



## Trade relations between India and the United Kingdom

\*Manasi Kirloskar

**M**y Lords and Ladies, I am honored to have the rare opportunity to be here today in this august house to share my thoughts on the trade relations between India and the United Kingdom. At the outset I would like to thank you for according me this privilege.

India and Britain share strong historical ties dating back by over three centuries. The relationship of our two nations is deep and special as there is a lot in common between the people of our two countries. Thanks to the Indian diaspora of about 1.5 million people, which is the largest ethnic minority group in the UK, the cultural linkages between the two nations are also strong. This has helped gradual mainstreaming of Indian culture in Britain. As a result, we share a lot more than just the love for democracy, tea, cricket and now the bhanga and chicken tikka masala. As we are all well aware, the journey of this relationship commenced with trade. What started as a private commerce bloomed into a most flourishing international system of trade with preferential treatment and lowering of tariffs as its mainstay. What was previously a more-or-less a one sided flow of raw materials to Britain with manufactured goods being exported to India has now bloomed into a most complex inflow and outflow from both sides of raw material intermediates as well as manufactured goods and services.

A testimony to the strong economic relationship between our two countries lies in the fact that India already invests more in the UK than in the rest of the EU combined and the fact that UK is the 4<sup>th</sup> largest inward investor in India. India is the third largest source of FDI (with regard to number of projects), in the UK after the U.S and France. As per latest estimates, the capital expenditure by Indian companies in UK has reached a staggering £ 4.25 billion and the total consolidated revenue for 800 odd Indian companies operating in UK is £ 47.5 billion. Consequently, today India is the second largest job creator, with Indian companies delivering over 110,000 jobs in the UK. Tata Group, for example, is one of the UK's largest manufacturing employers, with approximately 65,000 employees in the UK. In return, the cumulative

equity investment by UK in India is USD 24.59 billion thereby making UK the second largest G20 investor in India. I know that everyone here is aware of the facts and figures that I have narrated. The point being, that economic ties between our two nations have not remained prisoners of the past but have evolved dramatically. Today India and the UK are strong equal partners and there is enough empirical evidence to suggest that there exists huge potential that needs to be tapped for the benefit of the people of both the countries.

As far as trade between our two nations is concerned, at present UK ranks 15<sup>th</sup> in the list of India's top trading partners. UK is India's 6<sup>th</sup> largest export market and is 22<sup>nd</sup> amongst the countries exporting to India. The India-UK bilateral trade in goods and services in 2015 amounted to £16.33 billion with India enjoying a surplus in both merchandise and services trade. As I pondered through the trade data, the thing that strikes me the most is the huge potential that still remains untapped. More disturbingly, with the exception of 2017 the trade between India and UK has been declining over the last few years. So the two countries face the immediate challenge of finding ways of exploring newer areas that can provide sustained momentum to growth in trade so as to realize the available potential that exists. This will also automatically reverse the declining trend in trade between the two countries seen in the recent past.

One of the reasons for low trade share and declining trade between India and UK is the narrow range of items being currently traded. The main items exported by India to UK include apparels (19.1%), machinery and mechanical appliances (8.1%), vehicles and their parts (7.2%), jewelry related items (5.6%), pharmaceuticals (5.2%) and footwear (4.8%). The major items of import from UK consist of machinery and mechanical appliances (15.7%), jewelry related items (7.9%), electrical machinery, equipment and parts (9%) etc. Interestingly, most of India's imports from the UK are of intermediate products, which are manufactured and become India's finished products, especially in India's traditional exports.

In addition, the quantity of bilateral trade between the UK and India in services is currently minuscule. Although the UK became the second largest exporter of services globally in 2015, with exports worth US\$349 billion, and the fifth largest importer of services, with total imports of US\$212 billion, the share of the UK's exports and imports of services from and to India remains under 2%. There is obviously a huge potential to increase trade in services between the two countries. It is important to broaden and diversify trade items. Not restricting it to Goods but to also extend its potential towards knowledge transfer in the area of Medical care and Education, for instance.

It is well known that the India-EU foreign trade agreement (FTA) has been on the negotiating table since 2007, however it remains inconclusive. Brexit has meant that the negotiations held so far will need to be revisited and given the fact that there are some strong sticking points it is unlikely that this may get concluded at an early date. This situation presents itself as a huge opportunity if the two countries were to work on an India - UK FTA on high priority. If there is political will, an India-UK FTA would be less difficult to negotiate than the India-EU FTA as some of the sticking points may be easier to resolve. It appears that both India and UK may have greater flexibility. For instance it would seem that UK may be amenable to lowering of tariffs on goods in some agro-products of interest to India, and could be more flexible on the issue of India's intellectual property regime while India may be more accommodative on issue of opening up its automobile sector to the UK as Indian companies have large investment in UK's automotive industry.

A study conducted recently indicates that consequent to an India-UK FTA, while India's imports from the UK are estimated to increase by around 33% of its imports in 2015, the UK's imports from India would rise by only 12% from 2015. This is because tariffs on UK exports into India are estimated to be around 14.8% on average, while Indian exports into the UK face tariffs of around 8.4%. Hence, it would be

reasonable to expect that UK would need to be more accommodative and also widen the relationship much beyond just trade and begin viewing India as a strategic business partner for the future. Therefore, both countries should aspire to improve not only the quantity but also the quality of their economic relationship. For this purpose greater engagement & investment by the UK in areas such as manufacturing, health care, sanitation, smart city infrastructure development, renewable energy, hospitality, tourism, food processing value chain, digital economy, and Financial and Professional Services would be essential. In this regard, the existing bi-lateral mechanisms like India-UK Economic & Financial Dialogue (EFD) and India-UK Joint Economic, Trade Committee (JETCO) and India-UK CEO forum will need to play a more effective and decisive roles.

To conclude, I would like to submit that while strong intent of the both the Governments will definitely be a deciding factor for the future of economic relations between our nations. However, it will be sincerity of intent and the strength of the people to people relations that will shape the determination of the Governments. We are blessed to have a strong historical and cultural connect, However we will be failing in our duties if we take this for granted. We have to therefore find ways to further strengthen the emotional connect between our people. To this end tourism, wider people to people interactions, cooperation in education and skilling are some areas that can help us achieve this. The intention of blossoming Trade will definitely follow through. ■

*Excerpts from the Speech delivered by*

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