

# **THE UK AND INDIA: BILATERAL INVESTMENT RELATIONSHIP**

**MARCH 2018**

## FOREWORD

With the imminent visits in April to the UK of Finance Minister Jaitley shortly followed by Prime Minister Narendra Modi, the “unbeatable combination” of the United Kingdom and India is once again back in the spotlight.

There are radical policy changes taking place in both countries. In India, a slew of fiscal and economic reforms have taken place and in the UK they are a result of the probable exit from the EU. These changes make these visits particularly timely. They offer a fresh chance to re-invigorate the inter-governmental dialogues between the UK and India at the highest levels.

UK and Indian businesses continue to identify and develop opportunities in each other’s economies – together and individually. The old adage that “time and tide wait for no man” remains hugely relevant in today’s business world.

And while much newsprint is focused on the volatility of the visible trade numbers, this metric remains only one measure of trade and commercial activity and one which is increasingly irrelevant in the world of commercial cross border supply chains, foreign direct investment, institutional and private equity funds flows.

The recent announcement that the UK can commence negotiating its own bilateral Free Trade Agreement in the transition period post March 2019 will no doubt spur further action between the Indian and UK governments. In practice, such a treaty will take time. The continued progress on the ease of doing business in both countries holds far more immediate relevance and value. Further progress on GST or application of taxes in India or on Tier 2 visas in the UK would have an immediate impact on perceptions and operating margins within the private sector.

At the same, we would urge both governments to continue to give support to SMEs of both countries to understand the operating environments of India and UK, to begin the journey to sustainable efficiency and profitability through internationalisation. This would be sensible future-proofing of both economies and the bilateral relationship. We commend the Indian government’s Access India Programme as being an effective intervention in this area.

There are often reasons not to do something - in the UK one could point to uncertainties around Brexit and in India one could point to the forthcoming General Elections. However, the momentum in both economies is undeniable. With new opportunities continually thrown up by the disruptive and foundational changes brought about by the technical advances under Industrial Revolution 4.0, the real question is, “how can I take advantage of this now?”

In response to these developments and to coincide with Prime Minister Modi and Minister Jaitley’s visits, the UK India Business Council (UKIBC) is producing three papers to showcase the strength and depth of the UK India economic relationship across the entire spectrum of trade, investment, and innovation collaborations.

This Bilateral Investment Paper, the first research paper, aims to identify emerging opportunities in different sectors and carve a new blueprint of the UK India relationship. It examines the current investment scenario between the UK and India, tracks the trends and technologies that will be game-changers in the future. And it concludes by looking through the crystal ball to predict how the nature of UK India investment will evolve over the next decade.

The UKIBC supports businesses aiming to succeed in this critical bilateral commercial corridor by being the business voice with the Indian and UK governments. The UKIBC also provides services in support of exporters and investors in both India and the UK. We hope that you find this report helpful and look forward to taking our dialogues forward.

**Richard Heald**, Chief Executive Officer, UK India Business Council

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INTRODUCTION

The United Kingdom and India have deep-rooted economic ties. There is an existing robust bilateral investment relationship that is only going to improve in the coming years.

A fast-growing economy, important structural reforms such as GST, improvements in the Ease of Doing Business (EODB) in India, and programmes such as “Digital India” and “Make in India” establish India as a compelling market and investment destination.

The UK remains firmly within the G7, underpinned by a large, open and attractive market. The UK is home to the world’s leading research. It has some of the world’s top universities, is the European hub for innovation and technology start-ups, and remains the world’s leading financial centre. It benefits from a renewed top-down focus on economic competitiveness and commercial relationships with countries outside the EU.

UK businesses are engaged across all sectors and Indian firms in the UK are hungry for the upstream capabilities and technologies which the UK is so skilled at developing. And, as both economies become more digitally enabled and “data rich”, new opportunities are constantly emerging.

The UK India Business Council and its members continue to engage with the UK Government and the Union Government in Delhi and State governments across India on bilateral market access and ease of doing business issues.

This report will delve into the current state of UK-India bilateral investment, showing the latest data. It will also explore the latest trends in bilateral investment and will attempt to see what the future holds.

## THE OPERATING ENVIRONMENT IN INDIA

India's GDP grew at 7.1% in 2016-2017, and is expected to grow at 7.4% in 2018-19, when it will overtake the GDP's of the UK and France. It is predicted that India will be the 3rd largest economy after the USA and China by 2030. As such, the country holds much promise.

### INDIA'S GDP GROWTH IN 2016 - 2017

7.1%

The 2017 World Bank's Ease of Doing Business Index currently ranks India in 100th place - an unprecedented 30-place leap on its 2016 ranking.

INDIA LEAPS  
30  
PLACES IN THE 2018  
WORLD BANK'S EODB RANKING

The key improvements have been:

- Making it easier and quicker to start a business by improving the online application system.
- Improved access to credit, with amendments to the rules on priority of secured creditors outside reorganisation proceedings, and the adoption of a new law on insolvency.
- More straightforward payment of taxes, with the introduction of e-payments and a set of administrative measures easing compliance with corporation tax.

Investors can take advantage of faster payment of taxes, simplified compliance and a reduction in human intervention.

- Reduced red tape as India has made enforcing contracts easier by introducing the National Judicial Data Grid.

The World Economic Forum's Global Competitive Index, which measures an economy's relative competitiveness, now ranks India in 40th place. Improved scores have been recorded across most pillars. Performance has improved in ICT indicators, particularly Internet Bandwidth per user, mobile phone and broadband subscriptions, and Internet access in schools.

Admittedly, the election cycle means that political risk is increasing ahead of the General Election due by May 2019 – with 25% chance of an early election being called in the latter months of 2018. Despite this, most investors are looking through this event and expect positive economic progress to continue.

Campaigns such as 'Make in India', which promote India as a global manufacturing base, and 'Digital India' that promotes digitisation, are now embedded into the Indian psyche combining to create an ecosystem in which foreign businesses can thrive.

There are tremendous opportunities for UK businesses of all sizes and complexions in India, both now and

into the foreseeable future. More than any other country, UK businesses are taking advantage of the investment opportunities in India. And, with a continued focus by the Centre and the States, the UKIBC believes that India can reach the top 50 on the World Bank's EODB rankings by 2020.



UKIBC BELIEVES THAT INDIA CAN REACH THE TOP 50 ON THE WORLD BANK'S EODB RANKINGS BY 2020

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## UK INVESTMENT IN INDIA

Since 2000, the UK has been the largest G20 investor in India, investing £17.5 billion and creating 371,000 new jobs which represent 10% of all FDI-related jobs in that period. British companies in India now employ almost 800,000 people, representing 1 in 20 jobs in India's organised private sector.

### UK COMPANIES INVESTED

**£17.5**  
BILLION IN INDIA

### UK WAS THE LARGEST FDI JOB CREATOR IN INDIA

**371,000** JOBS

Over the last two decades, 8% of all foreign direct investment (FDI) into India was from the UK.

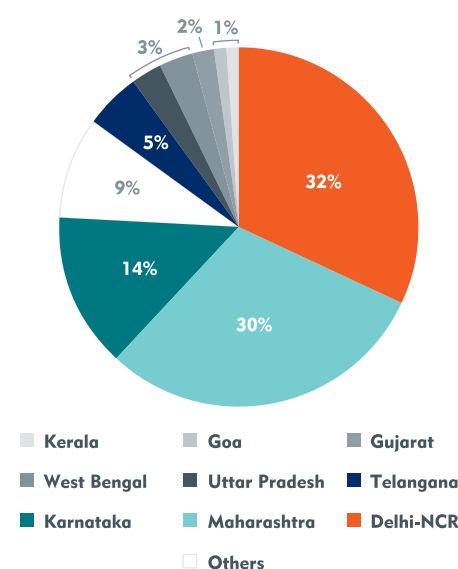
Of the 600 UK businesses present in India, almost 60% operate in two sectors: advanced engineering & manufacturing; and financial & professional services. Advanced engineering & manufacturing is a broad sector and includes manufacturing, engineering, automotive, energy, mining, metallurgy, electrical, chemical, and oil & gas.

Information technology and communications is also a major area of UK activity in India as are

other sectors such as electronics, telecommunications, radio communications and broadcast equipment, education and training, environment, recreation and leisure, biotechnology, and pharmaceuticals.

Delhi-NCR has the highest geographical concentration of UK businesses in India. In 2015, 32% of UK companies were based in Delhi-NCR, followed by Maharashtra, home to the commercial hub Mumbai, where 30% were based, and Karnataka with 14% of UK businesses in India. The following states also feature: Telangana (5%), Uttar Pradesh (3%), West Bengal (3%), Gujarat (2%), Goa (1%), Kerala (1%).

### UK BUSINESSES IN INDIA



Not all UK investors to India are large enterprises. Around 60% of UK companies in India have a turnover of less than £5 million per year. Some 15% of those present have a turnover greater than £25 million and employ more than 500 people each.

Moreover, UK-domiciled institutional investors (FIIs) show a keen interest in India. As of March 2015, some 550 UK-based portfolio investors were active in India, with investments worth £11.8 billion. This sum equates to nearly 10% of total cumulative investment by FIIs in India. On top of this are venture capital and private equity investments from the UK into India.

Overall, UK businesses in India invest significantly in skills development and corporate social responsibility (CSR). UK businesses in India invest 7% of total revenue on skills development and on average 4.4% of their profits in CSR, well above the legal minimum of 2%. Ten leading UK based companies with significant presence in India, have signed the UK-India Skills Pledge, committing to invest £29.29 million to train about 2 million people in India by 2020. These companies have a long standing strong bond with India, and are among the largest investors in the country – HSBC, Vodafone, Reckitt Benckiser, Rolls Royce, OCS, Mott MacDonald, G4S, Aviva, Marks & Spencer and GSK.

### Case study

CMCL Innovations is an award-winning consultancy and engineering software provider that offers robust and efficient computer aided engineering (CAE) solutions to solve practical problems in the powertrain, energy, and chemical industries. Its clients include global original equipment manufacturers (OEMs), energy and materials companies, OEM suppliers, R&D labs and the academic community.

CMCL Innovations began its journey into India with engineering software/ CAE software license sales and technical support for a multinational OEM. As a result of the success of the first project, further projects with the original client followed rapidly. Since then, the company has expanded into technical consulting and training. There is a huge demand for consulting services by both large Indian OEMs such as Kirloskar, Mahindra, Maruti, Tata Motors, Eicher Motors, and Ashok Leyland, as well as multinational companies located in India, including GE, GM, Ford, Honda, Hyundai, Caterpillar, and John Deere. In addition, there is a vast pool of ambitious research laboratories and academic institutions such as DRDO, ARAI, and the IITs demanding these services. The company is optimistic about the opportunities opening up in India, with growing appetite for advanced engineering, collaborative projects, and investments in R&D.

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## THE OPERATING ENVIRONMENT IN THE UK

The UK remains an open and supportive environment for global businesses. The British economy is mature and it ranks high on all comparative parameters.

The UK sits 7th in the World Bank's EODB rankings. The UK is a developed economy with a mature, evolving and highly-sophisticated business ecosystem. Recent pro-business reforms include reductions in the corporate tax rate and in the social security contributions paid by employers. Foreign investors can now start a new business more promptly, as the UK has speeded up tax registration.

The World Economic Forum's Global Competitive Index ranks the UK in 8th place, which is a fall of one spot from the previous year. The country still performs very well on technological readiness (4th) and the sophistication of its business sector (7th).

its ranking. The UK showed resilience in recovering from the financial crisis, aided by the effective rule of law, an open trade regime, and a well-developed financial sector.

Indian businesses continue to flourish in the UK.

**FOREIGN INVESTORS CAN NOW START A NEW BUSINESS MORE PROMPTLY, AS THE UK HAS SPEEDED UP TAX REGISTRATION**

### WORLD ECONOMIC FORUM'S GLOBAL COMPETITIVE INDEX RANKS THE UK

**8<sup>th</sup>**

The UK ranks 8th on the Index of Economic Freedom, indicating its relative ease as an investment destination. The UK is ranked 4th among 44 countries in the Europe region. The process of exiting the European Union may give the government opportunities to increase

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## INDIAN INVESTMENT IN THE UK

India is routinely among the top 5 investors in the UK. Currently, there are around 800 Indian businesses in the UK employing 110,000 people. They have a combined turnover of £47.5 billion. In 2017, 55 of the fastest-growing Indian companies in the UK achieved an average growth of 31%. Of these companies, 29 were mid-size corporates, 24 SMEs, and 2 MNCs.

### COMBINED TURNOVER OF

**£47.5**  
BILLION

### INDIAN BUSINESSES IN THE UK EMPLOY

**110,000** PEOPLE

The top three sectors for Indian companies are technology and telecoms (31%), pharmaceuticals and chemicals (24%), and business services (11%).

#### TECHNOLOGY & TELECOMS



**31%**

#### PHARMACEUTICALS & CHEMICALS



**24%**

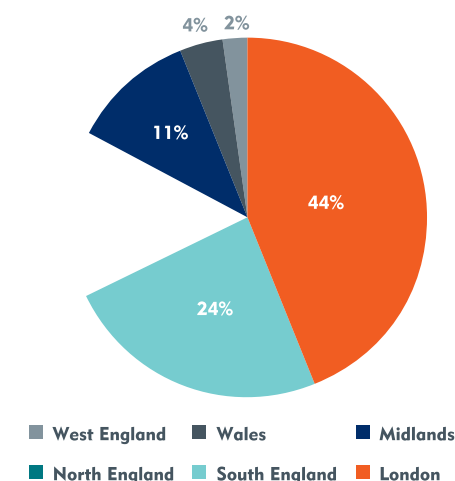
#### BUSINESS SERVICES



**11%**

Geographically, Indian companies are located all across the UK. London sees a 44% presence, 24% are in the South of England, 15% in the North of England, 11% in the Midlands, 4% in Wales, and 2% in the West of England.

### INDIAN BUSINESSES IN THE UK



Traditionally, the UK has received almost 75% of all inbound FDI into the EU, with a large majority of these companies investing in the UK for UK specific reasons. Be it the size and attractiveness of the UK market, or to facilitate technology transfer in engineering, renewables, pharmaceuticals, IT or financial services. In 2016-17, India was the fourth largest investor in the UK in terms of projects, after the US, China and France. In terms of jobs created or safeguarded, India was the second highest.

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TOTAL FDI IN THE UK (ALL COUNTRIES 2015-17)

PROJECTS & JOBS	2015 - 2016	2016 - 2017	% CHANGE
TOTAL PROJECT	2,213	2,265	2
INVOLVED PROJECTS	1,173	1,859	7
TOTAL JOBS	115,974	107,898	- 7
NEW JOBS	82,650	75,226	- 9
SAFE JOBS	33,324	32,672	- 2

INDIA FDI INTO UK LAST 5 YEARS

PROJECTS & JOBS	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017
TOTAL PROJECTS	89	74	122	140	127
NEW JOBS	4,412	2,282	7,730	7,105	3,999
SAFEGUARDED JOBS	3,143	81	1,620	344	7,645
TOTAL JOBS	7,555	2,363	9,350	7,449	11,644

New jobs created or safeguarded due to Indian investment for the year of the EU referendum was at approximately 11,650 jobs, which is up from the previous year of roughly 7,450 jobs. This goes against overall trend of a 7% decrease in total created and safeguarded jobs, when looking at global FDI, and reflects the general attitude of Indian investment that sees the UK as a fundamentally strong economy, with a large market and world-leading technology.

Capital expenditure by Indian companies in the UK reached a total of £4.25 billion in 2016. These investments are diverse, from fixed assets to auxiliary financing on top of their initial investment in the UK. This suggests a continuing long-term commitment by Indian companies to the UK economy.

Case study



Tata, a Mumbai-headquartered conglomerate is the biggest Indian employer in the UK. Its UK subsidiaries include Tata Consultancy Services, Tata Motors European Technical Centre, Tata International Metals, Tata Chemicals Europe, and Tata Steel. Tata companies now employ more than 73,000 people in the UK, up from around 69,000 in 2016. Tata Motors has 38,000 UK employees and Tata Steel has nearly 30,000.

TATA COMPANIES EMPLOY  
**73,000** PEOPLE

During 2017, Tata Motors-owned Jaguar Land Rover made a series of investments totalling more than £155 million. These included: £18 million in a new manufacturing facility and headquarters at Ryton on Dunsmore, Coventry; £4 million in the expansion of production facilities at Whitly, Coventry; £16 million in a new logistics centre in Solihull; and £116 million in the company's manufacturing plant in Liverpool.

TATA, A MUMBAI-  
HEADQUARTERED  
CONGLOMERATE IS  
THE BIGGEST INDIAN  
EMPLOYER IN THE UK

Sources

UKIBC & KPMG (2017), "Report on British Business In India", [Online]. Available from <https://www.ukibc.com/wp-content/uploads/2015/10/Report-on-British-Business-in-India-2015.pdf>, Accessed March 19, 2018.

## TRENDS IN BILATERAL INVESTMENTS

Empirical evidence points to a rising trend in investment from the UK into India. There has been a sharp increase in the number of UK companies entering India since 2000 – the number of incorporations between 2000 and 2010 was twice the number for the whole of the 20th century.

The range of sectors attracting UK investment has also shifted. While advanced manufacturing and financial & professional services still provide the most number of companies, the 21st century has seen strong growth in sectors such as education, retail, consumer goods, life sciences, healthcare, and infrastructure.

India's growing class of consumers is driving demand for private sector healthcare and medicines. And the Government of India's 'Swachh Bharat' – "Clean India" - initiative has sharpened and broadened the focus on hygiene. Pharmaceuticals, healthcare, and hygiene have attracted increased investment, driven by a number of factors. For example, R&D and manufacturing investments have grown due to India's expanding talent pool and investment friendly "Make in India" policies.

Pharmaceutical is already the second largest sector for UK investment in India and Indian pharmaceutical exports to the UK are worth £239 million. Companies like GSK, Astra Zeneca, and Reckitt Benckiser are all making significant investments in

India and Indian companies such as Nicolas Piramal, Wockhardt, Cipla, and Sun Pharma are active in the UK.



India is signatory to the WTO and GATT agreement and has stringent IP laws for patents, trademarks and copyrights. So, there is strong investment and trade in pharmaceutical products. Nevertheless, the patent revocation for GSK's Tykerb is an example that proves that work still needs to be done.

Already strong, advanced manufacturing continues to be an area of UK investment. Many UK businesses like Rolls Royce, JCB, BAE Systems, and GSK have been "Making in India" for decades. And they are increasing their presence. For example, JCB expanded into Rajasthan in 2014, Perkins Engines opened a new factory in Maharashtra in 2015, GSK is building a new plant in Karnataka, and Rolls Royce announced in March 2018 that they are shifting a manufacturing unit from Germany to Maharashtra.

Recent liberalisation in the insurance sector in India has led to investments by most major international insurers. Their ability to support greater domestic insurance capacity is set

to boost insurance penetration rates across the country. BUPA, Aviva, Standard Life, and Prudential have all established a significant presence in India.

**THERE HAS BEEN A SHARP INCREASE IN THE NUMBER OF UK COMPANIES ENTERING INDIA SINCE 2000 – THE NUMBER OF INCORPORATIONS BETWEEN 2000 AND 2010 WAS TWICE THE NUMBER FOR THE WHOLE OF THE 20TH CENTURY**



## FUTURE PATTERNS OF INVESTMENT

Over the next decade, we expect to see the nature of UK-India investment change. This will mean a more diverse geographical spread and new innovation-led sectors.

### Where to Invest?

In recent years UK cities, for example Manchester, Sheffield, and Leicester have sought to build economic partnerships with Indian cities that have a sectoral and ecosystem alignment. This is proving successful, with increased investments, trade, joint ventures, and academic collaborations being forged. More such city-to-city partnerships will drive bilateral investment into UK cities outside of London and the South East of England. This is already delivering results with the development of an automotive engineering cluster near Warwick which includes Tata Motors, TVS, Mahindra, and Eicher Motors, the owners of Royal Enfield motorcycles.

As strategic shifts and “competitive federalism” develops, we expect to see increased UK investment in India’s eastern states and in tier 2 and other emerging cities. These will include states like Assam, West Bengal, and Telangana, and cities like Coimbatore, Indore, Ahmedabad, and Hyderabad.

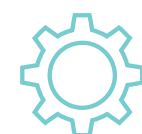
### What are the Hot Sectors?

India is rapidly becoming “data-rich” while rapidly developing a ‘digital-

first economy’. The UK Government is putting in place its own Digital Strategy. As technology is being harnessed to develop best-in-class digital infrastructure and services for all businesses and citizens in both countries, it is clear that there are major opportunities for UK and Indian technology companies to invest in the digital revolution in India and in the UK.

Industry Revolution 4.0 (4-IR) will impact virtually all sectors of the Indian and UK economies. Growth of usage of Artificial Intelligence (AI), Robotics, the Internet of Things (IoT), Distributed Ledger Technology (DLT)/Blockchain, Big Data, Cloud Computing, and 3D Printing open new opportunities for collaborations and investment in both countries.

### Manufacturing



India’s goal is to provide best-in-class manufacturing infrastructure to the world with a combination of traditional manufacturing and emerging AI and IoT technology. The Indian Institute of Science (IISc) is also building India’s first smart factory in Bengaluru with a seed funding from the Boeing Company to propel this initiative.

The UK, with its global leading manufacturing R&D capabilities can play a major role in India and India’s world-leading digital technology

businesses can play a major role in the UK.

Indeed, the partnership struck in 2017 between Rolls Royce and TCS in order to exploit future data innovation opportunities in IoT is one such bilateral collaboration that exemplifies this future direction. The partnerships formed by Indian businesses PCT and Bharat Forge with the Advanced Manufacturing Research Centre in the Sheffield City Region is another and the growth of TVS SCS, part of the TVS Group, into a leading European logistics player headquartered out of the UK is the third..

### Electric Vehicles



India’s policy to have all electric vehicles by 2030 creates both a challenge and an opportunity. In February 2017, the NITI Aayog and the Rocky Mountain Institute jointly hosted a two-day event, at which experts explored India’s potential to lead the world in shared, electric, and connected mobility solutions.

Adopting such solutions could mean India saves 64% of anticipated passenger road-based mobility-related energy demand and 37% of carbon emissions by 2030 stemming from combined improvements in systems integration, scaled manufacturing, and shared

infrastructure development. 4-IR technologies provide a foundation for this shift. Achieving this transformed mobility future will require partnerships, and we can expect to see UK businesses invest in India to make it happen.

### Healthcare



The Indian healthcare industry is growing at a rapid pace and is expected to be at £197 billion by 2020. Networked Electronic Health Record (EHR) systems, AI, real-time data from wearable devices and improved analytics are driving a profound shift in India’s healthcare sector. India’s National Health Policy 2017, unveiled the Government of India’s plans to build a national IT backbone that will help in integrating EHRs and making them portable. There is also an enhanced penetration of health insurance due to technology.

Access of affordable, high-speed data connectivity – both as a result of government’s Digital India initiatives and private sector competition – make it possible for both doctors and patients from smaller towns to access some of the benefits of the changing healthcare sector. India’s healthcare is creating immense opportunities for new investment and the UK should explore it.

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## Education



The next technology revolution in education will occur in India because Indian culture prizes learning and scholarship. This pro-education cultural orientation will translate into education platforms and apps proving products and services that people (at every income level) will pay for.

India's young population (one in every 3 people below the age of 14) will drive huge demand for post-secondary education opportunities. A campus-based model for 21st century higher education will never suffice to meet the demand.

India is set to leapfrog campus-based higher education and jump to online learning, catalysed by mobile phone adoption. India has over 850 million mobile phone subscribers; with a rate of increase over 10 million a month these mobile devices will be the classrooms of tomorrow.

The changes that 4-IR technologies like big data and analytics will provide a playground for investment opportunities in the education sector.

## FinTech



Emerging technology and the supportive policies of the Indian

government are boosting the growth of a FinTech ecosystem. London is the global financial capital and the UK is the number one FinTech hub in the world, a report by EY revealed, with the UK FinTech sector generating an estimated £6.6 billion in revenue annually.

The growth of DLT and the increased usage of Blockchain technology are expected to revolutionise and democratise the trade finance and payments systems. This translates to multiple collaborative opportunities.

## Others

Initiatives such as MeghRaj, the official Government of India cloud, the use of AI in national security, and big data for Aadhaar, the unique identification programme, show India's rapid reach into the future.

DLT and Blockchain are foundational technologies and as such their influences are expected to extend uses across sectors - in logistics, in manufacturing, in healthcare, in education, in social welfare, in infrastructure and in pharmaceuticals. Indeed, it is not hyperbole to say that with new uses for secure distributive networks and consequent meta-applications, Blockchain could be ubiquitous for growing economies in the 21st century.

# CONCLUSION

Emerging opportunities in sectors such as manufacturing, defence, and pharmaceuticals provide firm ground to further enhance the UK-India investment relationship. Exciting trends in digitisation, including the onset of 4-IR, are creating new investment opportunities. The rise of smart cities, the potential of FinTech, along with the start-up culture, has generated areas where investment potential is exponential but as yet largely untapped.

The operating environments in both countries are conducive to mutual investment relationships.

We should be realistic about the prospects about an early Free Trade Agreement. A continued focus on ease of doing business will pay more immediate dividends.

At the same time, a Bilateral Investment Treaty, which includes

provisions to protect and promote FDI flows, would be a step toward securing the long-term UK-India trade and investment relationship. Clear scope exists for a stronger bilateral relationship that mutually benefits both countries. Such a relationship would help close some gaps and enable the full potential of both the economies to be realised.

India's and the UK's appetite and willingness to accommodate the needs of global businesses continue as both governments push the pace of their country's development. The UK is seeking to build strong relationships with other countries after Brexit. India is top-of-mind for many UK companies, and the UK Government is committed to deepening its existing investment relationship with India. India, at the same time, is impatient to regain its deserved place as one of the world's leading economic powers.

## Authors

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# UK INDIA

BUSINESS COUNCIL

## WHO ARE WE?

The UK India Business Council believes passionately that the UK-India business partnership creates jobs and growth in both countries. Through our insights, networks, and policy advocacy, we support businesses to succeed.

## GET IN TOUCH

### UK INDIA BUSINESS COUNCIL LONDON

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