade and investment relationship. This section provides an overview of the UK and Indian economies and the existing trade and investment relationship between the two countries.

India and the UK were the 5th and 6th largest economies in the world in 2019.[4] Total trade in goods and services between India and the UK reached over £23.3 billion in 2019.[5] The UK and the India are among the top investors in each other's economies, bringing long-term benefits to both countries.

The trading relationship between the UK and India presented in this information note is based on data from 2011 to 2019. Trade between the UK and India in 2020 is not presented as the data is likely to be heavily affected by the impacts of the coronavirus pandemic.

4 World Bank Development Indicators, GDP (current US $). Accessed April 2021.
5 UK total trade: all countries, non-seasonally adjusted, ONS. Accessed April 2021.

4.1 Economies of the United Kingdom and India

India's gross domestic product (GDP) at purchasing power parity (PPP) was around three times larger than the UK's in 2019.[6] However, India's GDP per capita was about seven times smaller than the UK. Trade (imports and exports) represent 40% of India's GDP, with the equivalent UK figure at 64% in 2019.

Services make up a larger proportion of the UK's economy, with agriculture and industry representing a higher proportion of India's economy (table 2).

Table 2: Headline economic indicators for India and the UK.

Economic Indicator (as of 2019)	India	UK
GDP (PPP[7])	£7.17 trillion	£2.45 trillion
GDP per capita (PPP)	£5,248	£36,585
Trade (% GDP)	40%	64%
Population	1.37 billion	66.8 million
Services, value added (% GDP)	49.4%	71.3%
Agriculture, value added (% GDP)	16.0%	0.6%
Industry, value added (% GDP)	24.8%	17.4%

Source: World Bank Development Indicators, accessed April 2021.

In 2019, India was home to 18% of the world's population and almost 7.1% of global GDP, contributing more to global GDP growth than all but the US and China.[8,9] India has made significant progress in reducing absolute poverty from 21.6% in 2011 to 13.4% in 2015.[10]

Evidence suggests that the Indian middle-class market is growing fast and, in terms of expenditure, could overtake the United States' before 2030 to become the second-largest middle-class market in the world.[11] Part of this is driven by an increase in the creation of non-farm employment over the past decade, which has been has been key to raising living standards in India.

6 A purchasing power parity (PPP) adjustment has been applied to GDP figures. This adjustment accounts for differences in prices between two countries, such that the same GDP (on a PPP basis) would allow consumers to buy the same basket of goods in both countries.
7 Based on GDP (on a PPP basis) in £GBP at 2017 prices, World Bank Development Indicators. Converted from US$ using Bank of England annual average spot exchange rates for 2019.
8 IMF WEO, GDP in current international dollars, PPP adjusted.
9 IMF WEO, in terms of GDP in current prices, India's economy has increased more between 2005-2019 than all but the US and China.
10 World Bank, Poverty and Equity Brief, South Asia, India 2019
11 The unprecedented expansion of the global middle class – an update. Homi Kharas, February 2017. Brookings Institution Working Paper.

The growth rate of consumption of the Indian middle class has been on an increasing trend. Whilst in developed countries that growth is broadly flat (at between 0.5 to 1 percent per year), in developing countries consumption is growing far more rapidly at rates of around 6 to 10 percent per year. This growing middle-class is expected to spend more on services (such as healthcare and education); seek premium offerings and new product categories (such as organic food); and have consumption preferences significantly driven by digital connectedness - trends that are likely to benefit UK businesses.[12]

According to the World Bank India is now poised to transition to a higher and more widely shared level of prosperity: by 2047 most citizens could join the ranks of the global middle class.[13]

India's population is younger than the world average, with only 6.6% of the population aged 65 or older as opposed to 9.3% for the world as a whole.[14] More than a third of India's population is living in urban areas.[15]

12 How India will consume in 2030: 10 mega trends. World Economic Forum, January 2019. https://www.weforum.org/agenda/2019/01/10-mega-trends-for-india-in-2030-the-future-of-consumption-in-one-of-the-fastest-growing-consumer-markets/

13 World Bank, India: systematic country diagnostic, report 126284-IN, 2018.

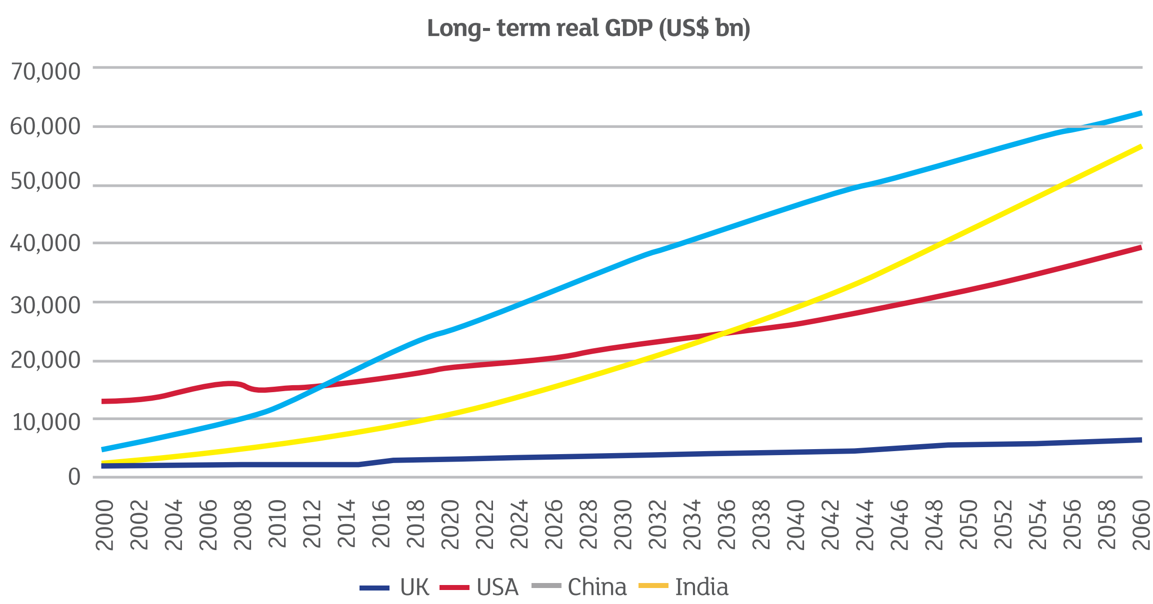
14 United Nations, Probabilistic Population Projections based on the World Population Prospects 2019

15 World Bank Open Data page, urban population in India

In 2020, the World Bank's Ease of Doing Business ranked India 63rd amongst 189 economies, where 1 is the best, 189 is the worst.[16]

India has been a large contributor to global growth in recent years. Long-term projections, up to 2060, indicate that India is expected to become the world's second largest economy by around 2037.[17]

Chart 1: OECD Long-run projections for GDP (real GDP, US$ billion). India projected to become world's second largest economy by around 2037



Source: OECD's Real GDP long-term forecast. Billion US dollars, measured in USD at 2010 Purchasing Power Parities.

4.2 Overview of the trade relationship between the UK and India

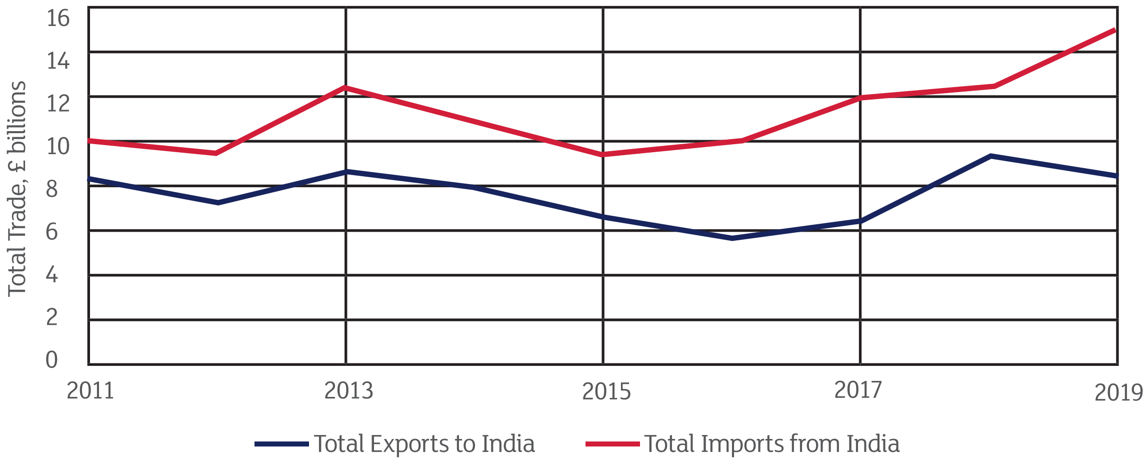
UK total trade with India has been growing since 2011. From 2011 to 2019, UK imports in goods and services from India have increased by 51% from £9.8 billion to £14.8 billion. In comparison, UK exports in goods and services to India have increased by 3% from £8.2 billion to £8.5 billion over the same period.[18]

16 https://www.doingbusiness.org/en/rankings?region=south-asia.

17 Long-term projections from OECD's long-term forecast. These estimates are calculated differently from the World Bank's Development Indicators figures on table 2 and cannot be compared directly.

18 Source: United Kingdom Economic Account, ONS, accessed April 2021.

Chart 2: UK trade with India, 2011 to 2019



Source: ONS, UK Economic Accounts, accessed April 2021.

Trade in goods represented 62% of total UK trade and 54% of total exports in 2019. In comparison, trade in services represented 38% of UK trade and 46% of total exports.

5. Trade in goods

5.1 Overview of trade in goods between the UK and India

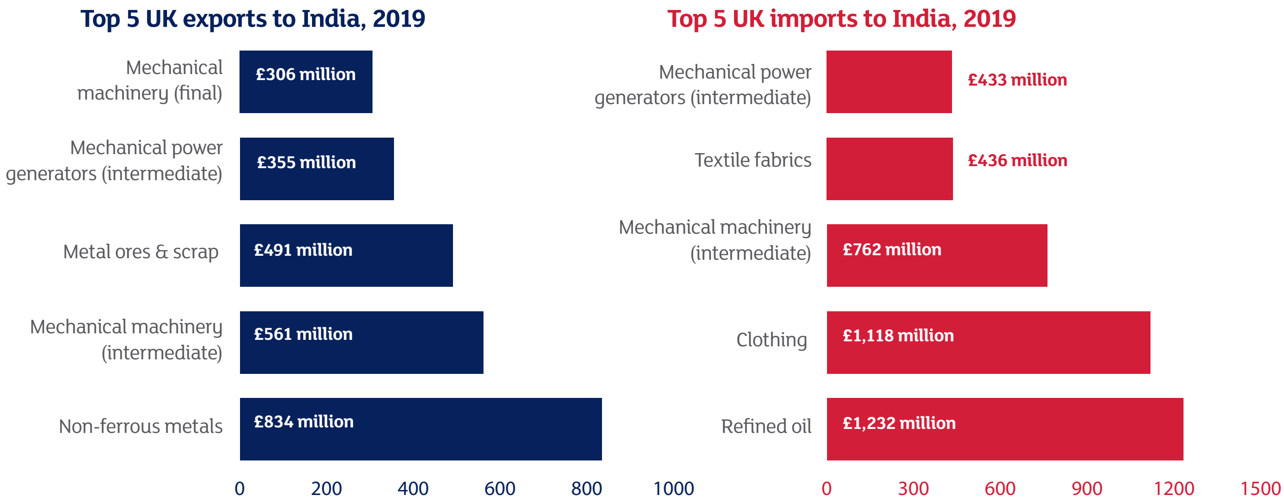
In 2019, the UK imported £8.2 billion worth of goods from India and exported £4.6 billion, leading to an overall goods trade of £12.8 billion. Since 2011, UK imports of goods from India have increased by 28%, whilst UK exports of goods to India have decreased by 28% over the same period.[19]

Figure 1: UK – India trade in goods

in 2019, the uk had an overall goods trade of **£12.8bn** with India.

since 2011, UK **imports** of goods to India have increased by **28%**

since 2011, UK **exports** of goods to India have decreased by **28%**



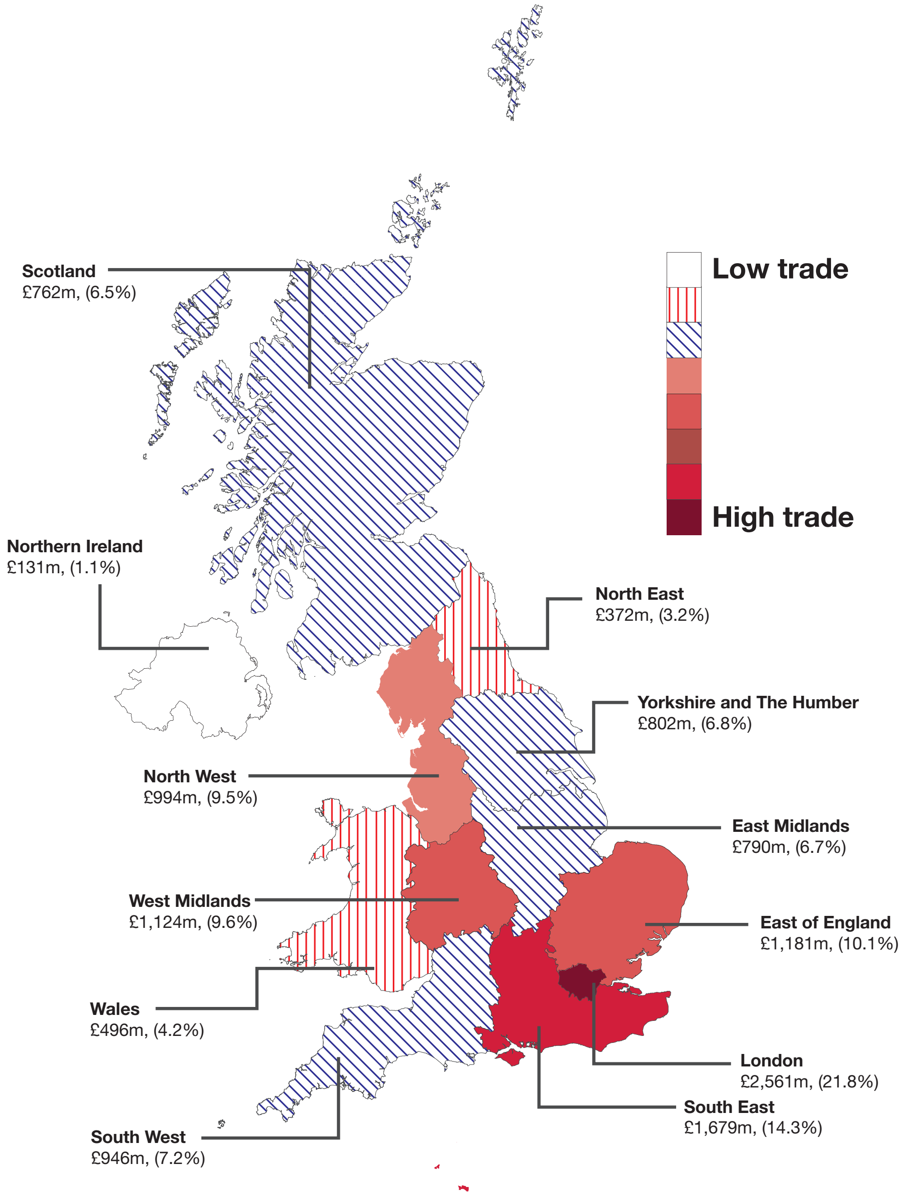
Source: ONS, UK Economic Accounts, accessed April 2021. ONS, Trade in goods: country-by-commodity exports, accessed April 2021.

The UK primarily exported non-ferrous metals, mechanical machinery and metal ores & scrap to India in 2019. Refined oil and clothing were the main UK imports from India in that period.[20]

19 Source: United Kingdom Economic Account, ONS, accessed April 2021.
20 The commodities are categorised based on SITC codes using a mixture of level 2 and level 3 codes.

Figure 2 below shows UK total trade with India by nations and regions of the of the UK. London and the South East are the UK regions that trade the most with India (both exports and imports), representing over 36 percent of total trade with that country. Imports from India where greater than exports to India across all UK nations and regions in 2019, except for Scotland, where exports were marginally larger than imports.

Figure 2: Overall trade (exports and imports) of goods with India by UK region, 2019



Source: HMRC Regional Trade Statistics

5.2 Impact of FTAs on trade in goods

Evidence suggests that FTAs can lead to large, sustained increases in trade in goods between partner countries. A review of many studies of the impacts of FTAs found that that they can increase total bilateral trade between partners by around 32%, although estimates from the literature vary widely.[21]

These studies indicate that more comprehensive agreements tend to generate larger increases in trade.[22]

The impact on trade in goods is typically driven by reducing tariff and non-tariff measures affecting goods trade.

5.3 Tariffs

Tariffs are customs duties on goods imported into a country. The simple average tariff on goods imported into the UK from India is 4.2%.[23] In comparison, the simple average tariffs on UK exports to India was 14.6%.[24]

The majority of product lines (66%) on Indian exports to the UK face no tariffs. In comparison, only 3% of product lines on UK exports to India can enter tariff free.

Furthermore, 6% of goods imports by the UK face a tariff greater than 15%, compared to 23% of goods imports by India.

Table 3: Tariffs applied by India and the UK (ad-valorem equivalent).[25]

	UK	India
Simple average tariff	4.2%	14.6%
% of goods trade with no duty (HS 8-digit goods categories)	66%	3%
% of goods with tariffs > 15% (HS 8-digit goods categories)	6%	23%

Source: 2020 India tariff data from WTO TAO, accessed April 2021. UK tariff data from UKGT schedule, accessed October 2020[26]

21 Head & Mayer (2013)

22 See for example: Egger et al. (2015))

23 India currently benefits from the UK Generalised Scheme of Preferences (UK GSP), a trade preference scheme which provides levels of preferential market access to around 70 developing countries. Tariff averages calculated using simple average of applied MFN tariffs by the UK. Source: UKGT schedule for 2021, accessed October 2020

24 Tariff averages calculated using simple average of applied MFN tariffs by India in 2018. Source: MacMaps, accessed September 2020.

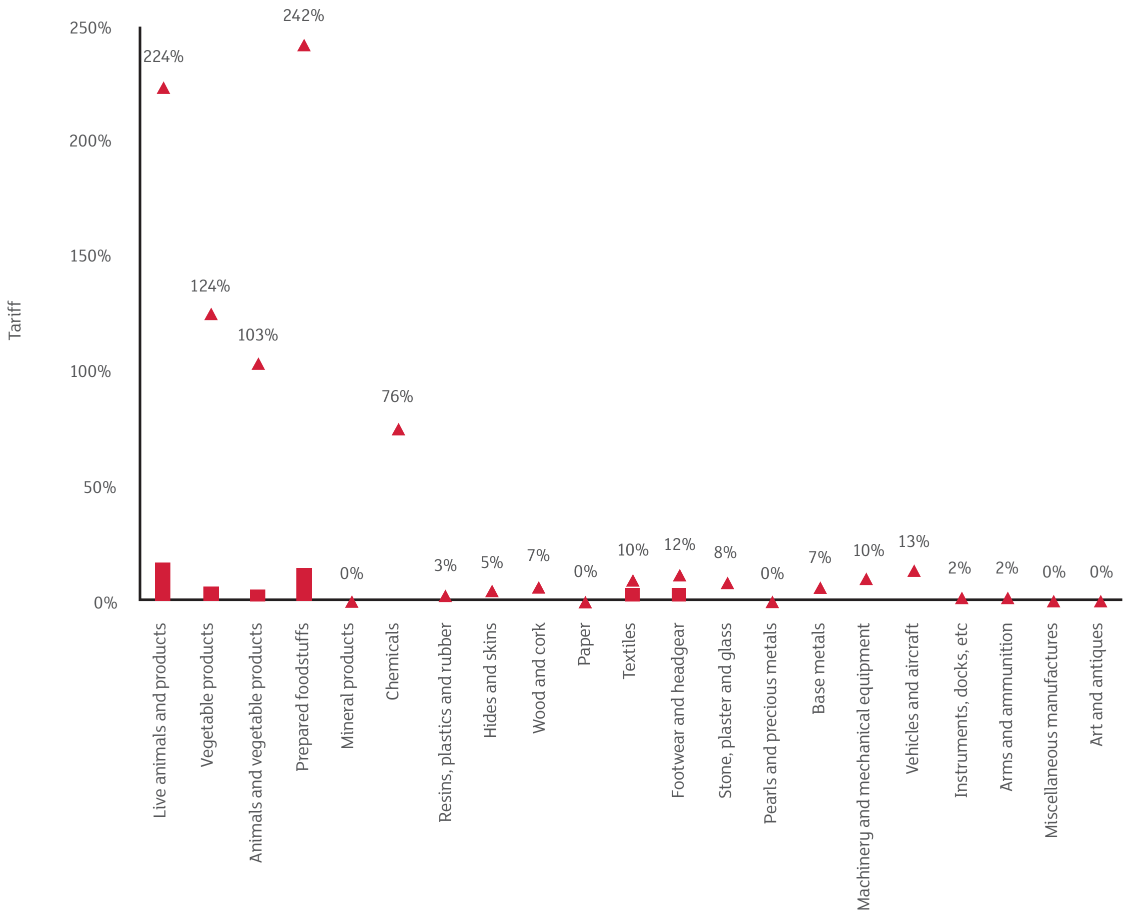
25 Tariff average calculated using simple average of applied tariffs. Ad-valorem equivalents calculated for specific taxes. Specific taxes are taxes applied per unit volume/weight of good sold rather than as a proportion of overall value. 'Ad valorem equivalents' convert these specific taxes (e.g. £5 per kilo) into the tariff rate that would be payable if items taxed according to its value.

26 Tariff data analysed at 8-digit level.

The Harmonized System (HS) is an international nomenclature for the classification of products. It allows countries to classify traded goods on a common basis for customs purposes. It comprises of thousands product descriptions, which can be grouped in 21 sections.

Charts 3 and 4 show the average tariffs and tariff peaks across HS sections. Tariff peaks represent the highest individual tariff on a product line within a section.

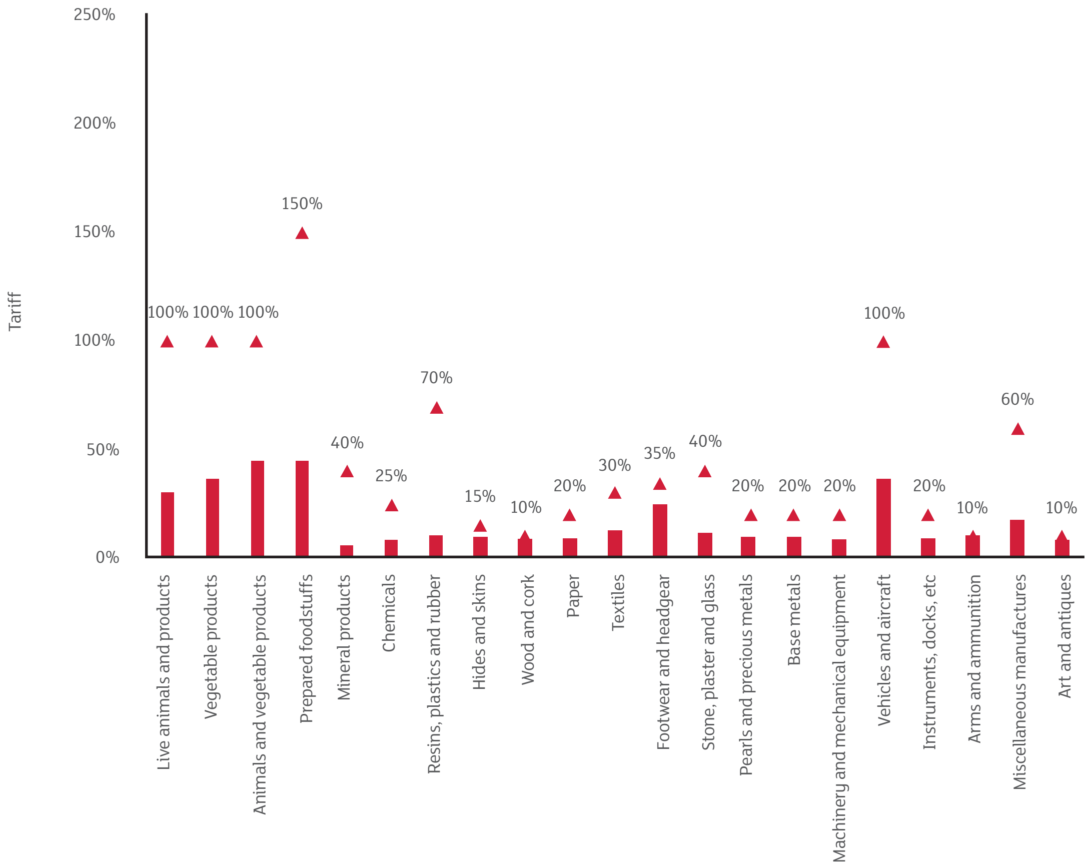
Chart 3: Simple average tariff and tariff peak by section applied by the UK.[27]



Note: Bars represent simple average tariff within each section, triangles and values represent tariff peaks, i.e. the highest individual tariff on an 8-digit product line. Source: UK tariff from UKGT schedule for 2021.

27 Simple average refers to average all the tariffs applied within a section, without consideration of the trade flows along lines within each section.

Chart 4: Simple average tariff and tariff peak by section applied by India.



Bars represent simple average tariff within each section, triangles and values represent tariff peaks, i.e. the highest individual tariff on an 8-digit product line. Source: India tariffs from WTO TAO, 2020 applied tariffs.

Non-tariff measures affecting trade

A non-tariff measure is defined as being any policy measure other than customs tariffs that can potentially affect the quantity of price of international trade. Data from the WTO's Integrated Trade Intelligence Portal (I-TIP) shows that the greatest number of non-tariff measures applied by India are in the sanitary and phytosanitary category. This is a category which covers any standards which a country applies to ensure food safety, animal health or plant health standards. According to this data, India also has a high number of technical barriers to trade, which include regulations, standards and procedures required to ensure that domestic legislative requirements are met.

In comparison to the UK, India has a greater number of sanitary and phytosanitary measures; technical barriers to trade; quantitative restrictions[28]; tariff-rate quotas[29]; and safeguards[30] than the UK.

28 Quantitative restrictions are limits on the quantity or value of goods that can be imported or exported during a specific period.
29 Tariff-rate quotas are instruments where quantities inside a quota are charged lower import duty rates, than those outside (which can be high)
30 Safeguard measures are defined as "emergency" actions with respect to increased imports of particular products, where such imports have caused or threaten to cause serious injury to the importing Member's domestic industry.

Table 4: Non-tariff measures in India and the UK, by frequency.

Non-Tariff Measures	Applied by India	Applied by the UK
Technical Barriers to Trade	193	54
Tariff-rate quotas	3	0
Special Safeguards	0	0
Sanitary and Phytosanitary	236	4
Safeguards	4	0
Quantitative Restrictions	59	0
Export Subsidies	0	0
Countervailing	0	0
Anti-dumping	0	0

Source: WTO Integrated Trade Intelligence Portal. Non-bilateral NTMs either initiated or in force on 28 April 2020.[31]

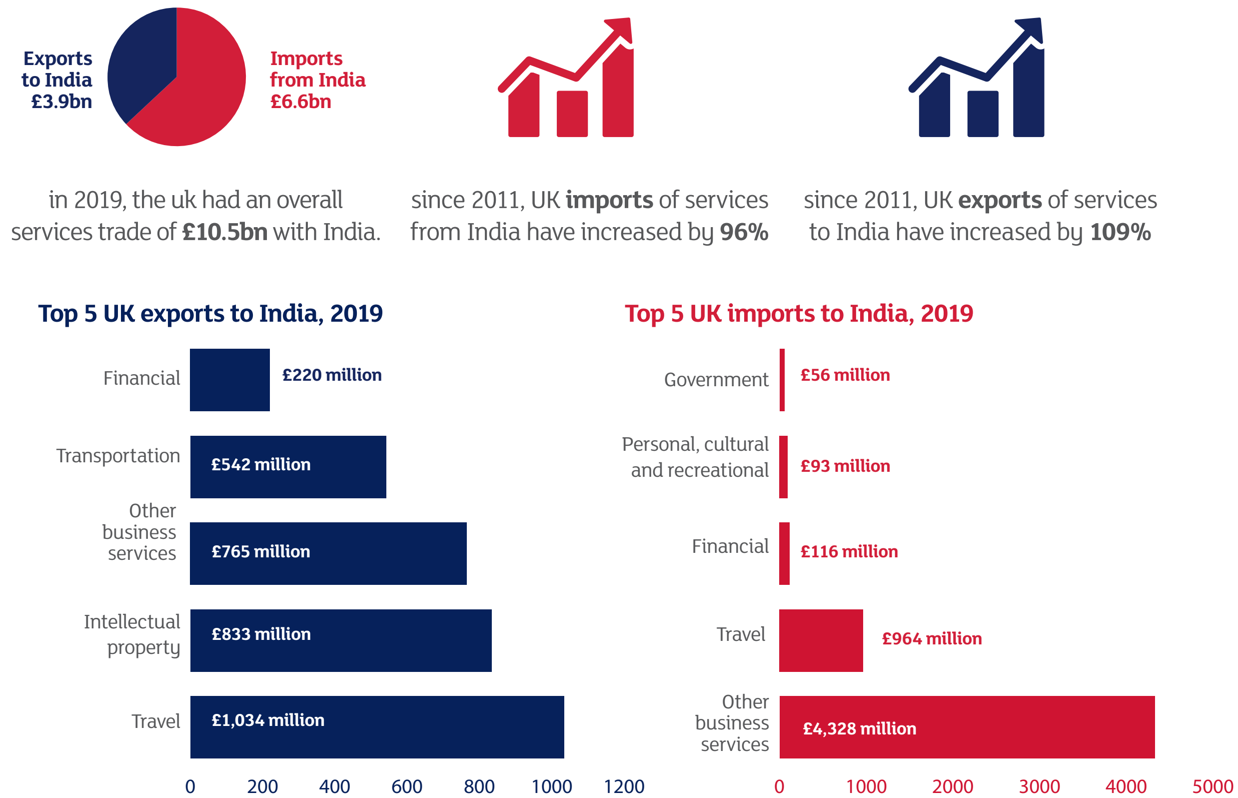
31 Within the data available, some NTM measures are listed as 'bilateral' and some listed as applying to 'all members'. The numbers on the table only represent those to 'all members'.

6. Trade in services

6.1 Overview of trade in services between the UK and India

In 2019, the UK imported £6.6 billion worth of services from India and exported £3.9billion, leading to total services trade of £10.5 billion. Since 2011, UK imports of services from India have increased by 96% whilst UK exports of services to India have increased by 109% over the same period.[32]

Figure 3: UK – India trade in services



Source: UK Economic Account, ONS. UK trade in services: service type by partner country, non-seasonally adjusted, ONS. Accessed April 2021.

Travel was the largest UK export to India, with more than £1 billion exported in 2019. Intellectual Property (£833 million in exports) and Other Business Services (including sectors such as legal, accounting and management consulting) were respectively the second and the third largest services exports in the same period. Other Business Services was also the top UK services import from India, with £4.3 billion worth imported in that year.[33]

32 Source: United Kingdom Economic Account, ONS, accessed April 2021.
33 UK trade in services: service type by partner country, non-seasonally adjusted, ONS. Accessed April 2021.

6.2 Impact of FTAs on trade in services

Economic evidence suggests that deep trade agreements increase services trade via the inclusion of provisions on specific services sectors which tackle behind-the-border barriers, such as regulatory alignment and national treatment rights.[34] FTAs can also boost trade in services by improving market access for foreign services providers through expanding upon existing commitments which ensure a level playing field between domestic and foreign service providers. More typically, FTAs increase trade in services by including provisions which 'lock-in' levels of market access so as to prevent further restrictions to foreign service suppliers being imposed in future. The evidence suggests that this generates a more stable and predictable policy environment which encourages foreign service suppliers to export and invest in the partner's market.[35]

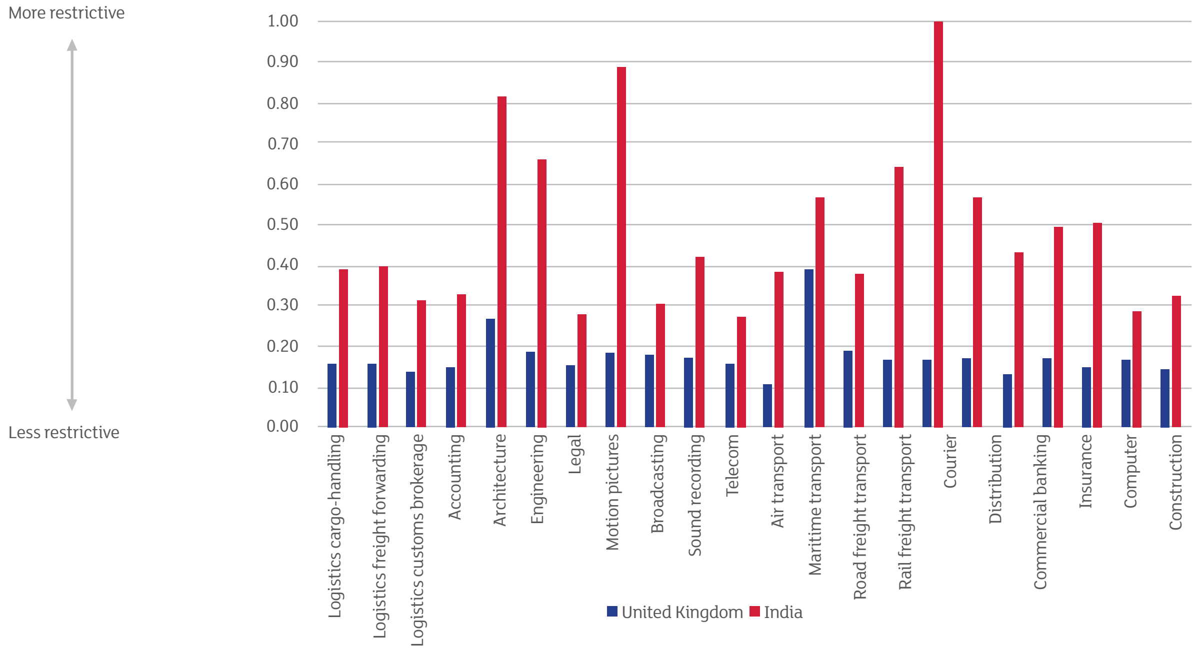
6.3 International evidence relating to barriers affecting trade in services

The OECD Services Trade Restrictiveness Index (STRI) database records restrictions to international trade in services. It scores sectors from 0 (completely open) to 1 (closed to international trade).

The index covers 22 sectors. As the chart below illustrates India's restrictions to services trade are substantially higher than the UK across all the sectors covered by the index. The sectors in the Indian economy with the greatest restrictions to international trade in services are Rail Freight Transport (which scores 1 in the index - i.e. categorised as completely closed to international trade); Legal (0.89), Accounting (0.82) and Architecture (0.66). As a comparison the UK sector with the highest score in the index is Air Transport, with a score of 0.39.

34 See for example: Guillin (2013); Lamprecht and Miroudot (2018).
35 See Ciuriak, Dadkhah and Lysenko (2020).

Chart 5: India and UK services trade restrictions. India's restrictions are considerably higher than the UK's



Source: OECD STRI, 2020 release (latest available as of April 2021).

7. Foreign direct investment (FDI)

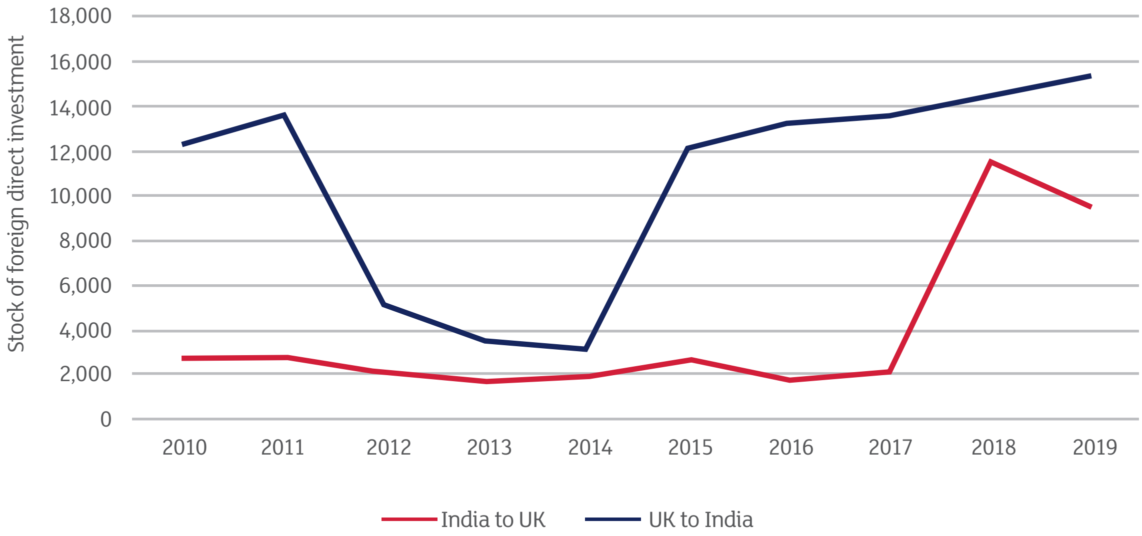
7.1 Overview of UK – India FDI relationship

The value of the total stock of (inward) FDI in the UK has been rising noticeably over recent years, from under £600 billion in 2007 to around £1.6 trillion in 2019.[36] The value of the UK's total stock of outward direct investment (ODI) has been more stable over the last decade and was also around £1.5 trillion in 2019.[37]

FDI is any investment that results in a greater-than 10% stake in a company. However, investment covers more than just FDI. FDI makes up about 16% of UK investment assets and 15% of UK investment liabilities globally.[38] The stock of UK FDI in India (blue line in chart below) increased steadily between 2014 and 2019. There was a substantial drop in investment positions between 2011 and 2014 but the UK's investment position recovered strongly between 2014 and 2015 and stood at £15.3bn in 2019, accounting for 1% of total UK investment stock.[39]

The stock of Indian FDI into the UK (orange line in chart) was broadly steady between 2010 and 2017. Between 2017 and 2018 it increased to £11.6bn, subsequently dropping slightly to £9.5bn in 2019 (equivalent to 0.6% of total inward investment stock into the UK). The 2019 stock of Indian FDI into the UK remains substantially above 2010 to 2017 levels.

Chart 6: Investment stock between the UK and India, 2010 to 2019.



Source: Investment data sourced from ONS publication of UK outward investment positions- foreign direct investment involving UK companies.

36 Investment data sourced from ONS publication of UK inward investment positions- foreign direct investment involving UK companies.

37 Investment data sourced from ONS publication of UK outward investment positions- foreign direct investment involving UK companies.

38 UK Pink Book, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/8internationalinvestmentpositionthepinkbook2016.

39 FDI stock is presented as a metric over the flows of FDI as the former is less erratic or influenced by individual transactions.

Due to data availability, only 31% of the UK investment positions are allocated to a sector, which may skew these results. Of the data that is available, the majority of UK FDI into India was in the Financial Services and Other Services, which accounted for a combined total of about 16% of total UK investment in India between 2016 and 2019.[40] The Metal and Machinery Products sector also stands out at 4% of UK FDI in India.[41]

Indian investment in the UK has a greater focus on services when compared to the UK's investment in India. Financial Services; Information and Communication; and Retail & Wholesale Trade make up a combined total of 27% of the Indian investment position in the UK.[42] As a comparison the largest goods sector in the Indian investment position (Petroleum, Chemicals, Pharmaceuticals, Rubber and Plastic products) only accounts for 1% of total Indian investment position. Similar to the situation with the UK FDI into India, only 35% of the Indian investment positions into the UK are allocated to a sector due to data availability.

7.2 Impact of FTAs on FDI

Free trade agreements (FTAs) increasingly include provisions relating to investment.

The evidence shows that FTAs that contain investment provisions can contribute to a more competitive business environment, which in turn improves productivity, increases innovation and generates economic spill-overs to the rest of the economy.[43]

FTAs can also seek to increase certainty for investors by providing them with protections against arbitrary or manifestly unfair treatment. Addressing risk and uncertainty is particularly important for companies that may incur significant "sunk" costs when they invest.[44]

Despite the benefits, global investment can be subject to restrictive measures. FTAs often aim to reduce or eliminate such restrictions on investment.

7.3 Restrictions on foreign direct investment (FDI)

The OECD's FDI Regulatory Restrictiveness Index (FDI index) measures restrictions on foreign direct investment. As in the STRI restrictions are evaluated on a 0 (open) to 1 (closed) scale. India, with an overall score of 0.21, is more restrictive to FDI than the UK (0.04 score).

40 'Other Services' includes Agriculture, forestry and fishing; electricity, gas, water and waste; construction; and other services.

41 Source- Investment data sourced from ONS publication of UK outward investment positions- foreign direct investment involving UK companies.

42 Source- Investment data sourced from ONS publication of UK inward investment positions- foreign direct investment involving UK companies.

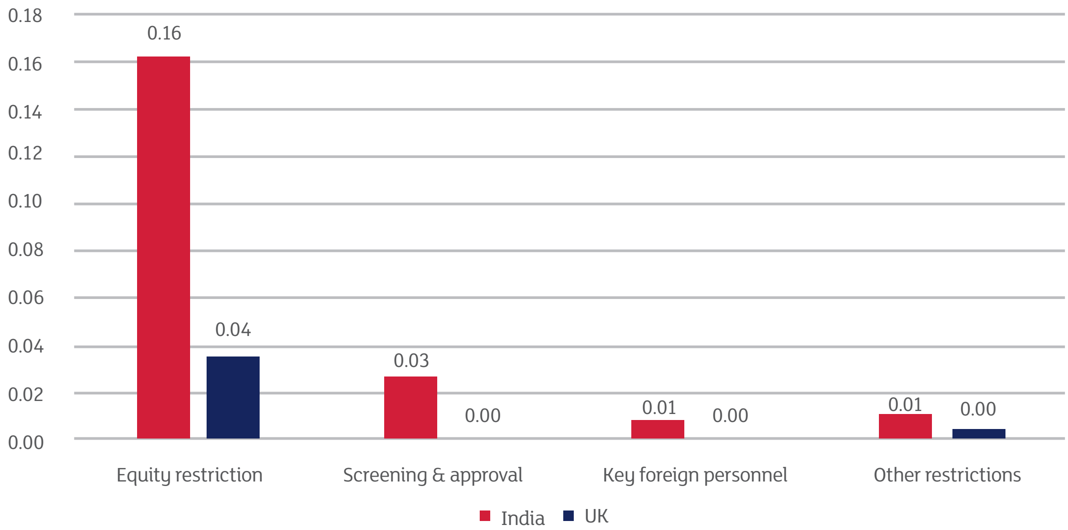
43 See for example: technology transfers from investment in R&D-intensive countries (Van Pottelsberghe and Luchtenberg, 2001), positive impact on economic growth (Szkorupova, 2014), increase on employment, productivity and competitiveness (HMG, 2014), R&D (Lin and Yeh, 2005).

44 A sunk cost is a cost that once a business pays can no longer be recovered by any means.

The FDI index estimates the restrictiveness of a country's rules by looking at four types of restrictions on FDI: 1) foreign equity limitations; 2) discriminatory screening or approval mechanisms; 3) restrictions on the employment of foreigners as key personnel and 4) other operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises.

As chart 7 illustrates India is more restrictive to foreign direct investment across all four types of restrictions covered in the FDI index. The UK is categorised as fully open to FDI (0 score[45]) in all categories apart from equity restrictions, where scores 0.04. India is seen as relatively open in three categories: screening & approval (0.03 score); key foreign personnel (0.01); and other restrictions (0.01). Nevertheless it has a score of 0.16 on the equity restrictions category.

Chart 7: India and UK investment restrictiveness, by type of restrictions



Source: OECD FDI Regulatory Restrictiveness Index, 2019 release (latest available as of April 2021).

45 UK score in the 'Other restrictions' category is 0.003.

8. Conclusions

Free trade agreements (FTAs) have the potential to deliver substantial economic benefits to signatories, including increased trade and investment. This is driven by reducing trade costs, reducing uncertainty in the rules of trade, creating a level playing field for businesses across partner countries and increasing productivity.

India is an important trade and investment partner for the UK and the deepening of our bilateral trade and investment relationship through an FTA could generate benefits to the UK and Indian economies.

This consultation will inform an evidence-based approach to decision-making and inform future assessments of the impacts of an FTA with India. We are interested in better understanding your views on areas such as key priorities in an FTA as well as current challenges in trading and investing in India.

The UK Government has committed to publishing scoping assessments before entering into negotiations with partner countries, and to publishing an impact assessment prior to implementation.

9. Glossary

A) Glossary of trade terminology

Anti-dumping duty	Under WTO rules, countries can counteract the practice of 'dumping' by imposing additional duties on imported goods found to be 'dumped' and causing injury to domestic producers.
Bilateral agreement	An agreement negotiated between two sides.
Competition	Ensuring businesses are treated fairly in each other's markets, including the application of competition law, the role of state-owned enterprises and the use of state aid and subsidies.
Countervailing Measure (CVM)	Additional duties that WTO rules authorise countries to impose on imported goods to offset state subsidies received in the country of export after having conducted a domestic investigation and establishing that the subsidised imports are causing injury to the domestic industry.
Customs authority	A government body that administers laws and regulations relating to goods crossing a border, particularly import, export, movement and storage of goods. This can be by: 1) Collecting duties and taxes. 2) Controlling import & export of restricted goods, e.g. animals, and weapons. In the UK, Customs functions are undertaken by HM Revenue & Customs and Border Force. In the UK, Customs functions are undertaken by HM Revenue & Customs and Border Force.
Customs Duty	A charge imposed by a country on the import or export of goods.
Customs procedures	Processes and procedures applied by customs authorities to control the export, import and transit of goods. Their improvement and simplification may lower costs and facilitate trade.
Dumping	Dumping occurs when goods are exported at a price less than their 'normal value', generally meaning they are exported for less than they are sold in the domestic market or are sold in export markets below the cost of production. WTO rules authorise action to counteract the practice of dumping when dumped imports are shown to cause injury to domestic producers.
Foreign Direct Investment (FDI)	Investment by an entity in a foreign operation, or establishment of a new operation in another country.
Free Trade Agreement (FTA)	A treaty among two or more countries to form a free trade area. This means having zero tariffs (or reduced tariffs) and reducing other regulatory restrictions on trade in substantially all goods and/or services.
Gross Domestic Product (GDP)	Gross domestic product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.

Intellectual Property (IP)	Creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. These creations are protected by law by a variety of intellectual property rights such as patents, copyright, trade marks, design rights and geographical indications.
Market access	Conditions set by governments to control which goods or services can or cannot enter their domestic market.
Most Favoured Nation (MFN)	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating some WTO members more favourably than others. The MFN obligation requires each WTO member, in its trade with all other WTO members, to give the best ("most-favoured") treatment that it accords in trade with any other WTO member. If, for example, a country lowers tariffs on goods from India, it must also do so on similar goods from Argentina. Exceptions to the MFN principle exist under WTO law, such as in the form of Customs Unions, Free Trade Agreements, Generalized System of Preferences and certain trade remedies. FTAs often contain their own MFN commitments between the treaty partners.
National Treatment	A non-discrimination principle enshrined in many WTO rules that prohibits a WTO member from treating imported goods or foreign services and services suppliers less favourably than domestic goods or services and services suppliers in its domestic market. The national treatment obligation helps ensure imported goods and services are not unfairly disadvantaged compared with their domestic counterparts. Such obligations may also be included in FTAs between the country parties.
Non-Tariff Barriers (NTBs) or Non-Tariff Measures (NTMs)	Any policy that restricts exports or imports other than a simple tariff.
Quantitative Restrictions (QRs)	Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period.
Regional Trade Agreement (RTA)	In the WTO, these refer to reciprocal trade agreements between two or more partners to liberalize tariffs and services. They include free trade areas and customs unions and economic integration agreements on services
Rules of Origin (RoO)	Rules used to determine where goods are "from", for example, where they have been produced or had substantial work done to them. This is used in determining appropriate tariff rates, access to preferential trade arrangements or application of trade sanctions.
Safeguard Measures	Actions taken to protect a specific industry from an unexpected build-up of imports. They are generally governed by Article 19 of GATT and the Agreement on Safeguards.
Sanitary and Phytosanitary Measures (SPS)	Measures to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.
Services Trade Restrictiveness Index (STRI)	STRIs are composite indices taking values between zero and one, zero representing an open market and one a market completely closed to foreign services providers

Small- and Medium-sized Enterprises	In the UK this covers businesses with fewer than 250 employees.
Supply chain	The sequence of processes involved in the production and distribution of a good.
Tariff Rate Quota (TRQ)	The application of a higher tariff or tax on certain goods once an agreed quota (amount) of imports is reached.
Tariffs	Refers to customs duties on imports of goods, levied either as a percentage of value or on the basis of a formula (e.g. 10 per cent or £7 per 100 kg).
Technical Barriers to Trade (TBT)	These are regulations, standards, testing and certification procedures applied to imports and exports which could obstruct trade. The WTO's TBT Agreement aims to ensure that these do not create unnecessary obstacles to trade.
Trade liberalisation	The removal or reduction of restrictions or barriers to trade.
Trade remedies	Measures which allow WTO members to operate a safety net and protect domestic industry from injury caused by unfair trading practices or from injury caused by surges in imports. They are taken in response to subsidies, dumping and import surges. These usually take the form of additional duties on those imports.
WTO	The World Trade Organization.

B) Glossary of FTA Chapter areas

Tariffs	Refers to customs duties on imports of goods, levied either as a percentage of value or on the basis of a formula (e.g. 10 per cent or £7 per 100 kg). Lowering import taxes (including tariff quota limits) so consumers and businesses can access goods and materials at a lower cost.
Rules of Origin (RoO)	Rules used to determine where goods are "from", for example, where they have been produced or had substantial work done to them. This is used in determining appropriate tariff rates, access to preferential trade arrangements or application of trade sanctions. Rules of origin provide the criteria for testing whether a good can be considered to have been produced in a particular country. They determine whether a good qualifies for any reduction in tariffs negotiated in a trade agreement, and can be an important factor in determining levels of real access to a trading partner's market.
Customs procedures	Processes and procedures applied by customs authorities to control the export, import and transit of goods. Their improvement and simplification may lower costs and facilitate trade. Improving and simplifying the procedures and processes which apply at the border to lower costs and increase the reliability of goods trade.
Product Standards, Regulation and Certification	Ensuring that approaches to regulation on products in each other's markets are as consistent as possible, don't unfairly favour one country's businesses over the other and that processes to comply with rules are as simple as possible.

Goods Regulatory Practices and Good Governance	Reduce regulatory obstacles, facilitate market access for UK businesses and investors, and improve trade flows by ensuring a transparent, predictable, and stable regulatory framework to give confidence and stability to UK exporting businesses and investors.
Sanitary and Phytosanitary Measures (SPS)	Measures to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants.
Services	Making it easier to provide services in each other's services markets such as in engineering, legal, consultancy and design, including allowing people to work temporarily in other countries to provide these services.
Digital	Enabling digital goods, digital services and digitally-enabled transactions of goods and services, whether digitally or physically delivered (including through Telecommunications Services), involving consumers, business or government, all underpinned by movement of data across borders.
Innovation	Provisions to ensure trade agreements are future-proofed and support innovative businesses to trade.
Competition Policy, Subsidies and State-Owned Enterprises (SOEs)	Ensuring businesses are treated fairly in each other's markets, including government support, the role of state owned businesses and competition law.
Competition	Ensuring businesses are treated fairly in each other's markets, including the application of competition law, the role of state-owned enterprises and the use of state aid and subsidies.
Government Procurement	Improving the access businesses have to government contacts in each other's markets.
Intellectual Property (IP)	Creations of the mind, such as inventions, literary and artistic works, designs, and symbols, names and images used in commerce. These creations are protected by law by a variety of intellectual property rights such as patents, copyright, trade marks, design rights and geographical indications. Ensuring that protections for innovation and ideas are in place, for example seeking to ensure patents and copyright measures are respected.
Investment	Investment provisions make it easier for individuals or companies to invest into other countries, including to run businesses. Policy can also provide for protection of these investments once made.
Labour Standards	Policy to maintain and promote high labour protections in both countries.
Gender Equality/Women's Economic Empowerment	Policy to maintain and promote high labour protections in both countries.

Environment and Climate Change	Policies and provisions aimed at supporting women's role in the economy with a view to realising the wider social and economic gains that can be achieved by improving gender equality.
Trade remedies Trade remedies	Measures which allow WTO members to operate a safety net and protect domestic industry from injury caused by unfair trading practices or from injury caused by surges in imports. They are taken in response to subsidies, dumping and import surges. These usually take the form of additional duties on those imports. Provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports.
Dispute Settlement	Provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.
Small- and Medium-sized Enterprises (SMEs)	In the UK this covers businesses with fewer than 250 employees. Ensuring that policy is designed in a way which supports small and medium sized businesses.
Recognition of academic and/or professional qualifications	The recognition of academic and/or professional qualifications allows people with professional qualifications obtained in one country to have these qualifications recognised in another.
Anti-corruption	Secure provisions that address the trade-distorting effects of corruption on global trade and fair competition to help maintain the UK's high standards in this area.

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The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

We are an international economic department, responsible for:

- supporting and encouraging UK businesses to drive sustainable international growth
- ensuring the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe
- opening markets, building a trade framework with new and existing partners which is free and fair
- using trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide.

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