

Call for Evidence: UK-India trade negotiations

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Preamble

1. A post-Brexit trade agreement between two members of the Commonwealth is significant. Loss of trade with the EU for the UK may be compensated to some degree through a UK-India trade agreement. Such an agreement is likely to benefit both countries, whose economies are oriented towards services. India needs aid and assistance in utilising its IT services to enhance the productivity of its agriculture and manufacturing sectors. The UK could assist India in promoting the use of IT in educating its large population of farmers.
2. Migration of Indians to the UK may increase, but the UK government should prioritise the inflow of trained Indian engineers, doctors and nurses. The large Indian diaspora in the UK (about 1.5 million) represents a great opportunity for closer economic ties between the two countries. The trade agreement should include discussion of the Indian diaspora's trade and investments in India, which would benefit both countries.
3. Issues in international trade often cannot be disentangled from issues related to the domestic economy. For example, UK government objectives to "level up" the regions of the UK may, in the long run, change the geographic distribution of skills, and may make some UK regions more attractive to inward investment from Indian firms.
4. India represents about 1.5% of UK goods exports, 1.4% of UK goods imports, 1% of UK services exports, and 3.5% of UK services imports. For comparison, India represents 3.3% of (nominal) world GDP. It would appear that the greatest scope for trade expansion with India is in UK exports of services.
5. For example, UK exports of financial services to India represent less than 0.4% of total UK exports of financial services, which is a key area of UK comparative advantage. This may in part be due to the less-developed Indian financial sector, so a UK-India FTA which includes services trade would be particularly beneficial especially as India continues to grow economically.
6. The UK's main areas of comparative advantage include motor vehicles and their parts, and services including financial services and IT. India's main areas of comparative advantage include some agricultural products and textiles, but also IT and pharmaceuticals.

Potential benefits and downsides

7. There are many potential benefits of the UK-India FTA, as outlined in the Department for International Trade document "UK-India Free Trade Agreement: The UK's Strategic Approach". India is already the fifth-largest economy in the world, and is still growing rapidly. A FTA with India would give UK firms better access to this large and growing market. In addition, since a large proportion of UK trade with India is in intermediate inputs, lower trade barriers resulting from the FTA would reduce production costs of UK firms, making them more competitive in third markets.
8. Closer economic ties between the UK and India may also encourage the Indian diaspora in the UK to invest in India's IT sector (much like the Indian diaspora in the US).

9. Potential downsides include increased competition in the UK market from Indian firms, which may harm UK import-competing firms. This is likely to be the case primarily in the agriculture and textiles sectors. This can be ameliorated to some extent through greater collaboration with Indian firms, or through UK government policies to re-train workers employed in these firms.

Relaxed visa rules for Indian citizens

10. In general this will be beneficial to the UK economy. Brexit has meant a reduction in immigration from EU countries, leading to skills shortages in many industries. This can be reduced by increasing the number of skilled workers coming from India. Sectors which would benefit especially from these workers include healthcare, higher education, IT, and pharmaceuticals.
11. Migration from India should be limited to high-skill sectors. India produces a large number of engineering graduates from its well-regarded Indian Institutes of Technology (IITs), and they could be encouraged to work in the UK.
12. Relaxed visa rules can also promote more short-term visits between the two countries, promoting greater collaboration between firms, universities, and public sector organisations in the two countries.
13. Potential risks could include the UK's increasing reliance on workers from India. These relaxed visa rules should be seen as a medium-term solution in sectors where skills shortages are most critical, for instance in healthcare. In the longer term, the UK needs to invest more in training healthcare professionals to overcome the current deficit, but that is a separate discussion.

Devolved nations and English regions

14. India's primary comparative advantage is in IT and pharmaceuticals, which are primarily concentrated in the region around London. Hence, any increased competition from Indian firms in these sectors through freer trade would not have a large impact on the devolved nations and English regions. Equally, any collaborations between UK and Indian firms would primarily benefit the Southern part of the UK.
15. UK regions which are most exposed to India's comparative advantage in agriculture and textiles include the East of England, the South West, Scotland and Northern Ireland (agriculture), and Yorkshire and Humberside and the East Midlands (textiles). Even in these regions, these sectors each represent less than 2% of regional GVA, so any adverse effects of the FTA should be limited in scope.

UK Government negotiating objectives

16. The Government's negotiating objectives are appropriate. The emphasis is on increasing market access to both UK and Indian firms, creating mutual gains from trade. The inclusion of social objectives such as the environment, human, labour, women's and minority rights is also necessary, and should also be in the interest of the Indian government.
17. The initial scoping document is an impressive piece of work, covering many of the key issues in considerable detail. Because of the relatively small UK-India trade at present (see preamble above), the scoping document estimates very small effects of the UK-India FTA on the overall economy and on the distribution of effects. Care is needed here, since these effects may become larger in future, especially if the UK Government negotiates FTAs with more countries. In this sense the document has shades of the debate in the 1990s of the

impact of US trade with developing economies (see for instance the articles in Feenstra and Rose (2000)). Even before the Autor et al (2013) literature, Krugman (2008) had already argued for a larger impact of trade with developing economies on US wages.

18. While I do not represent the UK higher education sector, as an academic at a UK university, I believe there are benefits to the UK higher education sector of a UK-India FTA. This may include increasing the profile of UK higher education in India, which together with more relaxed visa rules, may encourage a larger number of Indian students to study in the UK. UK universities already have many teaching and research collaborations with their Indian counterparts (see for instance Schofield (2021)), and the FTA will likely increase the number of such collaborations.

Consumer interests

19. Consumer interests should be promoted and protected through clear and transparent rules regarding the quality of products. This is especially important in sectors such as pharmaceuticals. Both parties should work together to simultaneously simplify and raise the standards required by the regulations (simplified rules may reduce costs of compliance, which may be used to raise standards).
20. Lower trade barriers on both intermediate and final goods will lower costs to firms which will hopefully be passed on to consumers in the form of lower prices, leading to gains for consumers. Lower trade barriers may also encourage a larger range of goods and services to be traded, increasing product variety for consumers.

The environment and climate

21. Since India's primary comparative advantage is in IT and pharmaceuticals, which are not the most energy-intensive sectors, the FTA would have only minimal effects on the greenhouse gas emissions of India. Similarly, given the UK's main comparative advantage in service sectors, the FTA would have only minimal effects on the greenhouse gas emissions of the UK.
22. Nevertheless, since the production of machinery and vehicles constitutes an important part of UK comparative advantage, increased production and exports in these sectors may raise the UK's greenhouse gas emissions. This may be ameliorated through the FTA facilitating the adoption of new low-emissions technologies in production, as well as innovations in machine and vehicle efficiency – as new, more efficient machinery and vehicles replace old, less efficient ones, in the long run there will be a decrease in greenhouse gas emissions.
23. Since the Indian government has ambitious goals of reducing environmental damage, the FTA represents an opportunity for the UK to assist our Indian counterparts in achieving their goals, through more exports of air handling and waste disposal equipment.

Human, labour, women's and minority rights

24. The UK should encourage our Indian counterparts to improve the rights of workers, women and minorities. This may be done through changes in legislation, improved enforcement, and education programmes.
25. If women are employed in the textiles, agriculture and IT sectors (where India has a comparative advantage in), the FTA would increase women's employment in these sectors, and reduce poverty. The salaries and rights of women working in these sectors should be protected.

UK's key defensive interests

26. The UK is a major producer of intellectual property in the IT and cultural sectors. These intellectual properties should be protected as much as possible from illegal piracy. The UK Government should work with its Indian counterpart to improve protection of intellectual property.

Food safety and animal welfare

27. There are risks that food safety standards could be compromised through the FTA. Similarly to consumer interests, clear and transparent rules on food safety and animal welfare are needed.

UK trade with other developing countries

28. As mentioned above, India's main comparative advantages in IT and pharmaceuticals are unusual among developing countries. As a result, the risk of trade diversion in these sectors resulting from the FTA are relatively low. However, India's comparative advantage in agriculture and textiles may lead to trade diversion from their neighbouring countries with comparative advantage in these sectors, such as Bangladesh, Pakistan, Sri Lanka and Indonesia.
29. To reduce the risk of trade diversion (and also to enhance UK trade with other developing countries), the UK government should accelerate its discussions on FTAs with other countries and groups of countries, such as the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which consists of eleven countries in the Pacific region).

Interim agreement

30. An Interim Agreement would be a good idea. Such an agreement would make the benefits of the FTA available to both countries more quickly. An interim agreement would also enable both parties to learn how the agreement works, and iron out any issues that arise before the final agreement.

Engaging with stakeholders and Government department coordination

31. Calls for Evidence such as the current call indicate that the Government is seeking to engage with stakeholders on the negotiations.
32. However, it would appear that the degree of coordination between Government departments could be improved. As noted in the Preamble, international trade has many implications for the domestic economy, so would affect many Government departments.

References

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