

IND0035 TheCityUK & City of London Corporation joint submission

Introduction

1. TheCityUK is the industry-led body representing the UK-based financial and related professional services (FRPS) industry. The industry contributes over 10% of the UK's total economic output and employs more than 2.3 million people, with two thirds of these jobs outside London. It is the biggest exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined.
2. TheCityUK provides the UK secretariat of the India-UK Financial Partnership (IUKFP), which was launched in 2014 by the Chancellor of the Exchequer and the Indian Finance Minister. The IUKFP aims to increase linkages between the FRPS industries in India and the UK, including by developing policy insights and practical recommendations on topics that are aligned to the priorities of the two Governments, such as trade and investment flows. Collectively, UK members of the IUKFP employ more than 250,000 staff in India. Our response is informed by feedback from UK members of the IUKFP, who have provided useful insights and priorities derived from their extensive operations across India.
3. The City of London Corporation works closely with a wide range of stakeholders to promote all UK-based FRPS. These include the Department for International Trade (DIT), HM Treasury, the Foreign, Commonwealth & Development Office and London and Partners. The common goal is to sustain prosperity and stimulate economic growth in London and across the UK through global trade and investment.
4. TheCityUK and the City of London Corporation welcome the opportunity afforded by the inquiry and are happy to answer any questions arising from its evidence. In this response, we have sought to answer the questions that are most relevant to the UK's FRPS industry.

Executive summary

5. The UK and India enjoy a strong bilateral trade and investment relationship. UK services exports to India amounted to almost £3.9bn in 2020. Financial services made up 7.8% of that total, with India ranking 30th as a destination for UK exports in that sector. Given that India's GDP is projected to grow at an annual average of 6.7% a year over 2022 to 2026, there is great potential for future trade between the two countries. There is significant foreign direct investment (FDI) between the two sides; in 2019, the stock of UK investment in India amounted to £63.9bn, while India's investments into the UK amounted to £40.8bn.

6. The strong trade figures between the UK and India do not capture the full importance of bilateral trade for UK-based FRPS businesses. India is a critical node within global digital networks; many financial institutions and professional services firms locate critical back-office functions and technology operations in India. India thus plays a very important role in UK companies' digital supply chains, adding value to UK businesses and providing many technology jobs in India.
7. A Free Trade Agreement (FTA) that liberalises trade in services by easing restrictions on UK businesses operating in India, securing digital trade, fostering regulatory co-operation, and supporting more movement of business personnel could bring significant benefits to businesses and consumers in both countries. An agreement that does not include a strong services chapter risks missing a significant opportunity for the UK to deepen and strengthen its future trade and investment with one of the fastest growing global markets.

What are the potential benefits for the UK of an FTA with India, and what are the potential downsides? How do you evaluate the Government's Negotiating Objectives (Outline Approach) and initial economic scoping assessment included in the Government's strategic approach? Are the UK Government's aims sufficiently ambitious? If you represent a sector, we would be interested to hear about any objectives your sector would like to see achieved.

8. The FTA presents an opportunity to strengthen trade and investment with one of the 21st century's global economic powerhouses. India is currently the world's sixth-largest economy but ranks only 30th as an export destination for UK financial services exports as of 2020. UK services exports to India amounted to almost £3.8bn in 2020, with financial services making up £296m of that total. This compares to UK financial services exports to Japan, which hovered around £3bn in the same year (more than ten times its financial services export to India). With a population of 1.4bn in 2020 – more than a tenth of whom have English as a second language – and projections of rapid economic growth over the coming decades, India is a vast potential market with which the UK can partner to deliver shared prosperity.
9. From a UK-based FRPS perspective, the Government's Negotiating Objectives (Outline Approach) and initial scoping assessment reflected the industry's core objectives for an FTA with India. These are as follows:
10. **Freedom for UK businesses to operate in India.** India imposes strict limitations on the ability of UK businesses to own and run operations in India. The UK should seek to remove barriers to UK financial and professional services businesses operating in India such as foreign investor equity caps, joint venture requirements, economic needs tests and nationality and residency requirements for business personnel. The UK should also seek to remove discrimination in the rate of tax imposed on foreign banks, which is higher than that imposed on domestic companies.

11. **Digital trade.** India is a critical node within global digital networks. Many UK-based FRPS business have located technology operations in India. A UK-India FTA should safeguard the ability of UK businesses to move data to and from India. The UK should seek to secure commitments from India to:

- Ensure that UK data can continue to flow freely to and from India.
- Limit data localisation measures to clearly defined cases (including localisation measures relating to financial data).
- Recognise the validity of e-signatures and electronic contracts.
- Protect digital IP relating to software, source codes and encryption technologies
- Avoid customs duties on electronic transmissions.
- Address market share restrictions for the processing of electronic payments by UK online payment service suppliers via India's United Payment Interface (UPI) system.

12. **Business personnel mobility.** The UK and India should agree to allow each other's businesses to post business personnel to the partner country with fewer restrictions and for longer periods. Making short-term business mobility easier by allowing employees to enter the UK for short term productive activity without needing a work visa could strengthen the UK's competitiveness and capacity for innovation, helping to underpin its status as a world-leading international financial centre. Other measures that UK should look to negotiate with India could include:

- Longer lengths of stay for inter-corporate transferees, investors, business visitors and service providers.
- Faster turnaround times and reduced administrative costs for business visas.
- Clearer definitions of who can get a business visa and ensuring that spouses and children can accompany key workers.

13. **Regulatory co-operation.** Most barriers to trade in FRPS are regulatory. Growing UK-India trade in FRPS will require both countries to develop greater regulatory cooperation and regulatory alignment. These could include:

- Include a commitment for the UK and India to regularly hold financial regulatory dialogues that include industry representation. This should build on the UK-India Economic and Financial Dialogue and the UK-India Financial Markets Dialogue.
- Encourage regulators to achieve mutual compatibility of UK and Indian financial services regulatory frameworks where appropriate.
- Encourage UK and Indian regulators to consider aligned approaches to new financial services like FinTech, cybersecurity, and applications of AI to financial services as outlined in the 2030 Roadmap for India-UK future relations.
- Encourage UK and Indian regulators to develop more aligned approaches towards sustainable finance, especially on green finance disclosure standards, green ratings, and emerging green taxonomies, to facilitate trade in environmental services, build scale in green finance markets, and support the green transition.

14. **Mutual recognition of professional qualifications.** The UK and India should use the FTA to seek mutual recognition of professional qualifications frameworks appropriate to each sector of financial and professional services. The frameworks should provide a clear path for the recognition of UK professional qualifications when UK professionals seek to enter Indian regulated professions. This matter is of particular importance to the legal sector.
15. **Investment protection.** UK investors in India should be protected against expropriation or government action restricting the value of their investment. An FTA should introduce measures that protect UK investments, provide dispute resolution mechanisms in the event of investment-related disputes, and guarantee adequate, effective and prompt compensation to investors whose assets have been expropriated.
16. **Public procurement.** The UK should secure market access for UK FRPS to Indian public procurement, and encourage India to accede to the WTO Government Procurement Agreement 2012 and to liberalise its public procurement markets that relate to services.

The UK-India joint statement on the launch of the negotiations states that “both Governments will consider the option of an Interim Agreement that generates early benefits for both countries”. How desirable would it be for the UK to agree to such an interim or ‘early harvest’ deal?

17. With the exception of 2022 trade agreements with Japan and Australia, India has not concluded an FTA with a major developed world economy. The FTA, if concluded, will also be the UK’s first with an emerging economy – not least one as vast and complex as the Indian market. An ambitious and comprehensive FTA that covers substantially all trade in both goods and services would deliver clear economic benefits on both sides. Securing this will require time and real commitment on both sides.
18. Services make up 80% of UK GDP. One advantage of having an independent trade policy is that the UK can now prioritise services trade areas – such as regulatory co-operation, digital trade, business personnel mobility, investment protection and public procurement. Both the UK and Indian economies are driven by exciting and innovative services industries. Any agreement between the two countries should build on their complementary strengths and new services trade to deliver more high-skilled jobs, growth and sustainable investment in both countries.

How would you rate the Government’s mechanisms for engaging with stakeholders and seeking input into the negotiations? What is your assessment of how well Government departments are coordinating with each other to help deliver the best outcomes in the negotiations?

19. We have valued the opportunities to engage with the Government in providing input into the FTA negotiations with India. As far as FRPS issues are concerned, DIT, HM Treasury and other departments concerned with trade in services have engaged with industry through its Trade Advisory

Groups (TAGs) and other consultation groups convened by government. TheCityUK sits on consultation groups that cover financial services, professional services, and trade continuity.

20. In addition to the TAGs, the Government has engaged with stakeholders on the FTA through the DIT-led public consultation process, as well as through direct engagement. TheCityUK, drawing on consultations with trade association partners, a broad range of businesses and UK members of the IUKFP, together with the City of London Corporation provided a consolidated industry view to DIT's consultation in August 2021. It will be important for all these avenues of consultation to remain open, and be fully used, as negotiations intensify and critical textual proposals exchanged between the two sides are discussed.

Conclusion

21. We hope the views of TheCityUK and the City of London Corporation will help the Committee in its inquiry, and would be pleased to provide further insight.