



## India and UK Trade

Rani Matharoo<sup>a\*</sup>, Gurpreet Singh<sup>b</sup>

<sup>a</sup>Faculty of Economics, Department of Agriculture, Baba Farid College Deon, Bathinda (Punjab)  
E-mail Id: rasurmukh@gmail

<sup>b</sup>Faculty of Statistics, Department of Agriculture, Baba Farid College Deon, Bathinda (Punjab)  
E-mail Id: grparmar.884@gmail.com

### Abstract

As we know that India and the united kingdom have been close allies for long-time. India and UK bilateral investment ties have continued to remain strong. UK is the third largest investor in India with accumulative FDI investment of \$23.10 billion between 2000 to march 2016. India received \$24.91 billion in FDI equity inflows from EU between April 2012 and May 2015. Thus, the EU along with the UK both remain important to India. Given the good trade and investment relations between the two countries, an India-UK FTA has been on the anvil since 2006 with several rounds of discussions and no concrete outcomes. However, it is being opined by Indian industry that the FTA could be easier to accomplish at a bilateral level following Brexit. According to a study carried out by the Commonwealth Secretariat post-Brexit vote a well negotiated FTA between the UK and India has the potential to increase bilateral trade by 26%. The UK's membership of the EU may have acted as an obstacle to developing trade and investment partnerships with the rest of the world. However, post Brexit vote it is expected that the UK will be in a better position to forge closer trading ties. However, the Indian commerce ministry has made it clear that India and the UK can work on a FTA only after the latter is officially out of the EU, but the two countries have set up a joint working group to deliberate upon ways to strengthen commercial relationship. To know the relationship between India and UK pre and post Brexit paper has divided into two parts. Secondary data has been used to define relationship.

**Keywords:** JETCO, BTIA, FDI, FTA, Brexit.

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\*Corresponding Author

## 1. INTRODUCTION

India and the United Kingdom have been close allies for a long time. The bilateral relationship between the two countries was upgraded to a strategic partnership in 2004, and was further strengthened by former PM David Cameron's visit to India in 2010 and 2013. PM Modi's visit to the UK in November 2015 took the relationship to new heights. The situation has changed since June 2016 when nearly 52% of the population of UK decided to leave the European Union, reversing the decision taken in 1975 to join the common market. However, trade relations between the two countries continue to flourish and more recently so with the visit of PM Theresa May in November, 2017. Bilateral trade between India and the UK was \$ 14 billion in FY16, which was slightly lower than the previous year's total trade of \$14.33 billion. The UK continues to be among India's major trading partners. During FY16, the UK ranked 12th in the list of India's top 25 trading partners moving up six places from 18th in 2014-15. Despite the global economic slowdown and the Euro zone crisis, India-UK bilateral trade has been resilient. In fact, the UK's share in India's global trade has gone up from 1.89% in FY15 to 2.18% in FY16. On the same lines, the EU is also India's largest trading partner with 13% share in 2015. India was EU's ninth largest trading partner in 2015 with 2.2% share.

## 2. METHODOLOGY AND DATA

Methodology and coverage database for the study is formed by secondary data sources. Data for the study of India and UK trade have been obtained from websites of statistical organizations / offices of India. Many research papers are studied. After studying the research paper it has been cleared that most of the advanced economies are affected by Brexit? Aim of my study is to find the trade relationship between India and UK before and after Brexit and also to find the trade problems between India and UK.

### 2.1 India and UK Trade Relationship

India is the third largest foreign investor in the UK, and the UK is the largest investor in India within the G20. There are many bilateral trade agreements between the two nations designed to strengthen ties. For example, in 2005, the Joint Economic and Trade Committee (JETCO) was inaugurated in New Delhi aimed at boosting two-way bilateral investments.

The growth of India's multinational companies contributed greatly to UK's business and economy. The British government has chosen India as one of its most influential trade partners because it is one of the "fastest growing economies in the world." In 2013, Cameron formed the biggest trade delegation by accommodating more than 100 representatives that varied from multinational corporations, medium-to-small-sized corporations, and universities to India. Compared to the 2010 trade mission, the UK and India negotiated to double the trade volume by 2015. Following the trade delegation, total UK goods and services exports to India increased by 14% from January to September 2013. Between November 6 and 8, current British PM Theresa May would visit India for a bilateral trip. The key topic of discussions would be May's plan for post-Brexit relations with India. Discussion on a possible free-trade agreement is also in the agenda. According to a MEA (Ministry of External Affairs, India) spokesperson, there is "substantial scope for further strengthening bilateral cooperation across a range of sectors, including science & technology, finance, trade & investment, and defense & security."

We have divided our study into two parts: first is the trade relationship between India and UK before Brexit and second is the trade relationship between India and UK after Brexit.

### 3. INDIA AND UK TRADE RELATIONSHIP BEFORE BREXIT

#### 3.1 India-EU Broad-Based Bilateral Trade and Investment Agreement

India EU BTIA negotiations are underway with the EU for a Broad based Trade and Investment Agreement (BTIA) with 15 Rounds having been completed. An intersessional meeting and Chief Negotiators meeting was held on May 13, 2013 in New Delhi. A Ministerial review meeting between former Minister for Commerce and Industry and Trade Commissioner EU was held on April 15, 2013 at Brussels to take stock and provide political guidance on outstanding issues. Apart from these meetings, sector-specific inter sessionals, Digital Video Conferences (DVCs) are also held frequently, on a regular basis between the two sides. The areas covered in BTIA are: Trade in Goods, Sanitary & Phyto-sanitary Measures and Technical Barriers to Trade, Trade Remedies, Trade in Services, Rules of Origin, Investment, Intellectual Property Rights and Geographical Indications, Competition Policy, Customs and Trade Facilitation, Trade Defence, Dispute Settlement, Government Procurement and Sustainable Development.

#### 3.2 India-UK Bilateral Investment

Today the UK is the 3rd largest inward investor in India, after Mauritius, and Singapore with a cumulative equity investment of US \$ 23.10 billion (April 2000- March 2016). UK ranks first among the G20 countries and accounts for around 8% of all foreign direct investment into India for the period April 2000 – March 2016.

#### 3.3 Investment from UK to India

Cumulative FDI inflow from UK (April 2000-March 2016) : Us \$ 23.10 billion

Percentage share of FDI inflow into India from UK : 8%

Rank : 3rd

#### FDI from UK during the last 6 years

(a) 2010-11 US\$ 2.7 billion

(b) 2011-12 US\$ 7.8 billion

(c) 2012-13 US\$ 1.0 billion

(d) 2013-14 US\$ 3.2 billion

(e) 2014-15 US\$ 1.4 billion

(f) 2015-16 US\$ 898 million

**Table 1: Share of top sectors attracting FDI Equity Inflows from the United Kingdom  
(from April 2000 to April 2015)**

Rank	Sector	Amount of FDI Equity inflows		%age of FDI equity inflows from united kingdom
		Rs. In Crores	US\$ in million	
1	Chemicals (other than fertilizers)	26,438.48	5,781.14	25.99
2	Drugs & pharmaceuticals	19,124.57	3,909.64	17.58
3	Food processing industries	19,411.16	3054.68	13.73
4	Service sector*	13,428.55	2,947.19	13.25
5	Petroleum & Natural gas	11,320.36	2,318.46	10.42
<b>Total of above</b>		<b>89,723.12</b>	<b>18,011.11</b>	<b>80.97</b>

*Source: Report of UK-India Investment, Government of India, 2015 & Confederation of British Industry (CBI's) Sterling Assets India Report, 2015*

**Share of top sectors attracting FDI Equity Inflows from the United Kingdom (from April 2000 to April 2015):**

According to Confederation of British Industry (CBI)'s Sterling Assets India Report 2015, UK is India's largest G20 investor and employer; companies currently employ around 6,91,000 people across India, 5.5% of total organized private sector jobs in the country. Between 2000 and 2015, UK FDI worth US\$22.2bn has generated around 1,38,000 direct jobs, 7% of the total 1.96 million jobs generated by FDI in India. According to the findings, UK is a close second (after the USA) in generating service sector jobs in India, with an estimated 43,000 positions created. The chemicals sector attracts the lion's share of British investment in India, at \$5.78 billion (26 per cent of UK FDI), followed by the pharmaceutical sector at \$3.76 billion (17 per cent of UK FDI) and the food processing sector at \$3.05 billion (14 per cent of UK FDI).

**3.4 Investments from India to UK**

India continues to be one of the largest source markets for FDI projects in the UK. According to the latest figures released by the UK Trade and Investment (UKTI) in their '2014/15 Inward Investment Annual Report', India undertook 122 FDI projects in 2014-15 in the UK, marking an increase of 65 per cent over last year and making it the UK's third largest source of FDI, accounting for over 9,000 new jobs.

According to the figures released by the UK Trade and Investment in their '2013/14 Inward Investment Annual Report' India had 74 FDI projects in the United Kingdom which created 4,482 jobs during 2013-14.

According to Office for National Statistics, The value of Indian FDI into the UK has experienced a notable increase between 2004 and 2013, from £164 million to £1.9 billion. The largest industry grouping in the UK receiving Indian FDI was information and communication (30% of total UK FDI into India in 2013).

According to the Grant Thornton India Tracker 2016 Report, More than 800 Indian- owned businesses, employs nearly 1,10,000 people in the UK. About 10% of these 800 Indian and India-focused companies are listed on the London Stock Exchange.

**Table 2: India-UK Total Trade Statistics as on 08/07/2016**  
Value in US \$ million

S. No.		2011-12	2012-13	2013-14	2014-15	2015-16
1	<b>EXPORT</b>	8,589.93	8,612.54	9,779.07	9,319.73	<b>8,829.29</b>
2	%Growth	-	0.26	13.54	-4.70	<b>-5.26</b>
3	India's total export	305,963.92	300,400.58	314,405.30	310,338.48	262,031.23
4	%Growth	-	-1.82	4.66	-1.29	-15.57
5	%share	2.81	2.87	3.11	3.00	3.37
6	<b>IMPORT</b>	7,134.30	6,293.09	6045.10	5,018.28	<b>5,193.61</b>
7	%Growth	-	-11.79	-3.94	-16.99	<b>3.49</b>
8	India's total import	489,319.49	490,736.65	450,199.79	448,033.41	380,665.13
9	%Growth	-	0.29	-8.26	-0.48	-15.04
10	%Share	1.46	1.28	1.34	1.12	1.36

11	<b>TOTAL TRADE</b>	15,724.23	14,905.62	15,824.17	14,338.01	<b>14,022.90</b>
12	%Growth		-5.21	6.16	-9.39	<b>-2.20</b>
13	India's total trade	795,283.41	791,137.23	764,605.09	758,371.89	642,696.36
14	%Growth	-	-0.52	-3.35	-0.82	-15.25
15	%share	1.98	1.88	2.07	1.89	<b>2.18</b>
16	<b>TRADE BALANCE</b>	1,455.63	2,319.45	3,733.98	4,301.46	3,635.69
17	<b>India's trade balance</b>	<b>183,355.57</b>	<b>190,336.07</b>	<b>135,794.49</b>	<b>137,694.93</b>	<b>118,633.91</b>

**Note:** Since 2006-07, Petroleum figures are being computed from Import Daily trade Returns (DTRs) to generate country-wise/port-wise tables. Up to 2005-06 consolidated petroleum import figures were being received from the Petroleum Ministry.

Source: Grant Thornton India Tracker 2016 Report.

#### 4. INDIA AND UK TRADE RELATIONSHIP AFTER BREXIT

Britain's exit from European union would result in several economic and financial implications not only for European Union or advanced economies, emerging and developing economies but for the entire world economy. The BREXIT has already resulted in financial markets volatility across the world and could also spur a number of other risks through various trade, finance and confidence channels. There is no significant impact of the BREXIT is seen on any sector of the Indian Economy. Though, lot of diversification has taken place in India's exports from advanced economies of Europe and America towards emerging and developing economies of Asia, Africa and Middle East, EU is still India's significant trade partner and UK and Germany are among the top ten export destinations of India and Germany is also in India's top ten sources of imports.

Despite adverse international economic developments during the last eight years, India is not only the fastest moving economy but its economic share in the world GDP is also increasing at a significant pace from 1.77% in the year 2005 to 2.86% in the year 2015. Notwithstanding, the slowdown in the world economy; growth in India remained robust, buoyed by strong investor sentiment and a recent fall in international commodity prices. India posted a higher growth of 7.6% in 2015-16 as compared to 7.3% in 2014-15, 6.9% in 2013-14 and 5.1% in 2012-13.

The inward FDI equity inflows from Europe are around 14.1% of India's top ten investing countries in the year 2015-16. The investment inflows from EU to India will remain steady as India's growth trajectory would remain promising in the coming times

The recently announced plethora of economic reforms such as 'Make in India', 'Digital India' and opportunities for 'Startups' would attract more and more investments, going forward.

**Table 3: India-EU: Select economic indicators**

S. No.	Particular	In percentage
1	Share of EU in India's total trade (2015-16)	13.75%
2	Share of EU in India's total exports (2015-16)	16.98%
3	Share of EU in India's Imports (2015-16)	11.53%
4	Share of EU in India's FDI equity inflows (2015-16)	14.5%
5	EU countries in India's top ten export Destinations	UK and Germany
6	EU countries in India's top ten sources of Imports	Germany
7	Share of EU in India's top ten items of Exports	15.53%
8	Share of EU in India's top ten sources of Imports	9.43%

Source: PHD Research Bureau, compiled from various sources

## 5. IMPACT OF BREXIT ON INDIAN ECONOMY

- 5.1 Economy-** In the wake of current developments in the world economy such as BREXIT, India's economic resilience has strengthened during the recent times on account of factors such as announcements of big bang FDI reforms and a significant jump in FDI inflows, narrowing current account deficit, declining trade balance due to fall in commodity prices and several measures undertaken by the Government to boost up investments sentiments in the economy.
- 5.2 Trade -** At present, India's trade with Britain stands at around US\$ 14 billion. Britain's exit could also mean Britain and EU could compete for trading with India and enter into long term relationships with increased growth of trade.
- 5.3 Trade Creation for Indian Businesses-** India's export to the UK is expected to increase as there may be trade diversion in favour of India from other (remaining) EU countries. Similarly, India's import from the UK is expected to increase as there may be more incentive to British exporters to further explore the Indian market. Overall, there exists opportunities of trade creation for India due to possibility of decreasing intra regional trade among the EU countries.
- 5.4 Bilateral Trade and Investment Agreements-** It is expected that the EU will take a more favourable look to complete its negotiations with India to conclude the EU-India Bilateral Trade and Investment Agreement (BTIA).
- 5.5 Services-** With the enhancement of bilateral trade in services, there could be generation of employment opportunities for skilled and unskilled workforce in the services sector in merchanting, other trade related services between related enterprises, professional, management consulting and R&D services. India-UK bilateral trade in services<sup>6</sup> is approx. £2.5 billion - £3 billion in the recent years.
- 5.6 Investment and Capital Flows-**The investment inflows from EU to India will continue and are also not expected to be impacted by the BREXIT vis-a-vis India's growth resilience and promising potential growth trajectory. On account of BREXIT and expected depreciation of the British Pound, in future, Indian investors in the UK may get more favorable investment opportunities. The British investors may like to divert their investment to India and other such countries where they expect to get better returns.
- 5.7 Migration and employment opportunities-** With BREXIT, the UK will no longer be obliged to offer quota-based jobs to the citizens of the EU countries. This might open up the market for skilled and semi-skilled labour for Indian migrants, including temporary workers, in the UK.
- 5.8 Tourism-** In response to Brexit's impacts, travelling to the UK will become cheaper, facilitating increase in tourist movements and educational travel with the big drop in the value of the Pound, and then we could see a surge in leisure tourism to Britain, as travelling may become cheaper.
- 5.9 Financial Market-** The impact of BREXIT on financial markets was short lived due to strong macro-economic fundamentals of the Indian economy and markets have regained their stability in due course of time.

**5.10 Currency-** The fluctuations in currency markets will be for a shorter period on account of India's decent FOREX reserves position and strong policy measures taken by the central bank in the recent times. However, volatility in the currency markets cannot be ruled out as and when the negotiation of the UK breakout from EU progresses.

## 6. CONCLUSION

To sum up, BREXIT will not have much impact on Indian economy primarily because India is run by domestic demand and supply; although a few effects, both positive and negative can be envisaged in some industries individually.

BREXIT Impact on the United Kingdom and European Union will be felt though decreased intra-regional trade decreased FDI inflows and outflows, change in Industrial policy, tightened immigration, trade disputes, decreased international influence and decreased budget.

On breakout of UK from EU, there might have a little impact on trading scenario of top trade partners of EU countries. Further, it may also impact trading scenario of these trading partners with other economies of the world.

Growth in India-U.K. trade following Brexit is within issue that has cropped up frequently in the debate around Britain's decision to leave the E.U., and with the triggering of Article 50, focus has shifted to the specifics of what that could entail, including the sectors that could benefit.

India's total trade with UK stands at about USD 14,023 million in 2015-16. While, India's total trade with EU stands at about USD 88410.29 million of total trade in 2015-16. There is no significant impact of the BREXIT is seen on any sector of the Indian Economy.

The pace of India-EU and India-UK exports and imports will continue and achieving new growth trajectories in the coming times. India-EU trade is expected to touch USD 100 billion in the next one year by FY2018 of which India-UK trade would post a USD 20 billion trade trajectory. At present, India's trade with Britain stands at around US\$ 14 billion. Britain's exit could also mean Britain and EU could compete for trading with India and enter into long term relationships with increased growth of trade. Further, it is expected that the EU will take a more favorable look to complete its negotiations with India to conclude the EU-India Bilateral Trade and Investment Agreement (BTIA). With BREXIT, the UK will no longer be obliged to offer quota-based jobs to the citizens of the EU countries. This might open up the market for skilled and semi-skilled labour for Indian migrants, including temporary workers, in the UK.

In response to Brexit's impacts, travelling to the UK will become cheaper, facilitating increase in tourist movements and educational travel with the big drop in the value of the Pound, and then we could see a surge in leisure tourism to Britain, as travelling may become cheaper.

To sum up, BREXIT will not have much impact on Indian economy primarily because India is run by domestic demand and supply; although a few effects, both positive and negative can be envisaged in some industries individually. Further, the recently announced plethora of economic reforms such as Make in India, digital India and opportunities for start-ups would attract more and more investments, going forward.

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