



India and UK share a long standing relationship. The British ruled India for approximately 200 years and India achieved freedom from British rule on August 15, 1947. Their trade relations have undergone an enormous change since the colonial period. India's multi-faceted bilateral relationship with the UK has intensified over the past several years. There have been regular and close consultations between the two nations at the highest levels to improve Trade and Investment relations between them.

UK is the fifth largest economy in the world. The country is highly industrialised with an open and market-driven economy. Over the last few decades, UK has transformed into a services-based economy. Economic growth in UK has regularly outpaced growth in the European Union. As an open market, the UK's favourable trade and investment policies create ideal conditions for economic growth.

India is one of the fastest growing economies of the world. Over the period of 2003-07, Indian economy's growth accelerated at a rate of 8.6% per annum. This growth has been accompanied by a substantial transformation in the economy from agriculture-based to services-based. Industry sector has also grown. India has also restructured and upgraded its technological infrastructure to meet the global standards.

The comparison of the GDP growth rate of India and UK depicts that UK is a developed economy while India is an emerging one. Therefore, UK has immense opportunity to invest in Indian economy.

UK recorded Imports of goods worth GBP 310.1 billion in 2007, with Germany as the major import partner. The top 20 commodities imported by UK accounted for 76% of the total imports of UK. Road vehicles (12% of total imports) and Petroleum, Petroleum Products and Related Material (8% of total imports) were the top commodities imported by UK in 2007.

UK recorded Exports of goods worth GBP 219.6 billion in 2007, with USA and Germany as the major export partners. The top 20 commodities exported by UK accounted for 82% of the total exports of UK. Road vehicles (10% of total exports) and Petroleum, Petroleum Products and Related Material (10% of total exports) were again the top commodities exported by UK in 2007.

India recorded Imports of goods worth GBP 101.6 billion in 2007, with China as the major source of imports. The top 20 commodities imported by India accounted for 90% of the total imports of India. Mineral Fuels, Mineral Oils (33% of total imports) and Natural or Cultured Pearls, Precious or Semiprecious Stones (12% of total imports) were the top commodities imported by India in 2007.

India recorded Exports of goods worth GBP 69.1 billion in 2007, with USA as the major destination for exports of India. The top 20 commodities exported by India accounted for 77% of the total exports of India. Mineral Fuels, Mineral Oils (15% of total exports) and Natural or Cultured Pearls, Precious or Semiprecious Stones (13% of total exports) were again the top commodities exported by India in 2007.



The imports of goods to UK from India have displayed a growth rate of 15% (CAGR) from 2003 to 2007, while, the exports of UK to India displayed a growth rate of 7% (CAGR) during the same period. India accounted for only 1.2% of the total UK imports and 1.3% of the total UK exports in 2007. The import of Petroleum, Petroleum Products and Related Materials from India to UK has increased at a CAGR of 108% from 2004 to 2007. The growth is driven by the import of Oils Obtained from Petroleum or Bituminous MNL, PRP NES, Containing by Weight NLT 70%.

The trade potential between India and UK is considerably underutilised. Road Vehicles, Medicinal and Pharmaceutical Products and Chemical Materials and Products are one of the highest exported commodities from UK. However, the trade of these goods with India needs to be enhanced. Similarly, Telecommunications and Sound Recording and Reproducing Appliances, Office Machines and Automatic Data Processing Machines, Non- Ferrous Metals, Professional, Scientific and Controlling Appliances, Machinery Specialized for Particular Industries and Paper, Paperboard and Manufactures are commodities which are mainly exported to UK and have immense scope for improvement in mutual trade with India.

In trade in services sector, UK imported services worth GBP 95,392 millions from all over the world in 2006. India accounted for 1.56% of UK's total imports of services. UK exported services worth GBP 124,536 millions all over the world in 2006. India accounted for 1.14% of UK's total exports of services.

Travel constitutes the largest contributor to imports from India in 2006 (44.1%) and 2005 (47.3%) to UK. Another prime area where imports occur from India to UK, include Transportation, Other Business Services and Computer and information systems. Other business services (26.5%) constitute the largest contributor to exports from UK to India in 2006, followed by Travel (24.2%) and Transportation (20.4%).

In Computer and Information Services Trade, India and UK have a long standing relationship. Approximately 75% of the Indian firms in UK are operating in this sector. The export of Computer and Information Services from India to UK is quite high as opposed to import of services from UK. India was the 4th largest exporter of Computer & information services to UK in 2006. Out of the total imports of Computer and information services of UK, 7.6% were sourced from India in this year.

India provides a large talent pool available at a cheaper cost allowing foreign companies to save 30-40% costs by setting up delivery centre in India. The IT companies in UK can leverage this cost investing in India and capitalizing on this opportunity. Similarly, Indian companies with large employee base and access to large talent pool can fulfil the unmatched demand in UK IT industry as there is a huge talent shortage in UK IT industry.

The UK Insurance market is the largest in Europe and is an important contributor to British economy. The exports of Insurance Services from UK to India accounted for 3.4% of the total exports in services from UK to India in 2006. In the same year, out of the total exports of insurance Services of UK, 1.4% was exported to India.



India has a large base of insurable population and also the Indian government proposed to increase the FDI in insurance sector from 26% to 49% in 2004. If the FDI limit is increased, UK insurance companies will get an opportunity to target the Indian market by entering in a joint venture with a right partner. However, the FDI limit has not increased yet as it needs to be followed by an amendment in IRDA act. Indian companies being inexperienced and top UK insurance companies already collaborated with Indian companies; there is little possibility of India companies entering into UK insurance market. However, Indian banks with their branches in UK can sell insurance products of the Indian companies including their collaboration to the Indian NRIs.

In Travel Services Trade sector, the imports of travel services to UK from India are more dominant than the exports of travel services from UK to India. The imports to UK from India accounted for 44.1% of the total imports to UK in services from India in 2006. Travel import to UK from India accounted for 1.9% for the total travel imports to UK in same year. Education services trade between UK & India has also shown considerable growth in the past, mainly in the area of export of education services from UK to India. India stood at the second position in a list of nations with the most students at UK institutions, following China which topped the list in 2006.

Travel from UK to India can further increase by increasing awareness about India and improving Indian infrastructure. Increasing the bilateral trade between two countries will promote bilateral tourism between them. Hosting of 2012 Olympics by UK will increase the number of Indian travellers to UK.

In Financial Services trade, the exports of Financial Services from UK to India accounted for 10% of the total exports in services from UK to India in 2006 and 0.5% of the total Financial Services exports from UK. Steady growth has been observed in the imports of Financial Services from UK to India. The imports of financial services to UK from India accounted for 1.5% of the total imports to UK in services from India and 0.4% for the total Financial Services imports to UK in 2006.

In India, foreign banks are allowed to provide variety of services. FDI limit increased to 74% in 2004. Therefore, UK banks have opportunity to explore fields such as retail banking, wealth management, online rupee exchange services, etc.

Steady growth has been observed in the exports of Communication Services from UK to India until 2005. The exports of Communication Services from UK to India accounted for 2.8% of the total exports in services from UK to India and 1% of the total Communication Services exports from UK in 2006. The imports of Communication Services to UK from India accounted for 4.6% of the total imports to UK in services from India and 1.7% for the total Communication Services imports to UK in the same year.

India is one of the fastest-growing communication markets in the world. In this regard, UK has opportunity to fully utilise India's potential and increase the export from UK to India in this sector.

In Transportation Services sector, considerable growth has been observed in the exports from UK to India from 2001 to 2006. The exports of Transportation Services from UK to India accounted



for 20% of the total exports in services from UK to India and 1.7% of the total Transportation Services exports from UK in 2006. The imports of Transportation Services to UK from India accounted for 19.2% of the total imports to UK in services from India and 1.5% for the total Transportation Services imports to UK in the same year.

India is focusing on improving its infrastructure to modernise, expand, and integrate the country's transport services. Therefore, UK has opportunity to tap the potential in Transportation sector in India.

Emerging sectors such as Research and Development, Creative Industries and Management Consultancy Services have high potential for growth between the two countries. Under the joint declaration between India and UK (2008) to improve Trade & investment relations between the two countries, the countries agreed to widen discussion to all research funding bodies in both countries through the India-UK Science and Innovation Council mechanism.

The growth of FDI Inflows to UK does not show an identifiable pattern of continuous growth or continuous decline. A significant decrease has been noticed in UK's FDI inflow in 2007 due to its policy to concentrate on skills, R&D, regulatory environment and business opportunities rather than on low costs or incentives. The FDI outflow from UK experienced an increase of 88% in 2007 from 2006. This was primarily due to increase in mergers and acquisitions by UK companies. The FDI outflow from UK to India increased by 99% in 2007 from 2006.

Maximum FDI inflow to India comes from Mauritius. However, a large part of these investments are also from UK routed through Mauritius. India's FDI inflow has increased continuously since 2003. Huge foreign investments in the software industry, financial services, real estate and manufacturing sector in 2006 led to 160% increase in FDI inflow in 2006. A number of mergers and acquisitions also accelerated the growth rate. FDI outflow has also increased significantly since late 1990s. Mergers and acquisitions led by Indian companies and initiatives launched by RBI are primarily responsible for this drive in growth rate.

The FDI flows from UK to India have shown a cyclical trend since 1997 until 2006. Almost every alternate year shows a decline in FDI flows to India from UK, followed by growth next year. Outflow of FDI from India to UK has increased significantly in last two years which is mainly driven by the major acquisitions done by Indian companies in UK. Acquisition of Corus (UK-based) by Tata Steel (India-based), Jaguar and Land Rover (UK-based) by Tata (India-based) and Hutch (India-based) by Vodafone (UK-based) are some of the numerous mergers occurred in 2007 and 2008. There has also been an increase in the share of reinvested earnings. However, FDI inflow and outflow between India and UK in services and real estate sector displays a potential of growth.

Despite of recent growth and developments in trade relations between India and UK, there is a tremendous scope to enhance the relations further. The regulatory issues, tax concerns and government policies are some of the areas where steps can be taken to further strengthen the ties between the two countries.