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TAPPING THE UNTAPPED POTENTIAL: INDIA-IRELAND TRADE AND INVESTMENT OPPORTUNITIES POST-BREXIT

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EXECUTIVE SUMMARY

Rising importance of trade diversification within the EU, after Brexit

The last few years witnessed a colossal transformation of the international trading systems. These events, especially Britain's exit from the European Union (Brexit) have underscored the importance of trade diversification. Within the EU, Ireland is a key trade and investment partner for India. In the year 2020, India's exports to Ireland accounted for 1.6 percent of India's total exports to the EU and imports accounted for 1.2 percent of India's total imports from the EU. India is a net exporter of goods to Ireland and there is potential for increasing trade further.

India's trade in services with Ireland is four times the bilateral trade in goods and there is a potential to increase it further. Ireland is among the top countries in Europe that speaks English as a primary language. There are synergies between the two markets, making Ireland an attractive base for India to access and export services in the EU market, especially after Brexit. With this background, using secondary data and information, this paper explores trade and

Key Highlights

- India has an untapped export potential of US\$19 billion in the Irish market with the top 50 items accounting for 71 percent of the total potential. Exports of pharmaceuticals, organic chemicals and surgical goods dominate India's goods exports to Ireland, with there being potential to enhance such trade.
- Services are the largest component of India-Ireland trade and there is potential for increasing India's services export to Ireland, especially in business services, education, tourism, and medical services.
- There are regulatory issues in the case of ICT services and education services that restrict services trade possibilities between the two countries. For instance, current Mode 4-related regulations in Ireland are different from the rest of the EU member states.
- There is potential to strengthen investment ties further, particularly through investment and collaborations in emerging technologies.
- Further boost to bilateral ties can come from the opportunities that are likely to be unleashed from the forthcoming India-EU free trade and investment agreements.

investment opportunities between India and Ireland.

Export potential of nearly USD20 billion in goods trade

Bilateral trade in goods between India and Ireland increased at the rate of 6.5 percent over the previous decade. It peaked in 2014 largely because of export of airplanes and other aircrafts, which accounted for nearly 40 percent of the total exports from India to Ireland in that year. Subsequently over a span of six years, total trade fell from US\$1.26 billion to US\$947 million. Commodity-wise analysis of export data shows that nearly 38 percent of the value of India's total exports to Ireland in 2020 comprised of organic chemicals, which are the basic raw material for pharmaceutical products while about 33 percent of the value of India's total imports from Ireland in the same year comprised of machinery and mechanical appliances. Seventy percent of the top 30 products exported from India to Ireland are accounted for by high skill and technology intensive items.

Although the total bilateral trade in 2020 was US\$947 million, in which India's exports accounted for US\$543 million, there remains a huge untapped trade potential between India and Ireland. Trade potential refers to the value of trade which can be traded between India and Ireland, rather than by the two countries with the rest of the World.¹

It is estimated that India's export potential to Ireland, for products in which India is globally competitive, is US\$19 billion for the year 2020. Of this, 71 per cent accrues to the top 50 products with US\$13.5 billion export potential. Within the top 50 products, 21 products were traded in 2020 (henceforth referred to as currently traded products accounting for 65 percent of the export potential, while there were 29 products that had potential, but were not being traded (new products with export potential) which accounted for 35 percent. Interestingly, out of the 21 items that are currently exported and have high potential, 11 are also among India's top 30 export items to Ireland. This includes pharmaceutical products with 27.3 percent share in the value of top 50 export potential items, followed by organic chemicals, nuclear reactors & machinery, etc.

This trade potential can be released by overcoming

tariff barriers and non-tariff barriers. In fact, non-tariff barriers, particularly those associated with product quality and standards – are a bigger obstacle for the developing countries to export to the developed markets. Among India's top 50 products with export potential to Ireland, many products are skill and technology intensive manufactures. However, India's technology intensive manufacturers – although competitive and exportable to several other countries – are possibly unable to meet the EU / Irish product standards, to ensure the safety and protection of human health and the environment in the EU market. Pharmaceutical products are one of the top export potential items, however, access to new drugs is also subject to a lengthy decision-making process.

Services are most important facet of India-Ireland trade, with the possibility of enhancing India's export of business services

India's total trade in services with Ireland in 2020 was nearly four times India's total trade in goods with the country in the same year. Bilateral services trade has increased over the years between India and Ireland; however, the balance of trade is in favour of Ireland. India's exports to Ireland have increased from US\$ 108 million in 2010 to US\$ 1.4 billion in 2020, while India's imports have gone up from US\$ 756 million to US\$ 2.5 billion. In the year 2020, with a share of 1.1 per cent in India's trade in services with the world, India's services trade with Ireland was around US\$ 4 billion. In the same year, India's trade deficit stood at US\$ 1.1 billion.

The share of Ireland in India's export to the EU was around 8.5 percent in 2020 – yet it is the fourth largest export destination for India in the EU.² Compared to this, Ireland was the largest source of services import for India from EU in 2020 with a share of 20.5 percent in India's total services import from the EU.

In terms of the composition of services trade, the top items of export for India in 2020 included professional and management consulting services, computer services and transport services, while Ireland top items of import included research and development services; charges for the use of intellectual property and technical, trade-related, and other business services. Ireland is also a net importer of professional

1 The method for calculating trade potential is intuitive and can be presented using the following formula:
Trade Potential= Minimum of (value of India's trade with the World, value of Ireland's trade with the World) – (bilateral trade between India and Ireland)

2 Eurostat database.

and management consulting services, which is one of the largest export items for India.

After Brexit, Ireland is the only large English-speaking country in the EU. A report by the Skills and Labour Market Research Unit (SLMRU), SOLAS, Ireland, found demand for skills in sectors including IT and business services continue to rise. About 46 percent of the recruitment agencies surveyed reported difficulty in filling positions including IT and engineering workers, especially because global markets are becoming competitive for these skills and there are insufficient numbers of skilled candidates within the Irish labour market. This presents an opportunity for Indian skilled and high-skilled workforce, especially in the information technology sector.

Ireland has also emerged as a potential destination for education services, given the predominance of English language. The country boasts of having the highest number of Science, Technology, Engineering, and Mathematics (STEM) graduates per capita in the EU, highest ratio of artificial intelligence talent across Europe on a per capita basis, highest number of personnel per capita employed in MedTech, being the second largest exporter of MedTech products in Europe, and having Cyber security embedded in the Irish education system.³ Engineering is among the most popular professions pursued by Indian students and there is a growing interest among them to pursue higher education abroad. In fact, there are several collaborations between the Indian and Irish educational institutes that can be explored.

India is an important destination for medical value travel and receives international patients, primarily from the neighbouring Asian countries. While India may be a long distance away for Irish citizens to travel to for healthcare, yet there is prospect of a bilateral arrangement between the two countries, which can allow Indian medical services to be available in Ireland.

While there is potential, barriers to trade in services exist. For instance, there are issues with the application of the EU Directive on intra-corporate transferees (ICT). While 25 EU member states have transposed the Directive in their legislation, Ireland is one of the few countries, which has not done so. Ireland is not a party to the New Pact on Migration and Asylum, which is proposed to set-out a uniform

EU-wide scheme for highly qualified third-country workers and it will replace the diverse entry and residence schemes. Ireland also requires a labour market and wage parity test with local employees for certain categories of service suppliers. India and Ireland do not have a Social Security Agreement. These and a few other issues create divergence in the applicable regulations in Ireland vis-à-vis rest of EU member states and makes Ireland less attractive for those who wish to access other EU member states, especially for providing services.

As regards education services, the entry and scholarship norms are different for non-EU students and third-country national, which creates a discriminatory environment, acting as barriers to trade.

Institutional support through partnership engagements is the way forward for enhancing bilateral investments

India's FDI outflows to Ireland have seen a marginal increase over the previous decade, increasing from US\$ 82 million in 2011 to US\$ 170 million in 2020, concentrated in manufacturing sector. Compared to this, India's FDI inflows from Ireland have seen a larger increase from US\$ 39 million in 2011 to US\$ 209 million in 2020, concentrated in the financial, insurance and business services sector.

The FDI data is found to support each of the countries' respective competitiveness in the trade of goods and services, discussed previously. India's surplus in bilateral goods trade, especially exports of pharmaceuticals and organic chemicals, is supported by the presence of India's medical and pharmaceutical manufacturing investments in Ireland. Likewise, Ireland's surplus in bilateral services trade, especially exports of business services, is supported by Ireland's investments in business services in India. There is scope for further strengthening the investment ties between the two countries through FDI facilitation measures, and especially through promotion of Irish investments in India's 'emerging technologies' start-up ecosystem.

To further strengthen investments, there is a need for lending institutional support, through partnership engagements with institutions like Invest India. There is also a need to strengthen the start-up ecosystem.

³ Source: IDA Ireland: <https://www.idaireland.com/doing-business-here/industry-sectors/cyber-security>; <https://www.idaireland.com/doing-business-here/industry-sectors/medical-technology>; accessed on 17 Sept'21.

India-EU trade and investment agreements will boost bilateral ties between India and Ireland

While the India-Ireland bilateral economic relations are strengthening over the years, further facilitation and potential boost to bilateral ties can come from the India-EU free trade agreement and an India-EU bilateral trade and investment agreement. These agreements will help ascertain policy certainty and transparency in India-Ireland trade and investment. The agreements must aim for a deeper engagement through liberalizing trade in goods and services. The liberalising agenda should particularly support trade and investment in pharmaceuticals, organic chemicals, business services, education, tourism, health, and business services.

With EU's stringent standards, particularly concerning human health and safety, environment and data security, India and Ireland must explore

avenues in technology transfer arrangements and business services. These can help Indian products overcome non-tariff barriers and meet their export potential in the Irish market. At the same time, Irish investments and technological support can help India succeed in its technological transition.

Ireland has carved a niche for itself as a technologically advanced country. The country's industrial and research and development focus is on emerging technologies, supported by a highly skilled workforce which is trained in the country's technologically focused education system. This opens the prospect of R&D collaboration and Irish investments in several Indian industries – such as pharmaceuticals, organic chemicals, and vehicles, where Irish technology can help India's industries to manufacture products of high standards. In turn, India's high technology products will be able to realise their export potential into Ireland.