THE UK AND INDIA: THE BILATERAL TRADE RELATIONSHIP

APRIL 2018
FOREWORD

The UK and India bilateral trade relationship in goods and services is often cited as the most obvious sign of the health of the economic relations between the two countries. At a superficial level this is correct. In truth, though, trade relations are far more complicated and are becoming more complicated by the day.

Visible trade is only a small component of overall trade and commercial activity, alongside FDI, FII and private equity flows and cross border supply chains. And, international supply chains – both between countries and between companies, has complicated the overall picture to the extent that direct trade between two countries now forms a minority of international trade flows. Moreover, anticipated technological changes will further cloud the picture over the coming years.

Nevertheless, visible trade statistics remain an important and integral metric which cannot be overlooked. Greater trade opens the door to increased investment and internationalisation. India and the UK remain important trading partners by any measure. And the radical policy changes taking place in both countries reinforce the necessity to ensure that this continues. In India, a slew of fiscal and economic reforms are feeding into increased domestic growth and consumption, and in the UK the probable exit from the EU in the next 12 months gives extra impetus to going beyond our borders to seek additional commercial opportunities.

These imminent combined changes make the April 2018 bilateral between Prime Minister Modi and Prime Minister May particularly timely as it presents a fresh opportunity 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.

A closer look at the economic relationship between the two countries shows that while bilateral investment is strong and trade is growing, there remains room for improvement in the UK-India bilateral trade.

The recent announcement that the UK can commence negotiating its own bilateral free trade agreements (FTA) in the transition period post March 2019 will no doubt spur further action between the Indian and UK governments. Lower tariffs and alignment of standards will accelerate the movement of goods and services and give bilateral trade a boost. 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 and application of taxes in India and on Tier 2 visas in the UK would have an immediate impact on perceptions and operating margins within the private sector.

In advance of a FTA, the UKIBC is supporting the Indian and UK Governments’ Joint Trade Review initiative, which is looking to resolve those market access issues that can deliver quick wins, without a FTA.

With this in mind, the UKIBC would urge both governments to continue to give support to SMEs of both countries to help them understand their route to market and therefore begin their 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 questions are: “how can I take advantage of this now?”; and “what do I need to do now to ensure that I remain successful in the coming years?”

In response to these developments and to coincide with Prime Minister Modi’s visit, the UK India Business Council 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 trade paper, the second in the series, draws on statistics from both Governments and the UN Comtrade database, and International Monetary Fund, charts the evolution of bilateral trade between the UK and India since the turn of this century with a view to identifying existing areas of untapped potential and highlighting future growth areas. It concludes by making specific actionable recommendations to enhance bilateral trade over the long term.

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
INTRODUCTION

The UK and India are at an exciting phase in their economic relationship. Bilateral economic ties are vibrant and wide-ranging, and, commercially, there is untapped potential between the two economies. At this time of global economic uncertainty and change, there are opportunities to nurture, grow and sustain two-way flows of trade and investment.

India is slated to be the world’s 3rd largest economy by 2030. This makes the world’s second most populous nation an extremely attractive market. The opportunities for UK exporters are numerous and broad ranging. Meanwhile, the UK is trying to forge strong post-Brexit trade relationships with countries outside of the European Union (EU).

To identify areas of common interest as well as new channels for more bilateral trade we must analyse what the UK and India offer each other.
Since 2000 there has been increasing trade in goods and services between the UK and India, both in terms of value and percentage share of overall UK exports. In 2016, bilateral trade was approximately £15.4 billion. In that year, trade in goods was £10.1 billion, and in services it was £5.3 billion.

In 2016, exports to India accounted for 1.0% of the UK export market – up from 0.9% in 2000, making it the UK’s 13th largest services export market outside the EU and 13th largest goods export market.

UK EXPORTS TO INDIA

OVERALL UK EXPORTS TO INDIA SINCE 2000 TO 2016

UK GOODS EXPORTS TO INDIA

Goods exports from the UK to India amounted to £3.1 billion in 2016, representing 1.1% of UK goods exports globally.

UK goods exports have accelerated this century from £2.15 billion in 2000 to £3.7 billion in 2016. Growth was slow at the beginning of the period, but expanded progressively since 2003. UK goods exports to India reached their peak in 2011 at £6.6 billion value in goods exports.

TOP GOODS EXPORTED FROM THE UK TO INDIA

Current top 10 goods exports to India from the UK are in:

1.1 Machinery, being the top export good from the UK to India was 28% of all the total goods exported.

Sources


TRENDS IN GOODS EXPORTS - THE UK TO INDIA

Sources
Diagram 2.1 - 2.2

Diagram 2.3 - 2.4
TRENDS IN THE UK’S GOODS EXPORTS TO INDIA - THE RISING SECTORS

We can see from these four snapshots of UK exports to India that there are some constants, with pearls, precious stones, metals, coins, etc and nuclear reactors, boilers, and machinery always featuring prominently. As have: electrical, electronic equipment; optical, photo, technical, medical, etc apparatus; Iron and steel; and aircraft, spacecraft, and vehicles other than railway, tramway.

Although the above have consistently been in the top 10, it is interesting and encouraging to see the rise in value of some categories, particularly the more technology/engineering focussed sectors, such as nuclear reactors, boilers and machinery which has grown from £284 million to £854 million, optical, photo, technical, medical which has grown from £95 million to £217 million, and electrical, electronic equipment which has grown from £123 million to £254 million.

At the same time, other sectors have grown in prominence. In particular, since 2010, two sectors have started to feature: pharmaceuticals; and beverages, spirits and vinegar. India’s fast growing healthcare sector and improving health access has increased the demand for pharmaceuticals. As for beverages, a growing consumer class with disposable income has resulted in a significant growth of the beverage industry.

WHERE IS THE FUTURE GROWTH COMING FROM?

While pharmaceuticals and beverages have started to emerge as major UK exports to India, manufacturing-related items are long established UK exports. They are among the sectors that can achieve much more success.

Food and Drink

India is by some measure the world’s largest whisky market and the potential for the wider food and drink industry are significant. The food and beverage market in India has transformed due to increased disposable income, rising urbanisation, changing lifestyles, and changes in taste and preference of the Indian consumers because of increased global exposure. The demand in this sector will continue to grow.

Healthcare

As public and private sector investment into India’s healthcare sector expands to meet the changing and rising demand from all segments of the population, the opportunities to grow UK exports are obvious.

Manufacturing

Under the ‘Make in India’ mission, India is positioning itself as the manufacturing hub of the world. This will result in an increase in anticipated export opportunities for the UK. Machinery is already the top UK goods export to India and this will increase as demand grows.

But, as manufacturing becomes more sophisticated, robots will replace traditional machine tools. So we should be looking to identify the UK companies with robotic technologies that can supply manufacturers in India.

Sources


UK services exports to India were valued at just over £2 billion in 2016, making India the 13th largest UK service export market outside of the EU.

Given that the UK is the 2nd largest exporter of services in the world and India has the 2nd fastest growing services sector – increasing at 10% per annum, there are tremendous untapped opportunities for both UK and Indian businesses to grow bilateral services trade.

Trade in services between 2000-2016 has seen a more or less steady climb, and UK exports to India have grown in line with UK global exports. Between 2003-2010 exports in services increased rapidly. At £2.2 billion, services exports to India accounted for 1% of the UK’s total export of services in 2014. The services exports further spiked in 2015 but fell in 2016 to £2.08 billion. Between the period of 2000 - 2016 services exports have grown significantly.

Total UK exports of top services showed record growth in 2016, rising from £123.2 billion in 2015 to £142.7 billion, an increase of 15.8%.

Sources

Diagram 3.1
TRENDS IN THE UK’S SERVICE EXPORTS TO INDIA - THE RISING SECTORS

A trend, which we see only accelerating, has been a rise on tech-focussed services, such as telecommunications, computer and information services; and intellectual property. Similarly, financial and insurance and pension services are on the rise. As India’s financial inclusion scheme – Jan Dhan Yojana – expands and the insurance and pensions market matures, we will see ever-more UK exports in this area.

And, as the number of visitors from India to the UK, and the spending power of those visitors, has increased, the export of travel services has grown.

WHERE IS THE FUTURE GROWTH COMING FROM?

Smart Cities

India’s ambition to create 100 smart cities offers great potential. In addition to smartly designed physical infrastructure, Industry 4.0 technologies are at the heart of a smart city.

The Ministry of Urban Development has made available a £8.32 billion fund for cities with populations above 500,000 and all state capitals, covering more than 50% of India’s urban population.

Imaginative and collaborative partnerships between local authorities, utilities, and the communications sector will make India’s urban areas increasingly smart. This transformation will create strong demand for telecommunications services, computer services and information technology services.

There is also a huge demand for the infrastructure services in which the UK is a global leader, for example, architects and chartered surveyors, and engineers. This demand will be unlocked when the sectors in India are liberalised to allow foreign firms to contribute to the country’s compelling growth plans.

Digital Technology

Prime Minister Modi’s vision of a ‘Digital India’ will pave the way for new opportunities in trade for services. For making his vision a reality, there will a huge demand for telecom infrastructure, computer and network connectivity, and information technology services. This creates a massive opportunity for trade in these services for the UK.

FinTech1

FinTech has grown rapidly in India, as the country combines a large un-banked and under banked population with a strong technology and entrepreneurial ecosystem.

In the area of financial inclusion, Jan Dhan Yojana is arguably the world’s biggest financial inclusion program. It enables access to formal bank accounts for large number of the previously un-served population. As of February 2018, over 310 million new, no-frills accounts have been opened under the program. The Reserve Bank of India has also approved Aadhaar-based biometric authentication, which allows accounts to be opened electronically, satisfying Know Your Customer requirements.

With the City of London, the UK is the global financial capital and has an array of technologies and expertise that can succeed in India and, in turn, help India achieve its objectives.

Cyber security2

With the growing opportunities through Digital India and the expansion of FinTech in India, comes the risk of cyber attacks. This is an important area where there is a growing demand in India and a strong and expanding supply of UK expertise.

The UK Government is launching a new strategy to support the export of cyber security technology. With recent cyber attacks threatening NATO countries as well as large global and UK organisations, the government is urging businesses from both the UK and allied countries to ensure they have the best security possible.

UK cyber exports overall totalled £1.5 billion in 2016, and global demand for software products to protect digital systems from vulnerabilities continues to grow, with total spend expected to exceed £759 billion by 2021. India, as it develops a digital-first economy, will be an increasingly important market for these services.

Sources

Indian exports to the UK were worth £9.6 billion in 2016, representing 1.6% of UK imports, up from a 0.9% share in 2000.

India’s goods exports to the UK were worth almost £6.4 billion in 2016, representing 1.4% of all UK goods imports and making the UK India’s 5th largest export market.

The growth of Indian goods exports to the UK since 2000 has been very impressive, rising by almost four times.

### Top Goods Exported from India to the UK

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**Sources**

Manufacturing-related exports

WHERE IS THE FUTURE GROWTH COMING FROM?

Healthcare

India’s pharmaceuticals sector, which has achieved a Compounded Annual Growth Rate (CAGR) of over 15% until 2017, is expected to grow from its current size of £22 million to £39 billion by 2020.

India accounts for around 20% of the world’s generic medicine supply, exporting to over 150 countries globally, and the country’s pharmaceuticals industry provides over 60% of global vaccines.

Pharmaceuticals is one of the top goods that the UK imports from India. The UK currently imports pharmaceutical products worth £325 million, which is 5.5% of its total imports.

In a move to boost domestic manufacturing of pharmaceuticals and medical devices in India under the ‘Make in India’ mission, the government is setting-up a Pharmaceutical and Med Tech zone in Bangalore. This, along with other developments in the industry, has the potential to reduce the manufacturing cost of drugs and medical devices by around 30% as compared to global prices. The UK must consider this opportunity and further trade in pharmaceutical products with India.
In 2016, India was the 3rd largest source of imports, representing 2.3% of all UK service imports. India’s exceptional performance in exporting information technology (IT) services has been instrumental in its integration with the global economy and they have played a major part in India’s services exports to the UK, which, as the table below shows, have grown by 411%, from £797 million to almost £3.3 billion.

### TOP SERVICES EXPORTED FROM INDIA TO THE UK

There is growing demand in the UK for services. Total UK imports of services (excluding travel, transport and banking) showed record growth in 2016, rising by £10.2 billion to £68.7 billion, an increase of 17.4%. The information and communication sector showed the largest growth, rising by £5.1 billion.

#### INDIAN SERVICES EXPORTS TO THE UK

6.1

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### THE TOP 9 INDIAN SERVICES EXPORTS TO THE UK IN 2016

- Business services
- Travel
- Telecommunication, computer and information services
- Transport services
- Financial services
- Government
- Intellectual property
- Personal, cultural and recreational
- Construction

#### THE INFORMATION AND COMMUNICATION SECTOR SHOWED THE LARGEST GROWTH, RISING BY £5.1 BILLION

Sources
Diagram 6.1
The Business Services sector contributes around 65% of India’s global services exports and, not surprising, is the largest contributor to India’s exports to the UK this century. Also, these services have contributed the biggest share to India’s trade surplus with UK.

As noted below, although already dominant, this sector will evolve and drive the future growth in India’s exports to the UK.

WHERE IS THE FUTURE GROWTH COMING FROM?

The India Diaspora in UK is one of the largest ethnic minority communities in the country, with the 2011 census recording approximately 1.5 million people of Indian origin in the UK equating to almost 1.8% of the population and contributing 6% of the country’s GDP.

Cultural linkages between India and UK are deep and extensive, so there is untapped potential for a significant growth of Indian exports of its cultural and recreational services. And of its travel and tourism services.

Linked to this, India’s excellence in the creative industries should have resulted in greater penetration into the UK, which is a global hub for content creation and post-production.

In an increasingly digital world, India’s excellence in technology services should see it expand significantly in the UK. With digital giants like Infosys, TCS, and HCL already strong in the UK and with expanding services focussing on digital manufacturing, AI and blockchain technologies, there will be an increasing demand within the UK.

This use of digital technology could open opportunities for India to provide exported services in tele-medicine, tele-surgery and tele-diagnosis; along with healthcare-related process outsourcing services such as transcription.

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Trade - importing and exporting - is only one aspect of the UK-India bilateral economic relationship, alongside the strong bilateral investment and collaborations on innovative R&D. It is, though, an important aspect as trading is usually a precursor to investing and other deep forms of bilateral engagement, particularly for SMEs.

To improve bilateral trade, there is a role for business and governments, including India’s state governments, the UK’s devolved administrations, and the Local Enterprise Partnerships across England. A concerted and persistent programme will reap benefits.

**Sources**

To succeed in growing trade and investment, the argument that trade and investment are good for society must be won. We would therefore recommend that:

• Politicians and business leaders build a transparent and shared understanding of the other’s objectives and challenges;
• Senior politicians and business figures work together and show the leadership that makes the case for free trade and reforms that enable corporate investment, which will create jobs, increase tax revenues and improve livelihoods; and
• This argument needs to be made at a domestic and international level, including the G20, G7, and other international, including the Commonwealth where the UK and India can drive a fair and free trade agenda.

If implemented, the above recommendations will deliver a more positive environment in which trade and investment will flourish.

While it is important to take a holistic approach to trade and investment, there are steps that can be taken to improve bilateral trade.

GROWING TRADE AND INVESTMENT

Our overarching recommendation is that a holistic approach is taken to growing trade and investment. We will fail if economic strategies put imports, exports, investments, and innovation collaborations into silos. For example, a British company will invest in India if it knows there is a market for its goods/services, and it will prove this first through exporting.

An India-UK Free Trade Agreement would, no doubt, boost trade by lowering tariffs and aligning standards. This, however, will not happen quickly. So the Joint Trade Review (JTR) being undertaken by the UK and Indian governments is an important initiative, which will secure quicker wins, while laying the foundations for a deeper and broader trade deal after the UK leaves the EU.

We believe that a close relationship between the governments and businesses will be essential to the success of the JTR.

The ongoing efforts to improve the ease of doing business are also highly important. For example, if there is greater clarity, simplicity and speed in terms of customs procedures, then more businesses will be able to import/export more.

We would also advocate a tighter alignment of the bilateral economic architecture, including the UK-India CEO Forum, Joint Economic and Trade Committee, Economic and Financial Dialogue and the India-UK Financial Partnership. The outputs and successes of each should be better communicated to the wider business community, which will raise awareness of the opportunities and of the benefits of economic co-operation.
CONCLUSION

So, while it is good to see UK-India trade grow strongly since the start of the century, it is important that greater efforts are made to re-set the bilateral trade relationship. This needs to be a joint effort between business and government.

There is enormous potential, in both directions, given the close and frequent political engagement, a common language, similar legal systems, and frequent business delegations. A further reason to have high ambitions is the strong complementarity between the UK and Indian economies, and the fact that both are large and growing markets.

TRADE

To improve bilateral trade, we recommend:

• A re-examination of what constitutes trade and investment to include the value of the originating country of FDI and FII flows as well as an analysis of trends in the evolution of cross border supply chains and of the impact of new technologies in the way that bilateral trade may be conducted in the future;

• Close involvement and consultation with UK and Indian businesses, especially SMEs that already export, to find out what would make them import/export more between the UK and India;

• An analysis of why UK-India trade in the top 5 imported/exported goods of each country is so low, particularly as there is significant cross-over in the most traded goods;

• There needs to be a focussed outreach campaign to UK and India trade associations to inform these important multipliers of the opportunities in each market, and how to access them;

• Development of the UK’s Department for International Trade’s Export Opportunities programme, which identifies opportunities in India for UK exporters and then connects these potential exporters to the Indian business that is looking to import. As well as striving for an increasing volume of opportunities and respondents, proportionate resources should be provided to support UK and Indian businesses to help get the deal done;

• That the Government of India should consider introducing a similar Export Opportunities programme to showcase to Indian businesses the opportunities to sell to the UK.

• Expansion of “accelerator” programmes, which identify UK and Indian SMEs with the potential to succeed in the UK/India, and provide them with the support and guidance that help them do more business, more quickly; and

• Delegations should be small and focussed, with each delegate fully-prepared. Too often, delegations are large, under-prepared and rely on serendipity to make deals happen. So, prior to delegations, there should be bespoke research, partner identification, and one-to-one meetings all arranged in advance.
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

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