



# Delhi Policy Group

Advancing India's Rise as a Leading Power

## DPG POLICY REPORT

### India-UK Trade and Investment Relations: Challenges and Prospects

#### *Author*

Durgesh K. Rai

Volume VII, Issue 11

February 7, 2022



Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

[www.delhipolicygroup.org](http://www.delhipolicygroup.org)



# Delhi Policy Group

Advancing India's Rise as a Leading Power

## DPG Policy Report Vol. VII, Issue 11

February 7, 2022

### ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and is independently funded by a non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

### Author

Dr. Durgesh K. Rai, Adjunct Fellow, Delhi Policy Group

*The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.*

### Cover Photographs:

Prime Minister Narendra Modi and UK PM Boris Johnson at COP26 in Glasgow. Source: [hindustantimes.com](https://www.hindustantimes.com)

Commerce and Industry Minister Piyush Goyal with UK Secretary of State for International Trade, Anne-Marie Trevelyan, at their bilateral meeting in Italy. Source [twitter.com @PiyushGoyal](https://twitter.com/PiyushGoyal)

© 2022 by the Delhi Policy Group

### Delhi Policy Group

Core 5A, 1st Floor,  
India Habitat Centre,  
Lodhi Road, New Delhi- 110003.  
[www.delhipolicygroup.org](http://www.delhipolicygroup.org)

# India-UK Trade and Investment Relations: Challenges and Prospects

By  
Durgesh K. Rai

## Contents

<b>Executive Summary .....</b>	<b>i</b>
<b>1. Introduction .....</b>	<b>1</b>
<b>2. Economic profiles of India and UK .....</b>	<b>2</b>
<b>3. India-UK bilateral economic relations .....</b>	<b>5</b>
3.1. Trade relations.....	6
3.1. A. Trade in goods.....	6
3.1. A (i). Revealed Comparative Advantage of India and UK.....	10
3.1. A (ii). Trends in India-UK bilateral merchandise trade .....	13
3.1. A (iii). Composition of India-UK bilateral trade in goods.....	16
3.1. B. Trade in services .....	22
3.1. B (i). Trends in services trade of India and UK .....	23
3.1. B (ii). RCAs of India and UK in global trade of commercial services.....	27
3.1. B (iii). Bilateral trade in services between India and UK .....	28
3.2 Investment relations .....	31
3.2. A. FDI from UK to India.....	32
3.2. B. FDI from India to UK.....	35
<b>4. Trade and investment barriers in India and UK .....</b>	<b>37</b>
4.1. Barriers to goods trade.....	37
4.1(i). Tariff barriers.....	37
4.1(ii). Non-tariff barriers .....	40
4.2. Barriers to trade in services .....	43
4.3. Investment barriers .....	46
<b>5. Concluding remarks and the way forward .....</b>	<b>48</b>
<b>References.....</b>	<b>52</b>
<b>Appendix 1: Description of HS Codes .....</b>	<b>55</b>

## List of Tables

Table 1: Macroeconomic trends in India and UK .....	4
Table 2: Sectoral composition of economies of India and UK, share in GDP .....	5
Table 3: Composition of India's global exports and imports, 2019 .....	8
Table 4: Composition of UK's export and import, 2019 .....	10
Table 5: Number of sectors (HS 2 digit) with RCA>1 in India and the UK .....	11
Table 6: Sectors with RCA>1 in India and UK .....	12
Table 7: India's merchandise trade with UK, in US\$ million .....	14
Table 8: Changing composition of Indian exports (in US\$ million) to UK .....	17
Table 9: Key sectors with higher growth rate compared to India's total exports to UK .....	18
Table 10: Key sectors with lower growth rate compared to India's total exports to UK .....	20
Table 11: Changing composition of Indian imports (in US\$ million) from UK .....	21
Table 12: Composition of trade in commercial services by India, US\$ million .....	25
Table 13: Composition of trade in commercial services by UK, US\$ million .....	26
Table 14: RCAs of India and UK in key services sectors .....	27
Table 15: UK's trade in commercial services with India, US\$ million .....	29
Table 16: Composition of UK's trade in commercial services with India .....	30
Table 17: Inward and outward FDI flows of India and UK, US\$ billion .....	32
Table 18: Inward FDI stock in UK from India and other BRICS economies, in £ million .....	35
Table 19: Indian companies (with annual turnover more than £ 5 million) in UK .....	36
Table 20: India's tariff structure, various years .....	38
Table 21: UK's tariff structure under UKGT and EU's CET .....	39
Table 22: Usage of NTMs by India and UK (EU)* .....	41
Table 23: Measure wise usage of NTMs by India and UK (EU)* .....	42
Table 24: Sector-wise usage of NTMs by India and UK (EU)* .....	42
Table 25: STRI scores of India and UK, 2020 .....	44
Table 26: Sectors with limit on FDI in India .....	47

## List of Figures

Figure 1: Share of India and the UK in world GDP and global export of goods and services (in per cent) .....	3
Figure 2: Merchandise trade of India and UK, in US\$ billion .....	7
Figure 3: Share of India and UK in global merchandise exports and imports .....	8
Figure 4: Share (%) of UK in India's external trade .....	15
Figure 5: Commercial services trade of India and UK, in US\$ billion .....	23
Figure 6: Share (%) of India and UK in world trade of commercial services .....	24
Figure 7: Share of India in UK's services trade and share of UK in India's services trade .....	29

Figure 8: FDI equity flows (US\$ million) from UK to India.....	33
Figure 9: Composition of UK's FDI equity flows to India (from January 2000 to December 2018) .....	34
Figure 10: Composition (in %) of UK's fastest-growing Indian companies, 2019 .....	36

## List of Abbreviations

CA	Chartered Accountancy
CAGR	Compound Annual Growth Rate
CIABC	Confederation of Indian Alcoholic Beverage Companies
CII	Confederation of Indian Industry
DPIIT	Department for Promotion of Industry and Internal Trade
DTH	Direct to Home
EFD	Economic and Financial Dialogue
EU's CET	EU's Common External Tariff
EXIM	Export-Import
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GGEF	Green Growth Equity Fund
HS	Harmonized System
IPR	Intellectual Property Right
ISRO	Indian Space Research Organisation
IT-ITeS	Information Technology- Information Technology Enabled Services
IUKFP	India-UK Financial Partnership
JEG	Joint Working Group
JETCO	Joint Economic and Trade Committee
LRC	Local Content Requirement
MFN	Most Favoured Nation
MRQ	Mutual Recognition of Qualifications
NOC	No-objection Certificate
NS&I	National Security and Investment
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RCEP	Regional Co-operation and Economic Partnership
SSA	Social Security Agreement
STRI	Services Trade Restrictiveness Index
TDR	Transferable Development Right
UK	United Kingdom
UKGT	UK Global Tariff
UNCOMTRADE	United Nations Commodity Trade Statistics Database
UNCTAD	United Nations Conference on Trade and Development

USTR	United States Trade Representative
WDI	World Development Indicators
WITS	World Integrated Trade Solution
WTO	World Trade Organization

## Executive Summary

India and the UK share a strong and multi-dimensional strategic partnership. Following India's economic reforms in the early 1990s that placed the Indian economy on a high growth trajectory, the two countries have taken several initiatives to expand bilateral relations. To advance trade and investment relations, they have formally launched negotiations for a free trade agreement (FTA) on January 13, 2022 and the first round of talks have been concluded on January 28, 2022.

The present study aims to review and analyse trade and investment flows of and between India and the UK, and examine the barriers that hinder the realisation of the full potential of India-UK economic ties. The findings of the study also highlight the major areas that require focus and the barriers that need to be removed under the proposed FTA.

During 2000-2019, India's GDP grew at a CAGR of 6.6 per cent compared to the UK's 1.7 per cent, and it emerged as the fifth largest economy in the world in 2019 ahead of the UK. However, the UK remains a significantly larger player than India in global trade of both goods and services. In 2019, while the UK was the fourth largest trader of goods and services globally, India was ranked 12<sup>th</sup>. This also indicates the UK's higher dependence on international trade and hence its greater desire to secure market access in foreign countries. At the same time, the UK's share in world trade has declined over the last two decades while India's has increased. The UK's share in global exports declined from 5.3 per cent in 2000 to 3.3 per cent in 2019, while that of India increased from 0.8 per cent to 2.1 per cent during the same period.

Despite an increase in the share of services in external trade for both India and the UK, goods trade is still more important than services, more so for India. In 2019, the share of goods in India's total exports and imports was around 60 per cent and 73 per cent, respectively. In the case of the UK, goods constituted around 53 per cent and 71 per cent of total exports and imports respectively. Therefore, both countries have interests in both goods and services trade. There has also been a surge in the merchandise exports and imports of both over the last two decades, but India's growth rates have been substantially higher than the UK's. However, there was a slowdown in exports and imports during 2010-2019 as compared to 2000-2010 for both economies, as well as greater fluctuations in their global trade. Overall, the last decade appears to have been more challenging in terms of international trade for both countries.



Analysis of trade composition indicates complementarity in the trade structures of the two economies. Seven of the UK's top ten import sectors are the same as India's leading export sectors. The RCA analysis shows that while India has a comparative advantage in 40 sectors, the UK's comparative advantage lies in 23 sectors. As expected, almost half the sectors in which India has a comparative advantage belong to two major labour intensive sectors – agriculture, and textile and clothing. The UK's comparative advantage lies mainly in non-agricultural capital and technology intensive sectors. The UK and India have a comparative advantage and competitive interests in sectors like pearls, precious stones, metals, coins; organic chemicals; and pharmaceutical products. Consequently, negotiations of the proposed FTA in the case of these sectors are likely to involve considerable give and take. However, they also present an opportunity for closer bilateral co-operation, as reflected in the tie-up between the UK's AstraZeneca and the Serum Institute of India for the production of the Covid-19 vaccine.

The study finds that India-UK bilateral merchandise trade almost trebled from US\$ 5.4 billion in 2000 to US\$ 15.7 billion in 2019. However, Indian exports to the UK have grown faster than its imports from the UK, turning the trade balance in India's favour since 2004. As in the case of global trade, two-way trade in the 2010s has increased slower than in the 2000s. The share of the UK in India's external trade has declined significantly because the growth in bilateral trade has been slower than the growth in India's trade with the rest of the world. The share of the UK in India's global trade has declined from 5.6 per cent in 2000 to less than two per cent in 2019. The UK's share has declined both in India's exports and imports, but the decline in the share of imports has been relatively sharper than that in exports.

India's exports to the UK are more diversified, ranging from labour intensive agriculture and textiles and clothing to international production network-intensive machinery and high value optical and medical goods. India's imports from the UK, on the other hand, consist mainly of manufactured goods, which are capital and technology intensive. This indicates that while negotiating the FTA with the UK, India will have to focus not only on products from traditional sectors like agriculture, and textiles and clothing but also on high value manufacturing sectors that are emerging as key contributors to Indian exports.

Tariff and non-tariff barriers exist in both countries. While the UK's exports face high tariff barriers, India's exports suffer due to the high prevalence of NTMs in the UK. Besides, Indian exports from some key labour intensive sectors are disadvantaged vis-à-vis competitor economies like Bangladesh due to the UK's GSP scheme. India could focus on these products during negotiations on the

proposed early harvest deal. Negotiating tariff barriers is relatively easy, but the adverse impact of NTMs on trade can be addressed only through active co-operation between the concerned agencies of the two countries. India, therefore, needs to press for institutionalised mechanisms under the proposed FTA to tackle the problems arising out of the higher prevalence of NTMs in the UK. To make these mechanisms more effective, it is important to have provisions under the FTA for timely resolution of issues related to NTMs, at least in some critical sectors like chemicals, pharmaceuticals, automotives and engineering.

The study also shows that services have gained importance in the external trade of both countries over the last two decades. While the share of services in India's total exports increased from about 29 per cent in 2000 to 40 per cent in 2019, the UK's share increased from 26 per cent to 46 per cent. Although the UK remains a bigger player in international services trade than India, India's share in the global trade of services has increased while that of the UK has declined in the recent past. In 2019, India was the world's 8<sup>th</sup> largest exporter and 10<sup>th</sup> major importer of commercial services. The UK was ranked the second leading exporter and fifth largest importer globally in the same year.

Despite fluctuations, India-UK bilateral trade in services has increased from about US\$9 billion in 2010 to more than US\$13 billion in 2019. Although the UK's imports from India have grown slightly slower than the UK's exports to India, the services trade balance remains in India's favour. Between 2010 and 2019, the importance of the two countries in each other's services trade has declined. Detailed examination of the composition of trade and RCA analysis have shown that India has offensive interests in 'telecom, computer and information services' and 'other business services'. For the UK, areas of interest include personal, cultural and recreational services; financial services; other business services; insurance and pension services; and charges for the use of intellectual property. With the growing presence of the Indian diaspora in the UK 'personal, cultural and recreational services' could also be an area of interest for India as well. This sector offers significant scope for bilateral co-operation.

The study highlights several issues that impede the flow of bilateral services trade. India should focus on time bound provisions on MRQs and SSA along with concessions on labour-market tests and stringency in visa regulations under the proposed FTA. Besides, given that the UK is a major IT-ITeS services market for India and any restriction on flow of data across borders is likely to undermine the realisation of the potential in bilateral trade, it is imperative to have data adequacy provisions as part of the India-UK FTA.

While the UK has been an important source of FDI for India, India's importance has also been growing as a source of FDI for the UK. The UK was the 6<sup>th</sup> largest investor in terms of total accumulated FDI equity flows into India from April 2000 to March 2021. India has emerged as an important source of FDI for the UK. The study finds that the composition of the UK's FDI to India is in sync with India's aim of augmenting its manufacturing capacity and raising the share of manufacturing in GDP to 25 per cent. The data analysis shows that of the top five sectors that received maximum FDI from the UK, four belong to manufacturing, including food processing, which is vital to enhance farmers' incomes in the country. However, the study also highlights a number of investment barriers, particularly in India, that hamper investment flows to India from the UK (and the rest of the world). Given that the UK is a very significant source of FDI, India should focus on the challenges that global investors in general and UK investors in particular face while entering the Indian market and address these constraints.

Overall, despite having a very complementary and robust economic partnership, several barriers still impede flows of trade and investment between India and the UK. The proposed FTA provides a much-desired opportunity to remove those barriers and to realise the full potential of bilateral relations between the world's fifth and sixth largest economies.

# India-UK Trade and Investment Relations: Challenges and Prospects

by  
Durgesh K. Rai

## 1. Introduction

India and UK share a strong and comprehensive partnership. The bilateral engagements between the two countries are based on many common and complementary attributes. While shared history, cultural and democratic values are the most common attributes that work as binding forces between the two countries, the complementarities in terms of economic structures and skills are the key factors driving bilateral economic relations. The UK is among one of the very few modern economies of the world with which India has had deep and wide economic linkages for a long period of about 400 years. However, bilateral trade relations between the two countries deteriorated since the early decades after India's independence in 1947 (Lynch, 2019). Following India's economic reforms in the early 1990s that placed the Indian economy on a high growth trajectory, the two countries have taken several initiatives to expand their bilateral relations.

In 2004, the two countries upgraded the bilateral relationship into a strategic partnership that paved the way for a multi-faceted bilateral engagement, covering several aspects including trade and economy, health, people-to-people ties, science and technology, climate change and co-operation on multilateral issues. There also exist several institutional mechanisms to guide and facilitate India-UK bilateral economic relations. The India-UK Joint Economic and Trade Committee (JETCO) and India-UK Economic and Financial Dialogue (EFD) are the two most important bilateral institutional mechanisms between the two countries. Established on January 13, 2005, JETCO is a business-driven institutional framework aiming to boost trade and investment flows between the two countries through business-to-business relationships. The EFD was established on February 4, 2005, to strengthen economic and financial relations between the two countries. Other institutional mechanisms in place to support India-UK bilateral economic relations include India-UK Financial Partnership (IUKFP), Joint Working Groups (JEGs), India-UK CEOs Forum, The Green Growth Equity Fund (GGEF), UK-India Fast Track Mechanism, UK-India FinTech Dialogue and UK-India Tech Alliance (High Commission of India, London, 2021).

According to the Department of Commerce, Government of India (2021), with a total trade value of more than US\$16 billion, UK was India's 14<sup>th</sup> largest merchandise trade partner in 2019-20. As per the UK's Department of International Trade (2021a), India was ranked UK's 15<sup>th</sup> leading trade partner. Both countries are also important sources of FDI to each other. While the UK is India's sixth biggest source of FDI, India has also been emerging as an important source of foreign investment for the UK in recent years.<sup>1</sup>

To advance bilateral economic relations, the two countries formally launched negotiations for a free trade agreement (FTA) on January 13, 2022 and the first round of discussions were concluded on January 28, 2022. The aim is to first get an 'early harvest deal' over the next few months and then a comprehensive FTA by the end of the year. For India, the proposed FTA with the UK is part of its new emerging trade strategy to boost exports and enhance its role in global supply chains. India's new approach to FTA comes after its withdrawal from the Regional Co-operation and Economic Partnership (RCEP) and the realisation that existing FTAs with many Asian economies have not been able to enhance India's exports or export capacity to the desired level. On a concordant note, in the post-Brexit era, the UK has set a goal to have FTAs with countries to cover 80 per cent of its trade by the end of 2022 (Department of International Trade, UK, 2021b).

Given this background, the present study aims to review and analyse the trade and investment flows of and between India and the UK, and examine the barriers that hamper the realisation of the full potential of India-UK economic relations. The study is timely, as its findings suggest the major areas to be focused on and highlight the barriers to be removed under the proposed FTA.

The study contains five sections. Section 2 presents the economic profiles of India and the UK. Section 3 analyses the bilateral economic relations between the two countries. Sector 4 examines the trade and investment barriers that exist in India and the UK. Finally, Section 5 concludes and suggests the way forward.

## 2. Economic profiles of India and UK

India and the UK are among the leading economies of the world and significant stakeholders in the global economic order. According to the World Bank, in 2019, while India emerged the world's fifth largest economy, the UK was ranked

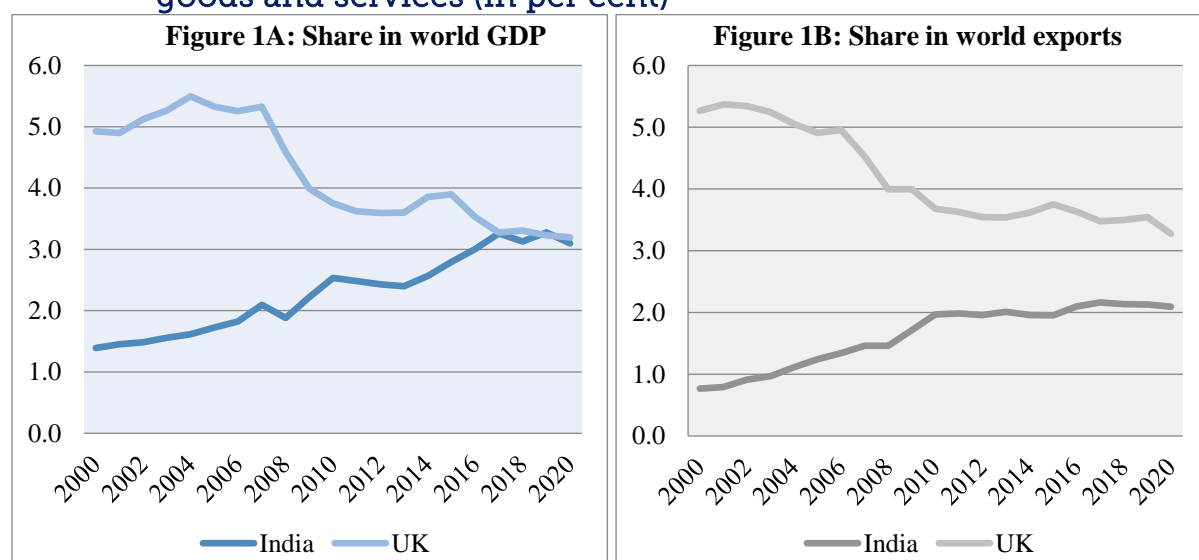
---

<sup>1</sup> [UK inward investment projects increase in 2019 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/uk-inward-investment-projects-increase-in-2019), accessed on 09/28/21

the sixth leading economy.<sup>2</sup> While India's contribution was 3.28 per cent in world GDP, the share of the UK stood at 3.22 per cent in the same year. Both countries are well integrated with the rest of the world economy, though the level of the UK's integration is substantially higher than India's. In 2019, the share of trade in India's GDP was 39.4 per cent while the UK's share was 63.4 per cent (WDI, 2021)<sup>3</sup>.

There has been significant growth in the GDP and per capita income of both countries over the last two decades. However, the growth rates of both GDP and per capita GDP in India have substantially been higher than that in the UK. During 2000-2019, while India's GDP and GDP per capita increased at CAGRs of 6.6 per cent and 5.2 per cent respectively, that in the UK grew at 1.7 per cent and 1.01 per cent. In 2019, India's higher growth rate over the last couple of decades led to its overtaking the UK in terms of economic size. India's GDP has increased from US\$468 billion in 2000 to US\$2.87 trillion in 2019 (WDI), raising its share in world GDP from 1.4 per cent in 2000 to 3.3 per cent in 2019 before declining to 3.1 per cent in 2020 on account of the Covid-19 pandemic (see Figure 1). The UK's share, on the other hand, has declined from 4.9 per cent to 3.2 per cent during the same period.

**Figure 1: Share of India and the UK in world GDP and global export of goods and services (in per cent)**



Source: WDI

<sup>2</sup> India's economy contracted more than that of the UK as a result of the COVID 19 pandemic, leading India to slip from fifth to sixth position while UK improved its position from sixth to fifth rank in the world. In 2020, while the UK's GDP amounted to US\$2.70 trillion, India's GDP stood at US\$2.62 trillion (World Bank).

<sup>3</sup> [World Development Indicators | DataBank \(worldbank.org\)](https://data.worldbank.org/), accessed on September 9, 2021.

Robust GDP growth has also resulted in a substantial increase in India's GDP per capita from about US\$443 in 2000 to more than US\$2,100 in 2019, though it is significantly lower than that of the UK's. In PPP terms, India's GDP per capita increased from US\$2,095 in 2000 to US\$6,998 in 2019 while UK's GDP per capita increased from US\$26,421 to US\$48,513 during the same period. The fast pace of economic growth and increasing middle class population with substantial disposable income have been the main reasons for many developed countries like the UK to enhance their engagement with India.

The UK, on the other hand, has witnessed not only a substantially lower growth in GDP and per capita income over the last two decades as compared to India but has also exhibited different trends in the growth rates of different sectors of the economy (see from Table 1). For instance, while services was the highest growing sector in the UK, both during 2000-10 and 2010-19, manufacturing was found to be the sector with the maximum growth during 2000-10 and second highest during 2010-19 in India. On the other hand, manufacturing growth in the UK has been negative during 2000-10 and lowest among all sectors during 2010-19.

**Table 1: Macroeconomic trends in India and UK**

	India		UK	
	CAGR 2000-2010	CAGR 2010-2019	CAGR 2000-2010	CAGR 2010-2019
GDP	6.73	6.45	1.60	1.80
GDP per capita	5.09	5.25	0.95	1.09
Agriculture, value added	2.85	3.76	-0.28	2.11
Industry, value added	7.79	4.95	-0.35	0.77
Manufacturing, value added	7.96	5.79	-0.67	0.49
Services, value added	7.51	7.80	2.41	2.15

Source: WDI, calculation by author

Difference in the sectoral growth rates of the two economies has led to a change in the composition of GDP over the last two decades. In India, while the share of services in GDP has increased significantly between 2000 and 2019, the contributions of both agriculture and industry have declined. The decline in the share of manufacturing in India's GDP, especially since the government has been striving to expand the country's manufacturing base, is quite discomfoting, so is near stagnancy in the share of agriculture in GDP after 2010.



There has been a similar change in the composition of the UK's GDP, albeit at a slower pace than seen in India. The share of services in UK's GDP has increased from less than 66 per cent in 2000 to about 71 per cent in 2019. The contributions of agriculture and industry, on the other hand, have declined during the same period. As can be observed from Table 2, although the share of services in India's GDP has increased faster than that of the UK over the last two decades the contribution of services in India's economy remains substantially lower than that in the UK. On the other hand, though the shares of agriculture and industry have declined in both economies, their contributions to India's GDP remain considerably higher than that in the UK. It also means that while services are comparatively more important for the UK, both industry and agriculture are relatively more critical to India. For India, agriculture and industry are vital for overall economic growth and employment generation.

**Table 2: Sectoral composition of economies of India and UK, share in GDP**

Sector	India			UK		
	2000	2010	2019	2000	2010	2019
Agriculture, value added	21.6	17.0	16.7	0.9	0.6	0.6
Industry, value added	27.3	30.7	24.2	23.1	19.0	17.8
Manufacturing, value added	15.9	17.0	13.3	13.5	9.5	8.7
Services, value added	42.7	45.0	49.9	65.7	70.5	70.9
Gross domestic savings	24.3	34.3	28.3	16.7	14.3	16.9
Gross capital formation	26.7	40.2	30.7	18.5	16.3	18.3
Exports of goods and services	13.0	22.4	18.4	25.2	28.3	31.1
Imports of goods and services	13.9	26.9	21.0	27.0	30.2	32.3
FDI, net inflows	0.8	1.6	1.8	9.9	2.7	0.1

Source: WDI, calculation by author

### 3. India-UK bilateral economic relations

India-UK economic relations are not only very old but also wide and deep, ranging from trade and investment to co-operation in multiple areas and migration of highly skilled workers. Bilateral relation between the two countries has developed significantly over the last couple of decades. This section analyses the trends in and the composition of bilateral trade and investment relations between India and the UK over the last two decades.



### 3.1. Trade relations

Both India and the UK are among the leading players in global trade of goods and services. As per the WTO (2020),<sup>4</sup> in 2019, the UK was the fourth leading trader of goods and services globally and India the 12<sup>th</sup> largest. In the same year, the value of total exports and imports (goods and services combined) from India stood at US\$538 billion and US\$662 billion respectively; for the UK, exports and imports were estimated at US\$ 881 billion and US\$ 971 billion respectively. It is pertinent to note that although the UK is a larger player in international trade compared to India, it has either declined or remained stagnant in terms of its standing in global trade. India's position, on the other hand, has seen continuous improvement over the last two decades. India's share in global exports and imports increased from 0.8 per cent and 0.9 per cent respectively in 2000 to 2.2 per cent and 2.7 per cent in 2019. The share of the UK, on the other hand, declined from 4.9 per cent and 5.2 per cent to 3.5 per cent and 3.9 per cent during the same period.<sup>5</sup>

There has also been a significant change in the composition of global trade of the two countries; the share of services in total exports has increased for both while that of goods has declined. For instance, between 2000 and 2019, while the share of services in India's total exports increased from about 29 per cent to 40 per cent, the UK's share increased from 26 per cent to 47 per cent.<sup>6</sup> Therefore, despite a substantial increase in the share of services in total exports, trade in goods is still more important for both India and the UK but more so for India.

#### 3.1. A. Trade in goods

In 2019, the share of goods in India's total exports and imports were about 60 per cent and 73 per cent respectively and in the case of the UK, goods exports and imports were around 53 per cent and 71 per cent. According to the WTO's World Trade Statistical Review 2020, India was the 18<sup>th</sup> largest exporter and 10<sup>th</sup> largest importer of goods in 2019; the UK was ranked the 10<sup>th</sup> leading exporter and 5<sup>th</sup> largest importer in the same year.

As Figure 2 shows, there has been a significant increase in both global exports and imports of both countries during 2000-2019. India's exports and imports increased from US\$44.4 billion and US\$52.9 billion in 2000 to US\$323.3 billion and US\$478.9 billion in 2019; the rise in UK's exports and imports was from US\$294.9 billion and US\$370.2 billion respectively to US\$ 464.1 billion and US\$

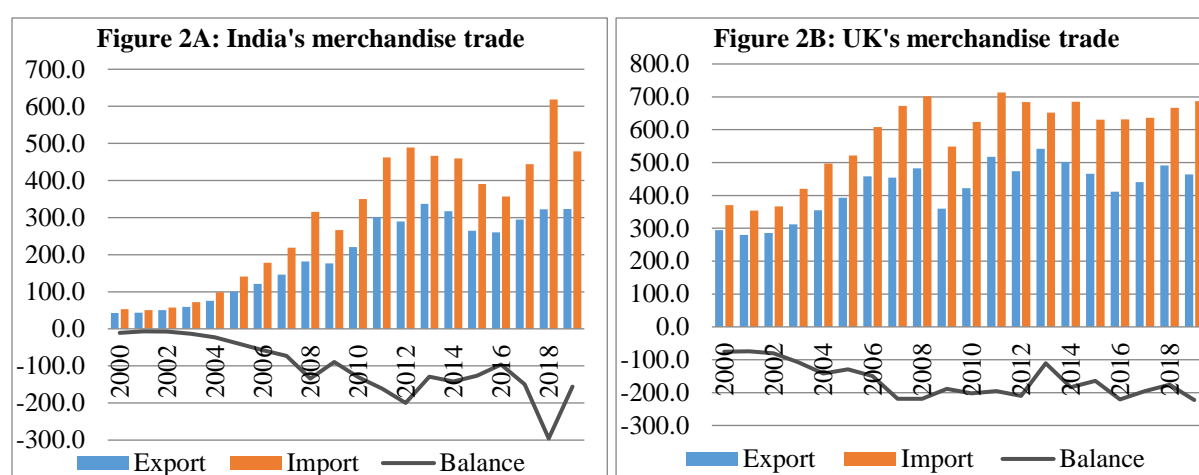
<sup>4</sup> [WTO | Trade Statistics - World Trade Statistical Review 2020](#), accessed on September 7, 2021.

<sup>5</sup> Data is obtained from WTO's World Trade Statistical Review 2020 and International Trade Statistics 2001. Calculated by author.

<sup>6</sup> Ibid

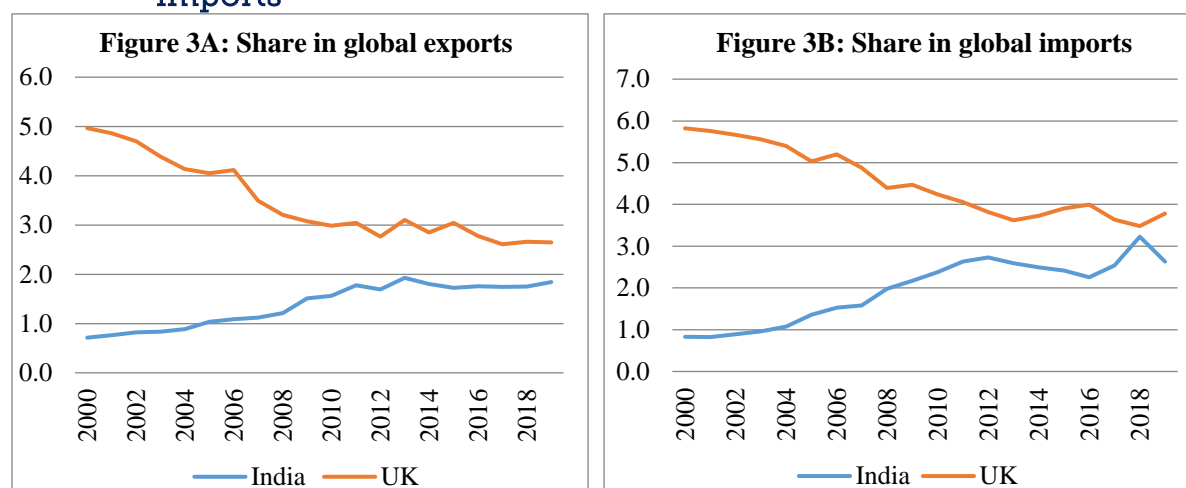
686.7 billion respectively. However, the rate of growth of India's exports and imports are much higher than that of the UK. During 2000-2019, the CAGR of India's exports and imports was 11.3 per cent and 12.3 per cent respectively against the CAGR for UK of 2.4 per cent and 3.3 per cent respectively. However, growth rates of exports and imports have been substantially lower during 2010-19 compared to 2000-2010 for both economies, although India has witnessed faster growth than the UK during both periods. Both countries have also seen fluctuations in their exports and imports in the post-2010 period. While India's exports are yet to touch the peak of 2013, its imports were at the highest level in 2018. Exports from the UK peaked in 2013, but its imports were the highest in 2011.

**Figure 2: Merchandise trade of India and UK, in US\$ billion**



Source: UNCOMTRADE, extracted from WITS

Although the UK is currently ranked higher compared to India in merchandise exports and imports, due to a relatively higher growth rate, India's share in global exports and imports has increased faster than that of the UK during 2000-2019. As can be observed from Figure 3, while India has witnessed a continuous rise in its share in world exports and imports over the last two decades, UK's share has seen almost a secular decline during the same period. India's share in global exports and imports increased from 0.7 per cent and 0.8 per cent in 2000 to 1.8 per cent and 2.6 per cent in 2019. The share of the UK in global exports and imports, on the other hand, declined from 5.0 per cent and 5.8 per cent to 2.6 per cent and 3.8 per cent during the same period.

**Figure 3: Share of India and UK in global merchandise exports and imports**


Source: UNCOMTRADE, extracted from WITS

India's export basket largely consists of mineral fuels, pearls and precious stones, machinery, organic chemicals, vehicles, pharmaceuticals, etc. Its leading imports are also from many of the same sectors. As can be seen in Table 3, in 2019, of the top ten export and import sectors, six are common, and India was a net importer of goods in those six sectors. It also indicates the importance of intra-industry trade in India's global trade profile. Among the top ten export sectors, India was found to be a net exporter only in four sectors, including vehicles, pharmaceuticals and articles of apparel.

**Table 3: Composition of India's global exports and imports, 2019**

India's export				India's import			
Share in total export	Export, US\$ billion	HS code	Product description	Share in total import	Import, US\$ billion	HS code	Product description
13.8	44.5	27	Mineral fuels, oils, distillation products	31.9	152.7	27	Mineral fuels, oils, distillation products
11.4	36.7	71	Pearls, precious stones, metals, coins	12.3	58.9	71	Pearls, precious stones, metals, coins
6.6	21.3	84	Nuclear reactors, boilers, machinery, etc.	10.5	50.5	85	Electrical, electronic equipment
5.6	18.2	29	Organic chemicals	9.3	44.7	84	Nuclear reactors, boilers, machinery
5.4	17.4	87	Vehicles other than railway, tramway	4.3	20.5	29	Organic chemicals

India's export				India's import			
5.0	16.3	30	Pharmaceutical products	3.1	14.7	39	Plastics & articles thereof
4.6	14.9	85	Electrical, electronic equipment	2.5	11.8	72	Iron and steel
3.0	9.8	72	Iron and steel	2.1	9.8	15	Animal, vegetable fat & oil products
2.6	8.4	62	Articles of apparel, accessories, not knit/crochet	2.0	9.6	90	Optical, photo, technical, medical
2.4	7.9	61	Articles of apparel, accessories, knit/crochet	1.5	7.2	31	Fertilisers

Source: UNCOMTRADE, extracted from WITS database

The composition of the UK's trade basket is different from that of India's (see Table 4). With about 16 per cent of total merchandise export, machinery goods were the largest contributors to the UK's export basket followed by vehicles (10.7 per cent), natural/cultured pearls and precious stones (9.0 per cent), mineral fuels (8.8 per cent) and electrical/electronic equipment (6.0 per cent). These major five sectors accounted for more than 50 per cent of the UK's merchandise exports. Other sectors that appeared among the top ten exports include pharmaceutical products, optical and medical apparatus, aircraft and parts thereof, and organic chemicals. In the case of imports, except for three sectors – plastics and articles thereof, articles of apparel & clothing, and furniture & beddings, etc. – the remaining seven sectors were the same as top exporting sectors. This indicates the high incidence of intra-industry trade in the UK's international trade as well.

It is important to note that of the top ten importing sectors in the UK, seven belong to India's top exporting sectors. This indicates the trade complementarity between India and the UK. The three major importing sectors in the UK's imports that do not appear among the crucial sectors of Indian exports are plastics and articles thereof, optical and medical apparatus, and furniture, etc.

**Table 4: Composition of UK's export and import, 2019**

UK's Exports				UK's Imports			
Share in total export	Export, US\$ billion	Product code	Product description	Share in total export	Import, US\$ billion	Product code	Product description
15.7	72.5	84	Nuclear reactors, boilers, machinery	12.9	88.9	71	Natural/cultured pearls, stones, coins, etc.
10.9	50.4	87	Vehicles other than railway, tramway	11.9	82.0	84	Nuclear reactors, boilers, machinery
9.0	41.9	71	Natural/cultured pearls, stones, coins, etc.	10.9	74.8	87	Vehicles other than railway, tramway
8.8	40.9	27	Mineral fuels, oils, distillation products.	8.8	60.1	85	Electrical, electronic equipment
6.0	27.6	85	Electrical, electronic equipment	8.2	56.3	27	Mineral fuels, oils, distillation products...
5.8	27.0	30	Pharmaceutical products	4.0	27.6	30	Pharmaceutical products
4.4	20.2	90	Optical, photo, medical,... apparatus	2.8	19.2	39	Plastics and articles thereof.
3.9	18.2	88	Aircraft, spacecraft, and parts thereof	2.7	18.2	90	Optical, photo, medical,... apparatus
2.7	12.7	29	Organic chemicals	1.9	13.0	61	Articles of apparel & clothing
2.7	12.5	99	Commodities not elsewhere specified	1.7	11.8	94	Furniture; bedding, mattress, cushion, etc.

Source: UNCOMTRADE, extracted from WITS database

### 3.1. A (i). Revealed Comparative Advantage of India and UK

Using the Balassa Index, the present study has calculated the revealed comparative advantage (RCA) in the global market for both India and the UK in the recent years. The Balassa Index is measured as the share of a particular good in the total exports of the concerned economy, divided by the share of the same good in global exports. If the ratio is above one ( $RCA > 1$ ), the concerned country has a comparative advantage in that particular good. Similarly, if the ratio is less than one, the country will not have a comparative advantage in the specific

commodity. On the other hand, if the RCA value is equal to one, the country has neither a comparative advantage nor disadvantage in the case of that particular commodity.

The Balassa Index is calculated as follows:

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

where i denotes the country, j is the product, w is world, t is total trade, x is export of a particular commodity, X is total exports. Hence,  $x_{ij}$  and  $x_{wj}$  are the values of economy i's exports of commodity j and world's exports of commodity j whereas  $X_{it}$  and  $X_{wt}$  represent total exports of the country and total exports of the world, respectively.

Based on the above formula, we have calculated RCA at the HS 2-digit level for both India and UK for the last three years- 2019, 2018 and 2017. Despite the UK being a larger goods exporter than India, its comparative advantage is limited to a relatively small number of sectors. This indicates a higher level of specialisation in UK. India, on the other hand, has comparative advantage in a significantly larger number of sectors than the UK. As can be observed from Table 5, during the last three years, the number of sectors with an RCA value of more than one has ranged between 41 and 40 for India and between 22 and 24 for the UK. Hence, India would like to seek market access in those 40-41 sectors while UK's focus is likely to include 22-24 sectors under the proposed FTA between the two countries.

**Table 5: Number of sectors (HS 2 digit) with  $RCA > 1$  in India and the UK**

Country	2017	2018	2019
India	41	40	41
UK	24	22	24

Source: UNCOMTRADE, extracted from WITS database, calculated by author

Table 6 shows the sectors that had the highest values of RCA in 2019 and  $RCA > 1$  in at least two years in the period between 2017 and 2019 for both India and the UK. As expected, almost half of the sectors in which India has consistently exhibited comparative advantage belong to two major labour intensive sectors – agriculture and textile & clothing. Other key sectors in which India has strong comparative advantage include pearls, precious stones, metals coins etc.; lead and articles thereof; ships, boats and other floating structures; organic chemicals; tanning, dyeing extracts, tannins, derives, pigments, etc.; aluminium and articles thereof; pharmaceutical products; etc. Indian negotiators will have to focus on the sectors highlighted in Table 6 under the

proposed India-UK FTA along with the sectors that appear among major exports from India to the UK.

UK's comparative advantage, on the other hand, lies mostly in non-agricultural capital and technology intensive sectors. The sectors in which the UK has consistently exhibited strong comparative advantage during 2017-2019 are shown in Table 6. Some of the key sectors in which the UK has a comparative advantage include works of arts, printed books, newspapers, pictures, etc.; beverages, spirits and vinegar; nickel and articles thereof; aircraft, spacecraft, and parts thereof; arms and ammunition, parts and accessories thereof; vehicles; optical, photo, technical, medical apparatus, etc. These along with other sectors mentioned in Table 6 would be of great interest to UK under the proposed FTA with India.

UK also has shown comparative advantage in some other key sectors such as lead and articles thereof; pearls, precious stones, metals, coins, etc.; organic chemicals; pharmaceutical products, etc. India has also exhibited strong comparative advantage in these sectors; hence, both India and the UK have competitive interests. Negotiations under the proposed FTA will involve give and take in these sectors. However, they also present an opportunity for bilateral co-operation, such as the co-operation between the UK's AstraZeneca and Serum Institute of India to develop Covid-19 vaccine, Covishield.

**Table 6: Sectors with RCA>1 in India and UK**

India RCA					UK's RCA				
S. No	HS code	2019	2018	2017	S. No	HS code	2019	2018	2017
1	13	6.59	7.51	8.16	1	97	13.91	10.78	11.68
2	57	6.19	6.21	6.39	2	49	3.86	3.81	3.92
3	52	6.03	7.98	7.10	3	22	3.21	3.23	3.31
4	53	5.73	6.02	7.12	4	78	2.92	2.67	2.73
5	63	4.42	4.65	4.65	5	71	2.82	3.14	2.18
6	9	4.06	3.84	3.77	6	75	2.23	2.26	2.49
7	10	3.91	4.01	4.10	7	88	2.22	2.30	2.50
8	71	3.55	3.96	4.04	8	93	2.11	0.36	3.25
9	78	3.21	2.95	2.45	9	81	2.09	1.88	2.02
10	3	3.18	3.16	3.44	10	30	1.77	2.01	2.43
11	14	2.85	2.97	3.65	11	32	1.64	1.64	1.71
12	89	2.85	1.68	2.06	12	51	1.51	1.36	1.42
13	17	2.81	1.64	1.39	13	33	1.50	1.60	1.78
14	55	2.66	2.89	3.42	14	21	1.41	1.46	1.43
15	25	2.59	2.77	2.76	15	34	1.38	1.42	1.50
16	54	2.52	2.58	2.62	16	84	1.34	1.26	1.28
17	29	2.46	2.32	2.06	17	87	1.32	1.37	1.46



India RCA					UK's RCA				
18	32	2.39	2.18	2.02	18	38	1.30	1.25	1.31
19	50	2.32	2.20	2.13	19	1	1.27	1.21	1.27
20	62	2.25	2.23	2.53	20	99	1.27	2.03	0.99
21	61	2.07	2.06	2.36	21	90	1.22	1.16	1.16
22	58	1.81	1.68	1.77	22	29	1.19	0.97	1.07
23	79	1.77	2.16	2.83	23	19	1.16	1.18	1.16
24	68	1.77	1.58	1.55					
25	76	1.70	1.55	1.23					
26	69	1.68	1.50	1.38					
27	41	1.62	1.92	1.99					
28	42	1.61	1.76	1.83					
29	72	1.54	1.36	1.82					
30	30	1.53	1.46	1.44					
31	36	1.49	1.55	1.48					
32	67	1.41	1.36	1.75					
33	2	1.40	1.67	2.00					
34	38	1.37	1.21	1.14					
35	73	1.33	1.31	1.37					
36	24	1.30	1.34	1.38					
37	27	1.21	1.21	1.14					
38	64	1.07	1.15	1.17					
39	23	1.07	1.22	1.20					
40	12	1.02	0.93	1.04					

Source: UNCOMTRADE, extracted from WITS database, calculated by author

### 3.1. A (ii). Trends in India-UK bilateral merchandise trade

Despite being among the world's largest ten economies and having had a very long history of economic linkages, India-UK bilateral trade in goods remains much below potential. Neither country is the other's leading trade partner. For instance, while the UK was the 14<sup>th</sup> biggest merchandise trade partner for India in 2019-20 (Department of Commerce, Government of India), India stood at 18<sup>th</sup> position in terms of the UK's leading trade partners in goods (Department of International Trade, UK, 2021a).

There has been a significant increase in merchandise trade between the two economies over the last two decades. With a CAGR of 5.8 per cent, the value of two-way trade has expanded from US\$ 5.4 billion in 2000 to US\$ 15.7 billion in 2019. However, bilateral trade during 2010-2019 grew at a much slower pace than during 2000-2010. While CAGR for 2000-2010 was about 8.0 per cent, it was just 3.4 per cent for 2010-2019.

Another important feature of India's merchandise trade with the UK in the post-2000 period is that its exports to the UK have grown faster than its imports from the UK, resulting in the balance of trade turning in India's favour since



2004. During 2000-2019, India's exports to the UK increased at a CAGR of 7.5 per cent from US\$2.2 billion to US\$8.8 billion, while the CAGR of 4.2 per cent of India's imports from the UK led to an increase in value of imports from US\$3.2 billion US\$6.9 billion during the same period. However, both exports and imports have increased at a slower pace in the post-2010 period than during 2000-2010. While exports and imports increased at CAGRs of 11.3 per cent and 5.04 per cent respectively during 2000-2010, the CAGRs for 2010-2019 were 3.5 per cent and 3.2 per cent respectively. Moreover, as in the case of India's global exports and imports, exports to the UK are yet to reach the peak of 2013 while imports were at the highest level in 2018, as can be seen in Table 7. Therefore, India's exports and imports with the UK have reflected trends similar to those in its global exports and imports.

**Table 7: India's merchandise trade with UK, in US\$ million**

Year	Export	Import	Total Trade	Balance
2000	2208.0	3160.5	5368.4	-952.5
2001	2196.6	2758.5	4955.2	-561.9
2002	2409.1	2643.1	5052.1	-234.0
2003	2769.4	2980.3	5749.7	-210.9
2004	3409.4	3290.8	6700.3	118.6
2005	4958.9	4300.4	9259.3	658.4
2006	5383.8	4030.8	9414.6	1353.0
2007	6286.9	4794.5	11081.4	1492.4
2008	6597.5	6216.8	12814.3	380.7
2009	6528.9	4053.6	10582.4	2475.3
2010	6436.4	5166.8	11603.2	1269.6
2011	8879.1	7453.9	16333.0	1425.2
2012	8100.2	6636.1	14736.3	1464.1
2013	10559.4	6430.8	16990.2	4128.6
2014	9665.3	4791.1	14456.5	4874.2
2015	8891.2	5375.6	14266.8	3515.6
2016	8565.2	3863.8	12429.0	4701.4
2017	8954.7	4344.1	13298.8	4610.6
2018	9741.0	8550.8	18291.8	1190.2
2019	8797.2	6878.5	15675.7	1918.7

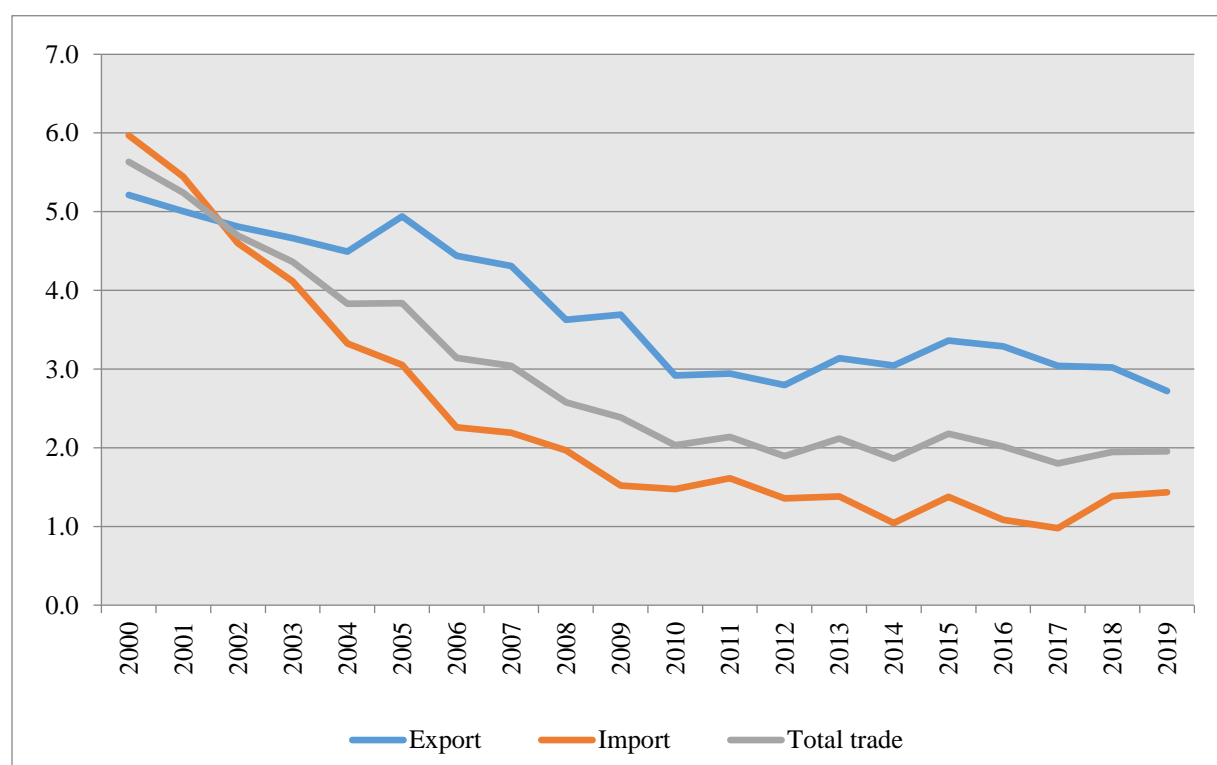
Source: UNCOMTRADE, extracted from WITS database

Another pertinent aspect to be noted is that the CAGR of 5.8 per cent in India's merchandise trade with the UK during 2000-2019 was substantially lower than the CAGR of India's merchandise trade with the rest of the world of 11.9 per cent. In the post-2010 period, however, although India's trade with the world

grew faster than that with the UK, the difference between the two growth rates was much less. While India's trade with the UK increased at a CAGR of 3.4 per cent during 2010-2019 as mentioned above, India's global trade increased at a CAGR of 3.9 per cent during the same period.

Due to a relatively higher growth rate in India's merchandise trade with rest of the world compared to the growth rate in bilateral trade with the UK, the importance of the UK in India's international trade profile has seen a continuous decline over the last two decades. As Figure 4 shows, the share of the UK in India's global trade has declined from 5.6 per cent in 2000 to less than two per cent in 2019. UK's share has declined in both exports and imports but the reduction in the share of imports has been sharper than that in exports, indicating declining competitiveness of the UK in the Indian market. While UK's share in India's exports declined from 5.2 per cent in 2000 to 2.7 per cent in 2019, its share in India's imports decreased from 6.0 per cent to 1.4 per cent during the same period. Besides, the extent of the decline in the UK's importance in India's global trade profile has been steeper during 2000-2010 compared to that during 2010-2019. While the UK's share declined secularly from 5.4 per cent in 2000 to 2.0 per cent in 2010, it remained stagnant around two per cent in the post-2010 period.

**Figure 4: Share (%) of UK in India's external trade**



Source: UNCOMTRADE, extracted from WITS database

### 3.1. A (iii). Composition of India-UK bilateral trade in goods

#### Composition of Indian exports to UK

The composition of India's exports to the UK has changed considerably over the last two decades. As can be seen from Table 8, of the top 20 sectors accounting for more than 79 per cent of India's merchandise exports to the UK in 2000, most were labour intensive and relatively low value sectors. Five were related to textiles and clothing alone while four were sub-sectors of agriculture. Other important labour intensive sectors that were part of leading exports to the UK include articles of leather (HS 42), footwear and parts thereof (HS 64) and miscellaneous articles of base metal (HS 83). The contribution of products from high value sectors like machinery (HS 84), electrical & electronic equipment (HS 85) and transport vehicles (HS 87) among the top 20 exporting sectors to overall merchandise export was very small.

In 2010, while several labour intensive sectors related to textiles and clothing have remained in the basket of the top 20 exports, some sectors, especially those related to agriculture, have failed to appear among the leading exports to the UK. Export of high value or international network intensive sectors like HS 84, HS 85 and HS 87 have not only increased faster but a couple of new high value sectors such as pharmaceuticals (HS 30) and aircraft and parts thereof (HS 88) have entered the top 20 export list. A few other sectors that have emerged as major exporting sectors from India to the UK include mineral fuels (HS 27), miscellaneous chemical products (HS 38) and plastics and articles thereof (HS 39). It is apparent that the dominance of labour intensive sectors like textiles and clothing and agriculture has declined while the importance of high value sectors has increased during 2000-2010.

In 2019, while the shares of textiles and clothing related sectors remained almost the same as in 2010, a couple of agricultural sub-sectors like fish (HS 03) and cereals (HS 10) again emerged among the top 20 exports from India to the UK. Of the high value and network intensive sectors, the export of machinery goods (HS 84) tripled and became the leading export sector; however, others like vehicles (HS 87) fell substantially both in terms of export value and their share in total exports. The emergence of optical and medical apparatus (HS 90), which is considered a high value sector, among the top 20 sectors is also a noteworthy development in 2019.

**Table 8: Changing composition of Indian exports (in US\$ million) to UK**

2000			2010			2019		
HS Code	Export	Share	HS Code	Exports	Share	HS Code	Exports	Share
62	268.8	12.2	62	742.9	11.5	84	1086.1	12.3
64	158.6	7.2	61	458.4	7.1	62	834.1	9.5
71	138.4	6.3	87	456.0	7.1	61	759.0	8.6
61	131.8	6.0	84	361.5	5.6	71	525.9	6.0
42	116.5	5.3	71	338.9	5.3	30	457.2	5.2
63	102.6	4.6	64	320.7	5.0	64	367.6	4.2
84	99.6	4.5	85	289.9	4.5	85	365.3	4.2
52	83.6	3.8	30	281.4	4.4	87	342.4	3.9
85	75.5	3.4	27	274.6	4.3	73	311.9	3.5
99	72.9	3.3	73	256.9	4.0	63	271.5	3.1
73	62.6	2.8	29	210.3	3.3	29	254.9	2.9
3	61.9	2.8	42	191.8	3.0	42	239.2	2.7
9	61.4	2.8	63	187.9	2.9	39	207.8	2.4
29	60.9	2.8	88	179.2	2.8	88	180.0	2.0
87	60.2	2.7	72	144.4	2.2	90	158.4	1.8
10	48.3	2.2	9	132.3	2.1	3	128.8	1.5
8	46.9	2.1	39	118.4	1.8	25	126.5	1.4
83	35.8	1.6	38	83.0	1.3	10	112.7	1.3
54	34.7	1.6	83	69.1	1.1	9	110.5	1.3
32	31.8	1.4	57	68.1	1.1	40	103.5	1.2
Above total	1752.9	79.4	Above total	5165.5	80.3	Above total	6943.3	78.9

Source: UNCOMTRADE, extracted from WITS database

Note: For a description of HS code please refer to Appendix 1

It is interesting to note that of the top 20 sectors of Indian exports to the UK in 2019, India has an RCA>1 in 14 sectors. Six sectors that appeared among the top 20 exports to the UK without having comparative advantage included machinery, electrical and electronic goods, vehicles and parts thereof, plastics and articles thereof, aircrafts and parts, optical and medical goods, and rubber and articles thereof. Hence, these six sectors should also be included in the list of focus sectors along with sectors in which India has a comparative advantage (as given in Table 6) for the negotiation under the proposed India-UK FTA.

Several sectors have registered a higher export growth rate than the CAGR of 3.5 per cent for overall exports to the UK during the period 2010-19. In 2010, out of 99 chapters under HS, India was found to be exporting from 95 chapters and this number remained almost the same at 94 in 2019. There was only one chapter (HS 43) from which export was happening in 2010 but not in 2019,

though the value of export in 2010 was meagre.<sup>7</sup> There were also two chapters (HS 01 and HS 47) from which exports were recorded in 2019 but not in 2010. The exports from both the chapters in 2019 were again almost negligible.<sup>8</sup> Therefore, the number of common chapters in 2010 and 2019 was 94. We examine the growth in export from these 94 chapters during 2010-2019. Of the 94 chapters, there was negative growth in exports from 21 sectors, resulting in dragging down overall exports. Of the remaining 73 chapters where the export growth rate has been positive during 2010-2019, the export growth rate of 54 chapters was higher than the CAGR of overall export to the UK, while for the remaining 19 chapters, the growth rates were less than 3.5 per cent.

Table 9 highlights the key sectors<sup>9</sup> that had a higher CAGR than the overall merchandise export from India to the UK during 2010-2019. It is clear that the segments that have grown faster than overall merchandise export to the UK belong to a very diverse set of sectors ranging from agriculture, textiles and clothing, international production network intensive machinery, and high value optical and medical goods. This implies that while negotiating an FTA with the UK, India will have to secure its interest not only in traditional and labour intensive sectors like agriculture, and textiles and clothing but also in emerging sectors like automobiles and optical and medical goods, which are going to be vital components of the country's GDP and overall export basket.

**Table 9: Key sectors with higher growth rate compared to India's total exports to UK**

HS Code	Product description	2010, US\$ million	2019, US\$ million	CAGR 2010-19
76	Aluminium and articles thereof	19.0	68.9	15.4
69	Ceramic products	12.4	42.1	14.5
70	Glass and glassware	10.5	34.0	13.9
84	Nuclear reactors, boilers, machinery, etc.	361.5	1086.1	13.0
90	Optical, photo, technical, medical, etc. apparatus	63.6	158.4	10.7
10	Cereals	47.1	112.7	10.2
48	Paper & paperboard, articles of pulp, paper and board	40.7	94.9	9.8
07	Edible vegetables and certain roots and tubers	22.0	49.1	9.3
74	Copper and articles thereof	14.7	30.9	8.6
25	Salt, sulphur, earth, stone, plaster, lime and cement	60.8	126.5	8.5

<sup>7</sup> The value of export from chapter 43 to UK was just US\$163 thousand in 2010.

<sup>8</sup> While value of export from chapter 01 was just US\$372, export value from chapter 47 was US\$16,000 in 2019.

<sup>9</sup> Key sectors are defined as chapters with exports value of US\$10 million or more in 2010.

HS Code	Product description	2010, US\$ million	2019, US\$ million	CAGR 2010-19
51	Wool, animal hair, horsehair yarn and fabric thereof	19.4	37.3	7.5
03	Fish, crustaceans, molluscs, aquatic invertebrates	67.7	128.8	7.4
40	Rubber and articles thereof	54.7	103.5	7.3
20	Vegetable, fruit, nut, etc. food preparations	25.7	47.6	7.1
39	Plastics and articles thereof	118.4	207.8	6.5
94	Furniture, lighting, signs, prefabricated buildings	61.2	102.5	5.9
61	Articles of apparel, accessories, knit or crochet	458.4	759.0	5.8
30	Pharmaceutical products	281.4	457.2	5.5
33	Essential oils, perfumes, cosmetics, toiletries	31.5	51.1	5.5
71	Pearls, precious stones, metals, coins, etc.	338.9	525.9	5.0
28	Inorganic chemicals	14.3	22.1	5.0
56	Wadding, felt, nonwovens, yarns,	16.0	24.6	4.9
44	Wood and articles of wood	11.4	17.4	4.8
34	Soaps, lubricants, waxes, candles, modelling pastes	12.8	18.8	4.4
95	Toys, games, sports requisites	35.8	52.6	4.4
63	Other made textile articles	187.9	271.5	4.2
32	Tanning, dyeing extracts, tannins, derivs, pigments, etc.	47.2	65.2	3.7

Source: UNCOMTRADE, extracted from WITS database

Table 10 below shows the key sectors where the export growth rate has been lower than the overall growth rate of merchandise exports from India to the UK during 2010-2019. The majority of the sectors with negative growth belong to textiles and clothing, and agriculture. Other sectors include vehicles, iron and steel and mineral fuels. Most sectors with low or negative export growth rates belong to labour intensive industries like textiles and clothing, agriculture, footwear, articles of etc. Loss of exports, especially in labour-intensive sectors, is a matter of concern. It is imperative to address the issues that hamper exports to the UK in these sectors.

**Table 10: Key sectors with lower growth rate compared to India's total exports to UK**

HS Code	Product description	2010, US\$ million	2019, US\$ million	CAGR 2010-19
24	Tobacco and manufactured tobacco substitutes	25.7	2.7	-22.3
50	Silk	30.9	6.2	-16.3
27	Mineral fuels, oils, distillation products, etc.	274.6	76.8	-13.2
72	Iron and steel.	144.4	102.7	-3.7
52	Cotton	29.3	21.4	-3.4
97	Works of art, collectors pieces and antiques	23.0	17.0	-3.3
87	Vehicles other than railway, tramway	456.0	342.4	-3.1
9	Coffee, tea, mate and spices	132.3	110.5	-2.0
54	Manmade filaments	52.8	44.4	-1.9
55	Manmade staple fibres	23.3	21.6	-0.8
19	Preparations of cereal etc.	29.8	29.0	-0.3
88	Aircraft, spacecraft, and parts thereof	179.2	180.0	0.0
96	Miscellaneous manufactured articles	13.3	13.8	0.5
58	Special woven fab	15.2	15.8	0.5
82	Tools, implements, cutlery, etc., of base metal	36.9	40.3	1.0
53	Vegetable textile fibres nes etc.	15.0	16.8	1.2
62	Articles of apparel, accessories, not knit or crochet	742.9	834.1	1.3
38	Miscellaneous chemical products	83.0	94.5	1.4
64	Footwear, gaiters and the like; parts of such articles	320.7	367.6	1.5
29	Organic chemicals.	210.3	254.9	2.2
73	Articles of iron or steel	256.9	311.9	2.2
8	Edible fruit and nuts	56.9	69.1	2.2
49	Printed books, newspapers, etc.	25.2	31.0	2.3
42	Articles of leather	191.8	239.2	2.5
12	Oil seed, miscell grain, seed, fruit, etc.	18.2	22.7	2.5
85	Electrical machinery equip parts thereof	289.9	365.3	2.6
83	Miscellaneous articles of base metal	69.1	88.2	2.8
68	Art of stone, plaster, cement	48.6	63.1	2.9

Source: UNCOMTRADE, extracted from WITS database

### Composition of India's imports from UK

The composition of India's merchandise imports from the UK has also changed since 2000, reflecting the changing demand structure in the Indian economy. Table 11 indicates that in 2000, the Indian import basket from the UK was not very diversified. Pearls, precious stones, metals, coins, etc. (HS 71) sector alone constituted two-thirds of total merchandise imports from the UK to India with



machinery (6.7 per cent) and electrical and electronic goods (4.2 per cent) being the second and third major constituents. Other notable sectors that accounted for around two or more per cent of India's imports from the UK included iron and steel (3.0 per cent), optical and medical goods, etc. (1.9 per cent), and organic chemicals (1.8 per cent).

By 2010, the share of pearls, precious stones and coins, etc., had fallen sharply to 29 per cent although it retained its position as the leading importing sector. Among sectors that registered a significant increase in terms of both their value and share in imports were four new sectors, including capital-intensive shipbuilding as well as food processing and minerals. Four sectors, i.e., inorganic chemicals; commodities not elsewhere specified; tanning, dyeing extracts, pigments, etc.; and rubber and articles thereof, which were part of the top 20 in 2000, did not find a place in the leading 20 imports from the UK to India in 2010.

Pearls & precious stones including coins, etc., sector continued to remain on the top of India's import from the UK in 2019 as well, though with a slightly reduced share of about 28 per cent in total merchandise imports. With more than a 17 per cent share in total imports, the machinery sector retained its second position among the leading importing sector with a rise in both the value of imports and share in total imports from the UK. Mineral fuels, which were not among major imports in 2010, became the third leading sector of imports from the UK. Despite being part of the top 20 in 2019, many key sectors such as iron & steel, electrical & electronic goods, vehicles & parts, articles of iron or steel and ships & other floating structures have seen a decline both in the value of import and share in total imports during 2010-2019. Apart from mineral fuels, the 2019 list of top 20 imports has also seen five new entrants related to industries of varied nature that include food products, chemicals, plastics & rubber and wood.

**Table 11: Changing composition of Indian imports (in US\$ million) from UK**

2000			2010			2019		
HS Code	Import	Share	HS Code	Imports	Share	HS Code	Imports	Share
71	2133.3	67.5	71	1519.9	29.4	71	1942.2	28.2
84	210.7	6.7	84	773.7	15.0	84	1185.8	17.2
85	132.6	4.2	72	463.2	9.0	27	412.7	6.0
72	94.6	3.0	85	351.8	6.8	72	375.9	5.5
90	59.9	1.9	90	191.0	3.7	85	339.0	4.9
29	56.1	1.8	87	138.4	2.7	90	321.6	4.7
99	38.8	1.2	76	120.8	2.3	76	267.9	3.9



2000			2010			2019		
87	37.5	1.2	48	106.1	2.1	28	193.1	2.8
38	28.7	0.9	28	106.1	2.1	22	177.1	2.6
39	27.1	0.9	73	93.1	1.8	47	143.1	2.1
74	26.5	0.8	89	90.6	1.8	39	126.6	1.8
49	26.4	0.8	38	88.8	1.7	87	112.5	1.6
73	22.7	0.7	26	83.7	1.6	88	99.3	1.4
48	20.9	0.7	78	80.5	1.6	38	94.9	1.4
32	18.3	0.6	21	79.6	1.5	73	85.7	1.2
40	18.2	0.6	88	78.0	1.5	30	82.1	1.2
76	15.8	0.5	37	77.7	1.5	40	75.2	1.1
88	15.7	0.5	39	74.3	1.4	29	73.8	1.1
28	13.8	0.4	49	68.4	1.3	89	72.5	1.1
37	13.2	0.4	74	62.5	1.2	74	64.4	0.9
Above total	3010.8	95.3	Above total	4648.1	90.0	Above total	6245.5	90.8

Source: UNCOMTRADE, extracted from WITS database

Note: For a description of the HS code, please refer to Appendix 1

The above analysis demonstrates a significant change in the composition of bilateral merchandise trade between India and the UK during 2000-2019. India's exports to the UK are more diversified and consist of goods belonging to agriculture, labour intensive industries and high value manufacturing. India's import basket from the UK, on the other hand, contains mainly manufactured goods that are less labour intensive. Therefore, while negotiating the FTA with the UK, India will have to focus on products ranging from agriculture and labour intensive sectors like textiles & clothing to some of high value manufacturing sectors that are emerging as key contributors to Indian exports.

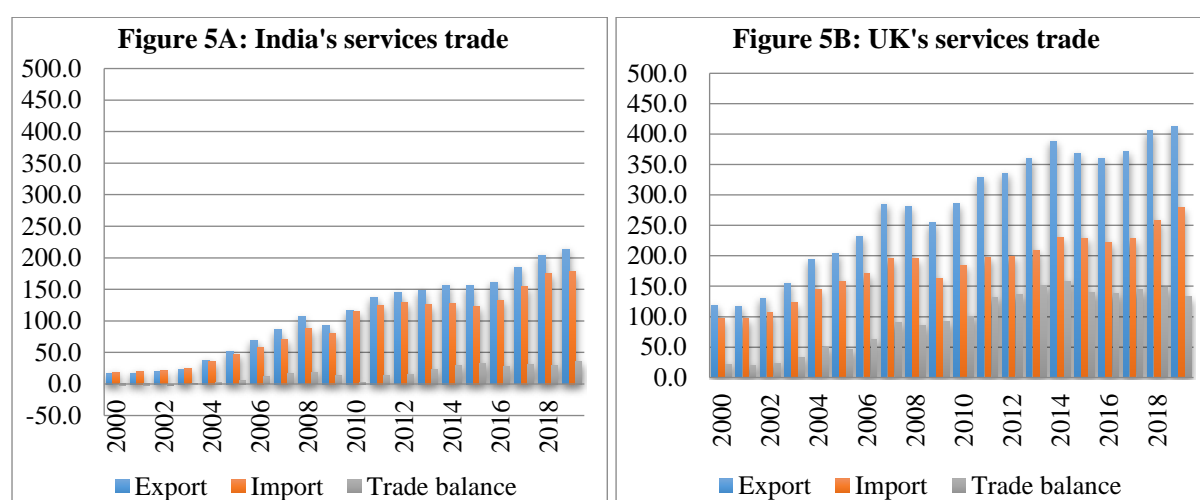
### 3.1. B. Trade in services

Both India and the UK are among the leading players in world trade in services. Over the last two decades, however, India has seen a significant rise in its position among the top players in the world while the UK has been able to maintain its global rank. In 2000, India was 22<sup>nd</sup> and 19<sup>th</sup> leading exporter and import of commercial services in the world respectively; the UK stood at second and fourth position among the world's top exporters and importers. In 2019, on the other hand, while India became the 8<sup>th</sup> largest exporter and 10<sup>th</sup> largest importer of commercial services, the UK retained its second position as a leading exporter but slipped slightly to fifth rank in terms of importer of commercial services in the world (WTO, 2001 and WTO, 2020).

### 3.1. B (i). Trends in services trade of India and UK

As Figure 5 reveals, there has been a significant surge in exports and imports of both countries during the last two decades. India's exports and imports have grown from US\$16 billion and US\$18.9 billion in 2000 to US\$213.7 billion and US\$178 billion in 2019. Exports and imports of the UK increased from US\$118.4 billion and US\$96.5 billion respectively to US\$411.8 billion and US\$279.2 billion during the same period. Both countries have had a positive trade balance in their services trade for long. The UK has maintained the positive trade balance since 2000. India's services trade account turned surplus in 2004.

**Figure 5: Commercial services trade of India and UK, in US\$ billion**



Source: WTO Trade Statistics

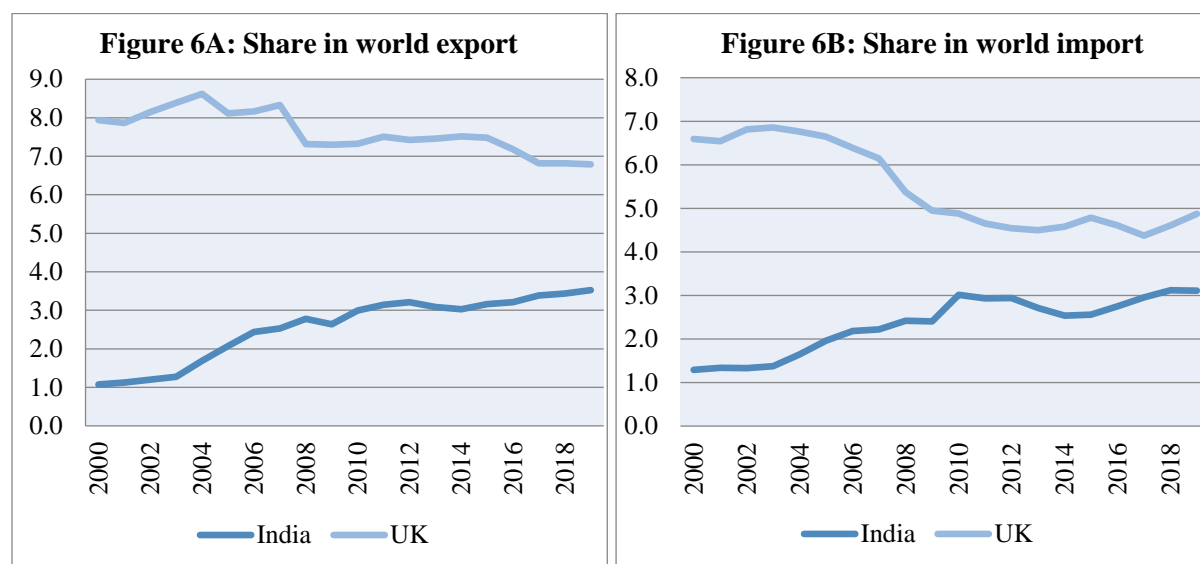
Although the UK is a much bigger exporter and importer of commercial services than India, the growth rate of services trade has been significantly higher for India as compared to the UK during the last two decades. During 2000-2019, India's exports and imports have increased at CAGRs of 14.6 per cent and 12.5 per cent respectively against the CAGR's of 6.8 per cent and 5.7 per cent for UK's exports and imports. The growth rate declined for both countries in the post-2010 period – India's from 21.9 per cent and 19.7 per cent between 2000 and 2010 to 7.0 per cent and 5.1 per cent for exports and imports respectively and the UK's from 9.2 per cent and 6.7 per cent during 2000-2010 to 4.2 per cent and 4.7 per cent respectively during 2010-2019.

Since India's exports and imports have surged faster than global exports and imports of commercial services, the share of India in global exports and imports has risen significantly. As Figure 6 shows, India's share in world export and imports of commercial services increased from 1.1 per cent and 1.3 per cent in 2000 to 3.5 per cent and 3.1 per cent respectively in 2019. By contrast, the growth rates of exports and imports of the UK have been lower than both India's

and the world and its share has consequently declined since 2000 from 7.9 per cent and 6.6 per cent to 6.8 per cent and 4.9 per cent in 2019.

Overall, though India has witnessed a faster growth in its exports and imports of commercial services, the UK is still a far bigger player than India in international trade of commercial services. In 2019, UK's share in the global services export was almost double that of India's.

**Figure 6: Share (%) of India and UK in world trade of commercial services**



Source: WTO Trade Statistics

### Composition of services trade

The composition of services trade has changed in the recent past for both India and the UK (see Table 12).<sup>10</sup> The export of travel, construction, charges on IPR, and other business services have increased faster compared to the growth rate of overall commercial services exports from India during 2010-2019, leading to an increase in the share of these services in total services exports. Conversely, exports from sectors such as transportation, insurance and pension, and telecommunication and computer services have risen at a pace lower than export of overall services. The sharpest decline in terms of both value and share in exports has been noticed in the case of financial services.

India's services export basket is not very diversified. In 2019, other business services were the most significant contributor to India's services export basket, accounting for more than 36 per cent of total services exports from the country, followed by telecom, computer and information services (32 per cent), travel (15

<sup>10</sup> Due to lack of consistency in disaggregated data, the study focuses on the period from 2010 onwards for the analysis of trade composition.

per cent), transport (10 per cent), financial services (2.4 per cent) and insurance and pension services (1.2 per cent).

During 2010-19, both the value and share in total services imports have increased for sectors like travel, construction, charges for IPR, telecommunication and computer services, and other business services. Imports of financial services, on the other hand, have experienced significant decline in terms of both value and share. However, despite an increase in the value of imports, the share of transport services has declined in India's total services imports.

In 2019, transportation services remained the largest contributor (39.8 per cent) to India's services imports followed by other business services (27.1 per cent), travel (13.5 per cent), telecom and computer services (5.6 per cent) and charges for IPR (4.6 per cent).

**Table 12: Composition of trade in commercial services by India, US\$ million**

Sector	Exports		Imports	
	2010	2019	2010	2019
Commercial services	116563 (100)	213702 (100)	114169 (100)	178019 (100)
A. Transport	13810 (11.8)	22087 (10.3)	50433 (44.2)	70801 (39.8)
B. Travel	15074 (12.9)	32114 (15.0)	11327 (9.9)	23982 (13.5)
C. Other commercial services	88679 (75.2)	159501 (74.6)	52409 (45.9)	83236 (46.7)
C1. Construction	547 (0.5)	3044 (1.4)	1072 (0.9)	2786 (1.6)
C2. Insurance and pension services	1852 (1.6)	2642 (1.2)	5426 (4.8)	7086 (4.0)
C3. Financial services	6069 (5.2)	5040 (2.4)	7329 (6.4)	2387 (1.3)
C4. Charges for the use of intellectual property	133 (0.1)	911 (0.4)	2633 (2.3)	8257 (4.6)
C5. Telecom, computer, & information services	42142 (36.2)	67880 (31.8)	3906 (3.4)	10050 (5.6)
C6. Other business services	35921 (30.8)	77362 (36.2)	27531 (24.1)	48208 (27.1)
C7. Personal, cultural, and recreational services	1015 (0.9)	2163 (1.0)	4514 (4.0)	3098 (1.7)
C8. Other	0 (0.0)	459 (0.2)	0 0.0	1364 (0.8)

Source: WTO Trade Statistics

A comparative picture of the composition of UK's commercial services trade basket in 2010 and 2019 is given in Table 13. There has been a decline in the share of the transport and travel services in total services exports despite an increase in their value. The value and share in both exports and import of other business services, charges for the use of intellectual property and construction services have increased. While there has been an increase in the value of exports of financial services, which have traditionally been a forte of the UK's services sector, along with insurance services and pension services, there has been a significant decline in their shares in total services exports. Imports of financial services, on the other hand, have increased faster than exports, and their share in total services imports also increased during 2010-2019.<sup>11</sup>

In 2019, other business services were the largest component of the UK's services export basket with a share of about 35 per cent, followed by financial services (19.5 per cent), travel (12.1 per cent), transport (9.6 per cent) and insurance and pension services (6.2 per cent). Other business services also accounted for the largest share in imports, followed by travel services. Other key services imports included transportation services, financial services, charges for intellectual property, and telecom, computer and information services.

The rising importance of other business services in both countries' services trade profiles augurs well for the expansion of bilateral trade, investment and co-operation between the two economies.

**Table 13: Composition of trade in commercial services by UK, US\$ million**

Sector	Exports		Imports	
	2010	2019	2010	2019
Commercial services	285462 (100)	411794 (100)	184842 (100)	279184 (100)
A. Transport	29808 (10.4)	39478 (9.6)	29644 (16.0)	32778 (11.7)
B. Travel	34723 (12.2)	49936 (12.1)	60750 (32.9)	71131 (25.5)
C. Other commercial services	220931 (77.4)	322380 (78.3)	94448 (51.1)	175275 (62.8)
C1. Construction	2244 (0.8)	3756 (0.9)	2007 (1.1)	3601 (1.3)
C2. Insurance and pension services	19270	25674	2584	3982

<sup>11</sup>It is interesting to note that data does not indicate any link between the decline in the importance of financial services in the UK's exports and its decision to quit the European Union in 2016.

	Exports		Imports	
	(6.8)	(6.2)	(1.4)	(1.4)
C3. Financial services	75143 (26.3)	80307 (19.5)	13455 (7.3)	24956 (8.9)
C4. Charges for the use of intellectual property	14186 (5.0)	25274 (6.1)	10161 (5.5)	16937 (6.1)
C5. Telecom, computer, & information services	20487 (7.2)	29725 (7.2)	11321 (6.1)	13349 (4.8)
C6. Other business services	80233 (28.1)	143704 (34.9)	50799 (27.5)	103225 (37.0)
C7. Personal, cultural, and recreational services	4884 (1.7)	5716 (1.4)	3248 (1.8)	5655 (2.0)
C8. Other	4484 (1.6)	8224 (2.0)	873 (0.5)	3570 (1.3)

Source: WTO Trade Statistics

### 3.1. B (ii). RCAs of India and UK in global trade of commercial services

In this section, the Balasa index is calculated at the sectoral level to understand the RCA of both India and UK in the last three years – 2019, 2018 and 2017. As can be observed from Table 14, while India has a strong comparative advantage in the 'telecom, computer and information services' and 'other business services' sectors, the UK's comparative advantage lies in the 'insurance and pension services' and 'financial services' sectors. Although the UK also has comparative advantage in 'other business services' India's comparative advantage is slightly higher than the UK's in the sector. In addition, the UK has been able to maintain a relatively better performance in 'personal, cultural and recreational services' during two of the three consecutive years taken for the RCA calculations. Although neither country has a comparative advantage in transport, travel and construction services, India's performance is better than that of the UK's. With regards to the 'charges for the use of intellectual property' sector, the RCA values for both countries are less than one but the UK has performed relatively better compared to India.

The RCA analysis points towards the key services sectors that both countries would be focusing on during the proposed India-UK FTA negotiations. India's focus is likely to be the telecom, computer and information services; and other business services. UK is likely to focus on insurance and pension services; financial services; other business services; and personal, cultural & recreational services.

**Table 14: RCAs of India and UK in key services sectors**

Sectors	India's RCA			UK's RCA		
	2017	2018	2019	2017	2018	2019
Transport	0.6	0.6	0.6	0.5	0.5	0.5
Travel	0.7	0.6	0.6	0.5	0.5	0.6
Construction	0.7	0.9	0.8	0.4	0.5	0.7
Insurance and pension services	0.6	0.6	0.5	2.7	2.7	2.8
Financial services	0.3	0.3	0.3	2.3	2.3	2.2
Charges for the use of intellectual property	0.1	0.1	0.1	0.8	0.8	0.8
Telecom, computer & information services	3.3	3.0	2.9	0.9	0.8	0.6
Other business services	1.6	1.6	1.6	1.5	1.5	1.5
Personal, cultural & recreational services	0.6	0.7	0.7	1.1	1.0	1.3

Source: WTO Trade Statistics

### 3.1. B (iii). Bilateral trade in services between India and UK

There is lack of detailed and long-term data on bilateral trade in services in India. However, the OECD countries, including the UK, do provide data on services trade with their trade partners, which are also given in WTO's international trade statistics. In this study, data on bilateral trade in services has been obtained from WTO trade statistics. Since India does not provide data on bilateral services trade, the UK has been chosen as the reporting country. Besides, given the lack of consistency in disaggregated data on trade in services before 2010, the analysis in this section is based on data from 2010 onwards.

Despite fluctuations, total services trade between the two economies increased at a CAGR of 4.15 per cent, amounting to over US\$13 billion in 2019 compared to US\$9.0 billion in 2010 (see Table 15). UK's imports of commercial services from India have always remained above the level of its exports to India during 2010-2019 and resulted in a balance of trade in India's favour. However, despite fluctuations, UK's exports to India have grown slightly faster than its imports from India in the post-2010 period. While exports to India during the period increased at a CAGR of 4.47 per cent, imports from India increased at a CAGR of 3.97 per cent. It is worth noting that while the growth rate of UK's exports to the global market (4.2 per cent) was slightly lower than its exports to India, its global imports increased at a relatively faster rate (4.7 per cent) compared to imports from India.

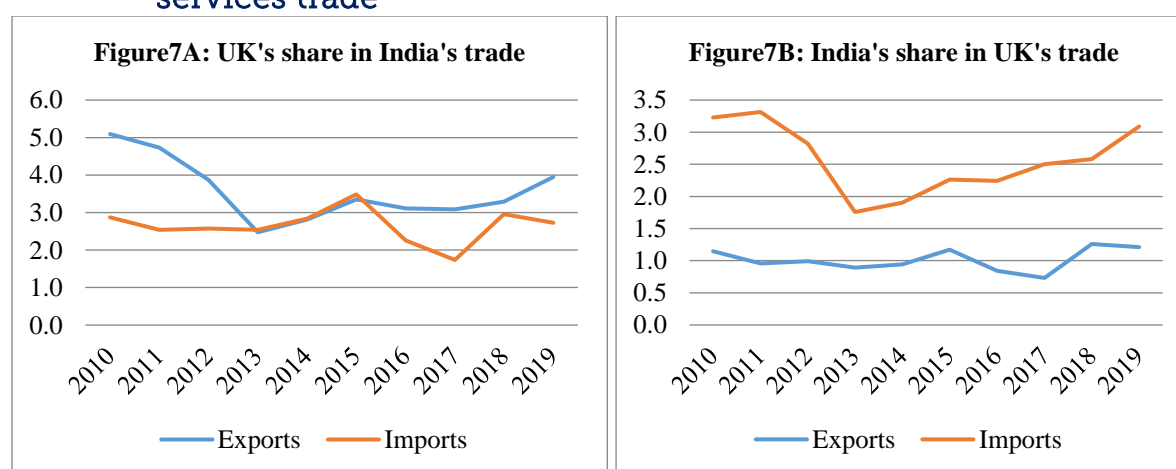


**Table 15: UK's trade in commercial services with India, US\$ million**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>UK's Exports</b>	3276	3158	3325	3189	3617	4275	2995	2673	5175	4854
<b>UK's Imports</b>	5938	6523	5609	3680	4410	5213	5020	5702	6726	8429
<b>Total Trade</b>	9214	9681	8934	6869	8027	9488	8015	8375	11901	13283
<b>Trade Balance</b>	-662	-3365	-284	-491	-793	-938	-025	-029	-1551	-3575

Source: WTO trade statistics

India's share in UK's services trade profile in 2019 was almost equivalent to its share in 2010. In addition, while there was a slight increase in India's share in UK's services exports from 1.14 per cent in 2010 to 1.21 per cent in 2019, India's share in UK's imports declined marginally from 3.23 per cent to 3.09 per cent during the period. India's trade in services with the world, on the other hand, increased at a relatively faster rate compared to the growth rate of in bilateral trade with the UK. This has resulted in a decline in UK's share in India's global services trade during 2010-2019. The UK's share in India's total services exports declined from 5.1 per cent in 2010 to 3.9 per cent in 2019 while its share in India's imports fell from 2.9 per cent to 2.7 per cent. Therefore, the importance of the two countries in each other's international services trade profile has either declined or remained stagnant during 2010-2019.

**Figure 7: Share of India in UK's services trade and share of UK in India's services trade**

Source: WTO trade statistics



## Composition of bilateral trade in commercial services

Reflecting the changing demand structures and competitiveness of the two countries, the composition of UK-India bilateral trade in services has also undergone significant change since 2010. While the share of other commercial services in both exports and imports has increased from 2010-2019, the shares of both transport and travel services have declined. In 2019, 'other commercial services' was the principal contributor to both UK's exports to and imports from India. As can be seen from Table 16, in 2019, while other commercial services accounted for more than 57 per cent of the UK's services exports to India, their contribution to UK's imports from India was about 82 per cent. This is very much aligned with India's comparative advantage, as other commercial services sector has been the dominant contributor to India's export basket to the world market. It is important, however, to note that other commercial services is a very broad group that consists of various services sectors.

**Table 16: Composition of UK's trade in commercial services with India**

UK's export to India										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Transport</b>	592 (18.1)	718 (22.7)	821 (24.7)	444 (13.9)	482 (13.3)	565 (13.2)	375 (12.4)	332 (12.5)	423 (8.2)	692 (14.3)
<b>Travel</b>	981 (29.9)	1001 (31.7)	1044 (31.4)	1305 (40.9)	1465 (40.5)	1473 (34.5)	882 (29.4)	866 (32.4)	1109 (21.4)	1320 (27.2)
<b>Other com. services</b>	1703 (52.0)	1439 (45.6)	1459 (43.9)	1440 (45.2)	1670 (46.2)	2237 (52.3)	1707 (57.0)	1448 (54.2)	3608 (69.7)	2779 (57.3)
UK's imports from India										
<b>Transport</b>	658 (11.1)	409 (6.3)	360 (6.4)	308 (8.4)	336 (7.6)	403 (7.7)	277 (5.5)	290 (5.1)	350 (5.3)	385 (4.4)
<b>Travel</b>	1224 (20.6)	1460 (22.4)	1475 (26.3)	1413 (38.4)	1504 (34.1)	1436 (27.6)	1275 (25.4)	1264 (22.2)	1135 (17.0)	1230 (14.0)
<b>Other com. services</b>	4056 (68.3)	4654 (71.3)	3774 (67.3)	1959 (53.2)	2570 (58.3)	3373 (64.7)	3458 (69.0)	4143 (72.7)	5178 (77.7)	7194 (81.7)

Source: WTO trade statistics

The 'charges for the use of intellectual property' segment was the largest component of other commercial services exports from the UK to India in 2019, accounting for about 22 per cent of total services exports. Other major components of other commercial services that were among the biggest contributors to UK's services export basket to India include other business services (20.1 per cent), financial services (5.8 per cent), telecommunications,

computer, and information services (4.6 per cent), and insurance and pension services (2.9 per cent).

UK's services import from India has also exhibited a similar pattern since 2010. Other commercial services was the main category of imports and accounted for about 82 per cent of services imports from India in 2019. Other business services were the largest components of other commercial services and constituted 65.5 per cent of total imports of commercial services. Other key services that accounted for a large proportion in UK's imports include telecommunications, computer, and information services (11.4 per cent) and financial services (1.8 per cent). Although personal, cultural, and recreational services did appear as the next big contributor in 2019 with a share of 1.4 per cent in total services imports from India, the level of imports were substantially lower in the previous two years.

The above analysis of the composition of UK-India trade in commercial services is clearly in line with the RCA analysis for the two countries. Given the trade patterns and the composition of bilateral trade in services, both countries have offensive interests in select sectors of commercial services. India would like to focus on other business services and telecommunications, computer and information services, which have also been highlighted as sectors of India's interest in the RCA analysis. The UK would like to seek market access in sectors like charges for the use of intellectual property, apart from the sectors mentioned under the RCA analysis, i.e., insurance and pension services; financial services; other business services; and personal, cultural and recreational services.

### 3.2 Investment relations

India and the UK are among the vital sources as well as destinations of global FDI flows. According to the World Investment Report 2020 (UNCTAD 2020), in 2019, while the UK was ranked the eighth largest recipient of FDI in the world, India was the ninth leading host of FDI globally. In terms of sources of FDI, the UK was at 11<sup>th</sup> position in the same year. India has been emerging as a key source of foreign investment in recent years. In terms of inward flows, as Table 17 shows, India has been receiving a considerable amount of FDI since 2010. For many years, inflows into India have been greater than that to the UK. In 2019, with a share of more than three per cent in global inward flows, India received more FDI than the UK. In terms of outflows, on the other hand, though the UK remains a substantially larger player, India has also been emerging as a significant contributor to global outflows and hence, an important source of FDI in recent years.

**Table 17: Inward and outward FDI flows of India and UK, US\$ billion**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Inward FDI flows</b>										
<b>World</b>	1459.5 (100)	1697.6 (100)	1575.8 (100)	1595.8 (100)	1493.7 (100)	2181.4 (100)	2175.5 (100)	1704.1 (100)	1493.7 (100)	1599.0 (100)
<b>India</b>	27.4 (1.9)	36.2 (2.1)	24.2 (1.5)	28.2 (1.8)	34.6 (2.3)	44.1 (2.0)	44.5 (2.0)	39.9 (2.3)	42.2 (2.8)	50.6 (3.2)
<b>UK</b>	58.2 (4.0)	42.2 (2.5)	55.4 (3.5)	51.7 (3.2)	24.7 (1.7)	39.2 (1.8)	258.7 (11.9)	96.4 (5.7)	65.3 (4.4)	45.5 (2.8)
<b>Outward FDI flows</b>										
<b>World</b>	1466.9 (100)	1713.4 (100)	1384.3 (100)	1512.2 (100)	1469.3 (100)	1830.5 (100)	1663.1 (100)	1659.7 (100)	920.8 (100)	1296.4 (100)
<b>India</b>	15.9 (1.1)	12.5 (0.7)	8.5 (0.6)	1.7 (0.1)	11.8 (0.8)	7.6 (0.4)	5.1 (0.3)	11.1 (0.7)	11.4 (1.2)	13.1 (1.0)
<b>UK</b>	48.1 (3.3)	95.6 (5.6)	20.7 (1.5)	40.5 (2.7)	-151.3 (-10.3)	-66.8 (-3.7)	-37.6 (-2.3)	142.4 (8.6)	41.4 (4.5)	-6.1 (-0.5)

Source: UNCTADstat

Note: Figures in parentheses indicate the share (%) in world

India's investment relation with the UK is unique. India is the only major developing country that is not only an important investment destination for UK companies but has also emerged as a key source of foreign investment in the UK. Similarly, for India, the UK is probably the only developed country that has been a significant source of FDI and has become a major destination for Indian FDI in the recent past. The UK was the 6<sup>th</sup> largest investor in terms of total accumulated FDI equity flows into India from April 2000 to March 2021 (Department for Promotion of Industry and Internal Trade (DPIIT), Government of India, 2021), while India was the second largest source of FDI for the UK in 2020-21 (UK's Department of International Trade).<sup>12</sup>

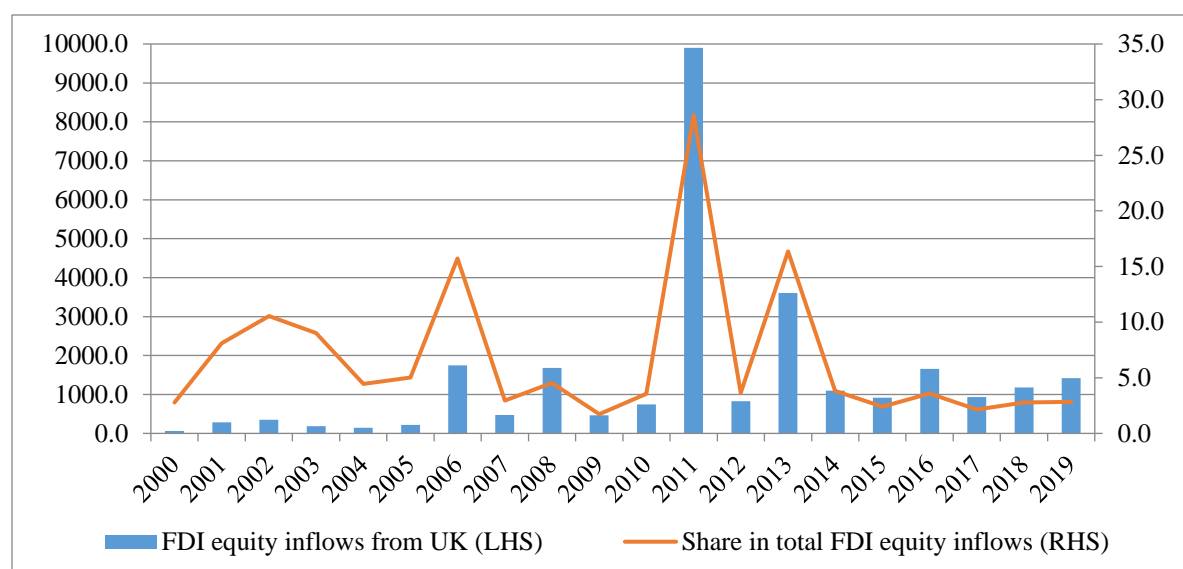
### 3.2. A. FDI from UK to India

Given the historical ties between the two economies, the UK is one of the oldest sources of foreign investment in India and continues to be so. During April 2000-March 2021, India received more than US\$30 billion of FDI equity investment from the UK, which was 5.7 per cent of total FDI equity inflows into the country during the period (DPIIT, 2021). However, annual equity investment flow from the UK has fluctuated. Average equity inflows have been much higher in the post-2010 period. Equity investment from the UK peaked in 2011 (see Figure 8), reaching US\$9.9 billion, accounting for 29 per cent of

<sup>12</sup> [Department for International Trade inward investment results 2020 to 2021 \(HTML version\)](#) - GOV.UK ([www.gov.uk](http://www.gov.uk)), accessed on 22/10/2021

total FDI equity inflows into India during the year. The unusual spike in 2011 was mainly on account of some big-ticket FDI deals between Indian and UK companies, such as that between BP Plc (UK) and Reliance Industries (India) in the oil and gas sector.<sup>13</sup> In the last few years, however, equity flows from the UK to India have been relatively more consistent and hovered around US\$1 billion.

**Figure 8: FDI equity flows (US\$ million) from UK to India**



Source: DPIIT (2021)

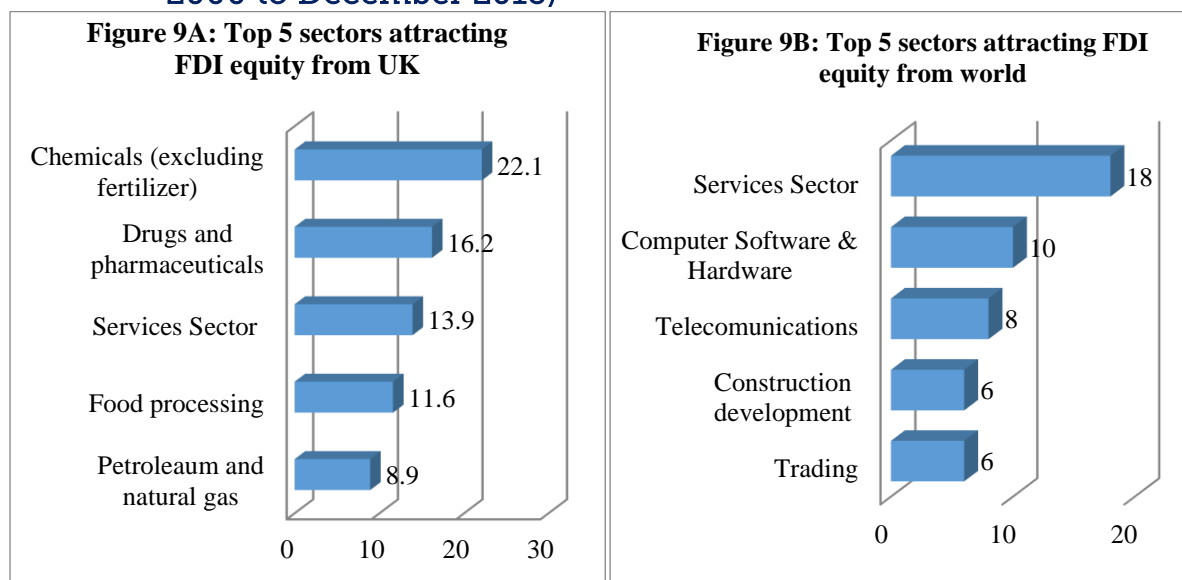
Note: 2019 data is for financial year 2019-20.

FDI inflows from the UK to India have largely been concentrated in a few sectors. The top five sectors accounted for about 73 per cent of the total FDI equity received from the UK during 2000-2018. However, the composition of the UK's FDI appears to be aligned with India's aim of augmenting its manufacturing capacity and raising the share of manufacturing in GDP to 25 per cent. Among the top five sectors that received maximum FDI from the UK, four belong to manufacturing, including food processing, which is very important to enhance farm incomes in the country (see Figure 9). This is in contrast with the composition of FDI flows to India from the rest of the world, which is dominated mainly by non-manufacturing sectors. In this sense, FDI flows from the UK to India are better suited to India's interests and priorities. A further boost is likely to enhance not only the country's manufacturing capacity but also augment its global competitiveness. India should strive to have provisions under the proposed FTA that would facilitate FDI flow from the

<sup>13</sup> [POSCO: Big ticket deals like RIL-BP and Posco may push FDI in India to \\$35 billion in FY 2012 - The Economic Times \(indiatimes.com\)](https://www.economictimes.com/posco-big-ticket-deals-like-ril-bp-and-posco-may-push-fdi-in-india-to-35-billion-in-fy-2012-the-economic-times/indiatimes.com), accessed on 26/10/2021

UK into sectors of India's interest. In this context, the food processing and pharmaceutical sectors are of great mutual interest for both economies.

**Figure 9: Composition of UK's FDI equity flows to India (from January 2000 to December 2018)**



Source: DPIIT

Note: Sectoral data for FDI equity inflows from UK to India is for January 2000 to December 2018. World data is available for April 2000 to December 2019.

The sectoral distribution of UK's investments in India is also reflected in the presence of major UK companies in India. The largest UK companies with the highest turnover operating in India include Vedanta Ltd. (energy & power), Vodafone Idea Ltd. (telecommunications), Hindustan Unilever Ltd. (consumer, retail and e-commerce), United Spirits India (food and beverage) and Ashok Leyland Ltd. (automotive) (Grant Thornton and CII, 2021). However, the sectors with the fastest growth are other than the traditional sectors. This can be observed from the list of companies that have exhibited highest growth in recent years. According to 'Britain Meets India' report (2021), jointly prepared by Grant Thornton and CII, Dyson Technology India Pvt. Ltd. (consumer, retail and e-commerce) is the fastest growing UK company in India, followed by Aviva Life Insurance Company India Ltd. (financial services), Diageo Business Services India Pvt. Ltd. (business services), RMD Kwikform India Pvt. Ltd (construction & real estate) and FMC Technologies India Pvt. Ltd. (energy & power).

Although the UK is one of India's leading investor economies, the level of FDI from the UK to India is far below potential. Despite India being one of the top and fastest growing economies in the world and sharing a long history of economic linkages, the share of India was just one per cent of UK's global

outward FDI stock in 2019. Although India's share in UK's total outward FDI was greater than China's 0.7 per cent, it was far less than that to top destinations. With a share of more than 25 per cent of the UK's global outward FDI stock, the US was the leading destination, followed by the Netherlands (10.4 per cent) and Luxemburg (6.4 per cent) in 2019 (Department of International Trade, UK)<sup>14</sup>.

### 3.2. B. FDI from India to UK

UK has been an important investment destination for Indian companies since the Tata established its presence in the UK about a hundred years ago (Grant Thornton and Confederation of Indian Industries, 2014). India has also emerged as a vital source of foreign capital for UK in recent years. India's investment in the UK exceeds its total investment in the rest of the European Union (EU).<sup>15</sup> As can be observed from Table 18, India's FDI stock in the UK was more than £9 billion in 2019, which was significantly higher compared to some of the major emerging economies like Brazil and China. However, Indian investment in the UK has fluctuated considerably during 2010-2019; it peaked in 2018 with a significant reduction in 2019. Although India's share in UK's total inward FDI stock was merely 0.61 per cent in 2019, it was significantly higher than China's 0.20 per cent, Brazil's 0.17 per cent and South Africa's 0.14 per cent.

**Table 18: Inward FDI stock in UK from India and other BRICS economies, in £ million**

Countries	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Brazil</b>	249	-5	-10	121	15	143	266	..	..	1,158
<b>China</b>	367	767	1,118	..	1,100	2,261	1,678	2,280	1,808	3,189
<b>India</b>	2,749	2,774	2,072	1,676	1,942	2,643	1,791	2,170	11,550	9,542
<b>S. Africa</b>	553	819	353	1,274	2,060	1,538	1,536	1,004	985	2,109

Source: Office of National Statistics, UK<sup>16</sup>

According to the 'Britain Meets India (2019)' report by Grant Thornton and CII, the presence of Indian companies working in the UK has increased over the last few years (see Table 19). The number of Indian entities having an annual turnover of £5 million has increased from 700 in 2014 to 842 in 2019. There are

<sup>14</sup> [Trade and Investment Factsheet \(publishing.service.gov.uk\)](https://publishing.service.gov.uk), accessed on October25, 2021.

<sup>15</sup> [DFID India - GOV.UK \(www.gov.uk\)](https://www.gov.uk), accessed on October25, 2021.

<sup>16</sup> [Foreign direct investment involving UK companies \(directional\): inward - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk), accessed on October25, 2021.

about 1.05 lakh persons employed in these companies. Tata Motors Limited and Tata Steel Limited were the two largest employers accounting for about 63 per cent of total jobs created by Indian companies in the UK. Other major Indian employers include Cesc Limited, Mortice Limited, Cox & Kings Ltd, Tata Consultancy Services Limited, HCL Technologies Limited, TVS Logistics Services Limited, Essar Global Fund Limited and Secure Meters Limited.

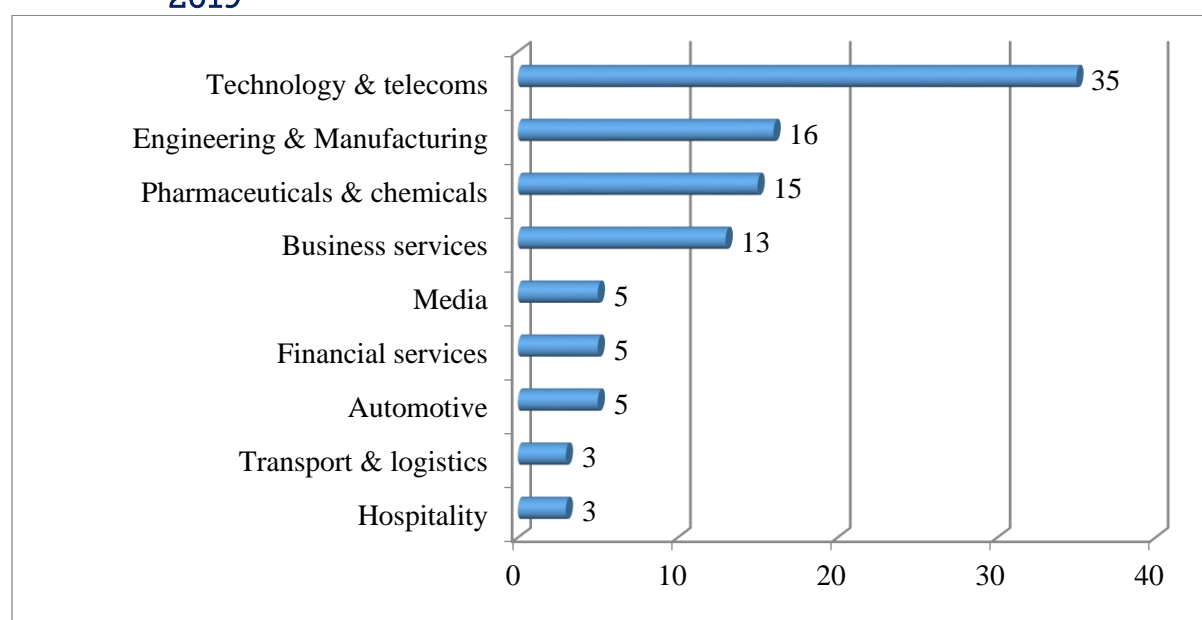
**Table 19: Indian companies (with annual turnover more than £ 5 million) in UK**

Year	Number of Indian companies in UK	Employment	Turnover, £ billion
2014	700	100,000	-
2015	800	110,000	-
2016	800	110,000	-
2017	800	110,000	47.5
2018	800	104,932	46.4
2019	842	104,783	48.0

Source: India Meets Britain report (various years)

The technology sector has accounted for the major proportion of the fastest growing Indians companies in the UK in recent years. In 2019, 35 per cent of the fastest growing Indian companies belonged to the technology and telecom sector alone. Engineering and manufacturing, pharmaceuticals and chemicals and business services were the other major sectors that constituted more than 10 per cent of the total fastest growing Indian companies in the UK (Figure 10).

**Figure 10: Composition (in %) of UK's fastest-growing Indian companies, 2019**



Source: Source: Britain Meets India (2014)



## 4. Trade and investment barriers in India and UK

As discussed in the analyses of trade and investment sections, although there has been significant growth in trade and investment flows between the two countries over the last two decades, it remains far below potential. Apart from natural and structural barriers like geographical distance and dissimilarity in economic structures that have some bearing on the level of bilateral economic engagement, barriers to trade and investment in the two countries is a major reason for the failure to realise the potential of bilateral economic relations. In this section, an attempt is made to present a comparative picture of the barriers that affect the flow of trade and investment between the two economies.

### 4.1. Barriers to goods trade

Trade barriers are divided broadly into two groups: tariff barriers and non-tariff barriers (NTBs). Both are discussed below.

#### 4.1(i). Tariff barriers

##### India

With the introduction of economic reforms in the early 1990s, India has significantly reduced tariff rates on products from most sectors but more so from non-agricultural sectors. Sustained focus on tariff reforms has led a continuous decline in the average applied tariff rate and has made India a low tariff economy (Singh, 2017). However, there has been some reversal in tariff reforms in the recent past, leading to an increase in tariff rates on several products and deterioration in the overall tariff structure of the country.

As Table 20 shows, the simple average applied MFN tariff has increased from 12.0 per cent in 2010-11 to 14.3 per cent in 2020-21. This was on account of an increase in tariff rates on several product categories that belong to both the agricultural and non-agricultural sectors. There was also deterioration in domestic and international peaks,<sup>17</sup> but the rise in international peaks has been steeper from 11.9 per cent in 2010-11 to more than 25 per cent in 2020-21. The share of duty free lines in all tariff lines, on the other hand, has declined during the same period.

---

<sup>17</sup> According to WTO, domestic tariff peaks are defined as those exceeding three times the overall average applied rate and international tariff peaks are defined as those exceeding 15 per cent.

**Table 20: India's tariff structure, various years**

		MFN applied rate (%)	
		2010-11	2020-21
1.	Simple average rate	12.0	14.3
	WTO agricultural products	33.2	36.5
	WTO non-agricultural products	8.9	11.1
2.	Duty-free tariff lines (% of all tariff lines)	3.2	2.7
3.	Simple average rate of dutiable lines only	12.4	14.7
4.	Domestic tariff "peaks" (% of all tariff lines)	2.2	3.1
5.	International tariff "peaks" (% of all tariff lines)	11.9	25.4
6.	Nuisance applied rates (% of all tariff lines)	0.7	0.19
	Number of lines		
7.	Ad valorem	10,277	10,853
8.	Duty-free lines	361	322
9.	Non-ad valorem	690	725
	Specific	5	4
	Mixed	685	721

Source: WTO Trade Policy Review of India, 2015 and 2020

Note: Nuisance rates are those greater than zero but less than or equal to 2 per cent.

## UK

Following the formal exit from the EU on January 31, 2020, and a transition period from January 31 to December 31, 2020, the UK has adopted a new most favoured nation (MFN) tariff regime called the UK Global Tariff (UKGT) that became effective on January 1, 2021. The UKGT is applicable to all goods imported into the UK from countries that do not have preferential arrangements with the UK and are not covered under any exemption. As per the UK's Department for International Trade, the UKGT is a "simpler, easier to use and lower tariff regime than the EU's Common External Tariff".<sup>18</sup>

As can be observed from Table 21, under the new regime, the average MFN tariff rate has been reduced to 5.7 per cent from 7.2 per cent under the EU's Common External Tariff (EU's CET) system. The average tariff rate has come down in most sectors. For instance, while the average tariff in the agriculture sector has been reduced from 18.3 per cent under the EU's common external tariff to 16.1 per cent under UKGT, the average tariff on industrial goods has come down from 3.7 per cent to 2.5 per cent. The number of lines with nuisance tariff rates has been reduced from 500 to zero, and tariff from an additional 1500 lines, related mainly to critical industrial inputs, have been eliminated. Some of the

<sup>18</sup> [Public Consultation: MFN Tariff Policy – The UK Global Tariff Government response and policy \(publishing.service.gov.uk\)](#), accessed on October 28, 2021.

key inputs from which tariffs have been completely eliminated and could be of interest to India include cotton yarn, bicycle parts, footwear parts, etc. In addition, the number of tariff free lines under the UKGT has been increased to twice as many as that under the EU's CET.

However, the UK's new tariff regime has retained duties on about 5,000 tariff lines. These lines are mainly related to agricultural products, apparel, bananas, bio-ethanol, ceramics, chemicals, raw cane sugar, and vehicles. Some key sectors where tariff rates have been maintained at a relatively high levels include fish and seafood (26 per cent), trucks (22 per cent), bicycles (14 per cent), passenger vehicles (10 per cent) and fertilisers and plastics (6.5 per cent) (USTR, 2021). India has interests in many of these sectors, and higher tariff rates are likely to be detrimental to Indian exports to the UK.

**Table 21: UK's tariff structure under UKGT and EU's CET**

	UKGT	EU's CET
Overall tariff free tariff lines (%)	47%	27%
Agriculture	23%	16%
Fish	8%	8%
Processed Agricultural Products	41%	29%
Industrial Goods	57%	31%
Overall average tariff rate (%)	5.7%	7.2%
Agriculture	16.1%	18.3%
Fish	11.0%	11.7%
Processed Agricultural Products	10.60	15.9%
Industrial Goods	2.5%	3.7%

Source: UK's Department of International Trade (2020)

UK also has a Generalised Scheme of Preferences (GSP) scheme in place that offers benefits in terms of tariff concessions to 70 developing countries, including India. There are three frameworks under the UK's GSP. (i) least developed countries framework (LDCF) that allows imports at 0% tariff on all products excluding arms and ammunition originating from the beneficiary countries, (ii) general framework (GF) for low-income and lower-middle income countries that allows imports at reduced tariff rates on two-thirds of product lines and (iii) enhanced framework (EF) that allows two-third of

product lines originating from low-income and lower middle income countries classified as economically vulnerable to be imported at 0% tariff. However, the UK's GSP system puts Indian exports of products from some labour intensive sectors like textiles and clothing at a disadvantage vis-à-vis some of India's competitor economies like Bangladesh and Pakistan. India is put under GF while 47 countries including Bangladesh are part of LDCF, and economies like Pakistan and Sri Lanka along with six other countries are eligible to get benefit under the EF.

The analysis above of tariff regimes of the two countries makes it apparent that exporters from the UK face much higher tariff barriers in India than Indian exporters to the UK. Moreover, the gap in tariff rates between the two economies seems to have increased after the implementation of the new tariff regime in the UK from January 01, 2021. However, despite the reduction in average tariff rates across sectors, India faces relatively high tariff barriers in sectors that are of importance to it such as agriculture including fish and processed agriculture goods. The UK's GSP scheme also puts Indian exports in tariff disadvantage vis-à-vis several of India's competitor economies.

#### 4.1(ii). Non-tariff barriers

Although trade liberalisation along with the rising number of preferential trade agreements (PTAs) over the last three decades have led to a substantive decline in average tariff rates in most countries, including in India and the UK, non-tariff measures (NTMs) have emerged as a dominant source of protection. NTMs have been found to be "almost twice as trade restrictive as tariffs" (WTO, 2012, p. 136). The NTMs are "policy measures, other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both" (UNCTAD, 2009, p. 99).<sup>19</sup> Non-tariff barriers (NTBs), on the other hand, are "a subset of NTMs that have a protectionist or discriminatory intent, or where the trade restrictiveness exceeds what is needed for the measure's non-trade objectives, implying a negative impact on trade" (UNCTAD, 2018, p.3). NTMs broadly consist of two sets of measures: the measures that hamper trade and other measures that do

<sup>19</sup> As per UNCTAD, NTMs are divided into 16 chapters: (a) sanitary and phytosanitary (sps) measures (b) technical barriers to trade (TBTs) (c) pre-shipment inspections and other formalities (d) contingent trade-protective measures (e) non-automatic licensing, quotas, prohibitions and quantity-control measures (f) price-control measures, including additional taxes and charges (g) finance measures (h) measures affecting competition (i) trade-related investment measures (j) distribution restrictions (k) restrictions on post-sales services (l) subsidies (excl. export subsidies) (m) government procurement restrictions (n) intellectual property (o) rules of origin and (p) export-related measures. Chapters A to C are known as technical measures, chapters D to O are called non-technical measures and chapter P represents export-related measures.

not have protectionist intent (UNCTAD, 2020). However, given the difficulty in distinguishing NTMs with protectionist intent from that without it, the present study uses NTMs as a proxy to examine the prevalence of NTBs in both India and the UK.

There are three major indicators used for measuring the incidence of NTMs in an economy – frequency index, coverage ratio and prevalence score. The frequency index measures the share of products affected by one or more NTMs, coverage ratio shows the share of imports affected by one or more NTMs in total imports, and prevalence ratio highlights the average number of NTMs affecting an imported good (UNTAD and WTO, 2019). Table 22 shows that the overall use of NTMs in the UK economy is significantly higher than in India. The gap between the two countries is more with regard to the frequency index. The share of products affected by one or more NTMs in the UK is almost twice as much as the percentage of NTM affected products in India. The other two indicators also clearly highlight the more intensive use of NTMs in the UK.

**Table 22: Usage of NTMs by India and UK (EU)\***

	India	UK
Frequency Index	47%	92%
Coverage Ratio	69%	89%
Prevalence Score	4.9	6.3

Source: UNCTAD<sup>20</sup>

Note: Data available as on November 11, 2020

Table 23 shows the measure wise use of NTMs in India and the UK. While TBT, quantitative and export measures are the most important NTMs in terms of their coverage of products and trade in India, the use of TBT, quantitative and SPS measures is high in the UK. The use of pre-shipment, price control and exports measures is considerably higher in India compared to the UK.

<sup>20</sup> [Data on non-tariff measures | UNCTAD](#), accessed on November 1, 2021

**Table 23: Measure wise usage of NTMs by India and UK (EU)\***

Measure	India			UK		
	Frequency Index	Coverage Ratio	Prevalence Score	Frequency Index	Coverage Ratio	Prevalence Score
SPS	10%	8%	9.9	22%	15%	7.5
TBT	41%	59%	5.0	90%	88%	4.1
Pre-Shipment	32%	45%	2.5	3%	4%	1.0
Quantity	41%	51%	2.1	53%	66%	1.6
Price Control	11%	30%	1.7	0%	0%	0.0
Export Measures	47%	39%	3.0	3%	5%	2.0

Source: UNCTAD<sup>21</sup>

Note: Data available as on 11/11/2020

In terms of sector wise usage of NTMs, agriculture is the most affected sector in both the countries but slightly more so in India. However, a significantly higher proportion of products and trade is affected by NTMs in the manufacturing sector in the UK. The share of goods affected by NTMs belonging to the natural resources sector is also higher in the UK. However, India's prevalence score is high (5.2), indicating a higher number of NTMs per product compared to the UK.

**Table 24: Sector-wise usage of NTMs by India and UK (EU)\***

Sector	India			UK		
	Frequency Index	Coverage Ratio	Prevalence Score	Frequency Index	Coverage Ratio	Prevalence Score
Agriculture	100%	100%	23.0	98%	98%	15.5
Manufacturing	44%	62%	3.9	92%	89%	5.0
Natural resources	59%	80%	5.2	64%	86%	4.0

Source: UNCTAD<sup>22</sup>

Note: Data available as on November 11, 2020

Some specific trade barriers hampering Indian exports to the UK include minimum maturation period for alcoholic beverages, countervailing duties, and clearance difficulties. According to the Confederation of Indian Alcoholic

<sup>21</sup> Ibid<sup>22</sup> Ibid

Beverage Companies (CIABC), in the UK, there is a requirement of minimum three years maturation period for whisky and rum to be imported, which is unreasonable. The industry body claims that it has been scientifically proven that the ageing of spirit in Indian conditions takes place 3 to 3.5 times faster than that in the UK.<sup>23</sup> According to a report by EXIM Bank of India (2019), countervailing duties on several leather and textile products put a heavy burden on Indian exports. The report also highlights clearance difficulties in the UK in the case of electrical and engineering goods.

Measures in India that hamper imports from the UK include higher registration fees for cosmetics importers, discrimination between domestic producers and importers with regards to obtaining a no-objection certificate (NOC) for animal genetics, price ceiling for certain medical devices, onerous requirements for the importation of some dairy goods, etc. (USTR, 2021).

## 4.2. Barriers to trade in services

The analysis in Section 3.1.B has highlighted both India's and the UK's growing interest in services trade. However, several barriers impede the expansion of bilateral trade between the two economies. One of the commonly used indicators to assess the restriction on services trade is OECD's Services Trade Restrictiveness Index (STRI) that takes a value between one and zero, one being the most restrictive and zero the least. Table 25 highlights the comparative restrictiveness on different services sectors in India and the UK. In most sectors, trade restrictions in India are higher than in the UK. However, the UK seems relatively more restrictive in sectors like air transport and accounting, while India has relatively more restrictions in rail freight transport, legal and accounting services. According to OECD (2020), the most restrictive sectors like freight transport, legal and accounting in India are subject to public monopolies or a ban on foreign direct investment and foreign services providers. Although the UK appears to be less restrictive on most measures and most sectors, regulations related to people's movements are stringent and affect trade in all sectors. In this context, the two notable measures that affect services trade in the UK include labour market tests and regulations on visa (OECD, 2020).

<sup>23</sup> [Govt. should ask UK to cut non trade barriers on Indian alcoholic beverages CIABC - BW Businessworld](#), accessed on October 10, 2021



**Table 25: STRI scores of India and UK, 2020**

Sector	India	UK
Accounting	0.82	0.27
Courier	0.57	0.17
Distribution	0.43	0.13
Commercial banking	0.50	0.17
Insurance	0.51	0.15
Logistics cargo-handling	0.39	0.16
Logistics storage and warehouse	0.40	0.16
Logistics freight transport	0.32	0.14
Logistics custom brokerage	0.33	0.15
Construction	0.33	0.15
Road freight transport	0.64	0.17
Rail freight transport	1.00	0.17
Architecture	0.66	0.19
Engineering	0.28	0.15
Legal	0.89	0.18
Motion Pictures	0.31	0.18
Broadcasting	0.42	0.17
Sound recording	0.27	0.16
Telecom	0.38	0.11
Air transport	0.57	0.39
Maritime transport	0.38	0.19
Computer	0.29	0.17

Source: OECD, at [Services Trade Restrictiveness Index | Compare your country](#), accessed on November 7, 2021

Other issues that hamper the expansion of bilateral trade between India and the UK are discussed below.

- **Mutual Recognition of Qualification:** Despite having a very close relationship, there is no mutual recognition of qualifications (MRQs) between India and the UK, which is seen as one of the biggest hindrances in expanding bilateral trade in services between the two economies. MRQs are important tools that facilitate students to seamlessly move between the partner countries; such seamless movement is likely to advance the skill base, encourage institutional partnership, stimulate research collaboration and enhance trade and investment between India and the UK. The importance of an MRQ agreement has also been recognised under Roadmap 2030 for India-UK future relations launched during India-UK Virtual Summit (May 4, 2021) that mentions the recognition of qualification between universities of both sides before the end of 2021. Both countries have also committed to work towards mutual

recognition of professional qualifications between the two economies (Ministry of External Affairs, 2021).<sup>24</sup>

- Social Security Agreement (SSA): SSA plays a very crucial role in enhancing bilateral trade in services between two partner countries by reducing the cost of social security for workers working in economies of the parties to an SSA. However, despite repeated efforts, India and UK have failed to get a bilateral SSA in place.

#### **Trade barriers in UK:**

- Restrictive funding provision: Student loans offered by the government are not allowed to be used for an international degree programme. These loans can be used for temporary study but only as a part of UK-accredited degree courses. This provision discourages UK students from seeking foreign degrees offered by institutions in other countries (USTR, 2021).
- Local experience: In certain professional services, such as chartered accountancy (CA), it is compulsory to acquire professional experience in the UK to obtain permission to work there.
- Data localization: UK's Data Protection Act 2018, which is modelled around the General Data Protection Regulation of the EU, does not allow the transfer of personal data outside the UK until certain requirements are fulfilled. This hampers the cost competitiveness of services providers located outside the UK.

#### **Trade barriers in India:**

- Legal services: To practice law in India, it is mandatory to have Indian citizenship and membership of the 'Bar Council of India'. The entry of foreign legal firms is also restricted. According to the Advocates Act, 1961, foreign firms or foreign lawyers are allowed to operate in India on a reciprocal basis but only for temporary periods (USTR, 2021).
- Accounting services: There exist restrictions on the entry of foreign accounting firms in India. Only foreign accounting firms that are structured as a partnership under Indian law are allowed to provide financial auditing services and only Indian accountants are permitted to be equity partners (USTR, 2021).

<sup>24</sup> [Roadmap 2030 for India-UK future relations launched during India-UK Virtual Summit \(May 4, 2021\) \(mea.gov.in\)](#), accessed on November 5, 2021

- **Satellite services:** Foreign satellite services providers are not allowed to develop direct relationships with DTH licensees in India. DTH licensees are permitted to procure satellite capacity only through the Indian Space Research Organisation's (ISRO) Antrix, which allows procurement of foreign services only when capacity is not available on domestic satellites (USTR, 2021).
- **Data Localisation:** India requires banks and payment service providers to store all electronic payment related information of Indian citizens in India. This increases the cost of operation for foreign firms/banks, especially smaller ones, as they generally rely on globally distributed data storage (USTR, 2021).

### 4.3. Investment barriers

Both India and UK attach great importance to foreign investment and follow policies to attract FDI to their respective economies. However, several barriers restrict investment flows to both economies.

#### India

To attract foreign investment, India has gradually liberalised its FDI regime over the last three decades. However, there still exist a number of barriers that hamper the inflow of foreign investment into the country. Some of the major investment barriers are discussed below.

**Prohibited sectors:** Despite liberalising foreign investment in most sectors, India still maintains a small list of sectors in which foreign investment is prohibited. The list of prohibited sectors includes lottery business, gambling and betting including casinos, chit funds, nidhi companies, trading in transferable development rights (TDRs), real estate business or construction of farm houses, manufacturing of cigars, cheroots, cigarillos and cigarettes, tobacco or of tobacco substitutes and sectors where private sector investment is not allowed, e.g., atomic energy and railway operations (DPIIT, 2020).

**Caps on FDI:** Most sectors/activities in India are fully open to foreign investment but some are still subject to limits on foreign capital investment. The key sectors with caps on FDI given in Table 26 below.

**Table 26: Sectors with limit on FDI in India**

Sector	FDI cap and route
Petroleum refining by the public sector undertakings	49 per cent, automatic route
Terrestrial broadcasting FM and up-linking of 'news & current affairs' TV Channels	49 per cent, government route
Uploading/streaming of news & current affairs through digital media and print media	26 per cent, government route
Private security agencies	74 per cent; automatic route up to 49 per cent, beyond 49 up to 74 per cent – government route
Multi brand retail trading	51 per cent, government route
Banking – private sector	74 per cent; automatic route up to 49 per cent, beyond 49 up to 74 per cent – government route
Banking – public sector	20 per cent, government route
Infrastructure companies in securities markets	49 per cent, automatic
Insurance	49 per cent, automatic

Source: DPIIT, 2020

Local content requirement: In certain sectors, India puts local content requirements (LRCs). For instance, under the National Solar Power Mission, solar power developers are required to use domestically produced solar cells and modules to obtain long-term contracts from the Government of India (USTR, 2021).

Other factors that deter foreign investment flows to India, especially in the manufacturing sector, include high logistics costs, lack of world class infrastructure, complex labour regulations, access to quality electricity supply, contract enforcement, property registration, and difficulties in starting a business and paying taxes.

## UK

The UK is one of the most liberal economies for foreign investment in the world. Currently, there is no ban on foreign investment in any sector in the UK (Potter and Long, 2021). However, geopolitical and technological developments and the emergence of global supply chains in recent years have led to growing concerns that foreign investment could undermine national security. In this

context, the National Security and Investment Act, 2021, (NS&I Act) has been introduced and will be implemented from January 4, 2022. The NS&I Act will substitute the present system for national security scrutiny under Enterprise Act 2002. The new legislation has three aspects: (i) mandatory notification for transactions in 17 strategic sectors (ii) voluntary notifications for transactions in strategic sectors other than these 17, and (iii) for non-strategic sectors, a government review. The coverage of the Act is not subject to any threshold, which means the Act could be applied to any transaction. The new legislation is likely to substantially increase the number of investments that are screened for issues related to national security (Potter and Long, 2021).

Although most processes in the UK are quite streamlined, foreign investors may still have to face challenges in terms of disparate laws, tax brackets, red tape, etc., while entering the UK market. There also exist variations in regulations among different constituents of the UK that increase the cost of doing business there. Other issues foreign investors are likely to face include access to a skilled workforce, especially after Brexit, the arduous process for registering property, difficulty in paying taxes, etc. (TMF, 2021).<sup>25</sup>

The analysis above indicates that despite considerable liberalisation of its FDI regime, India still has a number of restrictions in place on foreign capital that hamper not only bilateral investment flows but also undermine the realisation of the full investment potential of the country. Although the UK is more liberal about entry of foreign investment, the provisions of national security scrutiny under the new NS&I Act are likely to have a negative effect on investors' sentiments.

## 5. Concluding remarks and the way forward

This study reviews and analyses in detail the trade and investment flows of and between India and the UK and examines the barriers that hamper the realisation of the full potential of India-UK bilateral economic relations. The study shows that India has experienced a much faster GDP growth than the UK during the last two decades and emerged as the fifth largest economy in the world in 2019. The UK has lost its fifth position to India to become the world's sixth leading economy in the same year. However, despite having almost a similar size in terms of GDP, UK is a significantly larger player than India in global trade of both goods and services. In 2019, while the UK was the fourth leading trader of goods and services globally, India was ranked 12<sup>th</sup>. This also indicates the higher dependence of UK's economy on international trade and

---

<sup>25</sup> [Top challenges of doing business in the UK | TMF Group \(tmf-group.com\)](https://www.tmf-group.com/en/insights/top-challenges-of-doing-business-in-the-uk), accessed on November 11, 2021

hence, a greater desire to secure market access in foreign countries. Although the UK remains a larger player in global trade than India, its share in world trade has declined over the last two decades while India's has increased. The shares of services have risen in external trade for both India and the UK but goods trade is still more important than services, more so for India. Therefore, both countries have interests in goods as well as in services.

The study shows that although there has been a surge in the merchandise exports and imports of both countries over the last two decades, India's growth rates have been substantially higher than the UK's. There was a slowdown in growth of exports and imports during 2010-2019 as compared to 2000-2010 as well as greater fluctuations in global trade of both economies. Therefore, the 2010s appear to have been more challenging in terms of international trade for both countries.

The analysis of the trade composition indicates complementarity in the trade structures of the two economies. Seven of the UK's top ten import sectors are the same as India's leading export sectors. The RCA analysis shows that while India has a comparative advantage in 40 sectors, the UK's comparative advantage lies in 23 sectors. As expected, almost half the sectors in which India has a comparative advantage belong to two major labour intensive sectors – agriculture, and textiles and clothing. The UK's comparative advantage lies mainly in non-agricultural capital and technology intensive sectors. The UK has a comparative advantage in sectors such as pearls, precious stones, metals, coins, etc.; organic chemicals; pharmaceutical products etc., in which India too has strong comparative advantage. Consequently, their interests in these sectors are competing and the negotiations under the proposed FTA will be likely to involve give and take. However, they also present an opportunity for bilateral co-operation, as reflected in the tie-up between UK's AstraZeneca and Serum Institute of India for the development of the Covid-19 vaccine between the two countries.

The study found that India-UK bilateral merchandise trade has almost trebled during 2000-2019. However, Indian exports to the UK have grown faster than its imports from the UK, turning the trade balance in India's favour since 2004. As in the case of global trade, two-way trade in the 2010s has increased slower than in the 2000s. The UK share in India's external trade has declined significantly because the growth rate of bilateral trade has been lower than the growth rate of India's trade with the rest of the world. The share of the UK in India's global trade has declined from 5.6 per cent in 2000 to less than two per cent in 2019. The UK's share has declined in both India's exports and imports

but the decline in the share of imports has been relatively sharper than that in exports.

India's exports to the UK are more diversified, ranging from labour intensive agriculture and textiles and clothing to international production network intensive machinery and high value optical and medical goods. India's imports from the UK, on the other hand, consist mainly of manufactured goods, which are capital and technology intensive. This indicates that while negotiating the FTA with the UK, India will have to focus not only on products from traditional sectors like agriculture, and textiles and clothing but also on high value manufacturing sectors that are emerging as a key contributors to Indian exports.

The study has also shown that there exist tariff and non-tariff barriers in both countries. While the UK's exports face high tariff barriers in India, India's exports suffer due to the high prevalence of NTMs in the UK. Besides, Indian exports from some key labour intensive sectors are put at a disadvantage vis-à-vis several of India's competitor economies like Bangladesh due to UK's GSP scheme. India could focus on these products while negotiating the proposed early harvest deal. Negotiating tariff barriers is relatively easy, but the adverse impact of NTMs on trade can be addressed only through active co-operation between the concerned agencies of the two countries. India, therefore, needs to press for the institutionalised mechanisms to tackle the problems arising out of the higher prevalence of NTMs in the UK under the proposed FTA. To make these mechanisms more effective, it is important that the FTA has provisions for timely resolution of issues related to NTMs, at least in some critical sectors like the chemicals, pharmaceuticals, automotive and engineering.

The study shows that services have gained importance in the external trade of both countries. Although the UK remains a bigger player in international services trade than India, India's share in global services trade has increased while that of the UK has declined in the recent past. Despite fluctuations, India-UK bilateral trade in services has increased from about US\$9 billion in 2010 to more than US\$13 billion in 2019. Although the UK's imports from India have grown slightly slower than UK's exports to India, the services trade balance remains in India's favour. Between 2010 and 2019, the importance of the two countries in each other's services trade has declined. A detailed examination of the composition of trade and the RCA analysis have shown that India has offensive interests in 'telecom, computer and information services' and 'other business services'. For the UK, areas of interest include personal, cultural and recreational services; financial services; other business services; insurance and pension services; and charges for the use of intellectual property. With the



growing presence of the Indian diaspora in the UK 'personal, cultural and recreational services' could also be a potential area of interest for India. This sector offers scope for bilateral co-operation between the two countries.

The study flags a number of issues that impede the flow of bilateral services trade between the two countries. India should focus on time bound provisions on MRQs and SSA along with concessions on labour-market tests and stringency in visa regulations under the proposed FTA. Besides, given that the UK is a major IT-ITeS services market for India and any restriction on flow of data across borders is likely to undermine the realisation of the potential in bilateral trade, it is imperative to have data adequacy provisions as part of an India-UK FTA.

While the UK has been an important source of FDI for India, India's importance has also been growing as a source of FDI for the UK in the recent past. The study finds that the composition of the UK's FDI to India is aligned with India's aim of augmenting its manufacturing capacity and raising the share of manufacturing in GDP to 25 per cent. The data analysis shows that of the top five sectors that received maximum FDI from the UK, four belong to manufacturing, including food processing, which is vital to enhance farmers' incomes in the country. However, the study also highlights a number of investment barriers, particularly in India, that hamper investment flows to India both from the UK and the rest of the world. Given that the UK is a very significant source of FDI, India should focus on the challenges that global investors in general and UK investors in particular face while entering the Indian market and work to address these constraints.

Overall, despite having a complementary and robust economic partnership, many barriers impede the flows of trade and investment between India and the UK. The proposed FTA provides a much-desired opportunity to remove those barriers to realise the full potential of bilateral relations between the world's fifth and sixth largest economies.

\*\*\*

## References

Department of International Trade (2021a). Trade and Investment Factsheets: India.UK, July 30, 2021.

Department of International Trade (2021b). An information note for the consultation relating to a Free Trade Agreement between the United Kingdom and India. UK, [An information note for the consultation relating to a Free Trade Agreement between the United Kingdom and India \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/984412/Information_note_for_consultation_on_a_free_trade_agreement_between_the_UK_and_India.pdf), accessed on 11/10/2021

Department for Promotion of Industry and Internal Trade (2020). Consolidated FDI Policy Circular of 2020, Ministry of Commerce & Industry, Government of India. Accessed on 11/08/2021 at [Press Note No \(dpiit.gov.in\)](https://www.dpiit.gov.in/press-note-no-2020-01)

Export-Import Bank of India (2019). Non-Tariff Measures on Indian Exports: Part-1. Accessed on 10/31/2021 at [Study on Non-Tariff Measures Part I.pdf \(eximbankindia.in\)](https://www.eximbankindia.in/publications/Non-Tariff-Measures-on-Indian-Exports-Part-1.pdf)

Grant Thornton and Confederation of Indian Industry (2014). India meets Britain Tracking the UK's top Indian companies. Accessed on 10/15/2021 at [india-meets-britain-tracker-report.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/india-meets-britain-tracker-report.pdf)

Lynch, Karen (2019). U.K. - India International Trade. American Express, 21June. Accessed on 09/27/21 at [U.K.-India International Trade \(americanexpress.com\)](https://www.americanexpress.com/uk/insights/india-uk-trade/)

Ministry of External Affairs (2021). Roadmap 2030 for India-UK future relations launched during India-UK Virtual Summit. Accessed on 05/11/2021 at [Roadmap 2030 for India-UK future relations launched during India-UK Virtual Summit \(May 4, 2021\) \(mea.gov.in\)](https://www.mea.gov.in/roadmap-2030-for-india-uk-future-relations-launched-during-india-uk-virtual-summit-may-4-2021.htm)

Potter, Alex and [Kaidy Long](#) (2021). The Foreign Investment Regulation Review: United Kingdom. The Law Reviews. Accessed on 11/08/2021 at [The Law Reviews - The Foreign Investment Regulation Review](#)

Singh, Harsha Vardhana (2017). "Trade Policy Reform in India since 1991", Brookings India Working Paper 02, March. Accessed on 10/29/2021 at [workingpaper\\_reformshvs\\_march2017.pdf \(brookings.edu\)](https://www.brookings.edu/wp-content/uploads/2017/03/workingpaper_reformshvs_march2017.pdf)

TMF (2021). Top challenges of doing business in the UK. [Top challenges of doing business in the UK | TMF Group \(tmf-group.com\)](https://www.tmf-group.com/en/doing-business-in-the-uk), accessed on 11/09/2021

UNCTAD (2018): UNCTAD TRAINS: The Global Database on Non-Tariff Measures User Guide, 2017, Version 2. Accessed on 10/29/2021, at [UNCTAD TRAINS: The Global Database on Non-Tariff Measures](#)

UNCTAD (2009). Non-Tariff Measures: Evidence from Selected Developing Countries and Future Research Agenda, Accessed on 10/29/2021, at [NON-TARIFF MEASURES: Evidence from Selected Developing Countries and Future Research Agenda - DEVELOPING COUNTRIES IN INTERNATIONAL TRADE STUDIES \(unctad.org\)](#)

UNCTAD and WTO (2019). A Practical Guide to the Economic Analysis of Non-Tariff Measures,

USTR (2021). 2021 National Trade Estimate Report on Foreign Trade Barriers (NTE), Office of the United States Trade Representative, March, Washington, D.C.

WTO (2001), International Trade Statistics 2001,

WTO (2012). World Trade Report 2012. Accessed on 10/31/2021 at [https://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/world\\_trade\\_report12\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report12_e.pdf)

WTO (2020). World Trade Statistical Review 2020

#### Other websites accessed:

[Govt. Should Ask UK To Cut Non Trade Barriers On Indian Alcoholic Beverages CIABC - BW Businessworld](#), accessed on 10/31/2021

[Data on non-tariff measures | UNCTAD](#), accessed on 11/01/2021

[Data on non-tariff measures | UNCTAD](#), accessed on 11/01/2021

[Data on non-tariff measures | UNCTAD](#), accessed on 11/01/2021

[Public Consultation: MFN Tariff Policy – The UK Global Tariff Government response and policy \(publishing.service.gov.uk\)](#), accessed on 10/28/2021.

[Foreign direct investment involving UK companies \(directional\): inward - Office for National Statistics \(ons.gov.uk\)](#), accessed on 10/25/2021

[Trade and Investment Factsheet \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) , accessed on 10/25/2021.

[DFID India - GOV.UK \(www.gov.uk\)](https://www.gov.uk) , accessed on 10/25/2021.

[POSCO: Big ticket deals like RIL-BP and Posco may push FDI in India to \\$35 billion in FY 2012 - The Economic Times \(indiatimes.com\)](https://www.indiatimes.com) , accessed on 10/26/2021

[Department for International Trade inward investment results 2020 to 2021 \(HTML version\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk), accessed on 10/22/2021

[WTO | Trade Statistics - World Trade Statistical Review 2020](https://www.wto.org), accessed on 09/07/2021.

[FDI\\_Factsheet\\_March,21.pdf](#), accessed on 09/28/21

[UK inward investment projects increase in 2019 - GOV.UK \(www.gov.uk\)](https://www.gov.uk), accessed on 09/28/21

[World Development Indicators | DataBank \(worldbank.org\)](https://data.worldbank.org), accessed on 09/09/2021.

[UK inward investment projects increase in 2019 - GOV.UK \(www.gov.uk\)](https://www.gov.uk), accessed on 09/28/21

## Appendix 1: Description of HS Codes

HS Code	Description
01	<b>Name:</b> Live animals <b>Description:</b> Live animals
02	<b>Name:</b> Meat and edible meat offal <b>Description:</b> Meat and edible meat offal
03	<b>Name:</b> Fish, crustaceans, molluscs, aquatic invertebrates nes <b>Description:</b> Fish & crustacean, mollusc & other aquatic invertebrate
04	<b>Name:</b> Dairy products, eggs, honey, edible animal product nes <b>Description:</b> Dairy prod; birds' eggs; natural honey; edible prod nes
05	<b>Name:</b> Products of animal origin, nes <b>Description:</b> Products of animal origin, nes or included.
06	<b>Name:</b> Live trees, plants, bulbs, roots, cut flowers, etc. <b>Description:</b> Live tree & other plant; bulb, root; cut flowers, etc.
07	<b>Name:</b> Edible vegetables and certain roots and tubers <b>Description:</b> Edible vegetables and certain roots and tubers.
08	<b>Name:</b> Edible fruit, nuts, peel of citrus fruit, melons <b>Description:</b> Edible fruit and nuts; peel of citrus fruit or melons.
09	<b>Name:</b> Coffee, tea, mate and spices <b>Description:</b> Coffee, tea, mati and spices.
10	<b>Name:</b> Cereals <b>Description:</b> Cereals
11	<b>Name:</b> Milling products, malt, starches, inulin, wheat gluten <b>Description:</b> Prod. mill. indust; malt; starches; inulin; wheat gluten
12	<b>Name:</b> Oil seed, oleagic fruits, grain, seed, fruit, etc., nes <b>Description:</b> Oil seed, oleagic fruits; miscell grain, seed, fruit, etc.
13	<b>Name:</b> Lac, gums, resins, vegetable saps and extracts nes <b>Description:</b> Lac; gums, resins & other vegetable saps & extracts.
14	<b>Name:</b> Vegetable plaiting materials, vegetable products nes <b>Description:</b> Vegetable plaiting materials; vegetable products nes
15	<b>Name:</b> Animal, vegetable fats and oils, cleavage products, etc. <b>Description:</b> Animal/veg fats & oils & their cleavage products; etc.
16	<b>Name:</b> Meat, fish and seafood food preparations nes <b>Description:</b> Prep of meat, fish or crustaceans, molluscs, etc.
17	<b>Name:</b> Sugars and sugar confectionery <b>Description:</b> Sugars and sugar confectionery.
18	<b>Name:</b> Cocoa and cocoa preparations <b>Description:</b> Cocoa and cocoa preparations.
19	<b>Name:</b> Cereal, flour, starch, milk preparations and products <b>Description:</b> Prep. of cereal, flour, starch/milk; pastry cooks' prod
20	<b>Name:</b> Vegetable, fruit, nut, etc. food preparations <b>Description:</b> Prep of vegetable, fruit, nuts or other parts of plants
21	<b>Name:</b> Miscellaneous edible preparations <b>Description:</b> Miscellaneous edible preparations.
22	<b>Name:</b> Beverages, spirits and vinegar <b>Description:</b> Beverages, spirits and vinegar.
23	<b>Name:</b> Residues, wastes of food industry, animal fodder

HS Code	Description
	<b>Description:</b> Residues & waste from the food indust; prep. ani fodder
24	<b>Name:</b> Tobacco and manufactured tobacco substitutes
	<b>Description:</b> Tobacco and manufactured tobacco substitutes
25	<b>Name:</b> Salt, sulphur, earth, stone, plaster, lime and cement
	<b>Description:</b> Salt; sulphur; earth & stone; plastering mat; lime & cem
26	<b>Name:</b> Ores, slag and ash
	<b>Description:</b> Ores, slag and ash.
27	<b>Name:</b> Mineral fuels, oils, distillation products, etc.
	<b>Description:</b> Mineral fuels, oils & product of their distillation, etc.
28	<b>Name:</b> Inorganic chemicals, precious metal compound, isotopes
	<b>Description:</b> Inorgn chem; compds of prec mtl, radioact elements, etc.
29	<b>Name:</b> Organic chemicals
	<b>Description:</b> Organic chemicals.
30	<b>Name:</b> Pharmaceutical products
	<b>Description:</b> Pharmaceutical products.
31	<b>Name:</b> Fertilisers
	<b>Description:</b> Fertilisers.
32	<b>Name:</b> Tanning, dyeing extracts, tannins, derivs, pigments, etc.
	<b>Description:</b> Tanning/dyeing extract; tannins & derivs, pigm, etc.
33	<b>Name:</b> Essential oils, perfumes, cosmetics, toiletries
	<b>Description:</b> Essential oils & resinoids; perf, cosmetic/toilet prep
34	<b>Name:</b> Soaps, lubricants, waxes, candles, modelling pastes
	<b>Description:</b> Soap, organic surface-active agents, washing prep, etc.
35	<b>Name:</b> Albuminoids, modified starches, glues, enzymes
	<b>Description:</b> Albuminoidal subs; modified starches; glues; enzymes.
36	<b>Name:</b> Explosives, pyrotechnics, matches, pyrophorics, etc.
	<b>Description:</b> Explosives; pyrotechnic prod; matches; pyrop alloy, etc.
37	<b>Name:</b> Photographic or cinematographic goods
	<b>Description:</b> Photographic or cinematographic goods.
38	<b>Name:</b> Miscellaneous chemical products
	<b>Description:</b> Miscellaneous chemical products.
39	<b>Name:</b> Plastics and articles thereof
	<b>Description:</b> Plastics and articles thereof.
40	<b>Name:</b> Rubber and articles thereof
	<b>Description:</b> Rubber and articles thereof.
41	<b>Name:</b> Raw hides and skins (other than fur skins) and leather
	<b>Description:</b> Raw hides and skins (other than fur skins) and leather.
42	<b>Name:</b> Articles of leather, animal gut, harness, travel goods
	<b>Description:</b> Articles of leather; saddlery/harness; travel goods, etc.
43	<b>Name:</b> Fur skins and artificial fur, manufactures thereof
	<b>Description:</b> Fur skins and artificial fur; manufactures thereof.
44	<b>Name:</b> Wood and articles of wood, wood charcoal
	<b>Description:</b> Wood and articles of wood; wood charcoal.
45	<b>Name:</b> Cork and articles of cork
	<b>Description:</b> Cork and articles of cork.
46	<b>Name:</b> Manufactures of plaiting material, basketwork, etc.
	<b>Description:</b> Manufactures of straw, esparto/other plaiting mat, etc.

HS Code	Description
47	<b>Name:</b> Pulp of wood, fibrous cellulosic material, waste, etc.
	<b>Description:</b> Pulp of wood/of other fibrous cellulosic mat, waste, etc.
48	<b>Name:</b> Paper & paperboard, articles of pulp, paper and board
	<b>Description:</b> Paper & paperboard; art of paper pulp, paper/paperboard
49	<b>Name:</b> Printed books, newspapers, pictures, etc.
	<b>Description:</b> Printed books, newspapers, pictures & other products, etc.
50	<b>Name:</b> Silk
	<b>Description:</b> Silk.
51	<b>Name:</b> Wool, animal hair, horsehair yarn and fabric thereof
	<b>Description:</b> Wool, fine/coarse animal hair, horsehair yarn & fabric
52	<b>Name:</b> Cotton
	<b>Description:</b> Cotton.
53	<b>Name:</b> Vegetable textile fibres nes, paper yarn, woven fabric
	<b>Description:</b> Other vegetable textile fibres; paper yarn & woven fab
54	<b>Name:</b> Manmade filaments
	<b>Description:</b> Manmade filaments.
55	<b>Name:</b> Manmade staple fibres
	<b>Description:</b> Manmade staple fibres.
56	<b>Name:</b> Wadding, felt, nonwovens, yarns, twine, cordage, etc.
	<b>Description:</b> Wadding, felt & nonwoven; yarns; twine, cordage, etc.
57	<b>Name:</b> Carpets and other textile floor coverings
	<b>Description:</b> Carpets and other textile floor coverings.
58	<b>Name:</b> Special woven or tufted fabric, lace, tapestry, etc.
	<b>Description:</b> Special woven fab; tufted tex fab; lace; tapestries, etc.
59	<b>Name:</b> Impregnated, coated or laminated textile fabric
	<b>Description:</b> Impregnated, coated, cover/laminated textile fabric, etc.
60	<b>Name:</b> Knitted or crocheted fabric
	<b>Description:</b> Knitted or crocheted fabrics
61	<b>Name:</b> Articles of apparel, accessories, knit or crochet
	<b>Description:</b> Art of apparel & clothing accessories knitted or crocheted.
62	<b>Name:</b> Articles of apparel, accessories, not knit or crochet
	<b>Description:</b> Art of apparel & clothing access, not knitted/crocheted
63	<b>Name:</b> Other made textile articles, sets, worn clothing, etc.
	<b>Description:</b> Other made up textile articles; sets; worn clothing, etc.
64	<b>Name:</b> Footwear, gaiters and the like, parts thereof
	<b>Description:</b> Footwear, gaiters and the like; parts of such articles.
65	<b>Name:</b> Headgear and parts thereof
	<b>Description:</b> Headgear and parts thereof.
66	<b>Name:</b> Umbrellas, walking-sticks, seat-sticks, whips, etc.
	<b>Description:</b> Umbrellas, walking-sticks, seat-sticks, whips, etc.
67	<b>Name:</b> Bird skin, feathers, artificial flowers, human hair
	<b>Description:</b> Prep. feathers & down; arti flower; articles human hair
68	<b>Name:</b> Stone, plaster, cement, asbestos, mica, etc., articles
	<b>Description:</b> Art of stone, plaster, cement, asbestos, mica/sim mat
69	<b>Name:</b> Ceramic products
	<b>Description:</b> Ceramic products.
70	<b>Name:</b> Glass and glassware



HS Code	Description
	<b>Description:</b> Glass and glassware.
71	<b>Name:</b> Pearls, precious stones, metals, coins, etc.
	<b>Description:</b> Natural/cultured pearls, prec stones & metals, coins, etc.
72	<b>Name:</b> Iron and steel
	<b>Description:</b> Iron and steel.
73	<b>Name:</b> Articles of iron or steel
	<b>Description:</b> Articles of iron or steel.
74	<b>Name:</b> Copper and articles thereof
	<b>Description:</b> Copper and articles thereof.
75	<b>Name:</b> Nickel and articles thereof
	<b>Description:</b> Nickel and articles thereof.
76	<b>Name:</b> Aluminium and articles thereof
	<b>Description:</b> Aluminium and articles thereof.
78	<b>Name:</b> Lead and articles thereof
	<b>Description:</b> Lead and articles thereof.
79	<b>Name:</b> Zinc and articles thereof
	<b>Description:</b> Zinc and articles thereof.
80	<b>Name:</b> Tin and articles thereof
	<b>Description:</b> Tin and articles thereof.
81	<b>Name:</b> Other base metals, cermets, articles thereof
	<b>Description:</b> Other base metals; cermets; articles thereof.
82	<b>Name:</b> Tools, implements, cutlery, etc., of base metal
	<b>Description:</b> Tool, implement, cutlery, spoon & fork, of base mtl, etc.
83	<b>Name:</b> Miscellaneous articles of base metal
	<b>Description:</b> Miscellaneous articles of base metal.
84	<b>Name:</b> Nuclear reactors, boilers, machinery, etc.
	<b>Description:</b> Nuclear reactors, boilers, mchy & mech appliance; parts
85	<b>Name:</b> Electrical, electronic equipment
	<b>Description:</b> Electrical mchy equip parts thereof; sound recorder, etc.
86	<b>Name:</b> Railway, tramway locomotives, rolling stock, equipment
	<b>Description:</b> Railw/tramw locom, rolling-stock & parts thereof; etc.
87	<b>Name:</b> Vehicles other than railway, tramway
	<b>Description:</b> Vehicles o/t railw/tramw roll-stock, pts & accessories
88	<b>Name:</b> Aircraft, spacecraft, and parts thereof
	<b>Description:</b> Aircraft, spacecraft, and parts thereof.
89	<b>Name:</b> Ships, boats and other floating structures
	<b>Description:</b> Ships, boats and floating structures.
90	<b>Name:</b> Optical, photo, technical, medical, etc. apparatus
	<b>Description:</b> Optical, photo, cine, meas, checking, precision, etc.
91	<b>Name:</b> Clocks and watches and parts thereof
	<b>Description:</b> Clocks and watches and parts thereof.
92	<b>Name:</b> Musical instruments, parts and accessories
	<b>Description:</b> Musical instruments; parts and access of such articles
93	<b>Name:</b> Arms and ammunition, parts and accessories thereof
	<b>Description:</b> Arms and ammunition; parts and accessories thereof.
94	<b>Name:</b> Furniture, lighting, signs, prefabricated buildings
	<b>Description:</b> Furniture; bedding, mattress, matt support, cushion, etc.

HS Code	Description
95	<b>Name:</b> Toys, games, sports requisites
	<b>Description:</b> Toys, games & sports requisites; parts & access thereof
96	<b>Name:</b> Miscellaneous manufactured articles
	<b>Description:</b> Miscellaneous manufactured articles.
97	<b>Name:</b> Works of art, collectors pieces and antiques
	<b>Description:</b> Works of art, collectors' pieces and antiques.
99	<b>Name:</b> Commodities not elsewhere specified
	<b>Description:</b> Commodities not elsewhere specified

\*\*\*



**Delhi Policy Group**  
Core 5A, 1st Floor,  
India Habitat Centre, Lodhi Road  
New Delhi - 110003  
India

[www.delhipolicygroup.org](http://www.delhipolicygroup.org)