India-United Kingdom Bilateral Relations: Trends, Opportunities and Way Ahead

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INDIA-UNITED KINGDOM BILATERAL RELATIONS: TRENDS, OPPORTUNITIES AND WAY AHEAD

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Research & Analysis Group

Mr. David Sinate, Chief General Manager

Ms. Sara Joy, Chief Manager

Ms. Alfiya Ansari, Management Trainee

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EXECUTIVE SUMMARY

With a gross domestic product (GDP) of US$ 2.7 trillion in 2020 and a population of over 67 million, the UK is the fifth largest economy in terms of nominal GDP. The economy of the UK is quite diversified, with services sector accounting for 80% of the GDP value added and around 82% of employment, while manufacturing sector accounted for 9.6% of economic output and 7.3% of jobs in 2020.

As of January 1, 2021, the UK finished its transition period out of the EU single market and customs union, commonly referred as Brexit. The impact of Brexit on the economy, however, has been surpassed by the impact of COVID-19 pandemic. The UK was one of the hardest hit economies globally by the COVID-19 pandemic in 2020, due to its high incidence of infections and death rate. In 2020, Brexit and the pandemic collectively brought about an almost 10% decline in the UK's GDP, the second largest contraction among the OECD countries. However, with the lifting of pandemic related restrictions, the economy of the UK is expected to recover, growing by 6.8% in 2021 and 5% in 2022, with GDP returning to its pre-pandemic level.

International Trade and Investment of the UK

The UK is a major global trading nation. It is currently the 12th largest global exporter, falling by two places compared to 2019, and accounting for 2.3% of global exports in 2020. The importance of the UK in global trade is even more significant in the case of imports; the country is the 5th largest global importer, accounting for 3.6% of global imports in 2020. Similarly, the UK is a major services trading nation. The UK is the world's 2nd largest services exporter, accounting for 6.9% of global services export in 2020 and is also the 6th largest services importer globally, accounting for 4.4% of total global services imports. Services exports account for 46% of total exports (merchandise + services) of the country in 2020.

Merchandise Trade

Total merchandise trade of the UK has risen significantly from US$ 638 billion in 2001 to US$ 1049.6 billion in 2010, reflecting the rise in both exports and imports. However, the trade of the UK thereafter remained stagnated witnessing moderations over the years, with trade recording US$ 1,029.9 billion in 2020. The UK has had a persistent trade deficit in the past decade, which has risen from US$ 205.6 billion in 2010 to US$ 238.5 billion in 2020.

Exports: Exports of the UK have moderated from US$ 422.0 billion in 2010 to US$ 395.7 billion in 2020. Machinery and mechanical appliances accounted for 15.3% of the UK's total exports in 2020, followed by pearls and precious metals (10.8%), motor vehicles (9.2%), and mineral fuels and mineral oils (6.7%), among others.

The US remains the largest single export destination of the UK, accounting for 14.1% of total global exports of the UK in 2020, followed by Germany (10.5% of the total exports), Ireland (7%), Netherlands (6.4%), France (6.0%), and China (4.7%).

Imports: Imports of the UK have witnessed a marginal rise from US$ 627.6 billion to US$ 634.2 billion during 2010-20. Pearls, precious or semi-precious stones and metals; primarily gold are the largest items in the UK's import basket, accounting for around 17% of total imports in 2020, followed by machinery (11.2%), vehicles (9.2%), electrical and electronic equipment (8.9%), mineral fuel (5.3%), and pharmaceutical products (4.1%), among others.

Germany remained the largest single import source of the UK till 2019, however, China replaced Germany to become the UK's major import source (11.9% of the total imports) in 2020. Germany is now the second largest import supplier (11.7%), followed by the US (9.2%), Netherlands (7.3%), France (4.7%), and Belgium (4.5%), among others.

Services Trade

The UK is a services-oriented economy, with the total trade in services widening from US$ 480 billion in 2010 to US$ 682.8 billion in 2019, moderated thereafter to US$ 547.2 billion in 2020. The UK is second only to the US in global service exports. Services exports of the UK was recorded at US$ 342.4 billion in 2020, while services imports of the UK stood at US$ 204.7 billion. The UK has a favourable services trade balance, with the services surplus widening from US$ 99.3 billion in 2010 to US$ 137.7 billion in 2020.

Exports: Financial services continued to be the single largest service product exported from the UK, followed by professional and management consulting services and technical, trade-related, and other business services. These three sectors together account for 56.4% of total services exports of the UK in 2020. The US is the single largest services export destination with the share of 27.2% of the UK's global services exports in 2020, followed by Germany (6.3%), Netherlands (5.4%), Ireland (5%), and France (4.9%).

Imports: Technical, trade-related, and other business services, professional and management consulting services, and travel remained the major services import categories of the UK. These three sectors together accounted for around half of total services imports by the UK in 2020. The US, with a share of 24.9% is the single largest services import source of the UK in 2020, followed by France (6.6%), Germany (5.7%), Ireland (4.8%), and Spain (4.3%).

Foreign Direct Investment

According to UNCTADStat, FDI inflows into the UK increased from US$ 58.2 billion in 2010 to a record US$ 258.7 billion in 2016, supported by pickup in inward mergers and acquisitions activity, however, witnessed moderation thereafter with foreign firms delaying their investment decisions amid Brexit-related uncertainties. FDI into the UK more than halved in 2020 to reach US$ 19.7 billion from US$ 45.5 billion in 2019 mainly due to divestments arising from ongoing concerns about Brexit as well as the pandemic.

Inward Direct Investments into the UK: According to the Financial Times' fDi Markets, envisaged cumulative capital investment in the UK during the period 2010-2020 stood at US$ 416.8 billion,

from a total of 13,673 FDI projects and creating 805,036 jobs in the country. During 2010-2020, renewable energy was the major recipient of capital investment, with an investment of US$ 102.9 billion, followed by real estate, and coal, oil and gas sectors. The US is the largest investor in the UK during the period 2010-2020, contributing 24.5% of total FDI into the UK. The other major investors were Japan (13.4% of total inward FDI received by the UK), followed by Germany (11.8%), France (7.1%), and Norway (5.2%).

Outward Direct Investments from the UK: According to fDi Markets database, cumulative capital investment for an aggregate 16,576 projects from the UK stood at US$ 506.7 billion during 2010-2020, creating 1.5 million jobs in FDI destination countries. In terms of sectors, coal, oil & gas sector received maximum investment at US$ 57.9 billion, with a share of 11.4% in total outward investment from the UK during the period 2010-2020, followed by metals (9.6% share), communications (8.7%), financial services (8.5%), real estate (7.2%), and business services (6.3%). The major destinations of the UK's outward investment during 2010-2020 include the US (15.5% of total value of outward investment by the UK), India (7.4%), China (7.0%), Australia (5.4%), Brazil (3.3%), and Spain (3.0%).

Brexit and Beyond

The term Brexit is a portmanteau of "British Exit" and is used to refer to the British referendum took place on June 23, 2016, to exit the UK from the European Union (EU) by applying Article 50 of the Treaty on the EU. A major reason behind such moves and finally the Brexit vote is believed to be the Britons aim for a 'Global Britain'. The Britons strongly desired that decisions pertaining to the UK shall be taken by the country itself. The Eurosceptic Britons were also disappointed with the measures taken by the EU to tackle the Global Financial Crisis of 2008 due to which the UK faced several difficulties. Another reason behind the exit was that it offered the best chance for the UK to regain its control over immigration and own borders. Moreover, the Britons were against the idea of the EU standardizing everything. The Brexit supporters also felt that there was an ever-increasing fiscal burden on the UK due to its membership in the EU. In 2019, the UK made an estimated gross contribution (after the rebate) of £14.4 billion to the EU. The UK received £5.0 billion of public sector receipts from the EU, so the UK's net public sector contribution to the EU was an estimated £9.4 billion.

After Brexit, the EU and the UK have signed the EU-UK Trade and Cooperation Agreement (TCA) on December 30, 2020. The TCA consists of a Free Trade Agreement, a close partnership on citizens' security and an overarching governance framework. The TCA includes preferential arrangements in areas such as trade in goods and services, digital trade, intellectual property, public procurement, aviation and road transport, fisheries, energy, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation and participation in Union programmes and establishes a new institutional framework for the operation and enforcement of the agreement. The FTA provides for zero tariffs and zero quotas on all goods traded that comply with the appropriate rules of origin.To give maximum legal certainty to businesses, consumers and citizens, the TCA establishes a Joint Partnership Council, to address issues relating to the implementation, application, and interpretation of the Agreement. However, the TCA did not include any decisions related to the financial services, the adequacy of the UK data protection regime, or the assessment of the UK's sanitary and phytosanitary regime. Issues inter alia share of fishing quota in the UK waters, future

governance of the deal, lack of deal in the financial sectors, problem of re-exports and emergence of non-tariff barriers constitute major points of contention in the Brexit deal.

Bilateral Trade and Investment Relations between India and the UK

The UK and India currently face an important opportunity to deepen the bilateral trade and investment relationship. The India-UK trade has grown steadily over the years. In 2020, the UK was the 14th largest trading partner for India. The total trade between India and the UK amounted to US$ 12.5 billion in 2020, increasing from US$ 11.6 billion in 2010. Also, with exports to the UK growing considerably faster than imports from the country, India has consistently maintained a merchandise trade surplus with the UK since 2004, which stood at US$ 3.1 billion in 2020.

Exports: Overall, India's exports to the UK rose from US$ 6.4 billion in 2010 to US$ 7.8 billion in 2020. In 2020, the principal item of India's export to the UK from India was machinery and mechanical appliances (8.4% share in India's exports to the UK), followed by article of apparel and clothing accessories, knitted, or crocheted (7.6%), pharmaceuticals products (7.3%), article of apparel and clothing accessories, not knitted or crocheted (6.9%), pearls, precious stones, and metals (6.8%), electrical machinery and equipment (5.8%), and mineral fuels and oils (3.4%).

Imports: On the other hand, India's imports from the UK have decreased from around US$ 5.2 billion in 2010 to US$ 4.7 billion in 2020. In product terms, pearls, precious stones and metals, and machinery and mechanical appliances, dominate India's import basket from the UK, together accounting for as much as 36% of India's total imports from the UK. Other important import products include electrical machinery and equipment (8.3% of India's total imports from the UK), optical, photographic, cinematographic apparatus (5.9%), iron and steel (4.8%), inorganic chemicals (4.7%), ships, boats, and floating structures (4.5%), and aluminium and articles (4.5%).

India-UK Service Trade Relations

India holds strong services trade relation with the UK, which is near equal to the merchandise trade. India is 10th largest service trade partner to the UK - 20th largest export destination, with a 1.3% share in the UK's global services exports and the 7th largest import supplier, with a 3.5% share in the UK's global services imports in 2020. The UK's total services trade with India increased from US$ 9.4 billion in 2010 to US$ 11.5 billion in 2020.

Exports: The services exports of the UK to India have increased steadily over the last decade, from US$ 3.3 billion in 2010 to US$ 4.3 billion in 2020. With a share of 59.1%, other business services accounts for the largest share in the UK's total services exports to India in 2020. Other major services exports include travel (11.2%), financial services (6%), transport (5.9%), telecommunication, computer, and information services (5.3%), insurance and pension services (3.6%), and charges for the use of intellectual property (3.3%), among others.

Imports: During 2010-2020, the total services imports from India have increased from US$ 6 billion to US$ 7.3 billion. Other business services account for almost three-fourth of the UK's services imports

from India. Other major services imports of the UK from India include telecommunications, computers, and information services (12.8%), travel (5.2%), transport (4.1%), and financial services (1.7%).

India's Bilateral Investment with the UK

The UK has always remained a preferred investment destination for Indian investors and the trend continues despite Brexit. According to Financial Times' fDi Markets, during 2010-2020, capital investment of India in the UK stood at a cumulative amount of US$ 12.3 billion, invested in 405 projects by 267 Indian companies, resulting in creating 39,307 jobs. In terms of capital investments, the largest share has been in the automotive OEM sector (37% of Indian investments to the UK), real estate (13.8%), automotive components (12.9%), software and IT services (6.6%), coal, oil and gas (6.5%), metals (4.8%), business services (4.2%), and hotel and tourism (3.1%).

On the other hand, the UK is currently the 6th largest FDI investor in India. According to Financial Times' fDi Markets, during 2010-2020 investment from the UK to India stood at a cumulative amount of US$ 37.7 billion, invested in 731 projects by 468 British companies and creating 174,247 jobs. While in terms of investments, the larger share has been in the sectors of metals (14.1%), renewable energy (11.4%), electronic components (10.9%), coal, oil, and gas (9.2%), and communications (8.1%), during 2010-2020.

Aligning India's Exports with the UK

The ongoing talks for FTA between the countries have set the stage for enhancing future bilateral partnership. However, an FTA will only be beneficial if there exists complementarity between the export supply of one country and the import demand of the other country. During the period 2010-2020, the complementarity index for Indian exports to the UK's imports ranges from 59.5 to 67.7, while the complementarity index for the UK's exports to India's imports ranges from 53.4 to 60.6. The indicates a substantial complementarity in India's exports and the UK's imports and vice versa.

Further, using the revealed comparative advantage analysis, India's exports to the UK has been classified into 4 groups based upon its competitiveness.

Product Champions: Out of the 732 items at the HS 6-digit level, 362 items fell into the category of the product champions (PCs). The combined exports of these items from India to the UK were US$ 4.04 billion in 2019, representing approximately 45.9% of India's exports to the UK in 2019. Major product champions include turbojets, articles of jewellery, women's or girls' dresses of synthetic fibres, sandstone, and parts of machinery, among others.

Winners in Declining Sectors: The total number of products in winners in declining sectors category is 224, with India's exports amounting to US$ 3.1 billion and constituting a share of 35.2% of India's exports to the UK in 2019. These are the product items in which India has attained a significant share in the UK's import basket, but the UK's import demand for these products has been falling in the last decade. Top items include medicaments, footwear with outer soles of rubber, babies' garments and clothing accessories of cotton, t-shirts, singlets and other vests of cotton, among others.

Underachievers: There exist 106 items in this category with India's exports worth US$ 579.7 million to the UK. These products constitute a minimal share of 6.6% in India's total exports to the UK. These are the product items in which import demand in the UK market is rising, but India does not have the required competitiveness in the export of these items. These include motor cars, medium oils and preparations, telephones for cellular networks, bread, pastry, cakes, biscuits, and structures and parts of structures of iron or steel, among others.

Lagging in Declining Sectors: The high range of exports under the category of lagging in declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the UK market, whilst India's exports also hold a comparative advantage in them. The sectors such as machinery and electrical equipment, apparels and pearls and precious stones are the top sectors holding the largest share in the product champion sectors of India to the UK. While in the long run, India needs to develop capabilities in the export of items in the underachievers category as import demand for these products in the UK market is rising, but India does not have the required competitiveness in the export of these items.

India's Potential Free Trade Agreement with the UK: An Analysis

The study uses the Single Market Partial Equilibrium Simulation Tool under the WITS-SMART Simulations Framework to understand the trade effect of an FTA between India and the UK. This will disintegrate the impact of fall in the prices and the subsequent changes in the tariff revenue of both the countries due to tariff cuts on their imports.

Tariff Liberalisation by India on Imports from the UK

Trade Effect: According to the SMART framework analysis under the given conditions and inputs, tariff liberalisation will lead to a total trade effect of US$ 2.3 billion, implying that under free trade agreement, India's imports from the UK will increase by US$ 2.3 billion. In the total trade effect, total trade creation will constitute US$ 1.9 billion and total trade diversion will be US$ 369.4 million. Moreover, at 2-digit HS code, post tariff liberalisation, it is derived that 44.7% of the total trade effect is accounted for by vehicles other than railway or tramway (HS-87), followed by beverage, spirits, and vinegar (HS-22; 17.9%); pearls, precious stones and metals (HS-71; 10.6%); ships, boat and floating structure (HS-89; 4.9%); and machinery and mechanical appliances (HS-84; 4.9%). Together, these 5 products amount to 83% of the total trade effect after tariff liberalization.

Revenue Effect: In case of tariff liberalisation by India on the UK's exports, the overall change in the revenue will account for a loss of US$ 385.7 million. At 2-digit HS Code level, the major tariff revenue loss by India will be on the beverages, spirits, and vinegar (HS-22) amounting to US$ 314.1 million, followed by pearls, precious stones, and metals (HS-71), and machinery and mechanical appliances (HS-84), among others. Similarly, India will gain in terms of tariff revenue in vehicles other than

railway or tramway (HS-87) amounting to US$ 100 million, followed by ships, boats, and floating structures (HS 89), and carpets and other textile floor coverings (HS-57), among others.

Welfare Effect: The results of the simulation model project a welfare effect of about US$ 1 billion to Indian consumers, i.e., additional consumption possible by Indian consumers due to the FTA with the UK. At 2-digit HS code level, among different products, highest welfare is accounted for by vehicles other than railway or tramway (HS-87), beverages, spirits, and vinegar (HS-22), and pearls precious stones and metals (HS-71).

Tariff Liberalisation by the UK on Imports from India

Trade Effect: According to the output generated by the SMART framework under the given conditions and inputs, tariff liberalisation by the UK on imports from India would result in a total trade effect of US$ 245.1 million, implying that under the preferential agreement, the UK's imports from India will increase by US$ 245.1 million. In the total trade effect, total trade creation would constitute US$ 116.8 million. Total trade diversion will be of US$ 128.3 million. At 2-digit HS code, post tariff liberalisation, it can be analysed that 27.1% of the total trade effect is accounted for by articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62; 23.2%), other made-up textile articles; sets and worn clothing (HS-63; 7.4%), footwear, gaiters and its parts (HS-64; 5%); and fish and crustaceans (HS-03; 4.4%). Together, these 5 products constitute 67% of the total trade effect after tariff liberalization.

Revenue Effect: In case of tariff liberalisation by the UK on its imports from India, the overall change in the revenue will account for a loss of US$ 110.5 million. At 2-digit HS Code level, the major tariff revenue loss by the UK will be on articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62), other made-up textile articles and sets, worn clothing (HS-63); footwear, gaiters, and its parts (HS-64); and fish and crustaceans (HS-03).

Welfare Effect: The results of the simulation model project a welfare effect to the consumers in the UK i.e., additional consumption possible by the UK consumers due to the FTA with India. At 2-digit HS code level, among different products, highest welfare would be in articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62); and other made-up textile articles, sets and worn clothing (HS-63), among others.

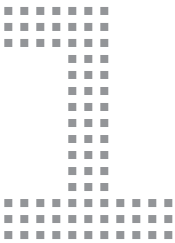
Thus, in case of free trade agreement between India and the UK, both countries will benefit from the additional demand generated for each other's goods and taking advantage of lower tariff, resulting in enhanced trade between the countries.

Policy Recommendations to Enhance India-UK Partnership

Post-Brexit, India and the UK has witnessed a new dynamism in its bilateral relationship, with the two countries signing the Enhanced Trade Partnership (ETP) in February 2021. In the post-Brexit environment, India and the UK needs to build on its solid trade and historical relationship to take the trade and investment to newer heights. A few policy catalysts that could help boost bilateral

cooperation could include (i) expansion of trade based on identified commodities which hold export potential for India, (ii) focusing on negative list instead of positive list of products while signing FTA, as also considering the concessions that the UK has made under its FTA with India's competitors in the UK market, (iii) focusing on reducing the non-tariff barriers, (iv) moving up the value chain by ensuring that raw materials have lower duties except for any sensitive items, (v) enhanced cooperation for allowing temporary movement of people for the supply of services, (vi) promoting collaboration in digital technology, (vii) promoting investments from the UK through a liberal foreign investment policy through which foreign services supplier can easily establish operations in India and collaborate with Indian companies, (viii) improving logistical infrastructure, (ix) promoting equal exchange, (x) stimulating investments from companies involved in advanced manufacturing which would further support India's aim to localize the manufacturing, and (xi) collaboration in various sectors including green energy industry, education sector, smart cities, fintech and waste management, among others.

CHAPTER



The UK: Economic Overview

The United Kingdom (UK) is one of the leading global business locations in the world. It has one of the world's most efficient business and investment environments. It also has one of the world's best-developed financial industries and is one of the world's largest fund-management centres. London is currently one of the two leading global financial centres (together with New York) and has the largest share of many international markets.

The economy of the UK is undergoing a major realignment with its decision to leave the European Union (EU), as well as dealing with the COVID-19 pandemic. The UK officially left the EU in January 2020, following a referendum in June 2016, followed by a transition period of eleven months during which the UK and the EU negotiated their future relationship. The UK left all the EU institutions and the rules governing the new relationship between the EU and the UK took effect on January 1, 2021, making the country a newly independent trading nation for the first time in nearly half a century.

With a gross domestic product (GDP) of US$ 2.7 trillion in 2020 and a population of over 67 million, the UK is the fifth largest economy in terms of nominal GDP after the US, China, Japan, and Germany. The UK is one of the most globalised economies, and comprises England, Scotland, Wales, and Northern Ireland. It is also one of the leading trading nations, accounting for a significant share in global trade. The currency of the UK, the pound sterling, is the world's fourth-largest reserve currency after the US dollar, the Euro, and the Japanese yen, and is also one of the 10 most-valued currencies in the world. The economy of the UK is quite diversified, with services sector accounting for 80% of the GDP value added and around 82% of employment, while manufacturing sector accounted for 9.6% of total economic output and 7.3% of jobs in 2020. Moreover, financial services sector of the UK was the ninth largest in the OECD in 2019 by its proportion of national economic output.

As of January 1, 2021, the UK finished its transition period out of the EU single market and customs union, commonly referred as Brexit. The impact of Brexit on the economy, however, has been surpassed by the impact of COVID-19. The Brexit and the pandemic related disruptions have led to inflation, particularly in energy, as well as goods and labour shortages in the country. Moreover, the UK was one of the hardest hit economies globally by the COVID-19 pandemic in 2020, due to its high incidence rate and death rate. In 2020, Brexit and COVID-19 collectively brought about an almost 10% decline in the UK's GDP, the second largest contraction among the OECD countries, after Spain **(Table 1.1)**. A major reason for this sharp decline is the UK's strong services-based economy, which was hit hard by pandemic induced restrictions.

Table 1.1: Macroeconomic Indicators of the UK

Indicator	2015	2016	2017	2018	2019	2020[e]	2021[e]	2022[f]
GDP, current prices (US$ bn)	2933.4	2703.2	2664.7	2861.0	2833.3	2709.7	3108.4	3442.2
Real GDP Growth (% change)	2.4	1.7	1.7	1.3	1.4	-9.8	6.8	5.0
GDP per capita, current prices (US$)	45053.5	41177.8	40349.9	43063.7	42416.6	40394.1	46200.3	50879.5
Inflation (avg, % change)	0.0	0.7	2.7	2.5	1.8	0.9	2.2	2.6
Population (mn)	65.1	65.6	66.0	66.4	66.8	67.1	67.3	67.7
Current account balance (US$ bn)	-147.4	-146.9	-100.4	-105.3	-87.6	-100.6	-104.6	-117.0
Current account balance (% of GDP)	-5.0	-5.4	-3.8	-3.7	-3.1	-3.7	-3.4	-3.4

Note : [e] - Estimates; [f] - forecast
Source: World Economic Outlook (WEO), IMF, October 2021

After its revival from the 2007-08 global financial crisis during 2010, the British economy further slowed down since the Brexit referendum in 2016. The UK's GDP growth moderated from 2.4% in 2015 to 1.3% in 2018, majorly due to subdued real consumer spending growth and business investment owing to the economic and political uncertainty relating to the outcome of the Brexit negotiations. As the economy started gaining some pace, the outbreak of the COVID-19 pandemic and its related lockdowns posed an unprecedented blow to the British economy. As a result, the situation worsened with GDP contracting by 9.8% in 2020, regarded to be the country's deepest recession since World War II. With the UK being a predominantly service-based economy, the pandemic and pandemic induced restrictions hit all the major services sectors such as trade, tourism, real estate, and hospitality.

With the lifting of pandemic related restrictions, the economy of the UK is expected to recover, growing by 6.8% in 2021 and 5% in 2022, with GDP returning to its pre-pandemic level. The more infectious Delta variant of the COVID, energy-price shocks and continued supply shortages have restrained domestic demand in 2021. Supply chain challenges, especially shortage of semiconductor chips and disruptions at container ports have been exacerbated by Brexit related uncertainties, leading to labour shortages in transport, construction, tourism and catering and hospitality sectors, thus constraining economic recovery.

Export and import growth turned negative in 2020 with decline in global demand and COVID 19 related travel restrictions. Brexit and the pandemic, along with supply-chain disruptions continued to disrupt the external sector in 2021. The reopening of the economy has led to a sharp rise in inflation in 2021, owing to increased consumer spending and supply-chain disruptions in the domestic and global markets. Due to the UK's over-reliance on natural gas imports, the significant increase in gas prices in 2021 has driven up electricity prices in the country.

The UK has run a persistent current account deficit since 1985, which is expected to have widened in 2021. The value of pound sterling has been volatile in recent years owing to political uncertainties associated with Brexit and the existence of a large current-account deficit. However, pound sterling strengthened against the US dollar and the euro in late 2020 and early 2021 as the UK economy unlocked more rapidly and dissipation of Brexit related uncertainties. The country has a very low interest rate environment, with the current official bank rate being 0.1%. The COVID 19 pandemic has a considerable impact on the economy of the UK, which has made assessing the true impact of the Brexit on the UK challenging.

CHAPTER

2

Foreign Trade and Investment of the UK

The UK is a major global trading nation and is party to most major international agreements relating to trade and finance. It is currently the 12th largest global exporter, falling by two places compared to 2019, and accounting for 2.3% of global exports in 2020. The importance of the UK in global trade is even more significant in the case of imports; the country is the 5th largest global importer, accounting for 3.6% of global imports in 2020 **(Table 2.1)**. Similarly, the UK is a major services trading nation. It is the world's second largest services exporter, accounting for 6.9% of global services export in 2020. It is also the 6th largest services importer globally, accounting for 4.4% of total global services imports **(Table 2.2)**. Services exports account for 46% of total exports (merchandise + services) of the country in 2020.

Table 2.1: Leading Global Merchandise Exporters and Importers

(US$ billion)

Sl. No	Country	Major Exporters			Country	Major Importers		
		2010	2015	2020		2010	2015	2020
	Total	**15094.1**	**16412.91**	**17271.0**	**Total**	**15338.4**	**16566.8**	**17551.5**
1	China	1577.8	2281.9	2590.6	USA	1968.3	2315.9	2406.9
2	USA	1278.1	1503.3	1424.9	China	1396.0	1681.7	2055.6
3	Germany	1267.7	1323.7	1378.0	Germany	1060.7	1053.4	1171.6
4	Japan	769.8	625.0	641.0	Japan	694.1	648.4	634.7
5	Netherlands	492.6	464.7	551.8	UK	627.6	630.3	634.2
6	Hong Kong	400.7	510.6	551.5	Hong Kong	441.4	559.3	573.1
7	South Korea	466.4	526.9	512.8	France	599.2	563.2	569.3
8	Italy	446.8	457.0	496.0	Netherlands	440.0	412.6	485.5
9	France	511.7	495.4	476.1	South Korea	425.2	436.5	467.5
10	Belgium	407.4	396.9	419.5	Italy	487.0	410.9	422.6
11	Mexico	298.3	380.8	418.1	Canada	392.1	420.2	404.3
12	UK	422.0	466.3	395.7	Belgium	393.5	375.7	395.9
13	Canada	386.6	410.7	389.9	Mexico	301.5	395.2	383.3
14	Singapore	353.2	346.6	373.9	India	350.0	390.8	368.0
15	Taiwan	274.6	279.9	346.6	Spain	318.2	304.7	329.7

Source: ITC Trade Map and India Exim Bank Analysis

Table 2.2: Leading Global Services Exporters and Importers

(US$ billion)

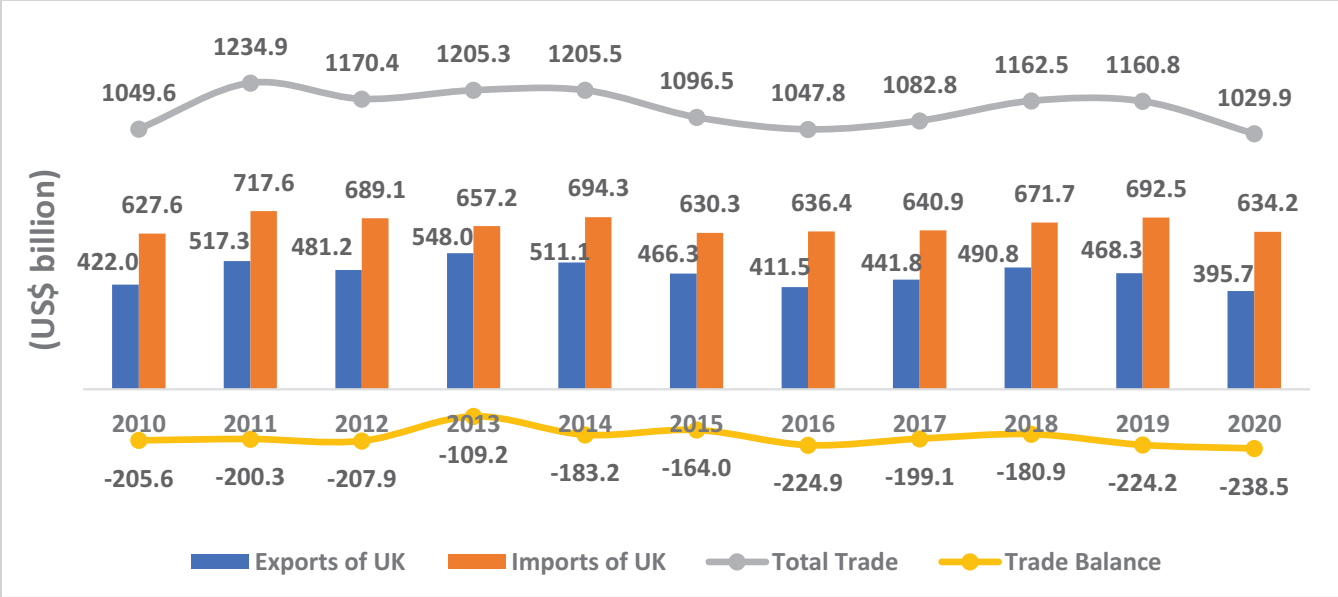
Sl. No	Country	Major Exporters			Country	Major Importers		
		2010	2015	2020		2010	2015	2020
	Total	**3971.2**	**4999.5**	**4984.2**	**Total**	**3874.4**	**4894.9**	**4680.8**
1	USA	582.0	768.7	705.6	USA	436.5	498.2	460.3
2	UK	289.6	369.2	342.4	China	193.4	435.5	381.1
3	Germany	225.2	280.7	310.7	Germany	263.5	302.0	308.8
4	China	178.3	218.6	280.6	Ireland	110.0	175.3	295.7
5	Ireland	92.1	133.4	262.7	France	181.8	233.4	231.7
6	France	202.3	255.7	245.6	UK	190.3	235.0	204.7
7	India	117.1	156.3	203.3	Japan	164.7	178.6	184.5
8	Singapore	100.4	153.2	187.6	Singapore	100.5	161.7	172.7
9	Netherlands	161.7	197.9	186.6	Netherlands	136.0	213.4	169.3
10	Japan	134.4	162.6	160.3	India	114.9	123.6	153.9
11	Belgium	98.4	109.0	116.1	Belgium	87.7	104.3	115.3
12	Switzerland, Liechtenstein	100.3	121.9	115.0	Switzerland, Liechtenstein	81.0	108.2	114.0
13	Luxembourg	62.8	92.6	110.8	South Korea	96.9	112.1	102.9
14	Spain	114.5	121.5	90.0	Italy	113.8	103.1	93.0
15	Italy	101.4	98.4	87.3	Canada	100.1	104.8	91.2

Source: UNCTADStat and India Exim Bank Analysis

Total merchandise trade of the UK has risen from US$ 638 billion in 2001 to US$ 1049.6 billion in 2010, reflecting the rise in both exports and imports. However, the trade of the UK thereafter remained stagnated witnessing moderations over the years, with trade recording US$ 1,029.9 billion in 2020. The UK has had a persistent trade deficit in the past two decades, which has risen from US$ 79.3 billion in 2001 to US$ 205.6 billion in 2010 and further to US$ 238.5 billion in 2020, due to the rapid growth in consumer spending which tends to increase the imports of the UK. This has been underlined by the rising trade deficit in sectors such as pearls and precious stones, electronics, vehicles, machinery, and apparels.

Exports have moderated from US$ 422.0 billion in 2010 to US$ 395.7 billion in 2020. Imports have witnessed a marginal rise from US$ 627.6 billion to US$ 634.2 billion during the same period **(Chart 2.1)**. In 2020 the trade of the UK was hit hard by the pandemic with a significant fall observed in both exports and imports.

Chart 2.1: International Merchandise Trade of the UK



Source: ITC Trade Map and India Exim Bank Analysis

Merchandise Exports of the UK: Commodity Analysis

The outbreak of the COVID-19 pandemic and related lockdowns posed an unprecedented blow to the British economy, thereby leading to a significant fall in both exports and imports. Except in 2013, machinery and mechanical appliances remained the major exported commodity of the UK in the last decade. The trend in the commodities exported by the UK is provided in **Table 2.3**. Machinery and mechanical appliances accounted for 15.3% of the UK's total exports in 2020, followed by pearls and precious metals (10.8%), motor vehicles (9.2%), and mineral fuels and mineral oils (6.7%). At a disaggregated level, the major exported items in 2020 include motor cars, gold, turbojets, medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, and crude petroleum.

The UK was the largest global exporter of turbojets and parts, brochures, and hard liquor (whiskies); second largest exporter of antiques and stainless-steel ingots; third largest exporter of railroad ties; fourth largest exporter of gold and the ninth largest exporter of motor cars in 2020. The UK's export commodities including defense products; inorganic chemicals; manufactures of straw, esparto, or other plaiting materials, basket ware and wickerwork; explosives and pyrotechnic products; products of animal origin; pearls, precious or semi-precious stones and metals; ships, boats and floating structure and fertilisers have shown a sharp rising trend, witnessing over 10% growth in its exports over the last five years.

Table 2.3: Major Merchandise Export Commodities of the UK

(US$ billion)

HS Code	Product	2010	2015	2019	2020	Share in 2020	Major Destinations of the Product in 2020
	All products	**422.0**	**466.3**	**468.3**	**395.7**	**100.0%**	**USA (14.1%), Germany (10.5%), Ireland (7%), Netherlands (6.4%), France (6%)**
84	Machinery and mechanical appliances	58.5	64.4	73.1	60.5	15.3%	USA (16.5%), Germany (8.8%), France (5.6%), Ireland (5.2%), Singapore (4.9%)
71	Pearls, precious or semi-precious stones and metals	30.1	55.1	42.5	42.9	10.8%	Switzerland (31.9%), Germany (10.3%), USA (10%), Hong Kong (8.8%), Canada (6.2%)
87	Vehicles other than railway or tramway and parts	37.9	50.7	50.5	36.4	9.2%	USA (19.4%), China (10.5%), Germany (8.8%), Belgium (6.4%), France (4.7%)
27	Mineral fuels, oil and products distillation	52.8	33.0	40.9	26.3	6.7%	Netherlands (37.2%), Germany (10%), China (8.5%), Ireland (7.9%), Belgium (5.5%)
85	Electrical machinery and equipment	32.0	29.1	28.4	25.0	6.3%	USA (13.9%), Germany (11.3%), Ireland (9%), France (6%), Netherlands (4.4%)
30	Pharmaceutical products	33.2	36.0	27.1	24.9	6.3%	USA (20.3%), Germany (12.2%), Belgium (8.1%), China (7.7%), Ireland (7%)
90	Optical, photographic, cinematographic, medical instruments	15.9	18.4	19.9	17.6	4.5%	USA (22.2%), Germany (11.6%), China (6.4%), France (4.7%), Netherlands (4.5%)
29	Organic chemicals	14.7	13.9	12.7	13.1	3.3%	USA (38.1%), Germany (14%), Ireland (8.8%), Netherlands (7.2%), Belgium (5.3%)
88	Aircraft, spacecraft, and parts	13.8	19.0	18.4	13.0	3.3%	France (24.4%), Germany (22.7%), USA (21.3%), Canada (4.7%), Norway (3.8%)

Source: ITC Trade Map and India Exim Bank Analysis

Merchandise Imports of the UK: Commodity Analysis

Pearls, precious or semi-precious stones and metals, primarily gold are the largest items in the UK's import basket, accounting for around 17% of total imports in 2020. This was followed by machinery, vehicles, electrical and electronic equipment, mineral fuel, and pharmaceutical products **(Table 2.4)**. Imports of pearls and precious stones have shown sharp rise since 2019, to emerge as the largest import items, emphasising London's role as a gold trading hub. The UK was the world's largest gold importing country in 2020. It was also the largest importer of unpackaged medicaments; second largest importer of platinum and preserved meat; third largest importer of beverages, spirits, and

vinegar (grape wine in particular), and the fourth largest exporter of self-propelled rail transport. Arms and ammunition; vegetable plaiting materials; other made-up textile articles; explosives and pyrotechnic products; gold; tobacco and manufactured tobacco substitutes; and miscellaneous chemical products witnessed over a 10% growth over the last five years.

Table 2.4: Major Merchandise Import Commodities of the UK

(US$ billion)

HS Code	Product	2010	2015	2019	2020	Share in 2020	Major Suppliers of the Product in 2020
	All products	**627.6**	**630.3**	**692.5**	**634.2**	**100.0%**	**China (11.9%), Germany (11.7%), USA (9.2%), Netherlands (7.3%), France (4.7%)**
71	Pearls, precious or semi-precious stones and metals	56.0	32.1	89.1	108.4	17.1%	Russia (17.9%), USA (14.1%), Hong Kong (11.9%), Canada (10.4%), Australia (7.6%)
84	Machinery and mechanical appliances	71.8	77.7	84.2	70.9	11.2%	China (18.7%), USA (17.8%), Germany (14.6%), Netherlands (8.4%), Italy (4.7%)
87	Vehicles other than railway or tramway and parts	60.2	78.1	74.8	58.1	9.2%	Germany (33.4%), Belgium (13.6%), Spain (8%), France (5.8%), Netherlands (5.6%)
85	Electrical machinery and equipment and parts	61.5	60.6	61.7	56.2	8.9%	China (29.9%), Netherlands (11.5%), Germany (9.2%), USA (6.5%), Vietnam (3.3%)
27	Mineral fuels, oils, and products of distillation	63.4	51.0	56.3	33.7	5.3%	Norway (32.7%), USA (16.3%), Russia (11.5%), Netherlands (5.9%), Belgium (3.7%)
30	Pharmaceutical products	23.6	33.7	28.0	26.1	4.1%	Netherlands (22.4%), Germany (15.1%), Belgium (11%), USA (10.1%), Ireland (8.7%)
90	Optical, photographic, cinematographic, medical instruments	15.5	18.4	19.1	19.1	3.0%	China (17.1%), Germany (15.1%), USA (13.8%), Netherlands (12.4%), Belgium (4.3%)
39	Plastics and articles	16.8	17.9	18.8	18.5	2.9%	Germany (18.3%), China (17.8%), Belgium (9.1%), Netherlands (8.2%), USA (6.7%)
62	Articles of apparel and clothing accessories, not knitted or crocheted	12.5	13.1	11.9	11.9	1.9%	China (36.1%), Bangladesh (9.9%), Italy (6.9%), Netherlands (5%), Turkey (4.4%)
61	Articles of apparel and clothing accessories, knitted or crocheted	12.7	13.4	13.0	11.1	1.7%	China (17.4%), Bangladesh (14.6%), Turkey (9.9%), Netherlands (8.3%), Italy (6.4%)

Source: ITC Trade Map and India Exim Bank Analysis

Export Destinations

The EU as a bloc remains the major export destination of the UK, followed by the US. However, the share of the UK's exports going to the rest of the EU moderated over the years from 52.3% in 2010 to 47.3% share in 2020. The share of emerging markets in the UK's imports have increased in the recent years, however, its share remains much lower than that of the EU and the US.

The US remains the largest single export destination of the UK, accounting for 14.1% of total global exports of the UK in 2020, followed by Germany, Ireland, Netherlands, and France **(Table 2.5)**. The UK's large exports to the geographically closer European countries is partially due to the Rotterdam/entrepôt effect, where part of the UK's exports to other partner countries are routed through large European ports such as Rotterdam and Antwerp. There has been increase in the share of emerging economies like China and Hong Kong in recent years.

Table 2.5: Major Merchandise Export Destinations of the UK

(US$ billion)

Country	2010	2015	2019	2020	Share in 2020	Major Exported Commodities
Total	**422.0**	**466.3**	**468.3**	**395.7**	**100%**	
USA	58.6	69.4	73.5	55.6	14.1%	Machinery, pearls and precious stones, vehicles, mineral fuels, and electronics
Germany	44.7	46.6	46.4	41.6	10.5%	Machinery, pearls and precious stones, vehicles, pharmaceuticals, and aircraft, spacecraft, and parts
Ireland	25.7	25.5	27.8	27.8	7.0%	Machinery, electronics, mineral fuels, pharmaceuticals, and vehicles
Netherlands	32.1	26.5	30.4	25.3	6.4%	Mineral fuels, machinery, vehicles, pharmaceuticals, and electronics
France	31.6	27.3	31.4	23.9	6.0%	Machinery, aircraft, spacecraft and parts, vehicles, electronics, and pharmaceuticals
China	11.3	27.6	30.2	18.5	4.7%	Vehicles, mineral fuels, machinery, pearls and precious stones, pharmaceuticals
Switzerland	17.2	34.0	15.6	18.4	4.6%	Pearls and precious stones, organic chemicals, antiques, machinery, and vehicles
Belgium	20.2	17.7	16.5	13.7	3.5%	Vehicles, pharmaceuticals, mineral fuels, machinery, and organic chemicals
Spain	15.0	13.5	13.7	11.1	2.8%	Machinery, vehicles, pharmaceuticals, electronics and pearls and precious stones
Italy	13.7	12.9	12.7	11.0	2.8%	Vehicles, machinery, electronics, mineral fuels and pearls and precious stones

Source: ITC Trade Map and India Exim Bank Analysis

Import Partners of the UK

The EU remains the major import source of the UK, however, the share of the EU in the UK's imports is lower than that of its share in the UK's exports. Moreover, the share of the UK's imports going to the rest of the EU moderated from 47.7% in 2010 to 46.9% share in 2020.

Germany remained the largest single import supplier of the UK till 2019, however, China replaced Germany to become the UK's major import source in 2020 **(Table 2.6)**. The share of China in the UK's imports also increased from 9.5% in 2019 to 11.9% in 2020, whereas Germany's share in the UK's imports reduced from 12.4% to 11.7%. In fact, the share of the US, Netherlands and France in the UK's imports also reduced significantly from 2019 to 2020.

Table 2.6: Major Merchandise Import Sources of the UK

(US$ billion)

Country	2010	2015	2019	2020	Share in 2020	Major Imported Commodities
Total	**627.6**	**630.3**	**692.5**	**634.2**	**100%**	
China	61.7	63.0	65.5	75.5	11.9%	Pearls and precious stones, machinery, vehicles, electronics, and mineral fuels
Germany	76.6	94.3	85.7	74.4	11.7%	Vehicles, machinery, electronics, pearls and precious stones, and pharmaceuticals
USA	56.6	58.1	67.1	58.2	9.2%	Pearls and precious stones, machinery, mineral fuels, electronics, and pharmaceuticals
Netherlands	42.3	47.5	53.9	46.2	7.3%	Electronics, machinery, pharmaceuticals, vehicles, and medical and surgical instruments
France	37.2	38.7	38.9	30.1	4.7%	Vehicles, machinery, aircraft and parts, beverages, and electronics
Belgium	26.5	31.4	32.2	28.8	4.5%	Vehicles, pharmaceuticals, plastics, machinery and pearls and precious stones
Russia	9.4	6.7	14.1	24.5	3.9%	Pearls and precious stones, mineral fuels, wood and articles, inorganic chemicals, and marine products
Italy	22.2	25.1	26.3	23.7	3.7%	Machinery, vehicles, pharmaceuticals, beverages, and electronics
Spain	15.8	21.6	21.2	18.6	2.9%	Vehicles, edible vegetables, edible fruits, Pearls and precious stones and electronics
Ireland	20.4	19.2	17.6	17.4	2.7%	Pharmaceuticals, organic chemicals, meat and edible meat offal, machinery, and dairy produce

Source: ITC Trade Map and India Exim Bank Analysis

The UK's Trade Balance – Sectors and Trade Partners

The UK generally maintains a trade deficit, which has risen from US$ 205.6 billion in 2010 to touch US$ 238.5 billion in 2020 **(Table 2.7)**. Large trade deficits in major sectors such as pearls and precious stones, electrical and electronic equipment, vehicles, machinery, apparels, plastics, and mineral fuels have contributed to the overall large trade deficit for the country as a whole.

Table 2.7: Merchandise Trade Balance of the UK - Major Traded Items

(US$ billion)

HS Code	Product	2010	2015	2019	2020
	All products	**-205.6**	**-164.0**	**-224.2**	**-238.5**
71	Pearls, precious or semi-precious stones and metals	-25.9	23.0	-46.6	-65.5
85	Electrical machinery and equipment and parts	-29.5	-31.4	-33.4	-31.1
87	Vehicles other than railway or tramway, and parts and accessories	-22.2	-27.4	-24.3	-21.8
84	Machinery, mechanical appliances, and parts	-13.3	-13.3	-11.0	-10.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	-9.6	-8.4	-7.4	-8.1
39	Plastics and articles	-5.7	-6.1	-7.0	-7.7
61	Articles of apparel and clothing accessories, knitted or crocheted	-10.3	-9.8	-9.1	-7.5
27	Mineral fuels, mineral oils and products of distillation	-10.6	-18.0	-15.4	-7.3
94	Furniture, bedding, and similar stuffed furnishings	-7.2	-7.9	-7.6	-7.3
44	Wood and articles of wood	-4.8	-6.4	-6.8	-6.6
08	Edible fruit and nuts	-4.6	-5.9	-6.0	-6.1
63	Other made-up textile articles and sets	-1.5	-1.5	-1.5	-6.0
93	Arms, ammunition, parts, and accessories	-0.3	1.2	0.2	0.2
38	Miscellaneous chemical products	1.1	2.2	0.7	0.4
28	Inorganic chemicals	0.6	-0.9	-0.7	0.5
49	Printed books, newspapers, and other products of the printing industry	1.7	1.5	1.2	1.0
32	Tanning or dyeing extracts	0.9	0.8	1.0	1.0
72	Iron and steel	2.4	1.7	0.7	1.3
97	Works of art, collectors' pieces, and antiques	-0.2	2.9	9.2	1.3
89	Ships, boats and floating structures	-0.7	-0.2	0.7	1.6
29	Organic chemicals	-0.7	4.1	2.5	3.3
88	Aircraft, spacecraft, and parts	-7.0	3.1	7.6	5.0

Source: ITC Trade Map and India Exim Bank Analysis

As regards the UK's trade balance with major trading partners, the UK maintains largest trade surplus with Ireland, Switzerland, UAE, and Singapore **(Table 2.8).** The UK, on the hand, maintains the largest trade deficit with China, followed by Germany, Russia, and Netherlands.

Table 2.8: Merchandise Trade Balance of the UK - Major Trade Partners
(US$ billion)

Country	2010	2015	2019	2020
World	**-205.6**	**-164.0**	**-224.2**	**-238.5**
China	-50.4	-35.4	-35.4	-57.0
Germany	-31.9	-47.7	-39.3	-32.8
Russia	-4.1	-2.8	-10.7	-21.7
Netherlands	-10.2	-21.1	-23.5	-20.9
Belgium	-6.4	-13.7	-15.7	-15.2
Italy	-8.5	-12.2	-13.5	-12.7
Norway	-25.1	-13.9	-15.1	-8.3
Poland	-3.6	-6.9	-7.5	-8.0
Canada	-11.5	-4.8	-9.2	-7.5
Spain	-0.7	-8.1	-7.5	-7.4
Malta	0.4	0.3	1.6	0.6
Israel	-0.4	0.1	0.5	0.7
Gibraltar	0.6	0.7	0.6	0.7
Belarus	0.1	0.0	0.1	1.1
North Macedonia	0.3	0.8	1.4	1.2
Qatar	-1.8	0.0	1.3	2.1
Saudi Arabia	4.0	6.5	1.8	2.3
Singapore	0.5	4.5	4.7	3.1
UAE	5.0	9.1	8.1	4.5
Switzerland	4.1	23.8	-8.0	7.0
Ireland	5.3	6.3	10.2	10.4

Source: ITC Trade Map and India Exim Bank Analysis

Merchandise Trade of the UK Post Brexit

As part of Brexit, the UK is aiming to strengthen its trade with non-EU member countries. The UK government plans to secure agreements with countries accounting for 80% of the UK's trade. So far, the UK government has secured agreements with 69 countries plus the EU, which is equivalent to 64% of trade in 2020. The UK has also entered into a free trade agreement with Australia, New Zealand, and Japan in recent times. In February 2021, government of the UK formally applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and in June 2021, the CPTPP members agreed to the UK's bid to begin the accession process to join the CPTPP.

The UK is working with overseas governments to remove individual trade barriers faced by British businesses. According to statistics published by Department for International Trade, the UK, a total of 217 trade barriers across 74 countries were removed over the 2020-21 financial year. In November 2021, the DIT has launched a new 12-point export strategy, 'Made in the UK, Sold to the World' to help the UK businesses to double exports and sell their world-class products around the globe. Export Strategy sets an ambition to reach the UK exports of £1 trillion per year faster than currently projected rates (reach by mid-2030s). In October 2021, the UK launched the new Export Support Service (ESS), the UK's first ever end-to-end service to support businesses exporting to Europe.

Based on the trade data provided by Office for National Statistics, the UK, during the period January-September 2021, the EU accounted for 48% of total merchandise exports and 47.2% of total imports of the UK, higher than 47.3% and 46.9% share recorded respectively in 2020.

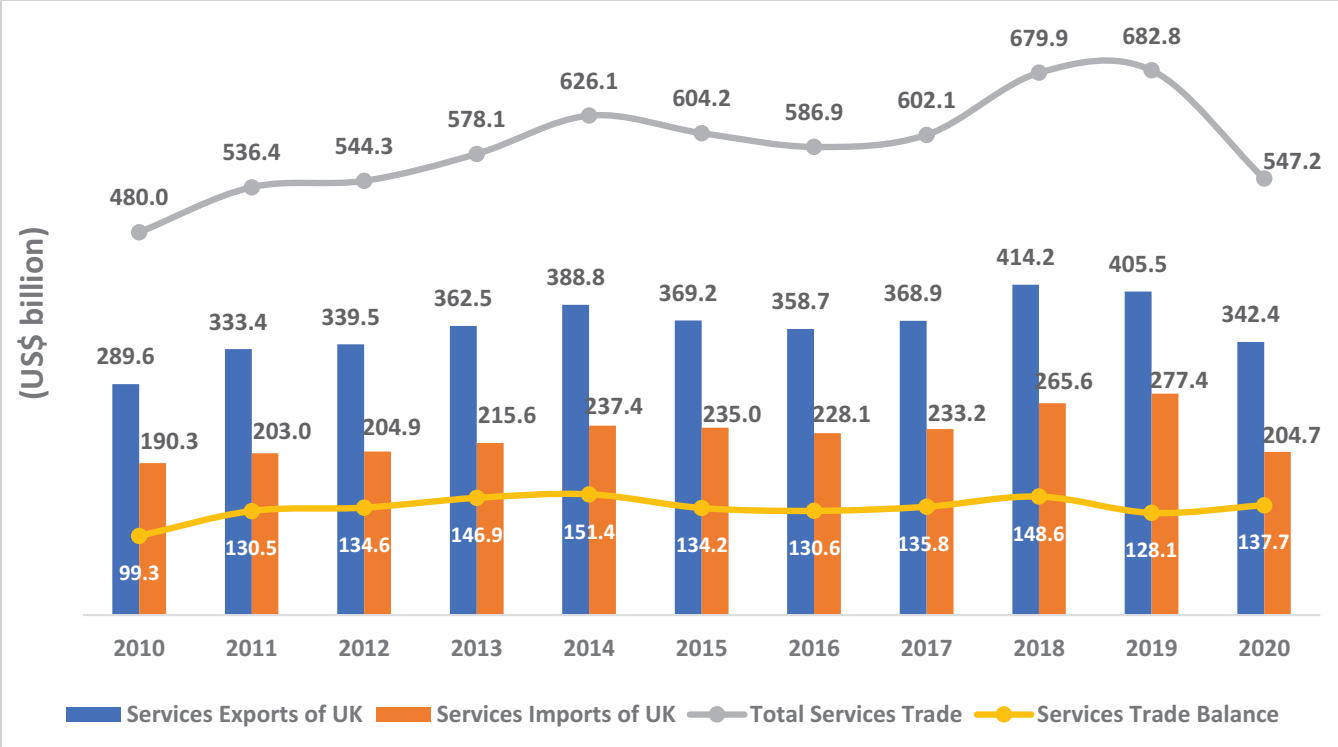
Services Trade

The UK is a services-oriented economy. The UK's economy is more reliant on the service sector than any other G7 country and the sector is one of the most innovative and dynamic in the world. The UK remains a global leader in several services categories, such as business services, finance, design, law, accountancy, consultancy, and the creative industries.[1] The sector has been driving the UK's economic growth since 2008. Services sector of the UK has been attracting large amount of foreign investment into the country over the years. The UK's trade in services has been severely impacted by the pandemic with imports and exports seeing large falls driven by lockdown restrictions.

The total trade in services has widened from US$ 480 billion in 2010 to US$ 682.8 billion in 2019, moderated thereafter to US$ 547.2 billion in 2020. The UK is currently second only to the US in global services exports. Services exports of the UK was recorded at US$ 342.4 billion 2020, while services imports of the UK stood at US$ 204.7 billion. The UK has a favourable services trade balance, with the services trade surplus widening from US$ 99.3 billion in 2010 to US$ 137.7 billion in 2020 **(Chart 2.2)**. A deficit was witnessed in four major services categories, i.e., transport, travel, construction, and personal, cultural, and recreational services, mainly due to pandemic induced lockdowns and travel restrictions. Maximum surplus was recorded in financial services.

[1] Services Transformed: Growth Opportunities for the UK Service Economy, A report by the UK Government Chief Scientific Adviser

Chart 2.2: International Services Trade of the UK



Source: WTO and India Exim Bank Analysis

Table 2.9: Services Exports of the UK

(US$ billion)

Product/Sector	2010	2015	2019	2020
Total Services Exports	**289.6**	**369.2**	**405.5**	**342.4**
Government goods and services	3.4	4.0	4.1	3.6
Commercial services	286.2	365.2	401.4	338.8
Goods-related services	4.5	7.2	7.9	6.7
Transport	28.3	32.9	36.9	20.4
Travel	35.2	51.9	52.7	18.9
Other Commercial Services	218.2	273.3	303.9	292.7
Construction	2.2	2.9	4.9	3.7
Insurance and pension services	19.5	25.6	25.5	26.6
Financial services	75.6	80.0	75.6	78.5
Charges for the use of intellectual property	14.2	20.8	21.3	22.4
Telecommunications, computer, and information services	20.5	28.5	27.3	27.9
Personal, cultural, and recreational services	4.9	5.3	7.6	5.1
Other business services	81.1	110.1	141.7	128.5
Research and development services	9.0	9.9	13.3	14.0
Professional and management consulting services	31.7	42.9	57.0	60.5
Technical, trade-related, and other business	40.5	57.4	71.4	53.9

Source: WTO and India Exim Bank Analysis

Financial services continued to be the single largest service product exported from the UK, followed by professional and management consulting services and technical, trade-related, and other business services. These three sectors together accounted for 56.4% of total services exports of the UK in 2020 **(Table 2.9).**

Technical, trade-related, and other business services, professional and management consulting services, and travel remained the major services import categories of the UK. These three sectors together accounted for around half of total services imports by the UK in 2020 **(Table 2.10).**

Table 2.10: Services Imports of the UK

(US$ billion)

Product/Sector	2010	2015	2019	2020
Total Services Imports	190.3	**235.0**	**277.4**	204.7
Government goods and services	6.5	4.5	4.6	3.6
Commercial services	183.8	230.5	272.7	201.2
Goods-related services	0.9	2.2	3.4	2.8
Transport	29.6	34.9	36.5	21.5
Travel	60.4	68.2	71.9	21.7
Other Commercial Services	93.0	125.2	160.9	155.1
Construction	2.0	1.8	3.3	3.9
Insurance and pension services	2.6	5.5	3.3	3.2
Financial services	13.5	19.3	23.1	21.4
Charges for the use of intellectual property	10.2	12.9	16.0	16.8
Telecommunications, computer, and information services	11.3	15.2	14.1	13.1
Personal, cultural, and recreational services	3.2	5.1	6.3	6.3
Other business services	50.2	65.2	94.9	90.4
Research and development services	6.5	7.5	10.0	10.2
Professional and management consulting services	15.5	16.8	26.3	26.6
Technical, trade-related, and other business	28.2	40.8	58.7	53.7

Source: WTO and India Exim Bank Analysis

The EU as a bloc accounted for 36.9% of total services exports of the UK in 2020, moderating from 38.4% in 2010. Financial services; professional and management consulting services; technical, trade-related, and other business services; and telecommunications, computer, and information services are the major services exports from the UK to the EU, together accounting for 66.3% of the UK's total services exports to the EU during 2020. The US is the single largest export destination of the UK's global services exports in 2020, followed by Germany, Netherlands, Ireland, and France **(Table 2.11).** Financial services; professional and management consulting services; technical, trade-related, and other business services and insurance and pension services are the major services exports from the UK to the US, accounting for around 72% of total exports to the country in 2020.

Table 2.11: Major Services Export Destinations of the UK

(US$ billion)

Country	2010	2015	2019	2020	Share in 2020
World	**289.6**	**369.2**	**405.5**	**342.4**	**100.0%**
USA	50.3	84.7	101.7	93.2	27.2%
Germany	16.2	22.1	23.6	21.6	6.3%
Netherlands	17.2	19.7	20.8	18.4	5.4%
Ireland	16.7	15.5	19.0	17.1	5.0%
France	15.9	21.0	20.6	16.7	4.9%
Switzerland	12.5	16.6	15.1	13.4	3.9%
Japan	5.3	9.4	8.8	8.1	2.4%
Italy	7.5	12.6	11.8	7.5	2.2%
Spain	7.9	10.0	10.2	7.2	2.1%
Australia	7.5	9.3	9.9	7.0	2.0%

Source: WTO and India Exim Bank Analysis

The EU as a bloc supplied 42.6% of total services imports by the UK in 2020, though its share has moderated from 47.3% in 2010. Technical, trade-related, and other business services, professional and management consulting services, and personal travel services are the major services imports of the UK from the EU, together accounting for around 49% of total services imports from the bloc.

The US, with a share of 24.9% is the single largest services import source of the UK in 2020, followed by France, Germany, and Ireland **(Table 2.12).** Technical, trade-related, and other business services, financial services, and professional and management consulting services are the major services imports of the UK from the US, together accounting for over 62% of total services imports from the country.

Table 2.12: Major Services Import Sources of the UK

(US$ billion)

Country	2010	2015	2019	2020	Share in 2020
World	**190.3**	**235.0**	**277.4**	**204.7**	**100.0%**
USA	30.7	43.2	54.3	51.0	24.9%
France	14.2	21.0	17.1	13.4	6.6%
Germany	14.7	15.4	15.6	11.8	5.7%
Ireland	7.3	9.7	19.3	9.9	4.8%
Spain	15.3	18.1	18.2	8.9	4.3%
Netherlands	6.2	8.3	10.9	7.7	3.8%
India	6.0	5.3	8.4	7.3	3.5%
Japan	3.8	4.8	7.4	6.8	3.3%
Switzerland	5.4	8.0	7.5	6.6	3.2%
Luxembourg	2.5	3.3	3.6	5.7	2.8%

Source: WTO and India Exim Bank Analysis

Services Sector of the UK Post Brexit

The UK remains a global financial hub. It has one of the most open, innovative, and dynamic financial services sectors in the world. The UK is also the largest insurance and long-term savings provider in Europe. As per the preliminary data released by the Office for National Statistics, the UK trade in services remains considerably below pre-COVID-19 levels. The end of the EU transition period brought about important changes to trade regulations governing trade in services between the UK and the EU. As a result, there has been some shift in trade in services between the UK and the EU and non-EU countries over this period, with the proportion of total service exports to and imports from non-EU countries witnessing a rise during the first half of 2021.

The government of the UK has agreed upon an ambitious new financial services partnership between the UK and Singapore on June 30, 2021 and has also established the US-UK Financial Regulatory Working Group as a comprehensive, senior-level dialogue between the world's two leading global financial centres. The UK has also granted a package of equivalence decisions across financial services regulation for European Economic Area (EEA) countries and granted Switzerland an equivalence decision in relation to share trading.

Foreign Direct Investment in the UK: Current Trends

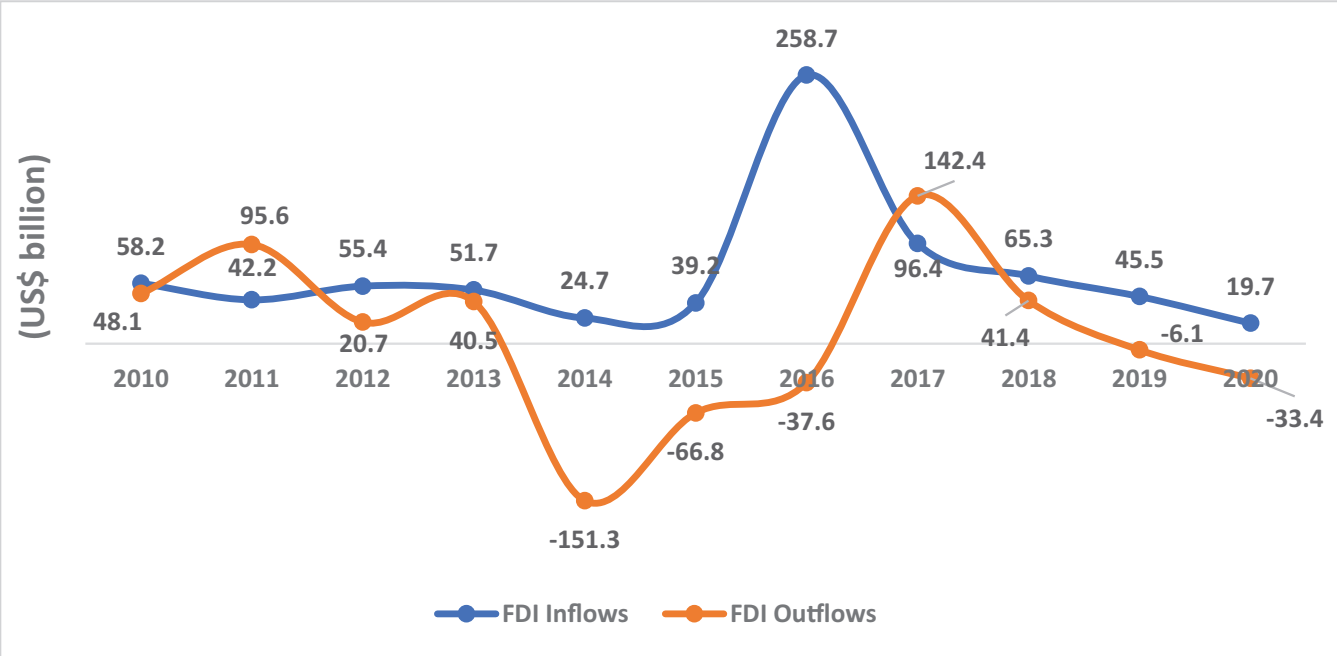
The UK is one of the most innovative countries in the world and is ranked 4th on the Global Innovation Index 2021. It is one of the world's leading international financial centres, a global leader in science and technology and pioneer in technology, design, and creativity. It was also the 7th largest research and development (R&D) funding country globally in 2019. Accordingly, the UK has been attracting more overseas investment in R&D than many major countries.

The UK is an attractive investment destination in Europe as well as globally. It is one of the most liberal economies in Europe, with an FDI favourable business environment. The EY's 2021 Attractiveness Survey ranked the UK as the most attractive investment destination in Europe. The UK has been attracting investments in various sectors, particularly in life sciences; transportation and logistics; professional, scientific, and technical services; digital technology; financial services and food sectors.

The role of Foreign Direct Investment (FDI) in economic growth, productivity, and employment in the UK is substantial. A 2021 publication by the DIT[2] reported that a 1% overall increase in FDI stock in Great Britain has on average resulted in an increase in gross value added (GVA) of 0.094% through the capital measure and 0.24% through the employment measure; an increase in employment of 0.084%; an increase in average annual wages of 0.045% through capital and 0.11% through employment and an increase in labour productivity of 0.031%. The analysis clearly indicates the importance of FDI on the UK's GVA, employment, wage, and productivity.

[2] Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services, Department for International Trade, The UK, March 2021

Chart 2.3: Foreign Direct Investment Flows of the UK



Source: UNCTADStat and India Exim Bank Analysis

According to the UNCTADStat, FDI inflows into the UK increased from US$ 58.2 billion in 2010 to a record US$ 258.7 billion in 2016, supported by pickup in inward mergers and acquisitions activity, however, witnessed moderation thereafter with foreign firms delaying their investment decisions amid Brexit-related uncertainty. FDI into the UK more than halved in 2020 to reach US$ 19.7 billion from US$ 45.5 billion in 2019 mainly due to some divestments arising from ongoing concerns about Brexit as well as the pandemic **(Chart 2.3).** The UK was the 18th largest recipient of global FDI inflows, losing 7 positions from the previous year. Similarly, FDI outflows from the UK declined from (-) US$ 6.1 billion to (-) US$ 33 billion, with continued large negative reinvested earnings. In terms of FDI stock, the UK had the third largest FDI stock (US$ 2.2 trillion) globally in 2020, after the US and Netherlands.

Despite the global economic slowdown due to the pandemic, the UK remains one of the most attractive places in the world to invest in with 1,019 FDI projects in 2020. **Table 2.13** shows the trends in envisaged foreign capital investment, number of FDI projects taking place and jobs created in the UK. According to the Financial Times' fDi Markets[3], envisaged cumulative capital investment in the country out of total 13,673 FDI projects during the period January 2010 to December 2020 stood at US$ 416.8 billion, creating 805,036 jobs in the country.

[3] fDi Markets tracks cross border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Table 2.13: Trends in Foreign Direct Investment Inflows to the UK

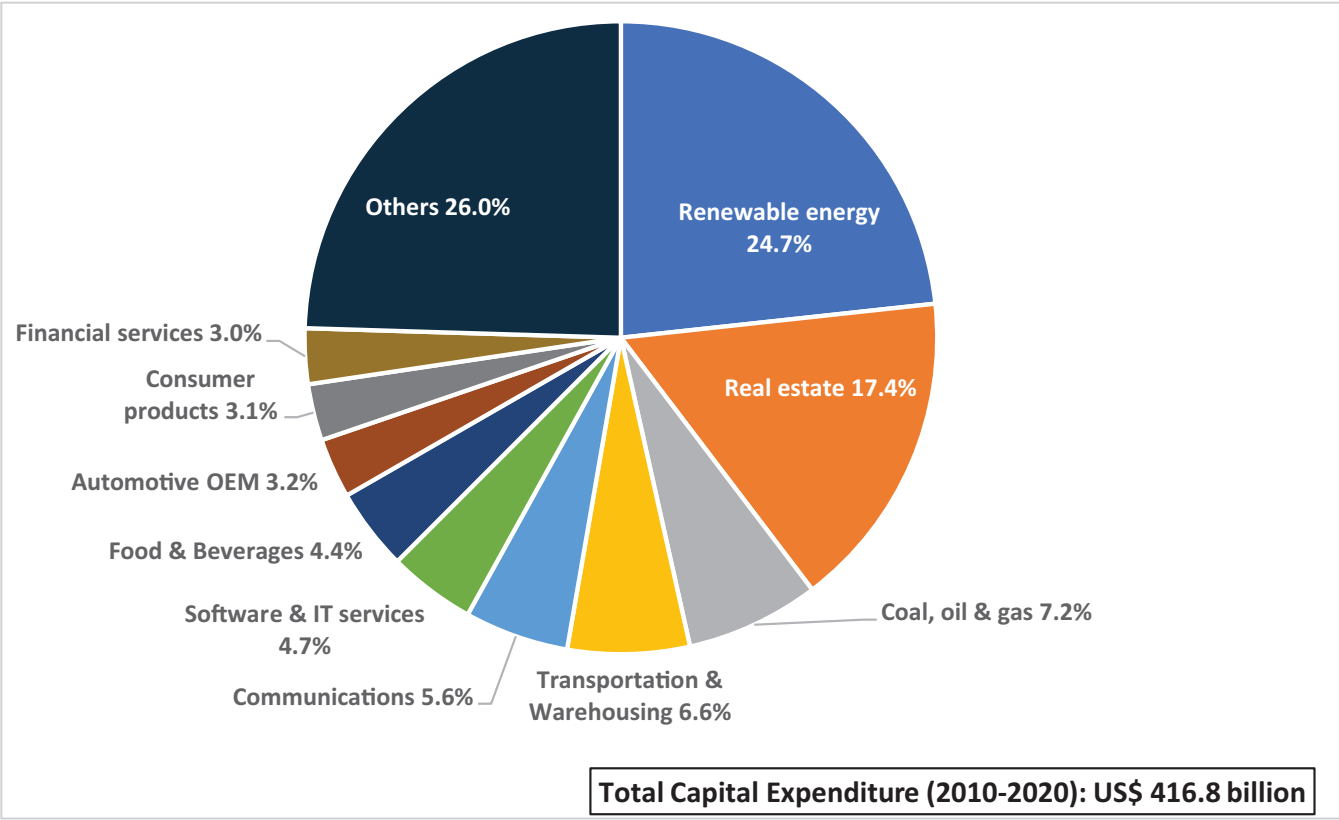
Year	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2010	28,963.6	964	70,549	812
2011	37,883.7	1,055	71,259	893
2012	43,747.6	994	64,991	866
2013	35,068.5	1,108	68,111	939
2014	41,411.4	1,200	86,829	994
2015	54,187.7	1,384	84,483	1,154
2016	32,600.5	1,299	73,606	1,057
2017	29,679.4	1,353	67,119	1,109
2018	39,805.6	1,680	85,805	1,415
2019	36,175.3	1,617	75,340	1,380
2020	37,269.5	1,019	56,944	851
Total	**4,16,792.8**	**13,673**	**8,05,036**	**8,918**

Source: fDi Markets online database and India Exim Bank Analysis

Major Sectors Attracting Investment in the UK

According to the fDi Markets database, during 2010-2020, renewable energy was the major recipient of capital investment, with an investment of US$ 102.9 billion, followed by real estate, and coal, oil and gas sectors, with investments amounting to US$ 72.4 billion and US$ 30.2 billion, respectively **(Chart 2.4).** In terms of number of projects, however, software & IT services sector is the major recipient (investments received in 3,052 projects during 2010-2020), followed by business services (1,609 projects), textiles (1,199 projects), and financial services (946 projects) and while in terms of number of companies invested, it was again dominated by software & IT services (2,530 companies investing in the sector), followed by business services (1,193 companies), communications (463 companies), and textiles sectors (430 companies). In 2020, maximum capital investment went towards renewable energy sector, transportation & warehousing, communications, and real estate sectors.

Chart 2.4: Major Sectors Attracting Investment in the UK during 2010-2020

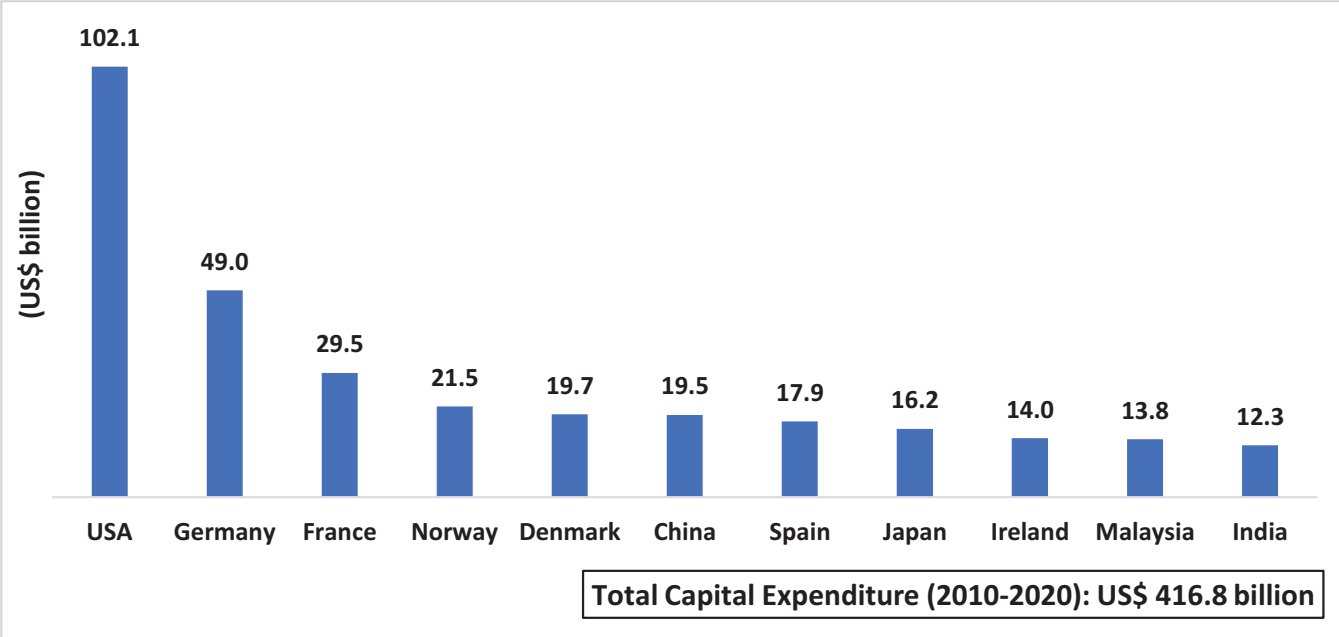


Source: fDi Markets online database and India Exim Bank Analysis

Major Sources of Investment in the UK

The major investors in terms of FDI received in the UK during 2010-2020 are shown in **Chart 2.5.** The US is the largest investor in the UK during the period 2010-2020, contributing 24.5% of total FDI into the UK. The other major investors were Japan (13.4% of total inward FDI received by the UK), followed by Germany (11.8%), France (7.1%), and Norway (5.2%). Of the total 13,673 investment projects took place in the UK during 2010-2020, the US invested in 4,832 projects, Germany in 1,143 projects, France in 886 projects, Ireland in 484 projects, and Japan in 463 projects. The top investors in 2020 include Norway, the US, France, Germany, Denmark, and Japan.

Chart 2.5: Major Investors in the UK during 2010-2020



Source: fDi Markets online database and India Exim Bank Analysis

Outward Direct Investments from the UK

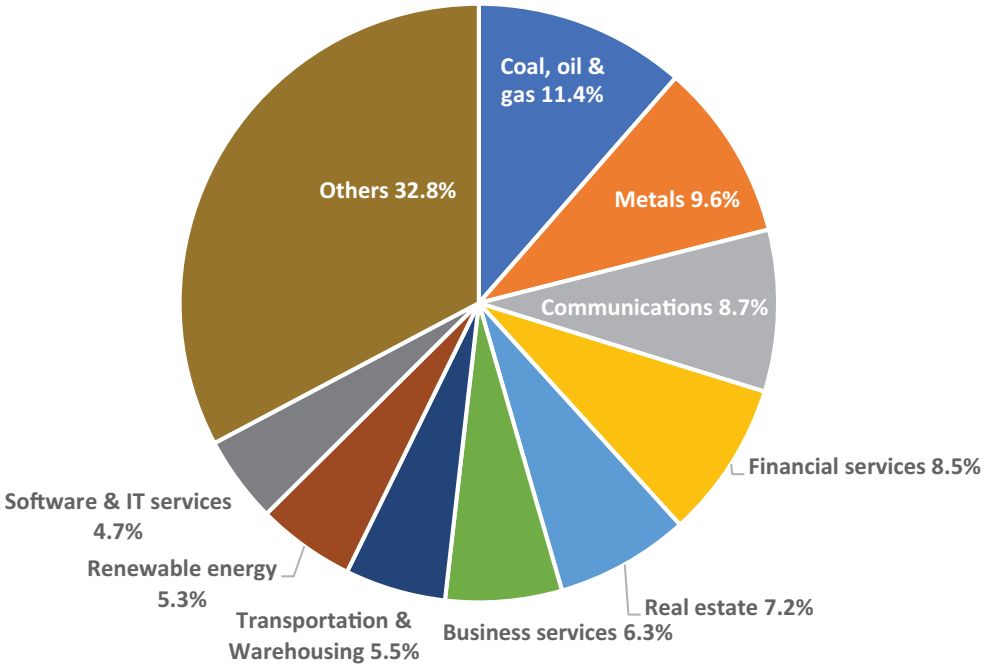
According to fDi Markets database, envisaged cumulative capital investment for an aggregate 16,576 projects stood at US$ 506.7 billion during 2010-2020, creating 1.5 million jobs in FDI destination countries **(Table 2.14).**

Table 2.14: Trends in Foreign Direct Investment Outflows from the UK

Year	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2010	69,555.7	1,465	1,57,135	908
2011	61,797.5	1,680	1,73,695	999
2012	38,272.8	1,584	1,14,908	1,024
2013	45,751.5	1,724	1,38,661	1,058
2014	33,764.8	1,398	1,05,453	917
2015	48,171.1	1,387	1,33,602	933
2016	40,274.1	1,270	1,14,035	856
2017	33,522.3	1,453	1,28,081	949
2018	49,710.1	1,660	1,71,761	1,094
2019	50,055.6	1,766	1,60,460	1,141
2020	35,800.1	1,189	98,369	868
Total	**5,06,675.6**	**16,576**	**14,96,160**	**6,739**

Source: fDi Markets online database and India Exim Bank Analysis

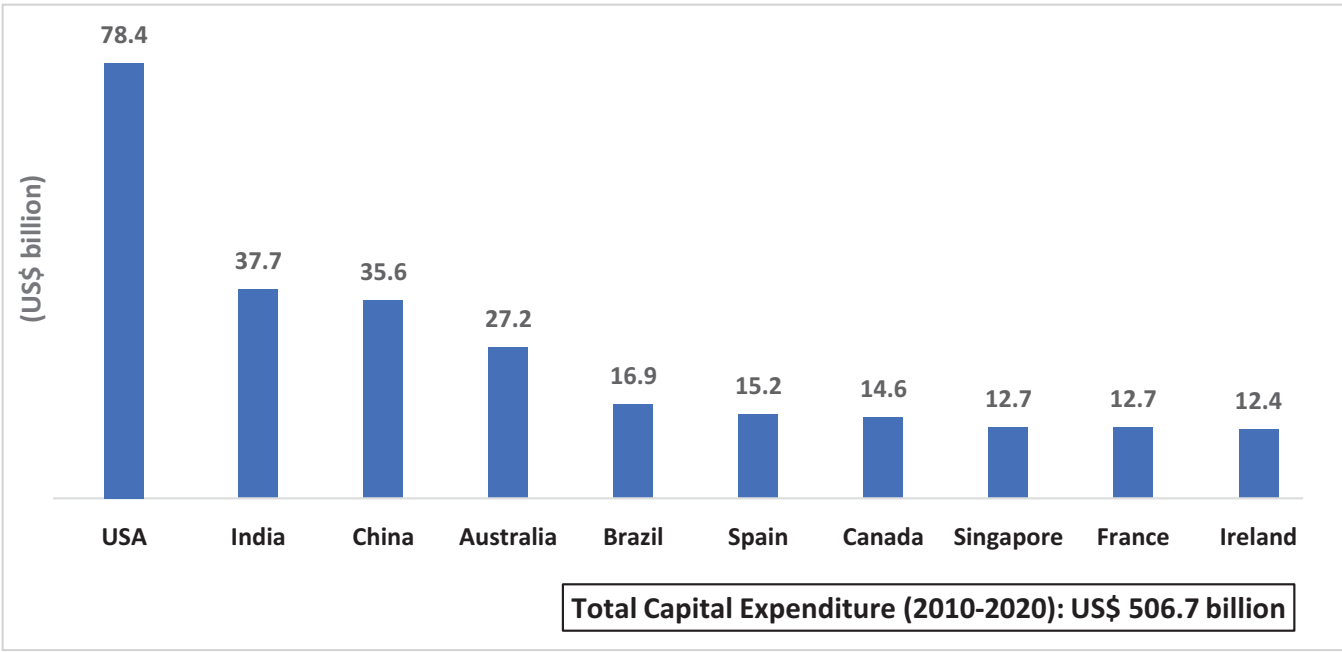
Chart 2.6: Major Sectors Attracting Investment from the UK during 2010-2020



Source: fDi Markets online database and India Exim Bank Analysis

In terms of sectors, coal, oil & gas sector received maximum investment at US$ 57.9 billion, with a share of 11.4% in total outward investment from the UK during the period 2010-2020, followed by metals (9.6% share), communications (8.7%), financial services (8.5%), real estate (7.2%), and business services (6.3%) **(Chart 2.6).** In 2020, financial services received maximum investment, followed by renewable energy, real estate, and coal, oil, and gas sectors. In terms of number of projects, however, business services sector is the major recipient (4,528 projects during 2010-2020), followed by software and IT services (2,375 projects), financial services (1,616 projects), and textiles (1,015 projects); while in terms of number of companies invested, it was again dominated by business services (1,679 companies), followed by software and IT services (1,170 companies), financial services (495 companies), and industrial equipment sectors (314 companies).

Chart 2.7: Major Investment Destinations of the UK during 2010-2020



Source: fDi Markets online database and India Exim Bank Analysis

The major destinations of the UK's outward investment during 2010-2020 include the US (15.5% of total value of outward investment by the UK), India (7.4%), China (7.0%), Australia (5.4%), Brazil (3.3%), and Spain (3.0%) **(Chart 2.7).** Of the total 16,576 projects, 3,258 projects went to the US; 1,058 projects to Germany; 822 to Australia; 778 to China and 731 projects to India during 2010-2020. During 2020, the US was the major investment destination of the UK with a total capital expenditure of US$ 6.9 billion (19.4% of total investment in 2020). Other major destinations in 2020 include China, Australia, Canada, Argentina, and Spain.

To maintain existing trade and investment relationships with third countries following its withdrawal from the EU, the UK has concluded 12 rollover investment agreements with various countries in 2020. In January 2021, the Government of the UK has created the new Office for Investment (OFI), as part of its new investment strategy to unlock significant strategic investments aligned to the government's priorities. In April 2021, the National Security and Investment Bill received Royal Assent, which introduced a separate investment screening regime for businesses aiming to gain control over a company or an asset in sensitive sectors identified by the Government. The UK also amended the legal grounds on which the Government may intervene in certain mergers under the Enterprise Act 2002. The changes lowered the jurisdictional thresholds for merger controls in three specific sectors: artificial intelligence, cryptographic authentication technology, and advanced materials.

The government of the UK has decided to hike corporate tax rate from the current 19% to 25% in April 2023, to help pay for the costs of the pandemic and reduce government borrowing. The tax break on plant and machinery, introduced in 2021 would also be expiring in April 2023, which could limit future investments.

CHAPTER

BREXIT: A Brief Background

The term Brexit is a portmanteau of **"Br**itish **Exit"** and is used to refer to the British referendum took place on June 23, 2016 to exit the UK from the EU by applying article 50 of the Treaty on the European Union. In fact, out of the 3.35 crore people who exercised their vote, a significant 51.9% voted in favour of the UK exiting from the 43 year-old union. After a series of iconic events, the UK withdrew from the EU and the European Atomic Energy Community (EAEC or Euratom) at 23:00 GMT on January 31, 2020. The UK happens to be the first and so far, the only country to have left the EU inspite of being a member since 1973.

Formation of European Union

The European Union is an economic and political union between 27 European countries that together cover much of the continent. It operates an internal (or single) market which allows free movement of goods, capital, services, and people between member states. Free trade among its members was one of the EU's founding principles.

The European countries, Belgium, Germany, France, Italy, Luxembourg, and the Netherlands started to cooperate economically since 1951, leading to formation of the European Economic Community (EEC) in 1958. Since then, 22 other members joined to form a single market. The UK left the EU on January 31, 2020. Over the years, the cooperation between member countries has evolved into an organization spanning policy areas, from climate, environment and health to external relations and security, justice, and migration, resulting in renaming the EEC to the EU in 1993. Today, the EU is the largest trade block in the world. It is the world's biggest exporter of manufactured goods and services, and the biggest import market for over 100 countries. The EU countries are Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden.

The **European Economic Area (EEA)** consists of the member countries of the EU and the three countries of the European Free Trade Association (EFTA) - Iceland, Liechtenstein, and Norway (excluding Switzerland). The Agreement on the EEA entered into force on January 1, 1994 and allows the three countries of EFTA to be part of the EU's single market. Switzerland is not an EU or EEA member but is part of the single market.

The euro (€) is the official currency of 19 out of 27 EU countries, which together constitute the Eurozone, officially called the **Euro Area.**

The **Border-Free Schengen Area** is one of the greatest achievements of the EU. It is an area without internal borders, an area within which citizens, many non-EU nationals, businessmen and tourists can freely circulate without being subjected to border checks. Since 1985, it has gradually grown and encompasses today almost all the EU countries and a few associated non-EU countries. While having abolished their internal borders, Schengen States have also tightened controls at their common external border based on Schengen rules to ensure the security of those living or travelling in the Schengen Area. The member countries in the Schengen area include Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and Switzerland.

Reasons for the Brexit Referendum

Britain has for long debated the pros and cons of joining the European union ever since the idea first cropped up after the second world war. The UK finally joined the EU in 1973 and soon after a span of 3 years Britain held a referendum on whether to leave the EU or not, where 67% of voters supported staying in the EU. Later, the UK opted out of the euro currency and the passport-free Schengen area which were considered to be the major elements of European integration. The reasons behind Brexit include threats to sovereignty, unfavorable immigration laws, and rising fiscal burden.

A major reason behind such moves and finally the Brexit vote is believed to be the Britons aim for a 'Global Britain'. The Britons strongly desired that decisions pertaining to the UK shall be taken by the UK itself as often the British Eurosceptics felt that the EU tends to emphasize more on internal treaties and process rather than on taking a pragmatic approach to priorities such as boosting economic competitiveness or promoting a common energy policy. The Eurosceptic Britons were also disappointed with the measures taken by the EU to tackle the Global Financial Crisis of 2008 due to which the UK had to face several difficulties. Another reason behind the exit was that it offered the best chance for the UK to regain its control over immigration and own borders as after the widespread immigration in the 2000s, the Britons felt that it was a Brussels-sponsored invasion rather than a benefit to the country. Moreover, there has been certain reports mentioning that the older voters were more in favour of leaving the EU than the young ones as they viewed immigration as a threat to national identity and culture. Another important reason for leaving was that the Britons were against the idea of the EU standardizing everything.

Some of the Brexit supporters also felt that there was an ever-increasing fiscal burden on the UK. As a member of the EU, the UK made large contributions to the EU budget, while the UK received funding, or receipts, from the EU for various agricultural, social, economic development and competitiveness programmes. The UK's gross contribution (after the rebate) to the EU was worth about £14.6 billion during 2015. In 2019, the UK made an estimated gross contribution (after the rebate) of £14.4 billion to the EU **(Table 3.1).** The UK received £5.0 billion of public sector receipts from the EU, so the UK's net public sector contribution to the EU was an estimated £9.4 billion. The UK also paid into the EU budget till end 2020, with a net contribution of £10.1 billion. All these reasons eventually culminated to give rise to the Brexit.

Table 3.1: The UK's Contributions to the EU/EC Budget, 1973-2019

(£million)

Year	UK's Gross Contribution to EU	UK's Gross Contribution to EU after rebate and refunds	UK's Receipts from EU	UK's Net Contribution to EU
1973	181.0	181.0	79.0	102.0
1975	342.0	342.0	398.0	-56.0
1980	1767.0	1669.0	963.0	706.0
1985	3940.0	3713.0	1905.0	1808.0
1990	6355.0	4658.0	2183.0	2475.0
1995	8889.1	7682.5	3665.2	4017.3
2000	10517.3	8432.6	4240.9	4191.6
2005	12567.0	8911.0	5329.0	3582.0
2010	15196.0	12150.0	4768.0	7382.0
2015	19560.0	14646.0	3883.0	10763.0
2019	18944.0	14428.0	4988.0	9442.0

Source: UK Parliament and India Exim Bank Analysis

Immediate Impact of Brexit

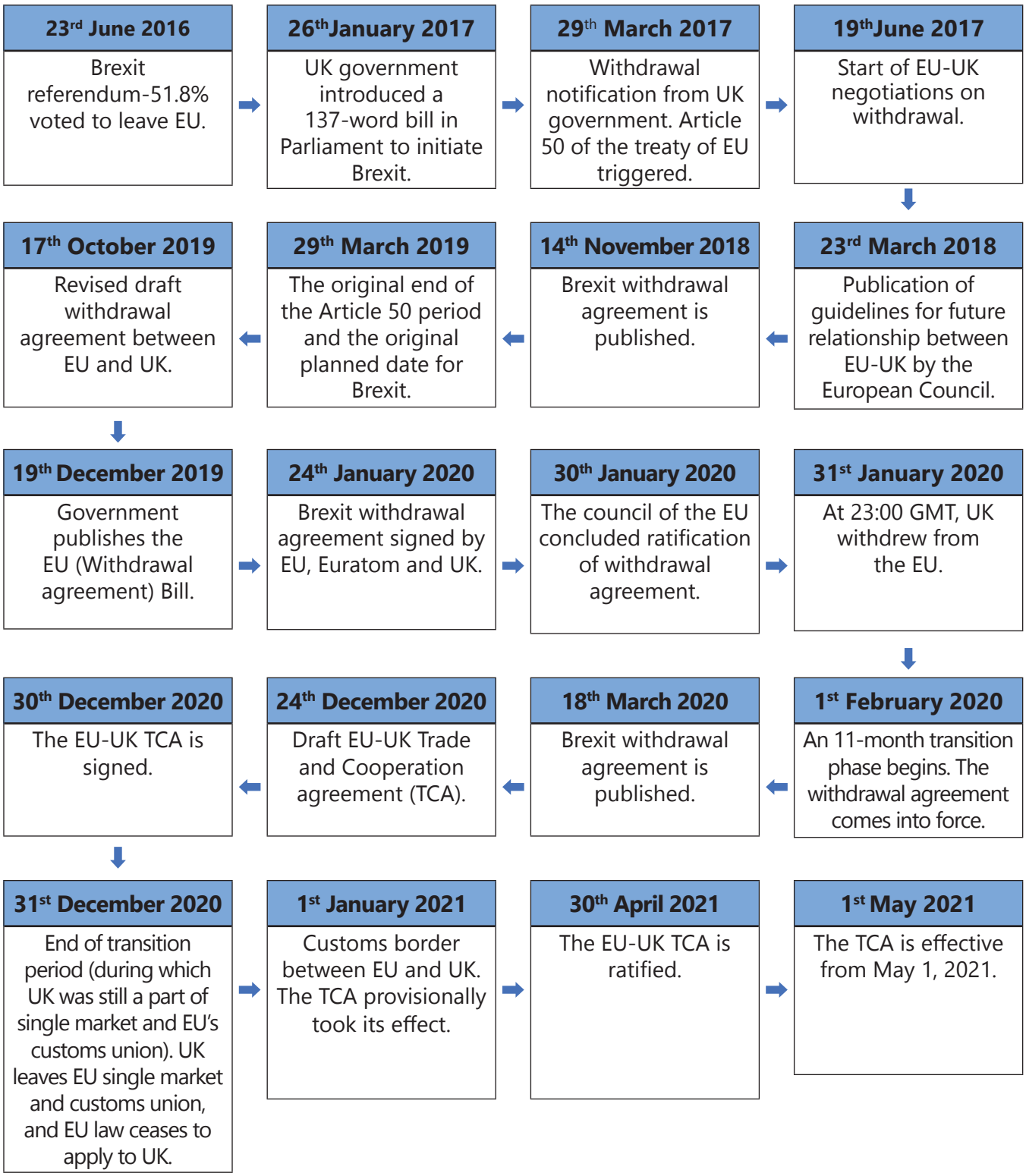
Announcement of Brexit was unexpected by most quarters of the market and there was an immediate negative reaction seemingly driven by sentiments. The markets remained sufficiently stable and did react on expected lines with adequate capital making its way towards safe haven assets. The initial reaction in the markets was of shock which resulted in sharp decline in the equity markets and strengthened the US dollar. However, since then the degree of risk aversion has reduced and equity markets across the globe have done well along with a rise in price of most sovereign bonds. The biggest negative effect had been observed in the currency markets as the GBP has fallen by around 11% versus the US dollar in 2016 which indicate investors' concern over the future of the UK markets.

Uncertainty over the Brexit slowed the UK's growth from 2.4% in 2015 to 1.4% in 2019. In November 2018, the Government of the UK estimated that a Free Trade Agreement scenario with the EU would result in moderation of the UK's GDP between 4.9% and 6.7% compared with staying in the EU, depending on immigration policy. Trade with the EU under this scenario was estimated to be 25% lower and 5% higher with non-EU countries than if the UK remained in the EU. Without the eleventh-hour Trade and Cooperation Agreement (TCA) signed between the EU and the UK on December 30, 2020, trade between the UK and the EU-27 would have become subject to tariffs according to the World Trade Organization (WTO) standards as of January 1, 2021. With the announcement of the trade deal, the pound rose on the UK market by approximately 0.47% against the US dollar. The economic impact of the COVID-19 pandemic and trade restrictions between the UK and the EU is estimated to have outweighed Brexit's immediate impact. Therefore, it is difficult to determine the full extent of Brexit's effects on different sectors of the UK economy.

Brexit: Important Timelines

The Brexit deal was finalized after a prolonged process of four years. Some of the important timelines of Britain's exit from the EU are as follows:

Chart 3.1: Important Timelines of Brexit



Key Aspects of the Brexit Deal

The Withdrawal Agreement

The Withdrawal Agreement between the EU and the UK established the terms of the UK's systematic withdrawal from the EU, in accordance with Article 50 of the Treaty of the European Union.

The Withdrawal agreement included[4]:

- Common provisions for the proper understanding and operation of the agreement.
- Separation issues to ensure a smooth and systematic withdrawal of the UK.
- A transition period (February 1 – December 31, 2020) during which the EU shall treat the UK as if it were a member state, except for participation in the EU institutions and governance structures.
- It also ensures effective management, implementation, and enforcement of the agreement, including appropriate dispute settlement mechanisms.
- The agreement also incorporates separation issues related to Ireland, Cyprus, and Gibraltar.

Financial Settlement

In the financial settlement, which is part of the Withdrawal Agreement, the UK and the EU have set out how they will settle their outstanding financial obligations to each other. The obligations arise out of the UK's participation in the EU budget and broader aspects of its EU membership. The settlement covers details on which financial commitments to be covered, the methodology for calculating the UK's share and the payment schedule.

There is no definitive cost to the settlement as the final cost to the UK will depend on future events such as future exchange rates and the EU budgets. However, the Office for Budget Responsibility (OBR) estimated that the net cost to the UK would be £34.1 billion **(Table 3.2).**

Table 3.2: Estimated Cost of Brexit Settlement and its Components

	Payment Period	£billion
Participation in EU Budget 2020 (net)	2020	10.1
Reste a' liquider	2021-2028	18.9
Other Net Liabilities	2020-2064	5.1
Total	**2020-2064**	**34.1**

Source: Economic and Fiscal Outlook - November 2020, The Office for Budget Responsibility

The UK has also agreed to continue to contribute to the EU's main overseas aid programme – the European Development Fund – until the current programme ends. This programme is funded directly by Member States, rather than through the EU budget. The UK's contribution counts towards its commitment to spend 0.7% of national income on overseas aid.

[4] Reference: Official website of the European union

The EU-UK Trade and Cooperation Agreement (TCA)

The Withdrawal agreement which included a provision of a transition period (February 1 – December 31, 2020) has expired on December 31, 2020. Currently, imports of goods of the UK from non-EU countries surpassed that from the EU countries, while the EU countries remain the major destinations for the UK's exports. The EU-UK Trade and Cooperation Agreement (TCA) includes preferential arrangements in areas such as trade in goods and in services, digital trade, intellectual property, public procurement, aviation and road transport, fisheries, energy, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation and participation in Union programmes, and establishes a new institutional framework for the operation and enforcement of the agreement.

However, the TCA did not include any decisions related to the financial services, the adequacy of the UK data protection regime, or the assessment of the UK's sanitary and phytosanitary regime. The TCA consists of a Free Trade Agreement; a close partnership on citizens' security and an overarching governance framework.[5]

Free Trade Agreement

- The FTA provides for zero tariffs and zero quotas on all goods traded that comply with the appropriate rules of origin. Customs procedures and formalities (customs duties and border checks) apply to trade between the UK and the EU. However, in accordance with the agreed Protocol on Ireland and Northern Ireland, the EU customs rules and procedures generally continue to apply to goods entering and leaving Northern Ireland.
- A special licence is required to import or export certain goods (e.g., waste, certain hazardous chemicals, GMOs), and has to comply with additional formalities if importing or exporting excise goods (alcohol, tobacco, or fuel) to/from the UK.
- Both parties have promised to maintain high levels of protection in areas such as environmental protection, the fight against climate change and carbon pricing, social and labour rights, tax transparency and state aid, with effective domestic enforcement.
- The EU and the UK agreed for the joint management of fish stocks in the EU and the UK waters. The UK would be able to further develop British fishing activities, while the activities and livelihoods of European fishing communities will be safeguarded, and natural resources preserved.
- On transport, the agreement provides for continued and sustainable air, road, rail, and maritime connectivity. It includes provisions to ensure that competition between the EU and the UK operators takes place on a level playing field so that passenger rights, workers' rights and transport safety are given due importance.
- On energy, the agreement provides a new model for trading and interconnectivity, with guarantees for open and fair competition, including safety standards for offshore, and production of renewable energy.
- On social security coordination, the agreement hopes to introduce several rights of the EU citizens and the UK nationals.
- Also, the agreement allows for the UK's continued participation in a number of flagship EU

[5] Reference: official website of European Union

programmes for the period 2021-2027 (subject to a financial contribution by the UK to the EU budget).

New Partnership for the Citizens' Security

The TCA establishes a new framework for law enforcement and judicial cooperation in criminal and civil law matters. It recognises the need for strong cooperation between national police and judicial authorities, particularly for fighting and prosecuting cross-border crime and terrorism. It aims to build new operational capabilities, considering that the UK, as a non-EU member, shall not have the same facilities as before.

Horizontal Agreement on Governance

To give maximum legal certainty to businesses, consumers and citizens, the TCA establishes a Joint Partnership Council, to address issues relating to the implementation, application and interpretation of the Agreement. The TCA also provides for the establishment of a range of committees to provide a framework for the resolution of disputes and for close cooperation between the UK and the EU across a broad range of areas into the future. Both parties can engage in cross-sector retaliation in case of violations of the Trade and Cooperation Agreement in all areas of the economic partnership.

Major Points of Contention in the Brexit Deal

Fishing

The UK is a net exporter of fishes such as mackerel, and most exports go to the EU. Total Allowable Catch (TAC) is allocated between the EU and other independent coastal states based on scientific advice from the International Council for the Exploration of the Sea (ICES). The EU's share of the TAC is distributed among Member States under the Common Fisheries Policy (CFP), the EU's joint legal framework providing for equal access to the EU waters for Member States, as well as stable arrangements for quota-sharing and the sustainable management of resources. When the UK left the EU, it became an independent coastal state and the CFP no longer applies. The EU was aiming for maximum access for its boats to continue operating in the UK waters, while the UK wanted to prioritise its own boats after it becomes an independent coastal state, outside the EU's CFP. Hence, the dispute was not only about access, but also about a bigger share of the fishing quota for the UK fleet.

Although fishing accounts for a small portion of the economy on both sides, it was central to the Leave Campaign that won the Brexit referendum in the UK in 2016. It is also an important issue in several EU countries such as France. According to the European Commission, the economic value of fisheries in the UK waters for the EU vessels represents €637 million, representing on average 12% of the EU Member States' overall total catches in value – although this varies significantly among Member States, ranging from less than 1% for Spain to 33% for Denmark, 38% for Ireland and 43% for Belgium. Conversely, the UK catches €110 million in value of landings in the EU 27's exclusive economic zone (10% of its total catches), although access to the EU waters in the channel is of significant importance to certain fishing communities in the UK. Furthermore, a large share (more

than 2/3rd) of the UK fisheries production is exported to the EU market, while most locally consumed products in the UK are supplied by non-EU trade partners (Iceland, Norway) or by processing plants in the EU (Germany, Poland).

The UK left the Common Fisheries Policy on January 1, 2021, and became an independent coastal state, thus changing the setting for fisheries management in the North-East Atlantic Ocean and in the North Sea. The EU and the UK became responsible, under international law, for jointly managing approximately 100 shared fish stocks. The UK waters (i.e. the territorial sea up to 12 nautical miles and adjacent exclusive economic zone up to 200 nautical miles) will no longer be part of the EU waters.

The EU-UK TCA sets out the terms under which the EU and the UK can determine their individual rights to catch fish in their respective waters, as well as new arrangements for the joint and sustainable management of some hundred shared fish stocks in the EU and the UK waters. It also set out new provisions on reciprocal access to waters in the Exclusive Economic Zone and in the 6–12 mile nautical zone, as well as on new stable arrangements for sharing quotas. Under the agreement, 25% of the EU's fishing rights in the UK waters are to be transferred progressively to the UK's fleets between 2021 and 2026. The agreement includes a licensing system for fishing vessels through which mutual access to each other's waters is granted.

Under the Agreement, there would be a gradual phasing in of any changes of quota shares and provisions on access to waters. After a period of 5.5 years, during which the current rules will remain in place regarding reciprocal access, the agreement provides for annual consultations to establish the level and conditions of reciprocal access to each Party's Exclusive Economic Zones and territorial waters. There will be gradual changes to the quota shares for TACs of the shared stocks that also include stocks managed trilaterally (e.g. with Norway) or in multilateral settings.

The Agreement provides for a gradual change of quota-sharing arrangements. The UK would have the right to completely exclude the EU boats after 2026, however, the EU could respond with taxes on exports of British fish to the EU or by denying the UK boats access to the EU waters.

Level Playing Field

The idea behind level playing field measures is to ensure parties on one side don't have an unfair advantage over their competitors on the other. If regulations are loosened, it could be cheaper to produce things, making some companies more competitive than others. Thus, the EU wanted the UK to stick particularly closely to the EU rules as the EU is worried that the UK could come out with different rules favouring the UK companies in the future. The UK, on the other hand, mentions that the main aim of Brexit was to break free from the EU rules.

Future Governance of the Deal

This mainly deals with how the rules of the deal would be enforced in future and what would happen if one side does not abide by them. The EU might have agreed that it will not have a unilateral right to impose penalties, however, it has been forcing powers to retaliate against the UK breaking rules in one area, by hitting back in another.

Impact on Financial Sector

The pre-Brexit London remained Europe's principle financial services hub. The financial services sector in the UK also enjoyed considerable competitive advantages, highly skilled and capable eco system and support services. Moreover, the UK regulatory standards are higher than those set by the EU.

The UK's financial services industry, which manages assets worth £9.9 trillion, is covered only in a limited manner in the EU-UK TCA despite being an important sector which contributes 6.5% of the UK's economy and 10% of its tax receipts as per the Office for National Statistics. Financial services sector is the largest tax paying sector and exporting industry in the UK. It is also a major employer in the country.

Before Brexit, the UK based banks had "passporting rights", allowing them to offer banking services across the EU borders and to set up branches in the EU countries easily. Passporting allowed firms to sell their services to the EU from their UK base without any additional regulatory clearances. Since the TCA does not make provisions for financial services firms in the UK to access the single market, the UK financial services firms lost their passporting rights from January 1, 2021. This requires the UK banks to apply for licenses in each individual EU country and could only offer a smaller set of services once licensed.

In order to continue to access the single market without passporting, the UK based financial services firms would have to comply with the different requirements of individual member states or rely on equivalence decisions. However, equivalence does not cover core banking services like lending, payments, deposit taking, as well as do not guarantee permanent access rights.

To compensate for the loss of these rights, the UK has been trying to persuade the EU to grant the financial services sector "permanent equivalence", which would enable the banks in the UK to continue doing business in and with Europe as was the case during the pre-Brexit period. This would be under the condition that the UK's financial regulations would match those of the EU.

Under this regime of permanent equivalence, the EU could unilaterally withdraw from the arrangement with the UK, however, was still considered a better situation than leaving banks without equivalence or passporting rights.

The EU has granted temporary equivalence to key financial institutions in the UK until mid-2022. In March 2021, the UK and the EU agreed on a memorandum of understanding that covers voluntary cooperation on financial services regulation, and it is expected to evolve into a deal on equivalence, which is yet to be realized.

Moreover, the UK banks holding branches in the EU may have to convert those entities to subsidiaries, a costly process, to continue providing financial services. The UK banks can also provide banking services in the EU if they hold valid authorisation from the relevant EU/EEA supervisory authorities. EU/EEA consumers are allowed to maintain the existing bank accounts held with the UK financial institutions only if they meet the relevant UK legal requirements.

The exit incurs loss of proximity to the sell-side and the associated liquidity due to which the value of delegating portfolio management to the UK would be reduced, leading to reduced assets under management. This would also deter the UK's position as a centre for internationally mobile financial services to some extent.

Another impact would be the slowdown in the availability of the skilled labour force from the EU in the UK financial services. The requirement for visas and work permits would be a barrier to the UK, providing an added advantage to financial centres with the EU.

It is also believed that financial services firms will be impacted by the measures adopted in the TCA such as cooperation on cyber-security matters and data protection, respective rules on authorisation for the provision of services in each respective territory, non-discrimination measures for service providers and investors, and free movement of capital.

The UK has established a temporary permissions regime (TPR) for European Economic Area (EEA) firms that came into effect from January 1, 2021, after the ending of transition period. Passporting rights have ceased and EEA firms who were formerly operating through a passport in the UK under the European passport framework require a Part 4A permission under the Financial Services and Markets Act (FSMA) to be able to continue carrying out regulated activities which were formerly operating through a Freedom of Establishment passport in the UK. The TPR grants EEA firms the right to continue carrying out regulated activities, for a maximum of three years, if they were formally authorised do so under the previous passporting rules.

The UK's failure to secure equivalence could prove to be critical for the UK's financial sector. In April 2021, New Financial, a London based think-tank[6] estimated that at least 440 banks and financial services companies had moved some part of their operations to the EU. Moreover, around £900 billion in bank assets (i.e., around 10% of the entire UK banking system) and around £100 billion in assets and funds by insurance firms and asset managers have been or are being transferred to the European cities, especially to Dublin, Paris, Luxembourg, Frankfurt, and Amsterdam. According to the report, this shift in business, assets and legal entities are expected to gradually weaken the UK's influence in the banking and finance industry in Europe and around the world, as a greater proportion of business is authorised by and conducted in the EU. It could also significantly reduce the huge trade surplus in financial services that the UK enjoyed with the EU as services that were previously exported from the UK are being provided locally.

Re-exports

A large proportion of European trade with third countries passes through the ports of Rotterdam and Antwerp, and thus, it is difficult to pinpoint the origin or destination of goods that go through large ports. As a result it has been often reported that the volume of trade between the UK and the EU is likely to be exaggerated. Transhipments are routine, especially given that traded products are carried by increasingly larger container ships which serve only the biggest ports. According to the UK Office for National Statistics in 2018, the Rotterdam effect[7] or the size of passthrough trade would

[6] Brexit & The City: The Impact So Far, New Financial, April 2021 (https://newfinancial.org/brexit-the-city-the-impact-so-far/)
[7] The Rotterdam effect: It has been argued that the pattern of trade between the UK and other countries has been distorted by the location of big international ports such as Rotterdam. The Rotterdam effect is the situation where goods which are initially exported to one country are then re-exported somewhere else.

account for around four percentage points of the UK's imports from and exports to the EU (i.e., 4% of all goods exports to the UK were re-exported to non-EU countries).

The UK-EU TCA secures zero tariffs and quotas on goods moving between the EU and the UK, provided those goods meet the rules of origin (RoO). The RoO determines the "economic nationality" of a good based on where the products or materials (or inputs) used in their production come from. It prevents goods manufactured in third countries being routed through the UK (or the EU) in order to avoid paying third country tariffs. Thus, to benefit from the TCA zero tariff, businesses must demonstrate the origin of their goods -which is all about the qualification and application of product-specific rules of origin.

A product qualifies as 'originating', if it is 'wholly obtained' in the UK and the EU or has been substantially transformed in one or both markets. Hence, businesses that re-export goods from third countries with little or no further processing, will still face tariffs when trading with the EU Member States. Where the rules of origin cannot be assured or on those areas where tolerance rules can be used, the EU or the UK duty will apply fully at the time of importation. Establishing rules of origin is difficult due to the highly integrated nature of EU-UK supply chains and distribution networks.

Moreover, these rules are both costly to comply with and costly to enforce. In April 2016, the "HM Treasury analysis on the long-term economic impact of EU membership and the alternatives" summarised the findings of several studies that estimated that rules of origin could add 3%-15% extra cost to normal trade costs. Second, these rules of origin will also distort trade and investment decisions. This is particularly true in industries with long value chains where companies import a large proportion of their components. A significant proportion of its trade with the EU is accounted for by transhipments that pass through major ports, it also means that in the future, an equal amount of trade will be subjected to customs formalities. The lower the dependence on the EU, the larger the transhipments – and thus the amount of trade subject to those formalities will also be larger.

The UK traded goods are passing through the major European ports because it is more efficient for them to be transported first on very large vessels and then transhipped after they arrive in continental Europe. The same is true for exports: they are first sent to the big European ports before they are exported outside the EU. It follows that diverting trade from those big ports and directly receiving goods from or sending goods to third countries will become more costly, regardless of customs formalities.

The UK Government is phasing in border controls for most goods over 2021. On March 11, it announced a new timetable for introducing import border control processes, with full controls effective from January 1, 2022. This gives businesses more time to complete customs declarations on goods imported into the UK from the EU. While tariffs are still to be payable where they are due, this payment may be deferred. The EU has introduced full customs controls from day one of Agreement.

Rules of origin stipulations in the EU-UK TCA require that all goods must be able to demonstrate that they "originate" in the EU or the UK to qualify for zero tariff treatment. These stipulations may have led to additional costs associated with re-exporting EU goods, which have gone through the UK customs, back to the EU.

The impact of this on the UK's total exports to the EU countries is likely small, with only 3.9% of currently trading exporting businesses in Business Insights and Conditions Survey (BICS) report of currently using rules of origin to access lower or zero tariffs on exports to the EU countries at the beginning of May 2021. However, rules of origin may have led to some changes to supply routes. Of the average 4% of businesses who are currently trading and have reported making changes to their supply chains because of the end of the EU transition period in BICS, the proportion changing to using more UK suppliers peaked at 70.5% at the end of February 2021.

Non-Tariff Barriers

The two primary trade benefits of the EU membership include absence of tariffs or customs duties between member states and minimising non-tarrifs barriers (NTBs) to intra-EU trade such as import or export declarations, documentary requirements, product standards and inspection requirements. The UK would no longer be party to the EU-wide agreements on product standards and rules of origin, such as firms importing goods from outside of the customs union can then trade those goods across borders within the EU without being subject to additional checks. Even though, the UK and the EU were able to enter into a tariff and quota free agreement, disruption in trade through existence of hidden expenditures in the form of NTBs prevail with the introduction of a hard border between the UK and the EU. NTBs 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. A 2020 UNCTAD study, titled "Brexit Beyond Tariffs: The role of non-tariff measures and the impact on developing countries" estimated that the UK would lose up to 14% of its exports to the EU in a "no-deal" Brexit, with NTBs doubling losses from tariffs, estimated at 5%-7%. The study also estimated that even if a "standard" free trade agreement were to be signed by the parties, the UK's exports could still drop by 9%.

Technical barriers to trade remain a significant challenge as the lack of a mutual recognition agreement on conformity assessments results in multiple testing requirements adding to time and cost. In terms of sanitary and phytosanitary measures, physical checks may become a permanent barrier to trade in animal and plant products. In customs intermediary sector, more staff is required to deal with the increased checks. Complicated and varied VAT rules in different EU jurisdictions remains another significant non-tariff barrier to trade. Problems with the transportation of goods, particularly with increased costs and groupage, are also affecting all businesses, hitting smaller firms hardest[8]. Thus, these non-tariff barriers result in border delays, new compliance paperwork - customs clearance issues associated with incorrect or missing paperwork on both sides of the Channel, and other administrative requirements.

[8] UK Parliament

CHAPTER

4

Bilateral Trade and Investment Relations between India and the UK

Bounded by strong ties of history and culture, the UK and India share many fundamental values and a robust wide-ranging relationship. The UK is one of the oldest democracies, and India is the world's largest. A strong Indian diaspora of over 1.6 million in the UK contributes to over 6% of the UK's GDP, thus playing an important role in promoting bilateral trade and investment between both the countries.[9] The UK is a major source of total remittances received by India annually.

The UK and India represent an important opportunity to deepen the bilateral trade and investment relationship. A new historic high in their commercial relations was achieved on May 4, 2021, with the announcement of the India-UK Enhanced Trade Partnership. This partnership carries a bilateral commitment towards a negotiation of a comprehensive trade agreement to unleash the greater potential of the India-UK Trade and commercial relationship. The agreement targets the doubling of bilateral trade by 2030. An ambitious 'Roadmap 2030' is adopted which will pave the way for deeper and stronger engagement over the next ten years in the key areas of people-to-people contacts, trade and economy, defence and security, climate action and health. The governments are working towards an early harvest agreement as a part of larger pact. An early harvest deal is a precursor to a Free Trade Agreement (FTA), in which trading partners reduce tariff barriers on limited goods to promote trade.

This chapter provides an overview of the UK and Indian economies. It builds upon the existing trade and investments relations that holds between India and the UK that will help in understanding trade complementarities between the two economies and importance of further negotiating a comprehensive trade deal for the mutual benefit.

Economic Complementarities between India and the UK

The UK and India are the 5th and 6th largest economies in the world[10], together representing a market of 1.4 billion people. As of 2020, India's GDP at purchasing power parity (PPP) is three times larger than that of the UK. However, the UK's GDP per capita (at PPP) is around seven times higher than India **(Table 4.1)**. In both the economies, services sector contributes the major share to the GDP, though differ in concentration. Services sector contributes more than 3/4th of the GDP in the UK, followed by industry sector and marginal share of agriculture sector. However, in India services contribute to almost 50% of the GDP, followed by industry and agriculture sectors. India's population is over 20 times that of the UK, representing a large market for good and services. Both the economies have strong demographic dividend as almost 2/3rd of the population is in the working age.

[9] High commission of India, London
[10] World Economic Outlook, October 2021

Table 4.1: Economic Indicators of India and the UK, 2020

Economic Indicator	India	UK
GDP, PPP (current prices, US$ trillion)	9.0	3.0
Agriculture, forestry, and fishing, value added (% of GDP)	20.2	0.6
Industry, value added (% of GDP)	25.9	19.2
Services, value added (% of GDP)	53.9	80.2
Population, total (in million)	1378.6	67.1
Population ages 15-64, total (% of total population)	67.3	63.7
GDP per capita, PPP (current prices, US$)	6510.1	44153.9
Trade (% of GDP)	36.5	55.1
Exports of goods and services (% of GDP)	18.1	27.4
Merchandise exports (current US$ billion)	275.5	395.7
Agricultural raw materials exports (% of merchandise exports)	1.1	0.4
Ores and metals exports (% of merchandise exports)	3.5	6.2
Food exports (% of merchandise exports)	10.4	7.1
Fuel exports (% of merchandise exports)	13.8	6.6
Manufactured exports (% of merchandise exports)	71.0	70.1
High-technology exports (% of manufactured exports)	10.3	23.1
Service exports (BOP, current US$ billion)	203.3	342.4

Note: 2019 data is included wherever 2020 data is not available
Source: World Development Indicators, April 2021; World Economic Outlook, October 2021; OECD database; Ministry of Commerce & Industry, GOI

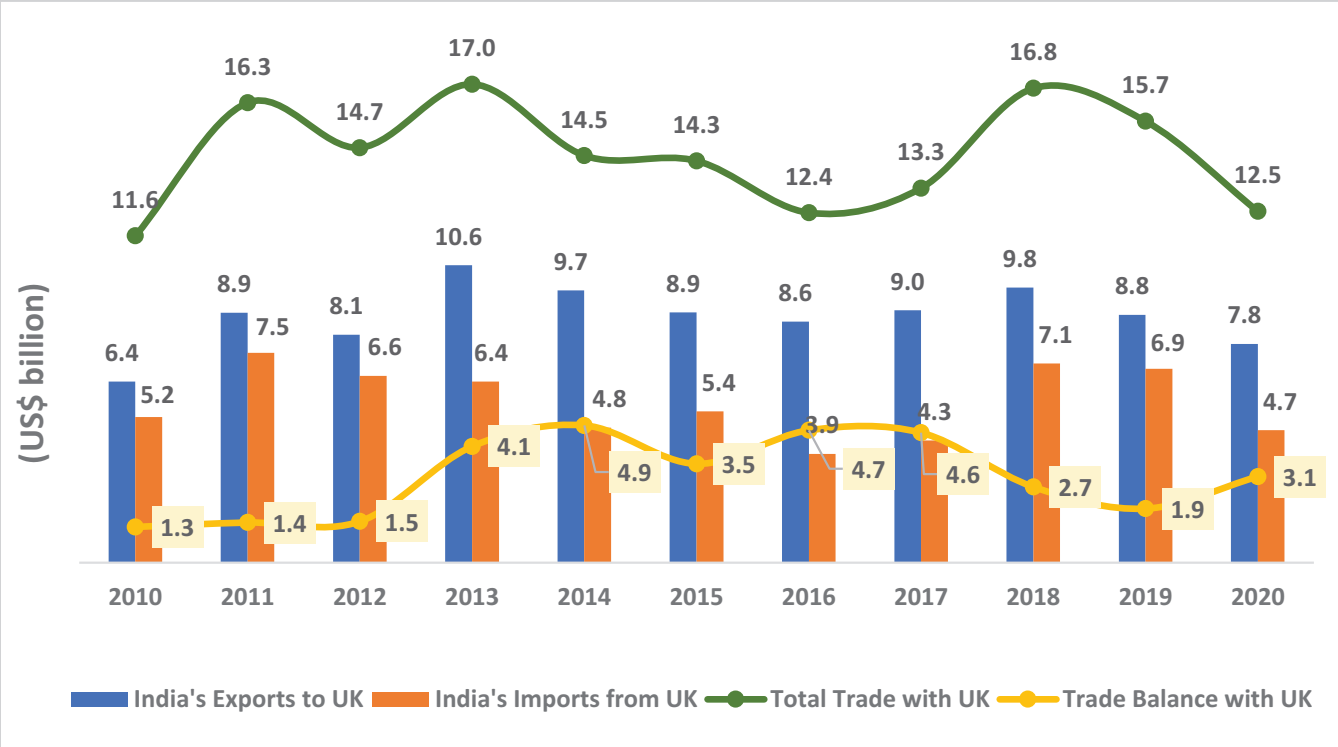
Trade is of great importance to both the economies. In India, total trade accounts for around 37% of the GDP, while for the UK, it accounts for over 55% of the GDP in 2020. For both countries, contribution of merchandise exports to BOP is larger than that of services exports. However, in case of India, the difference is much larger compared to the UK, where the services exports are nearing faster to the merchandise exports. Under disaggregation of merchandise exports, India's primary sector exports are much larger as compared to the UK. The share of manufacture exports in total merchandise exports stands over 70% in case of both India and the UK, however, high technology manufactured goods accounts for only a marginal share (10.3%) in manufactured exports of India, while the share is much higher in case of the UK at 23.1%.

India's Merchandise Trade with the UK

The India-UK trade has grown steadily over the years. In 2020, the UK was the 14th largest trading partner for India. The total trade between India and the UK amounted to US$ 12.5 billion in 2020 increasing from US$ 11.6 billion in 2010 **(Chart 4.1).** Also, with exports to the UK growing considerably faster than imports from the country, India has consistently maintained a merchandise trade surplus with the UK since 2004, which stood at US$ 3.1 billion in 2020. Post Brexit announcement, the bilateral trade in goods between India and the UK have increased by 35% during 2016-2018. However, in 2020 the trade between the two countries was severely impacted by COVID-19 resulting in the total trade between India and the UK declining by 20.4% in 2020 from 2019 levels.

On the other hand, as a partner country for the UK's foreign trade, India's share in both the UK's global exports and global imports is still relatively low. In 2020, India ranked as the 22nd largest export market and the 21st largest source partner for the UK's imports. Moreover, the composition of trade between both the countries has not changed considerably over the last decade.

Chart 4.1: India's Merchandise Trade with the UK



Source: ITC Trade Map and India Exim Bank Analysis

Despite high trade figures, much of the bilateral trade potential between both countries remains untapped. According to the Export Potential Map of ITC, India has an untapped export potential of US$ 5.7 billion with the UK, while the UK has an untapped export potential of US$ 4.4 billion with India. Given the positive trade balance in favour of India, and the untapped bilateral trade potential on both sides, tariff liberalization under the expected free trade agreement with the UK would lead to greater gains for both countries.

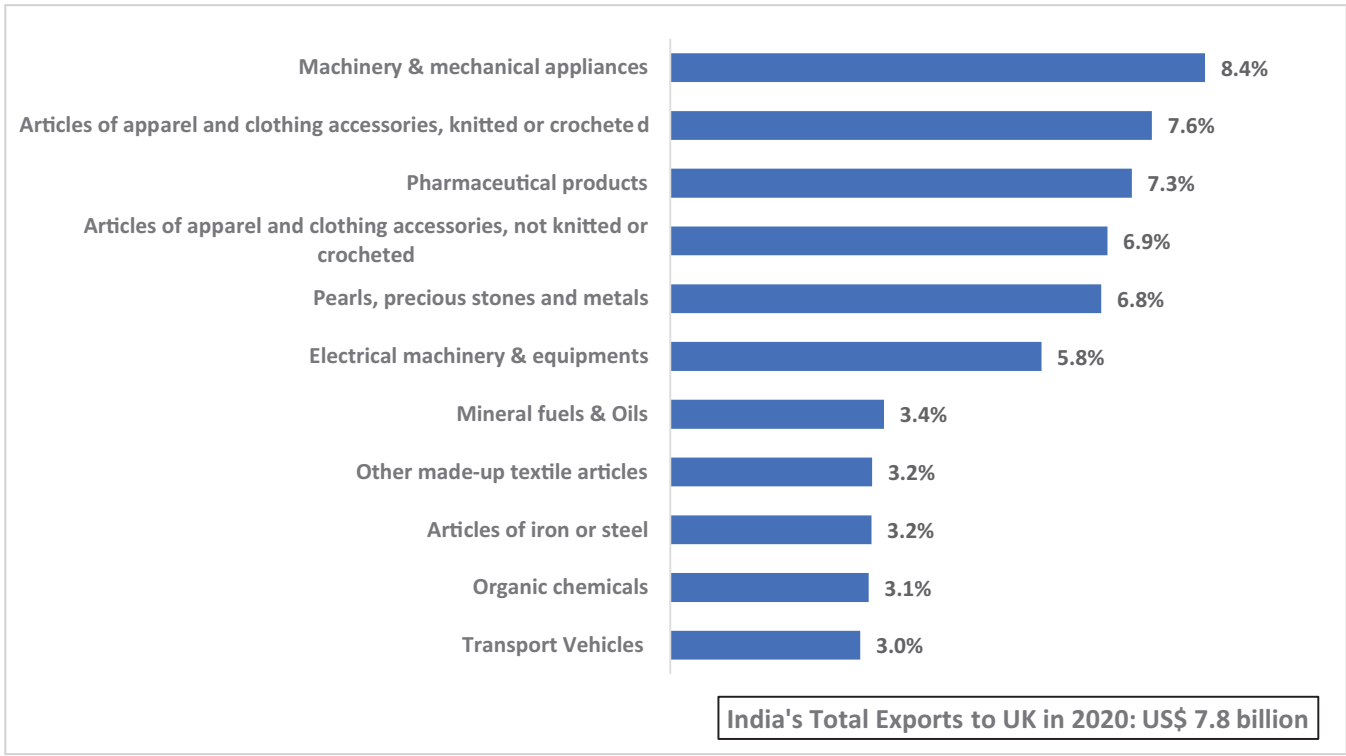
India's Merchandise Exports to the UK

In 2020, the UK stands as the 7th largest export destination of India with a share of 2.8% in India's total exports. Over the last decade, Indian exports to the UK have fluctuated, with rapid increases followed by a fall after 2013 and then reverting with reaching the peak in 2018. Overall, India's exports to the UK rose from US$ 6.4 billion in 2010 to US$ 7.8 billion in 2020. However, total exports to the UK declined in 2019 and 2020 (after reaching US$ 9.8 billion in 2018) by 10.2% and 11.4% respectively, due to the uncertainties around the end of Brexit transition period and the pandemic.

India's exports to the UK are relatively more diversified than its imports. In 2020, the principal item of export to the UK from India was machinery and mechanical appliances which constituted 8.4% of the total exports from India to the UK **(Chart 4.2).** This was followed by articles of apparel and

clothing accessories, knitted, or crocheted (accounting for 7.6% of India's total exports to the UK), pharmaceuticals products (7.3%), article of apparel and clothing accessories, not knitted or crocheted (6.9%), pearls, and precious stones and metals (6.8%), electrical machinery and equipment (5.8%), and mineral fuels and oils (3.4%).

Chart 4.2: India's Major Exports to the UK in 2020 (% Share)

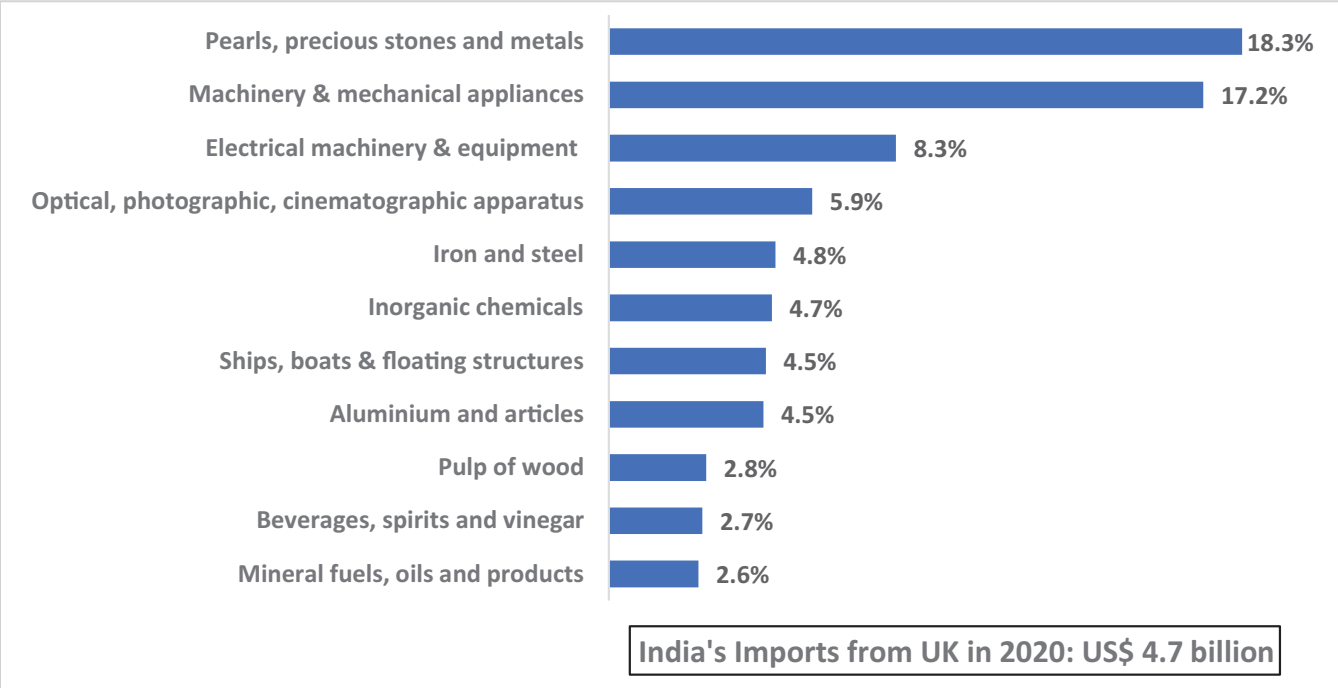


Source: ITC Trade Map and India Exim Bank Analysis

India's Merchandise Imports from the UK

In 2020, the UK's share in India's imports was 1.3% of its total imports (23rd largest source of imports). India's imports from the UK have decreased substantially, from around US$ 5.2 billion in 2010 to US$ 4.7 billion in 2020, reaching the peak in 2011 (at US$ 7.5 billion). Post 2016, India's imports from the UK was found to be rising again until 2019. In 2020 the imports too witnessed a significant fall along with the exports due to the pandemic. Accordingly, the total value of imports faced even a larger decline of 31.9% in 2020 from 2019 levels.

Chart 4.3: India's Major Imports from the UK in 2020 (% Share)



Source: ITC Trade Map and India Exim Bank Analysis

In product terms, pearls, precious stones and metals, and machinery and mechanical appliances, dominate India's import basket from the UK, together accounting for as much as 36% of India's total imports from the UK. Other major import products include electrical machinery and equipment (8.3% of India's total imports from the UK), optical, photographic, cinematographic apparatus (5.9%), iron and steel (4.8%), inorganic chemicals (4.7%), ships, boats, and floating structures (4.5%), aluminium and articles (4.5%), and pulp of wood (2.8%).

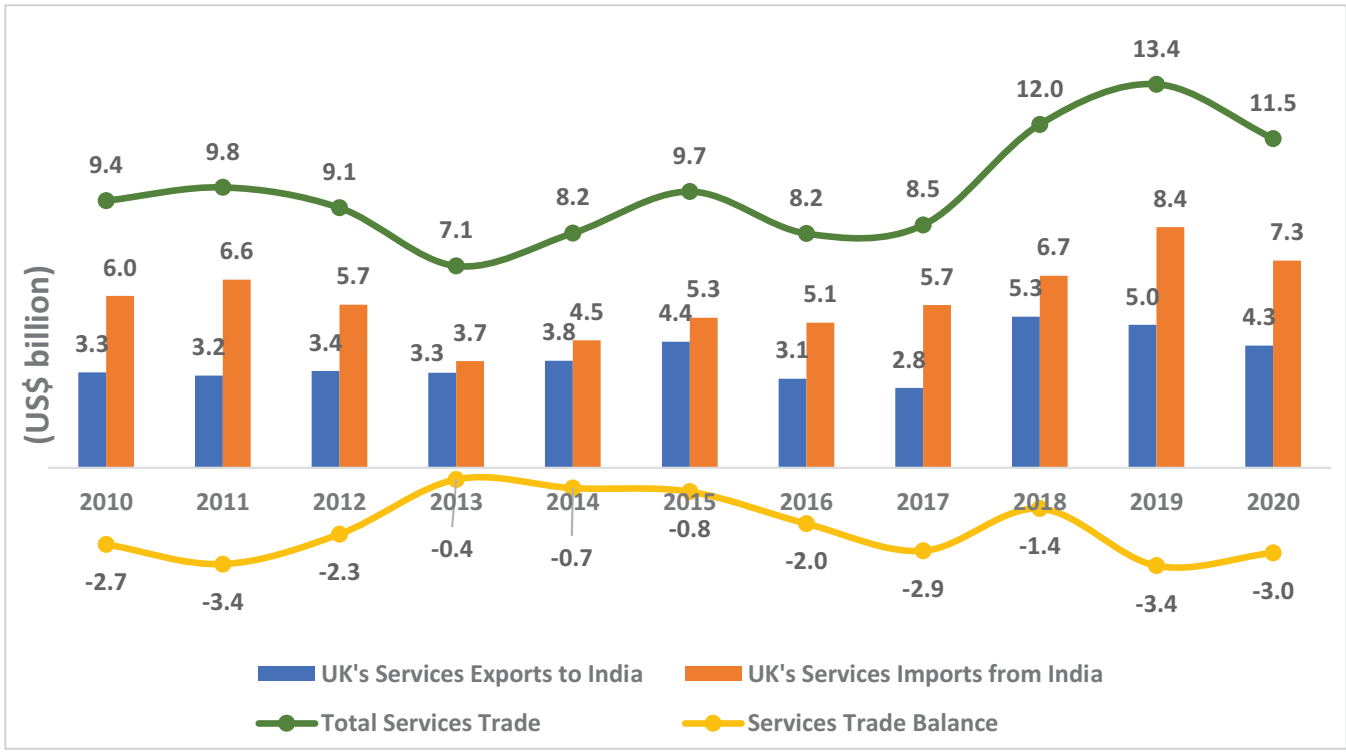
India-UK Service Trade Relations

Both India and the UK are major services trading countries globally. While the UK is the 2nd largest services exporter globally in 2020, India is the 7th largest services exporter. In terms of imports, the UK is the 6th largest global services importer, while India stood at 10th in 2020.

India holds strong services trade relation with the UK, which is near equal to the merchandise trade. India is the 10th largest service trade partner to the UK - 20th largest export destination, with a 1.3% share in the UK's global services exports and the 7th largest import supplier, with a 3.5% share in the UK's global services imports in 2020.

The UK's total services trade with India increased from US$ 9.4 billion in 2010 to US$ 11.5 billion in 2020 **(Chart 4.4)**. However, due to the pandemic and related uncertainty, the UK's services trade with India fell by 14.1% in 2020 from 2019 where it was at its peak at US$ 13.4 billion. During 2010-2020, the UK has constantly maintained a trade deficit with India which stood at US$ 3 billion in 2020.

Chart 4.4: The UK's Services Trade with India



Source: WTO database and India Exim Bank Analysis

The UK's Services Exports to India

India is among the top 20 services exports destinations for the UK in 2020. The services exports of the UK to India have increased steadily over the last decade, from US$ 3.3 billion in 2010 to US$ 4.3 billion in 2020. The year 2018 reported the highest level of services exports to India from the UK (US$ 5.3 billion) during the same period. However, exports fell by 14.5% in a single year during 2019-2020.

With a share of 59.1%, other business services accounted for the largest share in the UK's total services exports to India in 2020 **(Table 4.2).** In disaggregated terms, professional and management consulting services accounted for 85.4% of the total other business services imports, followed by technical, trade-related and other business (13%). Other major services exports include travel (11.2%), financial services (6%), transport (5.9%), telecommunication, computer, and information services (5.3%), insurance and pension services (3.6%), and charges for the use of intellectual property (3.3%), among others.

Table 4.2: Services Exports of the UK to India

(US$ million)

Product/Sector	2010	2015	2019	2020
Total Services Exports	3336	4417	5001	4278
Government goods and services	60	142	147	129
Commercial services	3276	4275	4854	4149
Goods-related services	-	-	64	46
Transport	592	565	692	254
Travel	981	1473	1320	479
Other Commercial Services	1703	2237	2779	3369
Construction	-	-	-	17
Insurance and pension services	-	-	140	153
Financial services	-	-	281	255
Charges for the use of intellectual property	-	-	1063	141
Telecommunications, computer, and information services	-	-	225	228
Personal, cultural, and recreational services	-	-	59	36
Other business services	-	-	976	2529
Research and development services	-	-		42
Professional and management consulting services	-	-	564	2160
Technical, trade-related, and other business	-	-		327

Note: "-" indicates not available or negligible
Source: WTO database and India Exim Bank Analysis

The UK's Services Imports from India

In 2020, India stands as 7th largest services supplier to UK with the share of 3.5% in the UK's total services imports. During 2010-2020, the total services imports from India have increased from US$ 6 billion in 2010 to US$ 7.3 billion in 2020 **(Table 4.3).** Post Brexit announcement in 2016, the UK's services imports from India increased from US$ 5.1 billion and reached its peak in 2019 at US$ 8.4 billion. Services including contact intensive sectors were severely impacted due to pandemic, and thus the imports from India fell by almost 14% alone in one year between 2019 and 2020.

Table 4.3: Services Imports of the UK from India

(US$ million)

Product/Sector	2010	2015	2019	2020
Total Services Imports	6015	5253	8429	7253
Government goods and services	77	40	71	18
Commercial services	5938	5213	8429	7253
Goods-related services	-	-	5	-
Transport	658	403	385	296
Travel	1224	1436	1230	376
Other Commercial Services	4056	3373	7194	6581
Construction	-	-	-	21
Insurance and pension services	-	-	47	36
Financial services	-	-	148	126
Charges for the use of intellectual property	-	-	49	92
Telecommunications, computer, and information services	-	-	960	931
Personal, cultural, and recreational services	-	-	119	22
Other business services	-	-	5524	5333
Research and development services	-	-	212	32
Professional and management consulting services	-	-	2618	2060
Technical, trade-related, and other business	-	-	4205	3241

Note: "-" indicates not available or negligible
Source: WTO database and India Exim Bank Analysis

The UK's total services imports from India consist mainly of the commercial services with negligible share of government services. Other business services make almost 3/4th of the UK's services imports from India. In disaggregated terms, technical, trade-related and other business services make up 60.8% of the business services imports from India, followed by professional and management consulting services (38.6%), and research and development services (0.6%). Technical, trade-related and other business services cover architectural, engineering, scientific and other technical services, waste treatment and de-pollution, agricultural and mining services, operating leasing services, trade-related services and other business services.

Other major services imports of the UK from India include telecommunications, computers, and information services, constituting 12.8% of the total services imports from India in 2020, followed by travel (5.2%), transport (4.1%), and financial services (1.7%), amongst others.

India's Bilateral Investment with the UK

Over the years, several important structural reforms undertaken by the Government of India such as Goods and Services Tax (GST) reforms, programmes such as 'Make in India', 'Digital India', and 'Skill India', relaxing FDI norms across sectors such as defence, PSU oil refineries, power exchanges, stock exchanges, and telecom, and improvements in the Ease of Doing Business (EODB) have enhanced India's position as a major investment destination in the world. India jumped by 14 positions to 63rd rank in Ease of Doing Business ranking as per World Bank's Doing Business Report (DBR) 2020, driven

by reforms in the areas of starting a business, paying taxes, trading across borders, and resolving insolvency.

The UK, one of the G7 economies, is characterized by a large, open and attractive market. The UK is home to the world's leading research, hub for innovation and technology start-ups and has some of the world's top universities and remains the world's leading financial centre. It benefits from a renewed top-down focus on economic competitiveness and commercial relationships with countries both within the EU and outside. Both India and the UK are becoming more digitally enabled and 'data rich' which is paving way for an enhanced strategic partnership between them.

India and the UK share strong ties which is evident from the fact that the UK and India were quick in collaborating on the supply of Oxford-AstraZeneca vaccine (Covishield), which is saving lives across the world. Further, in order to augment commercial relations, one of the key sources of non-debt financial resources for the economic development is the foreign direct investment. Accordingly, India-UK relationship is characterised by healthy levels of FDI activity with much scope for enhanced future partnership. The UK companies are reaping the advantage of relatively lower wages, special investment privileges like tax exemptions, etc by investing in India, thus making it more competitive. Moreover, Brexit marks a significant moment for the UK-India relationship and brings considerable opportunities for investment to strengthen their economic partnership.

India's Investments in the UK

The UK has always been a preferred investment destination for Indian investors and the trend continues despite Brexit. The UK provides an open and supportive environment for businesses. It ranks high on all the comparative indicators and stood at 8th rank in the World Bank's EODB rankings 2020. India has invested considerably in the UK, evident by its healthy level of FDI outflows in the country. It is through these investments that Indian companies create jobs, contribute tax, and play an important role in deepening and extending the long-standing ties between India and the UK.

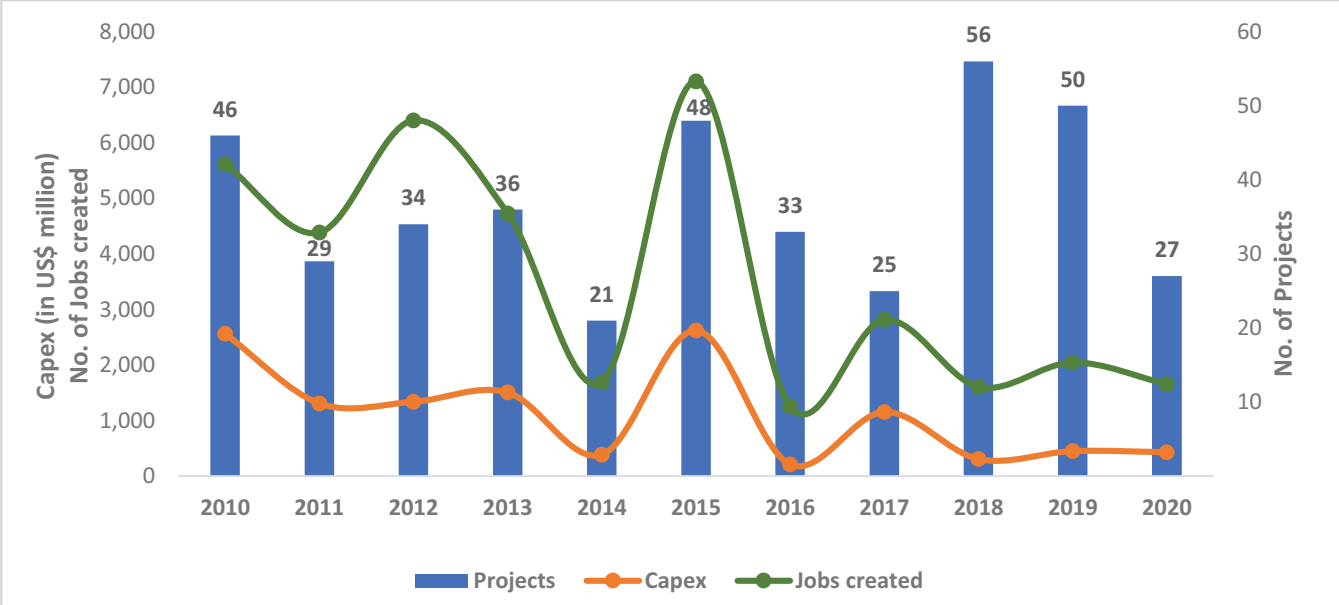
According to the data derived from the Ministry of Finance and the RBI, the UK remains the 5th largest FDI destination for India, with FDI outflows of US$ 22.1 billion during the period April 1996 - December 2021. As per a report published by CII-Grant Thornton there are 850 Indian companies operating in the UK, with combined revenues of almost £50.8 billion.[11] This shows that despite COVID-19 induced disruptions and uncertainty over the final outcome of the UK's exit from the EU, the UK remained an attractive investment destination for Indian investors.

To get a more meaningful understanding on the trends in Indian overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during 2010-2020, total capital investment of India in the UK stood at a cumulative amount of US$ 12.3 billion, in 405 projects by 267 Indian companies, and creating 39,307 jobs. The total investments in 2014 dropped to US$ 387.3 million from US$ 1.5 billion in 2013 due to weakened global demand. Investments from India to the UK again picked up in 2015 to US$ 2.6 billion, before falling to an all-time low of US$ 211.4 million in 2016 due to the uncertainty related to Brexit referendum. Post 2016 in the context

[11] India meets Britain Tracker, 2021, Grant Thornton and CII

of Brexit uncertainty, Indian investments in the UK again started to rise due to the fall in the value of sterling which made the UK assets increasingly attractive to overseas investors including India. After the sterling became stable in 2018, Indian investments in the UK decreased to some extent but India remained among top investors in the UK. In 2020 Indian companies invested US$ 431.5 million in the UK despite COVID-19 challenges and uncertainty over Brexit outcomes **(Chart 4.5).**

Chart 4.5: Summary of Capex, Projects and Jobs Created by India in the UK



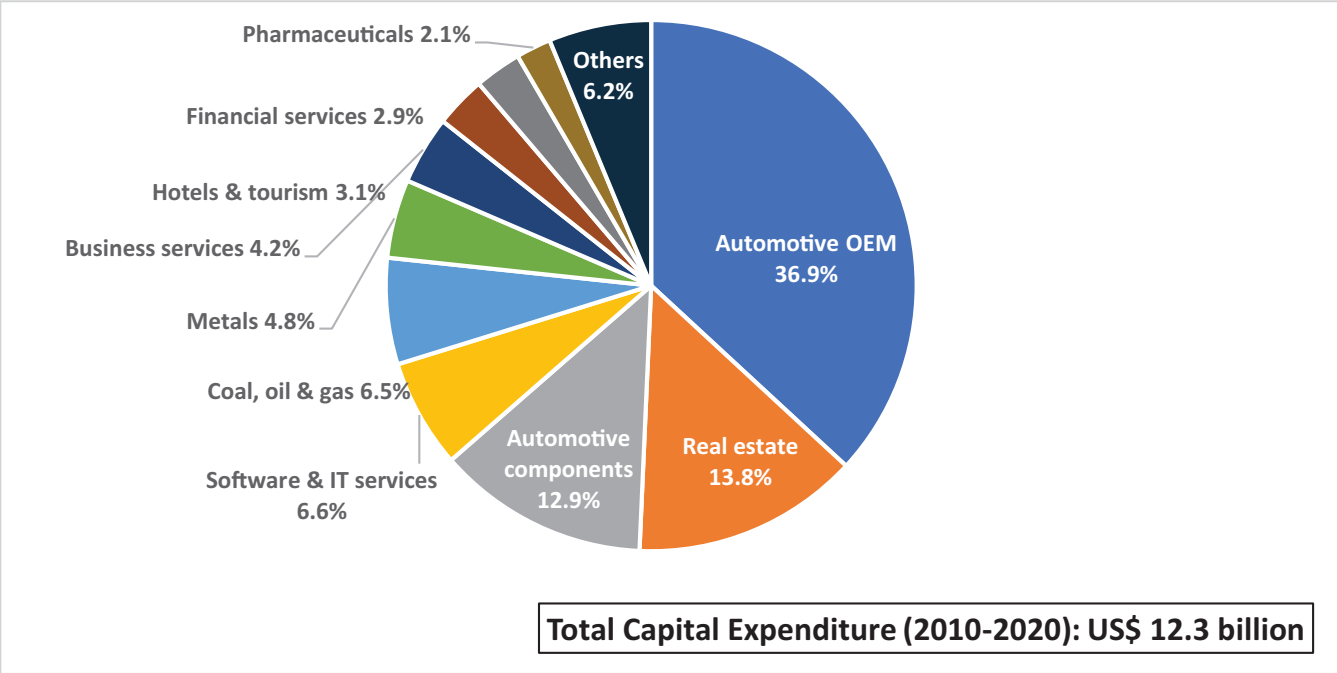
Source: fDi Markets online database and India Exim Bank Analysis

Sector-wise Indian Investments in the UK

The highest number of projects in the UK during the decade (2010-2020) have been in software and IT services (118 projects), business services (80 projects), automotive OEM (29 projects), financial services (28 projects), pharmaceuticals (26 projects), and metals (21 projects), among others.

In terms of capital investments, the largest share has been in the automotive OEM sector (37% of Indian investments to the UK), real estate (13.8%), automotive components (12.9%), software and IT services (6.6%), coal, oil and gas (6.5%), metals (4.8%), business services (4.2%), and hotel and tourism (3.1%) **(Chart 4.6).** While in terms of job created, automotive OEM, business services, automotive components, and software and IT services have been the largest employment generating sector during 2010-2020. As per the CII-Grant Thornton report 2021, fastest growing sectors for Indian companies in the UK were technology and telecoms, pharmaceuticals and chemicals, and engineering and manufacturing.

Chart 4.6: Major Sectors Attracting FDI from India to the UK (2010-2020)



Source: fDi Markets online database and India Exim Bank Analysis

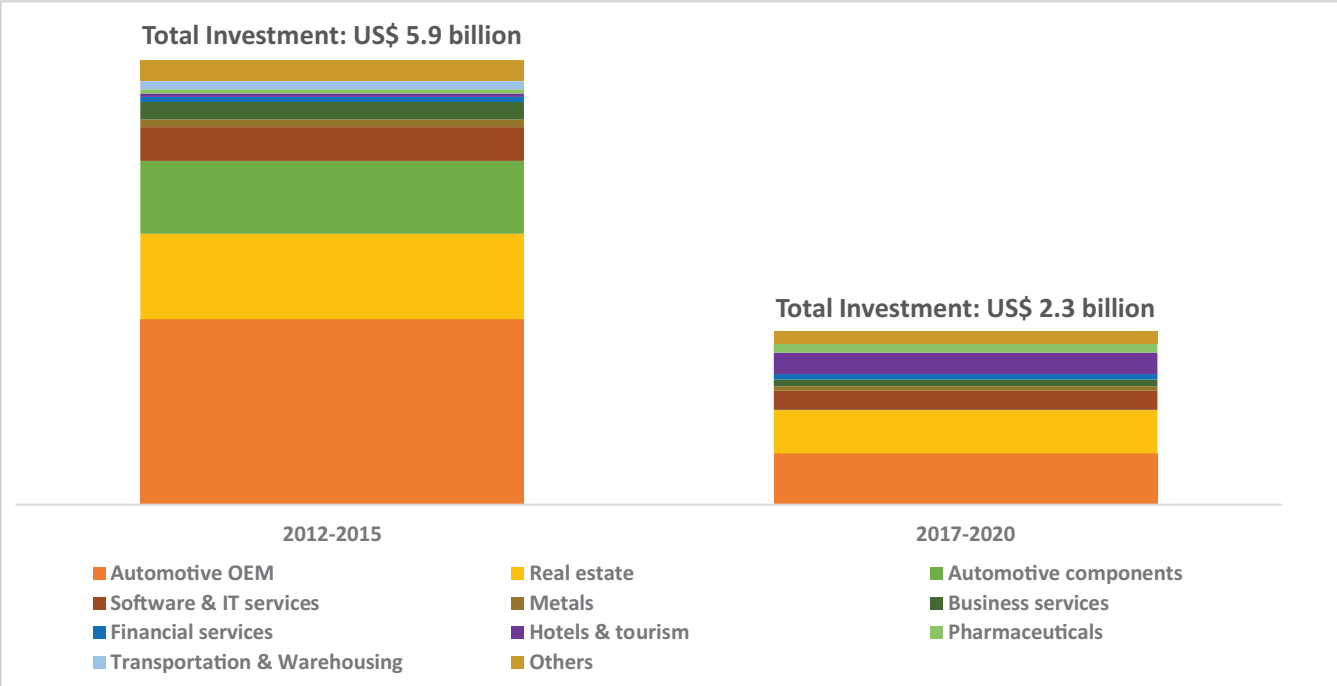
Tata Group alone accounted for 56.1% of the total investment from India to the UK, making it the single largest Indian company in the UK during 2010-2020. Other major companies include GMR Group (6.5% of investment), Sobha Developers (4.6%), Developer Group (4.6%), Lodha Developers (4.6%), Wipro (1.3%), and TVS Group (1%), among others.

Impact of Brexit on Indian Investments in the UK

To understand the impact of Brexit announcement of 2016 on Indian investments into the UK, a comparative analysis has been presented in **Chart 4.7.** 2016 investment figures have been omitted in order to amplify the difference between pre and post Brexit announcement. The two sets of 4-year periods considered are 2012-2015 and 2017-2020. The overall Indian investments in the UK have significantly fallen from US$ 5.9 billion during 2012-2015 to US$ 2.3 billion during 2017-2020. The fall had a multiplier impact due the repercussions arising from the pandemic in 2020.

Automotive OEM sector enjoyed the highest investments during the 2010-2020, but in the two periods considered (2012-2015 and 2017-2020), the investments have fallen more than 3 times to US$ 677.8 million in the later period. Real estate sector also recorded a decline of almost 2 times in the pre and post Brexit announcement period. The investments in the automotive components have fallen significantly from US$ 958.7 million during 2012-2015 to just US$ 6.4 million during 2017-2020. Investments in transportation and warehousing have fallen to a marginal US$ 0.6 million during 2017-2020 from US$ 106.1 million during 2012-2015. Indian investments in software and IT services, metals, and business services sectors have also fallen in the years following the Brexit announcement. The sectors which reported higher investment post 2016 includes financial services (US$ 68 million to US$ 74.2 million), hotel and tourism (US$ 45.1 million to US$ 282.4 million), and pharmaceuticals (US$ 54.9 million to US$ 113.4 million).

Chart 4.7: Sector-wise Indian Investments in the UK during 2012-2015 & 2017-2020



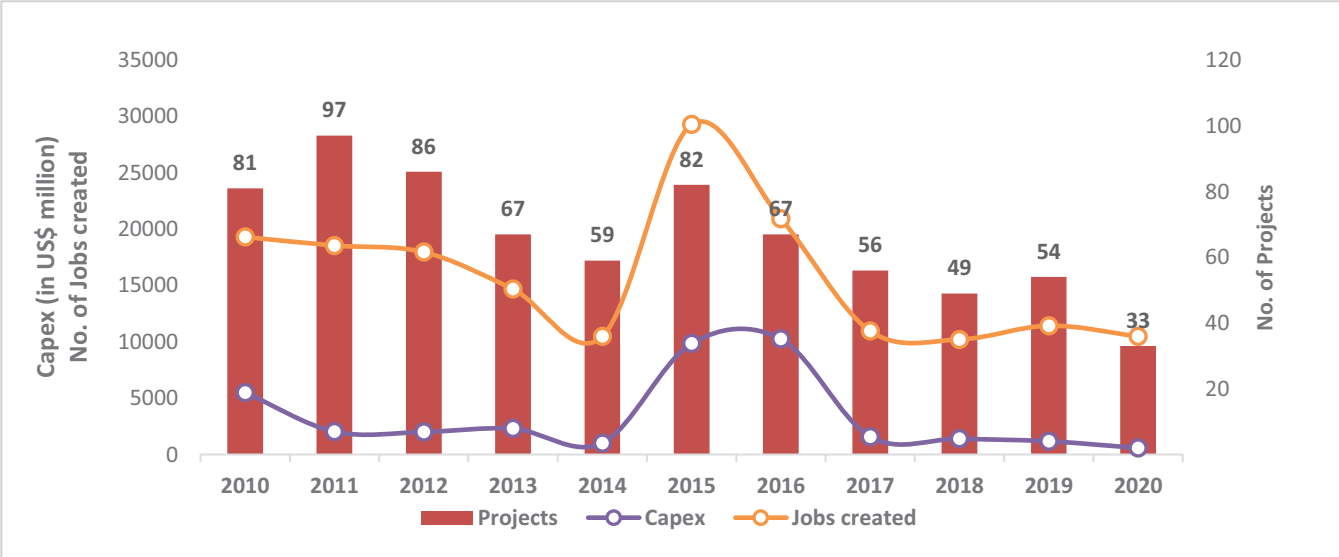
Source: fDi Markets online database and India Exim Bank Analysis

The UK's Investments in India

The size and growth potential of Indian economy, along with availability of skilled labour, attracts increased FDI into India from the UK, making the country one of the leading G20 investors in India. According to the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India, the UK is currently the 6th largest FDI investor in India, with an investment of US$ 31.4 billion during April 2000 to September 2021, accounting for 5.6% of total investments into India during the period.

According to Financial Times' fDi Markets, during 2010-2020 envisaged investment from the UK to India stood at a cumulative amount of US$ 37.7 billion, in 731 projects by 468 British companies resulting in 174,247 jobs **(Chart 4.8)**. This reflects the important contribution of the UK companies to the Indian economy, as a key ally in India's growth story. In 2014, the Government of India launched 'Make in India' in order to drive FDI into India. Make in India was launched to encourage companies to manufacture in India and incentivize dedicated investments into manufacturing. Government of India also launched 'Digital India' campaign in 2015 to transform India into a digitally empowered society and knowledge economy. Owing to various government initiatives, the UK investments in India started to rise. In 2015 and 2016, the UK invested a massive US$ 9.9 billion and US$ 10.2 billion respectively in India. Post 2016, the UK investments into India moderated due to the uncertainty around Brexit and the impact of pandemic.

Chart 4.8: Summary of Capex, Projects and Jobs Created by the UK in India

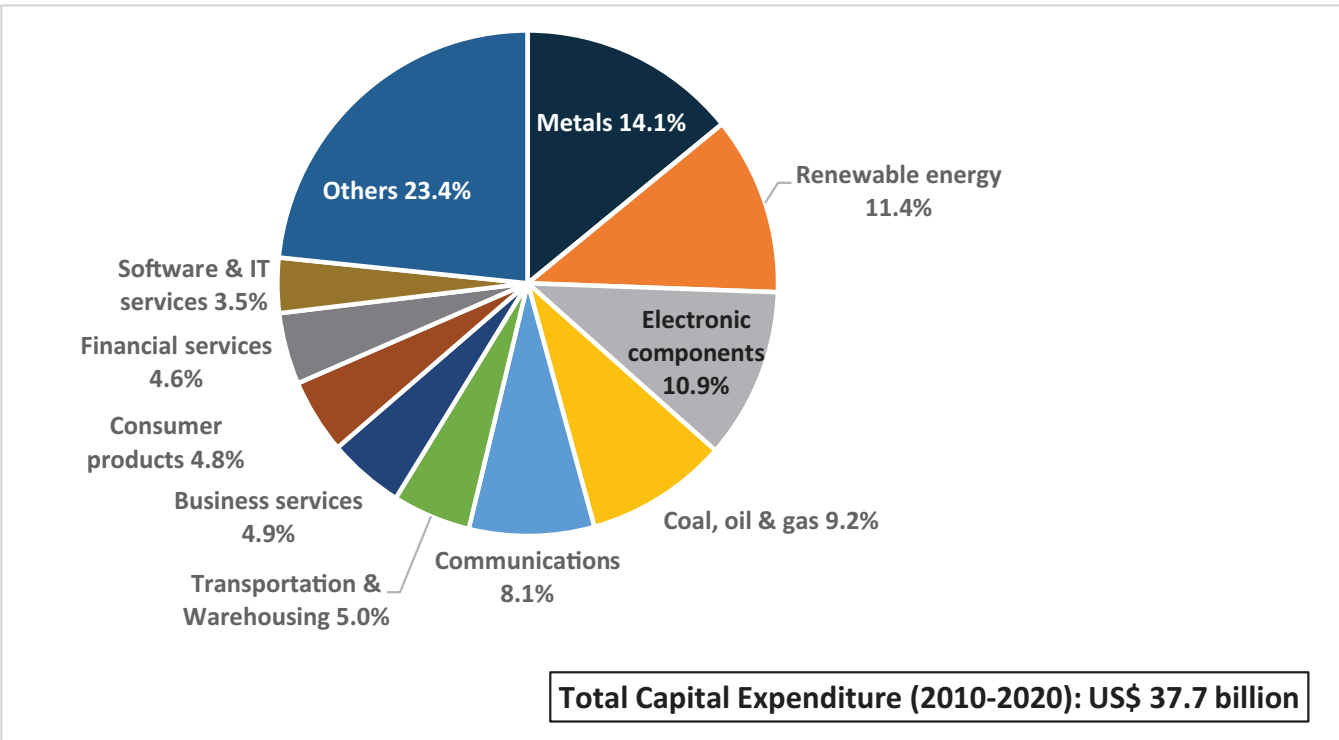


Source: fDi Markets online database and India Exim Bank Analysis

Sector-wise Investments into India from the UK

The highest number of projects into India from the UK during the decade have been in business services (186 projects), software and IT services (102 projects), communications (56 projects), industrial equipment (55 projects), financial services (42 projects), transportation and warehousing (30 projects), and textiles (24 projects), among others.

Chart 4.9: Major Sectors Attracting FDI from the UK to India (2010-2020)



Source: fDi Markets online database and India Exim Bank Analysis

The strength of the UK as a partner lies in the diversity of its sectoral engagement with India. While in terms of investments, the larger share has been in the sectors of metals (14.1%), renewable energy (11.4%), electronic components (10.9%), coal, oil, and gas (9.2%), and communications (8.1%) during 2010-2020 **(Chart 4.9)**. In terms of job creation, business services, software and IT services, metals, chemicals, and healthcare sector dominated in the past decade.

The UK's Vedanta Resources is the single largest investor in India, with the share of 18.1% during 2010-2020. Other major companies invested in India include Solargise (11.1%), Lightsource BP (8.1%), Vodafone Group (5.6%), OPG Power Ventures (4%), Marks and Spencer (3.9%), British Petroleum (2.5%), Rolls-Royce Holdings PLC (2.4%), and Greenko Group (2.3%), among others. In terms of projects, Vodafone Group has invested in the maximum number of projects in India, followed by Vedanta Resources, WPP, Inchcape Shipping Services and Joseph Cyril Bamford (JCB) during 2010-2020.

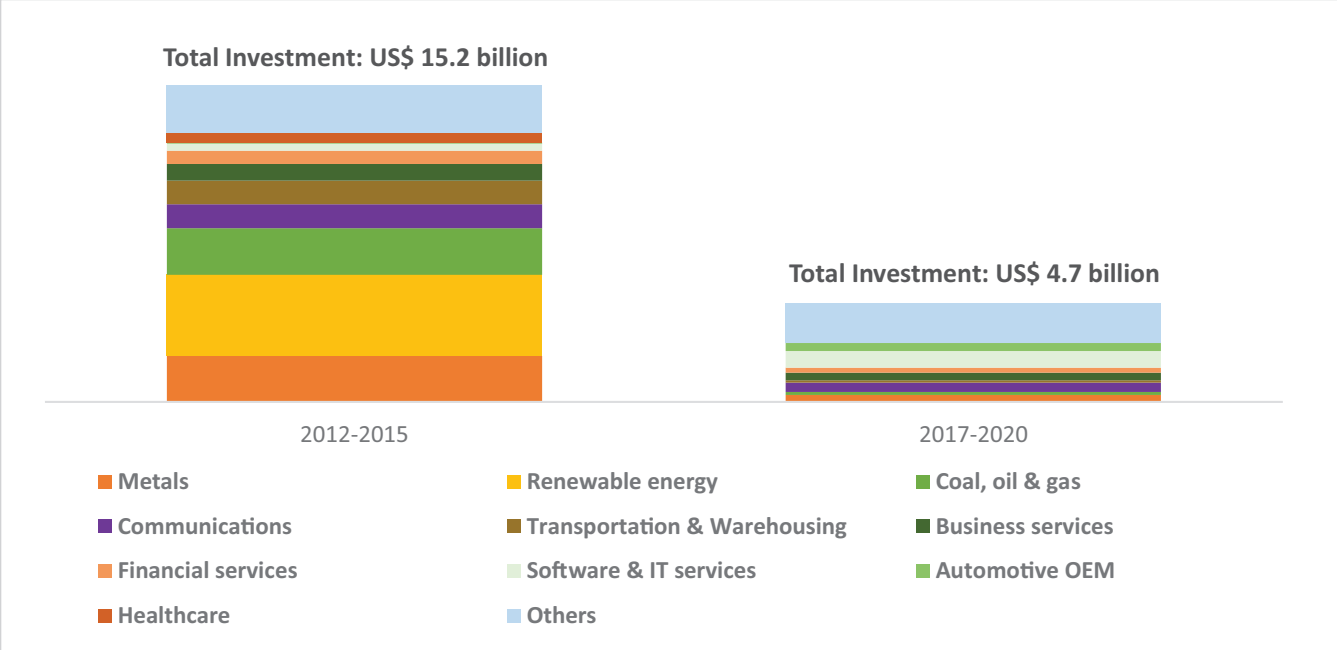
India and the UK have entered into a number of agreements to enhance commercial partnership and promote investments. In 2018, India and the UK agreed upon 'UK-India Tech Cluster Partnerships' to pair businesses, venture capital, universities, and others from different regions in the UK with various states in India. The partnership would help businesses in India and the UK collaborate on emerging technologies, develop mentoring relationships and exchange staff. The partnership has further envisaged to focus on augmented and virtual reality, advanced materials and artificial intelligence (AI). Furthermore, in 2019, 'UK-India Start-up Launchpad' was launched to support Indian start-ups as they expand internationally, building links with the UK's digital sector and paving the way for future economic partnerships. Such collaborations are intended to put the UK at the forefront of the internationalisation strategy of future Indian start-ups, creating jobs and boosting investment.

Impact of Brexit on the UK's investment in India

To understand the impact of Brexit announcement of 2016 on the UK's investments into India, a comparative analysis has been presented in **Chart 4.10**. 2016 investment figures have been omitted from the analysis in order to amplify the difference between pre and post Brexit announcement. The two 4-year periods considered are 2012-2015 and 2017-2020. The overall investments from the UK in India have also fallen significantly from US$ 15.2 billion during 2012-2015 to US$ 4.7 billion in 2017-2020. Metal sector enjoyed the highest investment during the 2010-2020, but in the two periods considered (2012-2015 and 2017-2020), the investments in the sector have fallen by almost 7 times to US$ 326.2 million in the later period. Coal, oil and gas also the recorded a decline of almost 15 times from US$ 2.2 billion during 2012-2014 to US$ 150 million during 2017-2020.

There have been no new significant investments in India in the renewable sector post 2016 compared to US$ 3.9 billion during 2012-2015. The investments in the transportation, communications, business services, and financial services have fallen from US$ 1.1 billion to US$ 107.8 million, US$ 1.1 billion to US$ 456.2 million, US$ 807.3 million to US$ 366.6 million and from US$ 634.6 million to US$ 242.8 million, respectively during 2012-2015 and 2017-2020. Software services and automotive OEM sector are the two major sectors that have witnessed an increase in investment in 2017-2020 period. Investments in the software services almost doubled from US$ 336.4 million to US$ 793.7 million, while investments in automotive OEM increased from US$ 45.5 million to US$ 385.6 million.

Chart 4.10: Sector-wise Investments of the UK in India during 2012-2015 & 2017-2020



Source: fDi Markets online database and India Exim Bank Analysis

The UK has identified India as a priority country and has come out with an ambitious 2030 Vision for revitalising the already existing dynamic connections between both countries. The vision has identified various existing and new areas of investment including, new and renewable energy, creative industries, advanced engineering, agri-tech, healthcare, and life sciences including pharmaceuticals, infrastructure, metallurgy, automotive and agricultural engineering, defence, food processing industry etc, as priority areas for enhanced cooperation. The Vision has encouraged the UK companies to invest in India's manufacturing sector taking advantage of the Production Linked Incentive (PLI) Scheme including in electronics, telecommunication equipment, automotive and pharmaceuticals manufacturing. These initiatives are expected to enhance two-way investments between both countries in the coming days.

CHAPTER

Aligning India's Exports with the UK

The previous chapter has established the importance in terms of trade and investment of the UK and India for each other. The ongoing talks for FTA between the countries have set the stage for enhancing future bilateral partnership. However, an FTA will only be beneficial if there exists complementarity between the export supply of one country to the import demand of the other country. In other words, whatever India is exporting, the UK should have a corresponding demand for it and vice versa. It is generally understood that complementarity in the trade structure of the countries facilitates more export and import between them and there is scope for mutual benefit from this increased trade.

Any FTA between the two countries should be based on the trade complementarities between the two countries. For instance, in the case of two countries, say, Country A and Country B, an FTA between Country A and Country B will only be mutually beneficial, if their exports are complimentary in nature. If Country A's exports are complimentary to the Country B while Country B's exports does not match with the import demands of Country A, then an FTA will only be beneficial to Country A in expanding its exports. Thus, the FTA will be biased towards Country A, and Country B will not be interested in striking an FTA with Country A.

Thus, it is important to assess the level of complementarity between India and the UK while analysing the feasibility of a prospective FTA between both the countries. The trade complementarity index (TCI) is a useful tool, which can provide information on feasibility and prospects for intraregional trade. A TCI between both the countries shows how well the structures of foreign trade of India and the UK fit to understand the utility of an FTA. To sum up, the TCI measures the extent to which a country's export profile matches the import profile of the partner country, in the sense that what a country exports overlaps with what the other country imports and provides an indication of the prospects for greater trade flows. It is a normalized index taking values between 0 and 100, with higher values denoting greater complementarity. The TCI was first proposed by Kojima Kiyoshi and perfected by Peter Drysdale in 1967, and the major proponents of the TCI (Michaely, 1996; Yeats, 1998) argue that the higher the value of the trade complementarity index, the more favorable the outcome of a proposed FTA would be on its potential members.

The TCI between countries 'k' and 'j' is defined as:

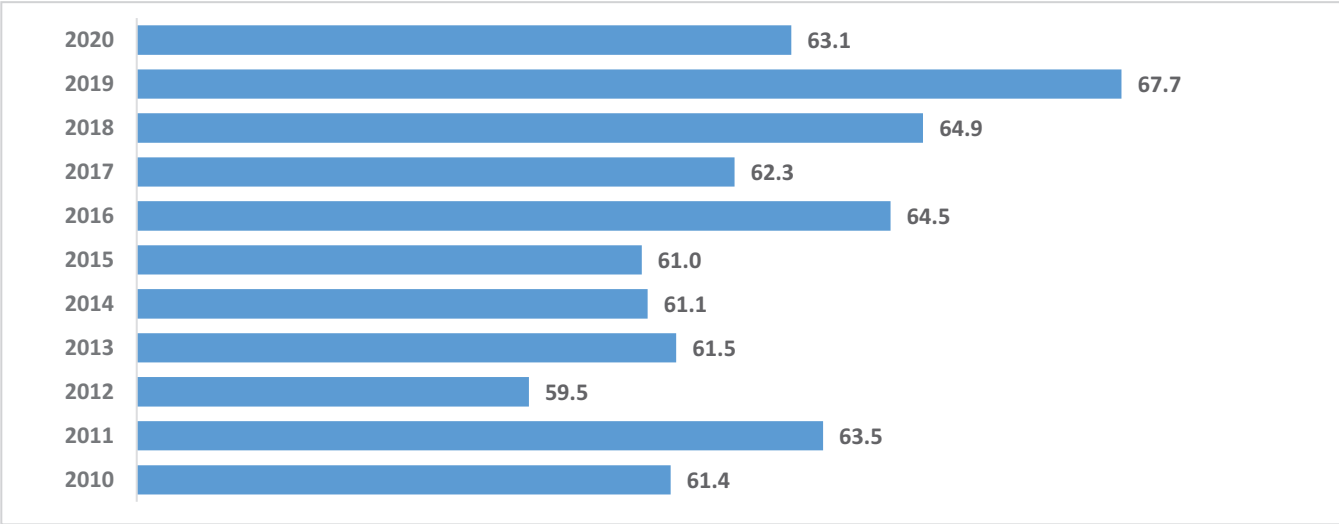
$$TCI_{ij} = 100\ (1 - sum\ (|m_{ik} - x_{ij}|\ /\ 2))$$

Where,

x_{ij}: Share of Good 'i' in Global Exports of Country 'j'
m_{ik}: Share of Good 'i' in Global Imports of Country 'k'

The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

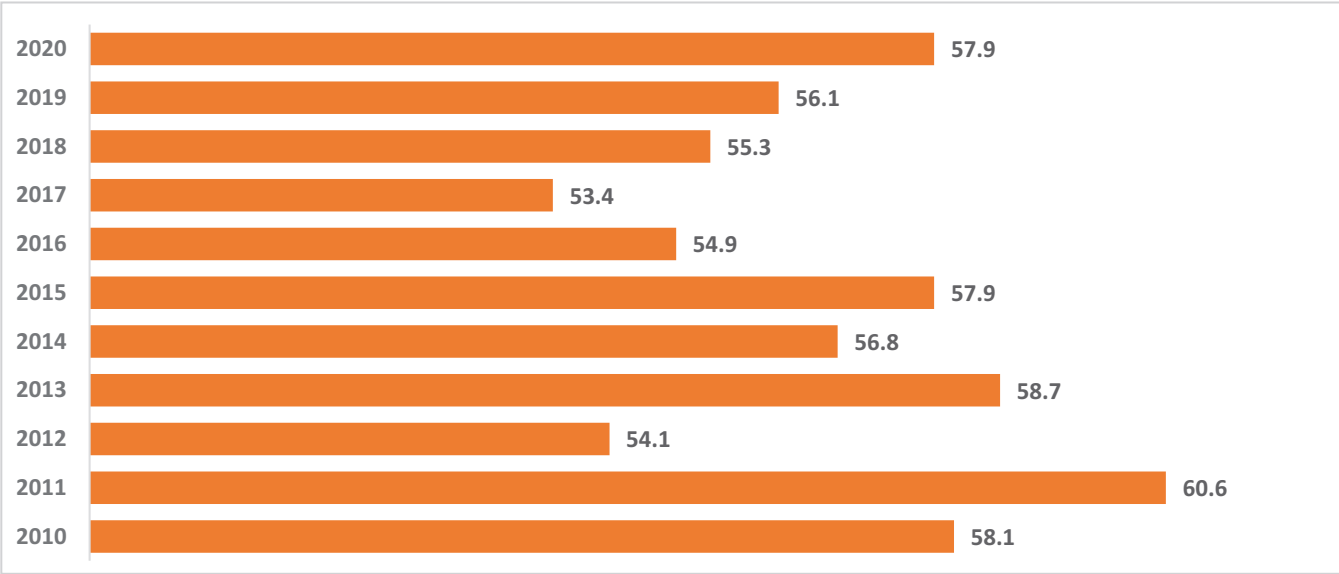
Chart 5.1: India's Trade Complementarity with the UK



Source: WITS database, World Bank and India Exim Bank Analysis

During the period 2010-2020, the complementarity index for profile of Indian exports to the UK's imports ranges from 59.5 to 67.7. This indicates a substantial complementarity in India's exports and the UK's imports. India's export profile matches with the import profile of the UK which indicates that India's exports have a corresponding demand in the UK. The index shows the highest value in 2019 at 67.7. Over the years, the value of the index is rising which shows that India's export profile is converging towards the UK's import profile.

Chart 5.2: The UK's Trade Complementarity with India



Source: WITS database, World Bank and India Exim Bank Analysis

During the period 2010-2020, the complementarity index for the UK's exports profile to India's imports ranges from 53.4 to 60.6. This indicates a substantial complementarity in the UK's exports and India's imports. The UK's export profile matches with the import profile of the India which indicates that the UK's exports have a corresponding demand in India. The index reveals the highest value in 2011 at 60.6. Over the years, the value of the index is falling which shows that India's import profile is diverging away from the UK's export profile.

Revealed Comparative Advantage

Analysing the key products where India has a comparative advantage and matching it with the UK's import demand for these products are necessary for an India-UK FTA to be successful. Quantification of comparative advantage will help in identification of products whose exports from India have been performing well, as also those whose success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country I for commodity j is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

Where,

x_{ji}: Exports of Commodity 'j' from Country 'i'
X_i: Total Exports from Country 'i'
x_{jw}: Total Exports of Commodity 'j' from World
X_w: Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 indicates that the product does not have a comparative advantage, while a value above 1 indicates that product has a comparative advantage.

Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with the UK.

$$RCA_{iju} = (x_{iju}/X_{iu}) / (x_{wju}/X_{wu})$$

Where,

x_{iju}: India's Exports of Commodity 'j' to the UK
X_{iu}: India's Total Exports to the UK
x_{wju}: World's Exports of Commodity 'j' to UK
X_{wu}: World's Total Exports to UK

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju} - 1 / RCA_{iju} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to the UK's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted in order to identify products from the industries for which India has existing capabilities in exporting to the UK. These products are the potential export growth drivers from India to the UK and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to the UK, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in the UK, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to the UK.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2011-2019, as 2020 remains an outlier data point due to the pandemic induced disruptions, resulting in erratic movements in trade patterns globally.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 1 million from India to the UK is considered in the analysis.
- **Parameters under Consideration:** The analysis in this section considers two major determinants of the India's performance in the UK, namely, the **NRCA for products**, and **Average Annual Growth Rate (AAGR)** of world imports to the UK.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of the UK > World Import AAGR of the UK; Positive NRCA): These products have the maximum potential, as the UK's import demand for these products has shown robust AAGR over the period 2011-2019, while India's exports of these products to the UK are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to the UK and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in the UK.

Underachievers (Product Import AAGR of the UK > World Import AAGR of the UK; Negative NRCA): India does not have competitiveness in these products although their import demand has

grown in the UK significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to the UK and further expand its bilateral ties with the UK.

Winners in Declining Sectors (Product Import AAGR of the UK < World Import AAGR of the UK; Positive NRCA): India has competitiveness in these products, even though the UK's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of the UK < World Import AAGR of the UK; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in the UK during the period under consideration.

Product Identification Based on Competitiveness

Chart 5.3: Product Identification for Exports from India to the UK (2019)

Source: ITC Trade Map and India Exim Bank Analysis

To identify the products based on their export competitiveness in the UK, the four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of the UK for all products **(Chart 5.3)**. The quadrants are drawn by comparing the overall AAGR of global imports of the UK for all products during 2011-2019 (which was 1.3%), to the NRCA of India's exports to the UK of these products during the same period. This exercise aims to identify products whose imports in the UK over the period 2011-2019 have performed better than the overall average of the UK for imports of all products during this period, implying that the share of such products in the UK's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 1 million from India to the UK, 732 products have been identified, with total exports from India to the UK amounting to US$ 7.9 billion while the total world imports to the UK in the same products stood at US$ 274.6 billion in 2019.

Out of the 732 items at the HS 6-digit level, 362 items fell into the category of the product champions. The combined exports of these items from India to the UK were US$ 4.04 billion in 2019, representing approximately 45.9% of India's exports to the UK in 2019. Major product champions are provided in **Table 5.1**.

Table 5.1: List of Top 10 Product Champions from India to the UK (HS 6-digit level)

HS Code	Product Label	India's Exports to the UK (US$ million)	Share in India's Total Exports to the UK (%)	Global Imports of the UK (US$ million)	Share in Global Imports of the UK (%)
841112	Turbojets of a thrust > 25 kN	422.0	4.8	9044.3	1.3
711319	Articles of jewellery and parts thereof, of precious metal other than silver	273.4	3.1	4034.9	0.6
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	122.4	1.4	719.8	0.1
251620	Sandstone, whether or not roughly trimmed or merely cut, by sawing or otherwise	104.7	1.2	112.0	0.0
843149	Parts of machinery of heading 8426, 8429 and 8430	96.9	1.1	1106.4	0.2
621143	Women's or girls' tracksuits and other garments of man-made fibres	83.8	1.0	209.5	0.0
840999	Parts suitable for use solely or principally with compression-ignition internal combustion	78.9	0.9	1622.9	0.2
420221	Handbags, whether or not with shoulder straps, incl. those without handles	67.7	0.8	805.4	0.1
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	66.0	0.8	4640.8	0.7
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres	59.9	0.7	594.9	0.1

Source: ITC Trade Map and India Exim Bank Analysis

The total number of products in winners in declining sectors category is 224, with India's exports amounting to US$ 3.1 billion and constitute a share of 35.2% of India's exports to the UK in 2019. These are the product items in which India has attained a significant share in the UK's import basket, but the UK's import demand for these products has been falling in the last decade **(Table 5.2)**.

Table 5.2: List of Top 10 Winners in Declining Sectors from India to the UK (HS 6-digit level)

HS Code	Product Label	India's Exports to the UK (US$ million)	Share in India's Total Exports to the UK (%)	Global Imports of the UK (US$ million)	Share in Global Imports of the UK (%)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	377.9	4.3	11806	1.7
640391	Footwear with outer soles of rubber, plastics or composition leather	176.8	2.0	641.2	0.1
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	149.6	1.7	490.2	0.1
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	135.2	1.5	1897.7	0.3
710239	Diamonds, worked, but not mounted or set (excluding industrial diamonds)	134.3	1.5	1109.5	0.2
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	110.8	1.3	257.9	0.0
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	72.8	0.8	268.4	0.0
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton	70.7	0.8	247.6	0.0
620520	Men's or boys' shirts of cotton	69.6	0.8	580.2	0.1
640399	Footwear with outer soles of rubber, plastics or composition leather	65.2	0.7	1550.8	0.2

Source: ITC Trade Map and India Exim Bank Analysis

This was followed by underachievers with 106 items with India's exports worth US$ 579.7 million from India to the UK **(Table 5.3)**. These products constitute a minimal share of 6.6% in India's total exports to the UK. These are the product items in which import demand in the UK market is rising, but India does not have the required competitiveness in the export of these items.

Table 5.3: List of Top 10 Underachievers from India to the UK (HS 6-digit level)

HS Code	Product Label	India's Exports to the UK (US$ million)	Share in India's Total Exports to the UK (%)	Global Imports of the UK (US$ million)	Share in Global Imports of the UK (%)
870322	Motor cars and other motor vehicles principally designed for the transport of persons	107.1	1.2	10313.3	1.5
271019	Medium oils and preparations, of petroleum or bituminous minerals	66.4	0.8	16489.9	2.4
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	36.2	0.4	10618.0	1.5
190590	Bread, pastry, cakes, biscuits, and other bakers' wares, whether or not containing cocoa	20.0	0.2	2127.5	0.3
730890	Structures and parts of structures, of iron or steel	16.2	0.2	2058.2	0.3
711021	Palladium, unwrought or in powder form	16.2	0.2	1675.8	0.2
841191	Parts of turbojets or turbo-propellers	14.8	0.2	9503.5	1.4
210690	Food preparations	13.2	0.2	1767.8	0.3
870829	Parts and accessories of bodies for tractors, motor vehicles for the transport	11.6	0.1	2842.2	0.4
293359	Heterocyclic compounds with nitrogen hetero atom[s] only, containing a pyrimidine ring	10.9	0.1	1374.2	0.2

Source: ITC Trade Map and India Exim Bank Analysis

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in the UK market would result in further fall in prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and Underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to the UK.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the UK market, whilst India's exports also hold a comparative advantage in them. The 362 product champions identified at 6-digit HS code level can be further aggregated to 61 product groups at 2-digit HS code level **(Table 5.4)**.

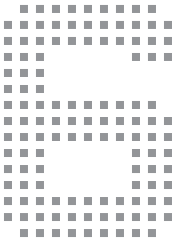
Table 5.4: Broad Industry Classification of Identified Product Champions from India to the UK (HS 6-digit level)

Broad Industry Category	HS Code	India's Exports to the UK in 2019 (US$ million)	Share in India's Total Exports (%)
Machinery; electrical equipment etc.	84-85	1108.9	12.6
Apparels	61-62	610.6	6.9
Pearls and precious stones	71	341.1	3.9
Textiles	50-60, 63	257.2	2.9
Iron & steel and their articles	72-73	242.2	2.8
Chemicals and allied	28-29; 31 to 38	231.1	2.6
Agriculture and allied	1 to 24	223.4	2.5
Plastics; rubber and their articles	39-40	172.3	2.0
Leather articles etc.	41-43	150.2	1.7
Railway locomotives and other vehicles	86-89	132.6	1.5
Mineral products	25	119.2	1.4
Other Base metals and their articles	74-83	107.2	1.2
Optical; photographic; medical instruments and clocks	90-92	90.2	1.0
Toys; games; sports requisites and other articles	94-96	77.7	0.9
Articles of stone, plaster etc.	68-70	62.6	0.7
Footwear; headgear etc.	64-67	62.2	0.7
Wood; pulp of wood and other articles	44-49	41.9	0.5
Arms & ammunition	93	1.7	0.0

Source: ITC Trade Map and India Exim Bank Analysis

The above table also highlights the share of those sectors in India's exports to the UK in 2019. It may be noted that the data given in the **Table 5.4** is not the total exports for the same sectors from India to the UK, but a simple aggregation of exports from India to the UK, for the identified product champions at HS 6-digit level. The sectors such as machinery and electrical equipment, apparels and pearls and precious stones are the top sectors holding the largest share in the product champion sectors of India to the UK.

CHAPTER



India's Potential Free Trade Agreement with the UK: An Analysis

After the Brexit, the FTA negotiations between India and the UK have gained new momentum and both the countries are targeting to finalize the agreement during early 2022. In this context, this chapter examines the existing levels of tariffs between India and the UK. The chapter will further elucidate upon the various scenarios of tariff reduction in case of an FTA between the two countries. This will help disintegrating the impact of fall in the prices and the subsequent changes in the tariff revenue of both the countries due to tariff cuts on their imports.

Tariffs and its Terminology[12]

Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. The different types of tariff terminology and data used in the present analysis is as follows.

Most Favoured Nation Tariff

The most favoured nation (MFN) tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) tariffs that WTO members charge one another.

Some countries impose higher tariffs on countries that are not part of the WTO. In some rare cases, WTO members/GATT contracting parties have invoked the "Non-Application Clause" of WTO/GATT agreements and chosen not to extend MFN treatment to certain other countries.

Bound Tariff

Bound tariffs (BND) are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

Bound tariffs are not necessarily the rate that a WTO member applies in practice to other WTO members' products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis) so long as they don't raise them above their bound levels. If one WTO member

[12] Types of Tariffs by WITS, World Bank

raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country did not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff (actual tariff) is less than or equal to the bound tariff in practice for any product.

The gap between the bound (committed and difficult to increase) and applied MFN rates is called the binding overhang. It is argued that a large binding overhang makes a country's trade policies less predictable. This gap tends to be small on average in industrial countries and often large in developing countries.

Effectively Applied Tariff

Effectively applied tariff (AHS) is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the MFN applied tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's country of origin.

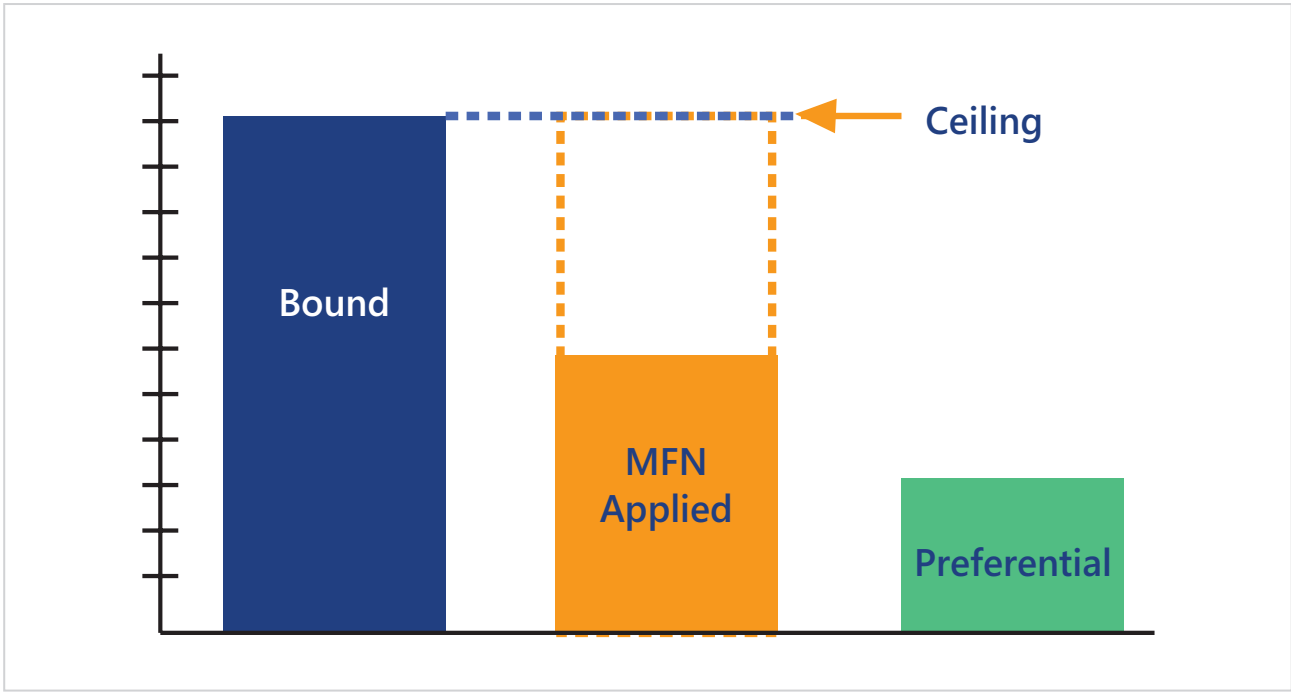
Preferential Tariff

A preferential tariff is one that falls under a preferential trade agreement, where countries make a deal in which they agree to charge a lower rate than the MFN rate. Virtually all countries in the world are part of at least one preferential trade agreement, under which they promise to charge lower tariffs than their MFN rate to another country's products. In a customs union (such as the Southern Africa Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products. These agreements are reciprocal - all parties agree to give each other the benefits of lower tariffs. Some agreements specify that members will receive a percentage reduction from the MFN tariff, but not necessarily zero tariffs. Preferences therefore differ between partners and agreements. **Chart 6.1** depicts various types of tariffs.

Many countries, particularly the developed ones, give developing countries unilateral preferential treatment, rather than through a reciprocal agreement. The largest of these programs is the Generalized System of Preferences (GSP), which was initiated in the 1960s. The European Union, Japan, and the US offer multiple unilateral preference programs. The EU's Everything But Arms (EBA) program is one example.

The Government of the UK also provides GSP benefits to eligible developing countries for their exports into the country. The UK GSP has 3 frameworks - least developed countries framework; general framework and enhanced framework. Under the least developed countries framework, imports from least developed countries receive quota-free access and nil rates of import duty on all goods other than arms and ammunition. Under the general framework, imports from countries that the World Bank classifies as low-income and lower-middle income countries have reduced rates of import duty on certain goods outlined in the UK GSP tariff rates. India is covered under the general framework of the UK GSP. The enhanced framework is for certain economically vulnerable low and lower middle-income countries and imports from these countries have a nil rate of import duty on certain goods outlined in the UK GSP tariff rates.

Chart 6.1: Types of Tariffs



Source: WITS by World Bank

India's Tariff on Imports from the UK

A detailed list of tariffs on India's imports from the UK is provided in **Annexure 1**. In the current analysis, the tariff on 2-digit HS code is taken into consideration, using TRAINS based WITS data. The year considered is 2019, as 2020 is an outlier due to the intense trade disruptions caused by the coronavirus pandemic. Since there is no current preferential agreement between India and the UK, the effectively applied tariff on the UK is the same as the MFN tariffs. Based on **Table 6.1,** it is quite evident that India has a very high binding coverage with binding on majority of its tariff lines except in few product categories (15 products at 2-digit HS Code) with zero tariff lines under binding. It is not a hidden fact that India has very high bound rates (the ceiling tariff), which signifies that India has a huge scope/ability to increase its tariff levels, well within its WTO agreed levels. Thus, it is India which must decide its effectively applied tariff that it imposes on its importers.

Table 6.1: Bound Rates on India's Imports from the UK in 2019

Bound Tariff Rates (%)	No. of Products (at 2-digit HS Code)	Total Number of Tariff Lines	Total Imports (US$ million)	Share in Total Imports (%)
01-50	53	7241	6142.6	89.5
51-100	10	164	17.0	0.2
101-150	15	576	236.2	3.4
>150	1	71	1.0	0.0
Bound Duty not Specified	15	528	467.2	6.8

Source: WITS database and India Exim Bank Analysis

It can be concluded that highest number of products (at 2-digit HS code) is under the bound tariff rate of 1%-50%, which amounts to the total imports of US$ 6.1 billion in 2019. This category even witnesses the highest number of tariff lines. Under the bound tariff rate of 51% -100%, there are 10 categories of products, with total imports amounting to US$ 17 million in 2019. A very high bound tariff rates of 101%-150%, are levied on 15 product categories with total imports amounting to US$ 236.2 million in 2019. These set of products are protected with their high bound tariff rates based upon its sensitivity and domestic significance. It is only 1 product (animal or vegetable fats and oils) which has bound tariff rate of 185.96% which accounted for the total imports of US$ 1 million in 2019. Last category consists of 15 products, where there are no specified bound tariff rates.

Table 6.2: Effectively Applied Tariff on India's Imports from the UK in 2019

Effectively Applied Rates (%)	No. of Products (at 2-digit HS Code)	Total Number of Tariff Lines	Total Imports (US$ million)	Share in Total Imports (%)
0-10	47	5920	4421.0	64.4
11-20	18	1251	2101.5	30.6
21-30	16	829	35.5	0.5
31-40	8	181	13.4	0.2
41-100	4	332	115.5	1.7
>100	1	67	177.1	2.6

Source: WITS database and India Exim Bank Analysis

Table 6.2 disintegrates the simple average of the effectively applied tariff by India on the imports from the UK. It is inferred from the previous table that the bound rates are very high in case of India, but that is not the actual tariff faced by the UK exporters. It is the effectively applied tariff that the UK exporters face while exporting to India. There are 47 categories of products (at 2-digit HS code) that has effectively applied tariff rate of 0%-10%, which amounted to the total imports of US$ 4.4 billion in 2019. This corresponds to over 64.4% of the total imports from the UK in 2019. There are 18 product categories under the 11%-20% effectively applied tariff rate, which corresponds to over 30.6% of the total imports in 2019, amounting to US$ 2.1 billion. So cumulatively, 95% of Indian imports from the UK faces effectively applied tariff rate of less than 20% when exported to India. 28 product categories face effectively applied tariff ranging between 21% - 100% with the total import share of 2.4% in 2019.

There is only one product category i.e., beverages, spirits and vinegar which has an effectively applied tariff of 107.62% with the weighted average of 149.57% and this category alone constitute 2.6% (US$ 177.1 million) of the imports during 2019. Around 80% of India's imports from the UK under this category is what is commonly called as scotch whiskey, with an import tariff of 150% tariff. This remains a major point of contention between India and its major alcohol import suppliers, in particular the UK. Although at 2-digit HS code level, the product category, vehicles other than railway and tramway (HS-87), has an effectively applied tariff of 41.51%, British made motor cars (HS-8703) under this category have an effectively applied tariff of 125%.

The UK's Tariff on Imports from India

The tariffs imposed by the UK on India's exports at 2-digit HS code level using TRAINS based WITS data is analyzed in **Annexure 2**. It is interesting to note that none of the tariff line of the UK is bound under WTO, unlike India where exists nearly 100% binding coverage (except few products). The UK, being a developed economy, has low MFN tariffs, thus promoting free and easy trade with its partners. Since India and the UK have no preferential agreement between them, the effectively applied tariff is same as the MFN tariff.

Table 6.3: Effectively Applied Tariffs on the UK's Imports from India in 2019

Effectively Applied Tariff (%)	No. of Products (at 2-digit HS Code)	Total Number of Tariff Lines	Total Imports (US$ million)	Share in Total Imports (%)
0	10	216	627.9	7.4
0.1-10	74	9157	6004.1	70.7
11-20	8	1333	1861.7	21.9
21-50	1	35	4.1	0.05

Source: WITS database and India Exim Bank Analysis

Table 6.3 disintegrates the simple average of the effectively applied tariff by the UK on Indian exports. In comparison to India, the effectively applied tariff is low in the case of UK, with the country being a developed economy. There are 10 categories of products (at 2-digit HS code) which amounts to US$ 627.9 million in 2019, on which the UK imposes the effectively applied tariff of 0%. These products constitute 7.4% of the UK's imports from India in 2019. There are 74 product categories amounting to US$ 6 billion under the 0.1%-10% effectively applied tariff, which corresponds to over 70.7% of the UK's imports from India in 2019. So cumulatively, 78.1% of the UK's imports from India faces effectively applied tariff of less than 10% when exported to the UK. Eight product categories face effectively applied tariff ranging between 11%-20% with the total import share of 21.9% in 2019. Products of milling industry; preparation of meat and fish; sugar and sugar confectionery; preparation of fruits, vegetables and nuts; textiles and garments, and footwear are the products coming under this category. It is only one product category, i.e., tobacco and manufactured tobacco substitutes with an import value of US$ 4.1 million in 2019, faces a high effectively applied tariff of 45.93%.

Tariff Liberalisation Under a Free Trade Agreement

Tariff liberalization remains an important aspect of any FTA. This section will focus upon the cases where the tariffs/ import duties could be reduced by India and the UK on each other's products to a certain level which will subsequently lead to rise in the level of bilateral trade between both the countries.

An FTA/PTA is a change in the trade policy and thus its impact is to be comprehended and studied in detail. The current analysis used the Single Market Partial Equilibrium Simulation Tool under the

WITS-SMART Simulations Framework to understand the trade effect of an FTA between India and the UK. SMART is a partial equilibrium modelling tool used for market analysis, which focuses on one importing market and its exporting partners and assesses the impact of a tariff change scenario by estimating new values for a set of variables. The Armington model is the basis for the SMART simulation package of the WITS. Partial equilibrium implies that the analysis only considers the effects of a given policy action in the market(s) that are directly affected. The analysis does not account for the economic interactions between the various markets in a given economy. In a general equilibrium setup, all markets are simultaneously modelled and interact with each other.[13]

Assumptions of the Model

- **Price Taker:** The exports supply of a given good by a particular country is related to the price that it fetches in the export market. The degree of responsiveness of the export supply to the changes in the export price is termed as the export supply elasticity. One of the assumptions of the SMART is the infinite export supply elasticity. The slope of the supply curve is infinite and world prices are exogenously given.
- **Imperfect Substitution:** There is an imperfect substitution between different import sources. The goods imported from two different countries, although similar are imperfect substitutes.

Under SMART modelling framework, tariff liberalization affects not only the price levels of composite good (aggregate consumption of that commodity), but also the relative price levels of that good from different countries. Thus, within the Armington assumption, the representative country maximizes its welfare through a two-stage optimization process. First stage is through change in total spending due to change in price index on a composite good, which is termed as import demand elasticity. Second stage is through the allocation of the chosen level of spending among the different sources/ countries depending on its relative prices, which is termed as the substitution elasticity. To sum up, tariff liberalisation will lead to changes in the overall spending on that good (import demand elasticity) as well as the changes in the composition of the sourcing of that good among different import partners (substitution elasticity). Post tariff liberalisation, both these changes will affect the bilateral trade flow between the countries.

The output from the SMART framework decomposes these trade impact into trade creation and trade diversion. **Trade creation** is defined as the direct increase in imports following a reduction on the tariff imposed on a given good from the partner country. **Trade diversion** is defined as further increase in imports of that good from partner country due to the substitution, away from imports of other countries as these have become relatively more expensive. SMART also calculates the impact of the trade policy change (tariff liberalisation due to preferential agreement) on the tariff revenue, consumer surplus and the welfare of the importing country.

In the current analysis, following are the inputs that have been fed in the SMART framework:

- **Product Selection Nomenclature:** The HS combined is the nomenclature used in the product selection. The HS combined nomenclature combines all current and historical revisions of HS. Products are selected by clusters upto 6-digit HS Code.

[13] WITS by World Bank

- **Time Period:** The considered time period for the analysis is 2019, as disruptions due to Covid 19 pandemic has resulted in unprecedented diversions in normal trading patterns in 2020.
- **New Duty Rates:** Tariffs have been reduced according to the Swiss formula which is defined as $r_1=(a*r_0)/(a+r_0)$ with 'r_0' as the existing tariff and 'r_1' as the new tariff and 'a' as coefficient to be entered in the parameter box. Tariffs are reduced by the entered cut coefficient. For the current analysis 'a' is taken as 20 to understand a scenario with 80% swiss cut in the tariff levels.
- **Import Demand Elasticity:** The corresponding values used in the analysis are system generated, which by default in SMART are the same for all reporters but may vary by product.
- **Export Supply Elasticity:** The SMART model assumes that an increase in demand for a given product due to tariff liberalization will always be matched by the producers and exporters of that good, without any impact on the price of the good. In the current analysis, the export supply elasticity value is taken as 99, based on the assumption that there will be no export supply constraint and the export supply is highly elastic.
- **Substitution Elasticity:** Import substitution elasticities define the degree of substitution between two goods from different countries. In SMART, the import substitution elasticity is considered to be 1.5 for each good by default, the value should be greater than one, as consumption of the commodity will rise with the fall in the relative prices. Hence, there will be a positive shift in import demand towards the partner country away from the other countries (with whom no preferential agreement is signed).

Case 1: Tariff Liberalisation by India on Imports from the UK

Reporting Country: India

Partner Economy: United Kingdom

Trade Effect

A tariff liberalisation by India on its imports from the UK will result in a trade effect, which can be decomposed into trade creation and trade diversion. According to the SMART framework analysis with the above-mentioned conditions and inputs, tariff liberalisation will lead to a total trade effect of US$ 2.3 billion, implying that under preferential agreement, India's imports from the UK will increase by US$ 2.3 billion. In the total trade effect, total trade creation will constitute US$ 1.9 billion which is the additional import due to fall in the price level subsequent to the fall in the tariffs. Total trade diversion will be US$ 369.4 million, which is the increased trade from the UK away from the other partners due to the fall in the relative price levels post - tariff liberalisation. Price effect is zero since the model has assumed infinite price elasticity.

Moreover, at 2-digit HS code, post tariff liberalisation, it is derived that 44.7% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by vehicles other than railway or tramway (HS-87); followed by beverage, spirits, and vinegar (HS-22; 17.9%); pearls, precious stones and metals (HS-71; 10.6%); ships, boat and floating structure (HS-89; 4.9%); and machinery and mechanical appliances (HS-84; 4.9%). Together, these 5 products amount to 83% of the total trade effect after tariff liberalization **(Table 6.4)**.

Table 6.4: Products having Maximum Trade Effect Post Tariff Liberalisation by India on Imports from the UK

HS Code (2-digit)	Product	Trade Creation Effect (US$ million)	Trade Diversion Effect (US$ million)	Total Trade Effect (US$ million)	Share in Total Trade Effect (%)
87	Vehicles other than railway or tramway	984.6	24.8	1009.4	44.7
22	Beverages, spirits, and vinegar	303.2	101.3	404.5	17.9
71	Natural or cultured pearls, precious or semi-precious stones	135.6	103.0	238.5	10.6
89	Ships, boats, and floating structures	108.2	2.4	110.6	4.9
84	Machinery and mechanical appliances	76.2	35.1	111.2	4.9

Source: WITS database and India Exim Bank Analysis

Revenue Effect

With tariff liberalisation, the tariffs will go down, impacting the revenue from the tariff. The impact can be both positive and negative. Negative Revenue (loss) is generated when the direct impact of the fall in the tariff revenue post signing of the preferential agreement is greater than the positive tariff revenue generated due to the positive trade effect (trade creation and trade diversion). Positive Revenue is generated when the gain in tariff revenue due to positive tariff effect exceeds the loss in revenue due to tariff liberalisation. In case of tariff liberalisation by India on the UK exports, the overall change in the revenue will account for the loss of US$ 385.7 million.

At 2-digit HS Code level, the major tariff revenue loss by India will on the beverages, spirits, and vinegar (HS-22) amounting to US$ 314.1 million, followed by pearls, precious stones, and metals (HS-71), and machinery and mechanical appliances (HS-84), among others **(Table 6.5)**. Similarly, India will gain in terms of tariff revenue in vehicles other than railway or tramway (HS-87) amounting to US$ 100 million, followed by ships, boats, and floating structures (HS 89), and carpets and other textile floor coverings (HS-57), among others **(Table 6.6)**.

Table 6.5: Products having Maximum Tariff Revenue Loss Post Tariff Liberalisation by India on Imports from the UK

HS Code (2-digit)	Product	Negative Revenue Effect (US$ million)
22	Beverages, spirits, and vinegar	-314.1
71	Natural or cultured pearls, precious or semi-precious stones	-83.1
84	Machinery and mechanical appliances	-22.6
27	Mineral fuels, mineral oils, and products	-9.0
85	Electrical machinery, equipment, and parts	-8.7

Source: WITS database and India Exim Bank Analysis

Table 6.6: Products having Maximum Tariff Revenue Gain Post Tariff Liberalisation by India on Imports from the UK

HS Code (2-digit)	Product	Positive Revenue Effect (US$ million)
87	Vehicles other than railway or tramway rolling stone	100.0
89	Ships, boats, and floating structures	5.2
57	Carpets and other textile floor coverings	1.7
86	Railway or tramway locomotives	1.3
52	Cotton	0.9

Source: WITS database and India Exim Bank Analysis

Welfare Effect

Welfare effects are beneficial impacts on the importing country's consumer sector as a result of the cheaper imported goods and is represented by the gain in the economy as a whole post-tariff liberalisation due to the fall in the dead weight loss. Dead weight loss represents what the economy loses in terms of welfare by imposing tariff on the imported good. Post tariff liberalisation, the dead weight loss falls as trade rises due to increased demand with the fall in prices. The results of the simulation model project a welfare effect of about US$ 1 billion to Indian consumers, i.e., the additional consumption possible by Indian consumers due to the FTA with the UK.

At 2-digit HS code level, among different products, highest welfare is accounted for by vehicles other than railway or tramway (HS-87), beverages, spirits, and vinegar (HS-22), and pearls precious stones and metals (HS-71) **(Table 6.7)**.

Table 6.7: Products having Maximum Welfare Effect Post Tariff Liberalisation by India on Imports from the UK

HS Code (2-digit)	Product	Welfare Effect (US$ million)
87	Vehicles other than railway or tramway rolling stone	708.3
22	Beverages, spirits, and vinegar	272.6
71	Natural or cultured pearls, precious or semi-precious stones	15.0
89	Ships, boats, and floating structures	8.2
84	Machinery and mechanical appliances	6.6

Source: WITS database and India Exim Bank Analysis

A detailed analysis of product wise impact in terms of trade effect, revenue effect and welfare effect of trade liberalisation by India on Imports from the UK is provided in **Annexure 3**.

Case 2: Tariff Liberalisation by the UK on Imports from India

Reporting Country: United Kingdom

Partner Economy: India

Trade Effect

According to the output generated by SMART framework, tariff liberalisation by the UK on imports from India would result in a total trade effect of US$ 245.1 million, implying that under the preferential agreement, the UK's import from India will increase by US$ 245.1 million. In the total trade effect, total trade creation would constitute US$ 116.8 million which is the additional imports by the UK from India due to fall in the price levels subsequent to the fall in the tariff levels. Total trade diversion will be of US$ 128.3 million, which is the increased imports from India away from the other partners due to the fall in the relative price levels post tariff liberalisation. Price Effect is zero since the model has assumed infinite price elasticity.

At 2-digit HS code, post tariff liberalisation, it can be analysed that 27.1% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62; 23.2%), other made-up textile articles; sets and worn clothing (HS-63; 7.4%), footwear, gaiters and its parts (HS-64; 5%), and fish and crustaceans (HS-03; 4.4%). Together, these 5 products constitute 67% of the total trade effect after tariff liberalization **(Table 6.8)**.

Table 6.8: Products having Maximum Trade Effect Post Tariff Liberalisation by the UK on Imports from India

HS Code (2 digit)	Product	Trade Creation Effect (US$ million)	Trade Diversion Effect (US$ million)	Total Trade Effect (US$ million)	Share in Total Trade Effect (%)
61	Articles of apparel and clothing accessories, knitted	30.4	36	66.4	27.1
62	Articles of apparel and clothing accessories, not knitted	25.5	31.3	56.7	23.2
63	Other made-up textile articles; sets and worn clothing	8.8	9.2	18.1	7.4
64	Footwear, gaiters, and its parts	5.6	6.7	12.3	5.0
03	Fish and crustaceans	5.4	5.3	10.7	4.4

Source: WITS database and India Exim Bank Analysis

Revenue Effect

With tariff liberalisation, the tariffs will go down, and hence, the revenue from the tariff will be impacted. The impact can be both positive and negative. Negative Revenue (loss) is generated when the direct impact of the fall in the tariff revenue (post signing of the preferential agreement) is greater than the positive tariff revenue generated due to the positive trade effect (trade creation and trade diversion). Positive revenue is generated when the gain in tariff revenue due to positive tariff effect exceeds the loss in revenue due to tariff liberalisation. In case of tariff liberalisation by the UK on the India's exports, the overall change in the revenue will account for a loss of US$ 110.5 million.

At 2-digit HS Code level, the major tariff revenue loss by the UK will be on articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62); other made-up textile articles, sets, worn clothing (HS-63); footwear, gaiters and its parts (HS-64), and fish and crustaceans (HS-03), **(Table 6.9)**.

Table 6.9: Products having Maximum Tariff Revenue Loss Post Tariff Liberalisation by the UK on Imports from India

HS Code (2 digit)	Product	Revenue Effect (US$ million)
61	Articles of apparel and clothing accessories, knitted	-28.8
62	Articles of apparel and clothing accessories, not knitted	-27.0
63	Other made-up textile articles; sets; and worn clothing	-9.3
64	Footwear, gaiters, and its parts	-6.2
03	Fish and crustaceans	-4.7

Source: WITS database and India Exim Bank Analysis

Welfare Effect

Welfare effect is represented by the gain in the economy as a whole post tariff liberalisation due to the fall in the dead weight loss. Dead-weight loss represents what the economy loses in terms of welfare by imposing tariff on the imported good. Post tariff liberalisation, the dead weight loss falls as trade rises due to increased demand with the fall in prices.

At 2-digit HS code level, among different products, highest welfare is accounted for by articles of apparel and clothing accessories, knitted (HS-61), followed by articles of apparel and clothing accessories, not knitted (HS-62) and other made-up textile articles; sets; worn clothing (HS-63), among others **(Table 6.10)**.

Table 6.10: Products having Maximum Welfare Effect Post Liberalisation by the UK on Imports from India

HS Code (2 digit)	Product Name	Welfare Effect (US$ million)
61	Articles of apparel and clothing accessories, knitted	1.7
62	Articles of apparel and clothing accessories, not knitted	1.6
63	Other made-up textile articles; sets; and worn clothing	0.5
64	Footwear, gaiters, and its parts	0.4
03	Fish and crustaceans	0.3

Source: WITS database and India Exim Bank Analysis

A detailed analysis of product wise impact in terms of trade effect, revenue effect and welfare effect of trade liberalisation by the UK on Imports from India is provided in **Annexure 4**.

Thus, in case of preferential agreement between India and the UK, both countries will benefit from the additional demand generated for each other's goods and taking advantage of lower tariff and thus promote trade. The level of trade effect, however in reality depends on the level of tariff liberalisation and the products that are covered under the preferential trade agreement. There is however, more advantage to the UK (in terms of total trade effect) than India in terms of merchandise trade, but merchandise trade is just one aspect of the wider comprehensive agreement between both countries. India has much more to gain in terms of services trade, along with potential of substantial opportunities which would be made available for its citizen in the UK.

In general, a comprehensive trade and investment agreement between countries will not take place if its benefits are skewed towards a single party. The aim of a trade and investment agreement is mutual benefit of all parties concerned, and in case if one party is losing in one aspect of the deal, then the other party should be compensated through gains in other aspects. Thus, India will have to decide those aspects where it is willing to sacrifice, so that it is getting the benefits from other aspects which compensate for that loss. To ensure that the benefits of the FTA do not outweigh its losses, the government could exempt the industries vulnerable to excess exports from the FTA from full liberalization in the short run and list them under its exclusion list. In the long run, the government can offer production linked incentives and subsidies to these sectors to boost their competitiveness and maximise production.

CHAPTER

Policy Recommendations to Enhance India-UK Partnership

The trajectory of the trading partnership discussed in the earlier chapters reiterates the significance of bilateral partnership between India and the UK for each other. The two nations stand thousands of miles apart with different cultures, but built upon the shared value of democracy, rule of law and a strong commitment towards free trade and open markets. The bilateral relationship between them is also influenced by a vast Indian diaspora in the UK and centuries of shared history. The two countries have been meticulously working to further promote these engagements.

India's economic relation with the UK has so far been analysed in a cohesive manner in the context of India-EU trade and economic engagements. With Britain free to pursue its free trade policy due to Brexit, the possibility of free trade area between both countries remains very much on the anvil. There is a common understanding that both countries can enhance this relationship in the coming days. Post-Brexit, India and the UK has witnessed a new dynamism in its bilateral relationship with the two countries signing the Enhanced Trade Partnership (ETP) Agreement in February 2021, as part of the development of a roadmap that would lead to a potential comprehensive FTA, including considerations on an Interim Agreement on preferential basis. Now is the time for India and the UK to build on its solid trade and historical engagements and take this relationship to newer heights in the post-Brexit environment. A few policy catalysts that could help boost bilateral cooperation are briefly discussed below.

Expanding Trade Based on its Potential

India needs to expand its production and trade in products in which it has comparative advantage with the UK. This would help in expansion of trade and further increase in trade surplus with the UK. The study has already identified potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential for the products which are already showing a robust growth in the UK market, where India's exports also hold a comparative advantage. In the medium to long run, efforts and investments are to be enhanced in the Underachievers category products to develop capacities in these products which will help in coping with the demands of the UK market in a more competitive manner. The products in the respective categories have been discussed elaborately in Chapter 5.

Free Trade Agreement

It is found that 94% of India's imports from the UK face tariff of less than 13.5%. Major exception being 'beverages, spirits and vinegar' category with tariff of 107.6% and constituting 2.6% of the

total imports from the country. Around 80% of India's imports from the UK in this category is of scotch whiskey, with a tariff of 150%. Similarly, British-made motor cars also face tariff as high as 125%. Thus, Scotch whiskey and British cars remain major points of contention between India and the UK, and in the ongoing FTA negotiations, the UK is seeking to bring down these tariffs. The UK would also be negotiating for a better access to agriculture and value-added dairy product markets in India. In comparison, more than 98% of India's exports to the UK fall within 12% effectively applied tariff with higher tariffs above average on processed food and tobacco products. India would also be seeking for greater access through reduced tariffs for its textiles and garments and engineering goods exports in the UK market. In negotiation for an FTA between India and the UK, the study has identified some aspects for consideration:

- ***Focus on Negative List instead of Positive List of Products***

Any tariff rationalization policy should carefully examine sector-specific issues before arriving at general policy measures. Based on this examination, a sensitive/ negative list of products should be developed which includes those products which in case of tariff liberalisation may negatively impact the domestic economy. While negotiating FTA, instead of focusing on list of products on which import tariff concessions are to be given, the focus should be on the products in the sensitive/ negative list on which tariff concession would be limited to protect the interest of the sector as well as people involved in it.

- ***Concessions in Relative to Other FTAs Signed***

While negotiating for concessions under FTA, India needs to take into consideration the concessions that the UK has made under its FTA as well as GSP framework with India's competitors in the UK market. The concessions to India should (at least) be in those lines to place India at a competitive position among its peers. The extent of trade gains from FTA will depend not only on how India takes advantage of the concessions given to it by the UK but also on the concessions accorded to the EU, the US, Vietnam, and Bangladesh by the UK, which are India's major competitors. To sum up, the possibility of Indian exports expanding in the UK would depend on the tariff concessions provided by the UK to these countries relative to India.

- ***Reducing Non-Tariff Barriers***

In case of India's exports to the UK, the reduction in the tariff rates may not lead to a significant increase in the exports from India since the import tariffs are already low in the UK. Higher market access opportunities for India can only be realized if the NTBs are properly addressed. A notable example in this context is that of Indian dairy product exports which are having limited access to the UK market on sanitary and phytosanitary grounds. India is the world's largest milk producer and is a net exporter of milk products. Given the large size of the Indian diaspora in the UK, there exist huge demand for Indian dairy products, especially for milk based ethnic Indian sweets, ready-to-eat milk based food products and ready-to-cook milk based sweets in the country. However, despite having a strong production base and having implemented a fairly robust export inspection regime, India's export of milk products to the UK remains negligible. The process of exporting dairy products to the UK is complex and require adherence to several stringent requirements. Similar is the case of agri-

[14] Explainers: Mutual recognition agreements (MRAs), UK in a Changing Europe

food exports to India from the UK, which face various non-tariff barriers. Thus, India and the UK need to address these non-tariff barriers in order to help both sides trade more easily.

India and the UK could also work towards drawing up 'Mutual Recognition Agreements' (MRAs). The MRAs are agreements between two trading partners to reduce technical barriers to trade and is an agreement for mutual recognition of 'conformity assessment'. Conformity assessment (i.e., product safety and standard testing) may take various forms, including inspection, testing, certification, and licensing according to technical regulations and standards which are aimed at preventing safety, environmental and health risks.[14] The UK needs to recognize that the designated testing body in India could perform required testing based on the technical requirements of the UK and vice versa with India. This will allow a product produced and certified in India to be exported to the UK without undergoing further testing in the UK and vice versa, to assess whether the product meets the UK technical requirements. Additionally, India also requires institutional interventions for certifications. In this regard, the Digital Global Identity Systems for supplier verification and certification, based on Blockchain can be developed with the UK's assistance, which is particularly beneficial to the industries dominated by SMEs. These interventions could reduce non-tariff barriers to trade between both the countries.

- ***Moving Up the Value Chain***

An inverted duty structure emerges when import duties on finished products are lower than those on parts/ raw materials, effectively incentivizing imports of goods rather than imports of parts and inputs for local manufacturing. A new type of inverted duty has also arisen due to FTAs wherein the finished goods imported from an FTA partner country have zero or low duty, but products of earlier stages of production like raw materials and intermediate goods imported from non-FTA countries have higher duties. Inverted duty structure is forcing many multinationals to shut down their production facilities in India and move out. This could also be due to the composition of raw materials particularly agricultural raw materials which have relatively higher tariffs. There is an urgent need to ensure that raw materials have lower duties except for any sensitive items. Sensitive items particularly in the agricultural sector and having livelihood concerns should also be taken care of. This will also help in addressing the inverted duty structure and can further help India move up in the global value chain. This would give a boost to the Make in India through promoting manufacturing in India.

Movement of People

The vast Indian diaspora in the UK contributes significantly to the prosperity of both the economies and is acknowledged as the living bridge between India and the UK. The Indian diaspora could be the key foundation on which the India-UK relationship can be further strengthened. Post-Brexit, huge number workers from the EU have left the UK, resulting in sharp fall in availability of workers in the country, hitting the low skilled and medium skilled occupation the most. India would be able to leverage its position of strong English-speaking population and hence could take over the vacant positions created for the advantage of its low and medium skilled youth.

Temporary movement of natural person for the supply of services (Mode 4) is one of the four modes of trade in services under Generalized Agreement on Trade in Services of the WTO. Thus, a comprehensive trade agreement with the UK could be used to further promote interest of Indians

in the UK. When India is negotiating with the UK, it can request for a liberal commitment for Mode 4, covering both the high and low skilled workers in terms immigration policies; visa requirements especially for its tech professionals, doctors, and nurses; stay-back after studies; and social security benefits.

Collaboration in Digital Technology

Data is the new oil of the digital economy. Movement of cross-border data is important to promote innovation and investments. The key to the expansion of digital and data services trade between India and the UK is the data protection regimes in both the countries and this need to be in alignment with each other. Data protection is vital; however, it is equally important to ensure that non-personal and anonymized personal data can move cross borders, thus promoting new innovations based upon the needs of the consumers. The two governments could agree over an India-UK Data Adequacy Agreement that facilitates these data movement based on mutual adequacy. The agreement has to incorporate clauses that protects the personal data and privacy of the citizens of both the countries and the government would guarantee the enforceability of these rights.

Another area for India-UK enhanced partnership is Fintech and the unification of the payment system. India and the UK have seen increased investment in new FinTech companies, involved especially in advanced payment application systems. In September 2021, under an agreement, India and Singapore linked their fast payment systems, i.e., linking India's Unified Payments Interface (UPI) to Singapore's PayNow. This development is expected to transform the way money is sent abroad or remitted in India. Indians would be able to make transactions with Singapore with the same ease of operating UPI in India. Over the years, the cost of the payments for the cross-border transactions have become quite expensive and this linking of payment system between India and the UK will not only make financial transactions between India and the UK faster but also cheaper, thus promoting easy flow of remittances and payments.

In terms of investment, with Digital India and the UK's Digital Strategy in place, developing advanced digital infrastructure and services would be lucrative for investors from both countries. Artificial Intelligence (AI), Robotics, the Internet of Things (IoT), Distributed Ledger Technology (DLT)/Blockchain, Big Data, Cloud Computing, and 3D Printing are opening new opportunities for collaborations and investment in both countries. Indian companies could partner with the UK based companies to provide innovative digital solutions for customer management and operating model by offering a comprehensive advanced people, processes, and technology and data analytics services.

Services Trade

Both India and the UK have interest in reciprocal market access in services. Considering that both India and the UK are service dominated economies and major services exporters, there lies an underlying opportunity for both India and the UK to align their interests and act in complementarity. This will further boost their partnership and help them become the world leaders in the services exports. India's score in the 2020 OECD Services Trade Restrictiveness Index (STRI) is relatively high compared to the UK. India could benefit from more open markets for services trade and competition by enhancing reforms in key services sectors that overarch the entire economy. India could promote investments from the UK through a liberal foreign investment policy through which foreign services supplier can easily establish operations in India and collaborate with Indian companies, thus adding to

its competence in the global market. Sectors such as insurance and banking in India are of particular interest to the UK, where efforts should be concentrated but with cautiousness so that it does not harm the interest of the domestic economy.

Supportive Logistical Infrastructure

A robust logistics sector can go a long way in boosting India's exports to the UK. Efforts to be made to reduce transaction and transport costs. With better infrastructure planning, increased coordination among stakeholders and improved operational efficiencies, India can unlock its potential in the UK, thus promoting economic growth. The recent shortage of container poses a significant risk to the Indian exports as it leads to the rise in the container prices and the subsequent hike in the freight rates. These container shortages directly impact the low value export items that are exported in high volumes as well as the items that are exported via ship or ship to air. Thus, in the short term, it is suggested that there should be immediate release of ideal container capacity at different ports, while in the long run additional container capacity should be added along with speedy clearance by the customs and swift unloading to effectively respond to its demand to support the Indian exports.

Collaboration in Green Energy Industry

According to the International Energy Agency's (IEA) India Energy Outlook 2021, India's per capita energy consumption is currently less than half of the world average. Since 2000, India has been responsible for more than 10% of the increase in global energy demand. Due to an expanding economy and the forces of urbanisation and industrialisation, by 2040, India could account for a quarter of global energy demand growth. India has set an ambitious goal of installing 175 GW of renewable energy capacity by 2022 and around 500 GW of renewable energy capacity by 2030. India's renewable auctions market is currently the largest in the world and its tariffs are amongst the lowest in the world. According to Ministry of Power, Government of India, the share of renewable energy in overall installed capacity has more than tripled from 11.8% at end-March 2015 to 37.9% at end-August 2021. The fall in the cost of generation of renewable energy has helped raise its competitive advantage relative to other energy sources.

Meeting this ambitious renewable energy target requires transfer of technology and low-cost international finance. Partnership with the UK can play a vital role in closing the funding gap and enabling new opportunities. An India-UK strategic partnership and collaboration in green and clean energy would mobilise required funds and investment for sustainable infrastructure, including wind and solar, and ensure application-oriented technologies to accelerate inclusive, low carbon growth by supporting research and deployment of clean energy technologies in India. This would also cover promoting areas such as efficient power distribution, industrial energy efficiency, electric vehicles, solar and offshore wind generation and energy storage. Concomitantly, the UK's renewables industry would benefit from import tariff reductions by India on solar equipment parts and wind turbine parts from the UK.

Equal Exchange

Since the UK's tariffs are already low, the UK stands to gain more from the tariff liberalization in case of an FTA. Hence, the trade deal should be based upon the principle of give and take where on one hand greater market access is provided to the UK in India, and on the other there could be greater

investments from the UK in enhancing R&D capacity of Indian manufacturers and technological partnerships. India needs to continue its efforts to undertake reforms to create a smooth journey for investors in areas such as land acquisition and enforcement of contracts, among others.

Other Areas for Enhanced Collaboration

The UK is a major global investor and is the world's leading financial centre. The country remains a hub for innovation and technology start-ups and is a global leader in scientific research, providing opportunities for collaboration in the sector. Some of the best universities in the world are in the UK. The UK's calibre in developing upstream capabilities and technologies is renowned.

There has been a rising trend in investment to and from India and the UK. There are tremendous opportunities for the UK in India and the other way around. The UK could emerge as a strategic partner in India's manufacturing in India initiative. The UK companies are increasingly investing in sectors such as advance manufacturing, financial and professional services, education, retail, consumer goods life sciences, healthcare, and infrastructure. R&D investments have also been seeing an increase in recent years. The increased investments from companies involved in advanced manufacturing would further support India's aim to localize manufacturing.

Similarly, the UK-India collaborations in electric vehicles sector through systems integration, scaled manufacturing and infrastructure development could create opportunities for further partnership. The Newton Bhabha Fund is a landmark research and innovation collaboration between the UK and India to support economic development and social welfare, and to develop research and innovation capacity for long-term sustainable growth in both countries. The Fund is managed by the UK Department for Business, Energy and Industrial Strategy (BEIS), and is delivered through 15 UK delivery partners and several Indian partners, encouraging partnership in science, research and innovation. Another trend in the recent years is of increased partnership between the UK cities with Indian cities, resulting in manufacturing clusters in the UK cities outside London, and similar collaborations in education and manufacturing joint ventures may be done in Indian Tier 2 and emerging cities.

To support creating sustainable cities and enhanced public health and wellbeing of Indians, the 'UK India Industrial Waste Challenge' competition was launched in October 2017 to fund projects that use cutting-edge solutions to reduce industrial waste in India. Similar partnership in waste management, reduction of pollution and carbon footprint would prove beneficial for both countries.

Another sector with immense opportunities for new investment and collaboration is education sector. India with its young population offers huge demand for higher education opportunities. India's pro-education policies, supported by increased mobile phone adoption is creating immense space in online education field. The adoption of higher-end digital technologies including big data analysis further support investment in the sector. In addition, the UK and Indian universities'-based research institutes would be able to support the innovation ecosystem in India and the UK (similar to Manchester-India Partnership and Factory 2050 in the Advanced Manufacturing Research Centre of University of Sheffield).

Similarly, with Government of India aiming to develop a hi-tech defence manufacturing ecosystem and encouraging a 'Strategic Partnership' model, enabling Indian companies to launch joint ventures

with foreign counterparts in manufacturing submarines, fighter jets, helicopters, and armoured vehicles, opportunities has opened up for multinational original-equipment manufacturers. India's large defence budget and supportive government policies will support increased collaboration with the UK based companies.

Some of the other areas for further cooperation between India and the UK include Startups, SaaS, Cybersecurity, Healthtech, Telemedicine, Smart Pharmaceuticals and Smart Medical Devices, IoT based Water Distribution and Management Systems, Smart City Solutions, Aerospace sector, Ports and Logistics.

Conclusion

There exists huge potential for enhancing trade and investment between India and the UK. In the coming decades, Asia is expected to be the growth engine for the world, and India's contribution to that growth as one of the fastest growing large economies would be significant. This presents an immense market for the UK goods and services, and an opportunity for India to benefit from greater trade and investment – leading to employment and growth in both countries. The UK offers viable business diversification opportunities for Indian exporters and a large market for a large variety of manufactured products, comprising a wide technology spectrum, both in the short term and long term. However, penetrating the intensely competitive UK market would entail designing of a proper business strategy, especially in the context of Brexit. A well negotiated and carefully undertaken comprehensive trade agreement between India and the UK, taking into account the sensitivities of the domestic industries, particularly those that are already impacted negatively by the existing FTAs could result in mutually beneficial and balanced trade, as well as welfare gains to both the countries. This would also result in additional potential gains from enhanced coordination on the provision of global public goods, such as environmental standards.

Annexure 1

Tariffs Imposed by India on Imports from the UK

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
1	Live animals	10	30.0	100.0	30.0	30.0	30.0	1817.4	100.0
2	Meat and edible meat offal	1	30.0	100.0	30.0	30.0	30.0	5.3	100.0
3	Fish and crustaceans	11	30.0	150.0	30.0	30.0	30.0	2999.9	37.5
4	Dairy produce; birds' eggs; and natural honey	18	40.0	69.1	40.0	30.0	60.0	1918.3	100.0
5	Products of animal origin	13	30.0	100.0	30.0	30.0	30.0	169.2	100.0
6	Live trees and other plants	5	32.5	80.0	32.5	5.0	60.0	295.0	100.0
7	Edible vegetables, certain roots, and tubers	18	35.0	83.8	35.0	30.0	50.0	932.5	100.0
8	Edible fruit and nuts	18	28.1	106.3	28.1	12.5	30.0	1828.2	100.0
9	Coffee, tea, maté and spices	98	59.1	136.8	59.1	30.0	100.0	793.7	100.0
10	Cereals	3	35.0	80.0	35.0	0.0	50.0	18.8	100.0
11	Products of the milling industry	17	32.1	119.6	32.1	30.0	50.0	1689.2	100.0
12	Oil seeds and oleaginous fruits	59	27.5	104.8	27.5	5.0	30.0	517.5	100.0
13	Lac; gums, resins and other vegetable saps	46	29.9	102.8	29.9	20.0	30.0	901.6	100.0
15	Animal or vegetable fats and oils	71	58.8	186.0	58.8	7.5	100.0	995.9	90.5
16	Preparations of meat, of fish or of crustaceans	1	30.0	150.0	30.0	30.0	30.0	83.4	100.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
17	Sugars and sugar confectionery	34	43.9	126.5	43.9	10.0	100.0	1203.5	100.0
18	Cocoa and cocoa preparations	10	30.0	128.2	30.0	30.0	30.0	578.5	100.0
19	Preparations of cereals, flour, starch or milk	30	31.3	109.8	31.3	30.0	50.0	1499.1	100.0
20	Preparations of vegetables, fruit and nuts	50	34.8	95.6	34.8	30.0	50.0	570.9	100.0
21	Miscellaneous edible preparations	40	39.3	135.0	39.3	30.0	150.0	6487.9	100.0
22	Beverages, spirits and vinegar	67	107.6	150.0	107.6	30.0	150.0	177086.7	100.0
23	Residues and waste from the food industries	7	25.0	150.0	25.0	20.0	30.0	3820.7	100.0
24	Tobacco and manufactured tobacco substitutes	15	30.0	150.0	30.0	30.0	30.0	56.0	100.0
25	Salt; sulphur; earths and stone; plastering material	127	5.5	39.7	5.5	5.0	10.0	13139.6	100.0
26	Ores, slag and ash	10	3.2	30.0	3.2	2.5	5.0	966.5	85.7
27	Mineral fuels, mineral oils and products	31	5.4	29.2	5.4	0.0	10.0	412745.6	16.7
28	Inorganic chemicals	281	7.5	40.1	7.5	5.0	10.0	193065.2	100.0
29	Organic chemicals	682	7.1	40.7	7.1	0.0	20.0	73779.5	99.6
30	Pharmaceutical Products	205	9.6	37.1	9.6	0.0	10.0	82236.1	46.4

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
31	Fertilisers	22	5.8	4.4	5.8	0.0	7.5	5405.3	50.0
32	Tanning or dyeing extracts	291	8.4	39.7	8.4	2.5	10.0	46865.4	57.5
33	Essential oils and resinoids	123	19.3	129.8	19.3	10.0	20.0	36662.7	35.7
34	Soap, organic surface-active agents	59	10.2	40.0	10.2	7.5	25.0	17049.0	26.1
35	Albuminoidal substances	34	15.2	81.4	15.2	10.0	20.0	10922.6	100.0
37	Photographic or cinematographic goods	30	10.0	40.0	10.0	10.0	10.0	1208.3	100.0
38	Miscellaneous chemical products	148	8.5	47.3	8.5	0.0	30.0	94851.6	100.0
39	Plastics and articles	390	9.6	40.0	9.6	7.5	15.0	126477.7	79.0
40	Rubber and articles	146	10.3	38.8	10.3	3.0	25.0	75180.4	66.7
41	Raw hides and skins (other than fur skins)	33	7.8	27.0	7.8	0.0	10.0	11920.9	100.0
42	Articles of leather, saddlery and harness	60	13.2		13.2	10.0	15.0	3000.1	0.0
43	Fur skins and artificial fur and manufactures	11	6.7	40.0	6.7	0.0	10.0	29.3	33.3
44	Wood and articles of wood	127	9.9	38.8	9.9	5.0	10.0	13078.8	64.9
45	Cork and articles of cork	7	10.0	40.0	10.0	10.0	10.0	93.1	100.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
46	Manufactures of straw	6	10.0		10.0	10.0	10.0	8.6	0.0
47	Pulp of wood or of other fibrous cellulosic material	6	8.3	35.0	8.3	5.0	10.0	143148.6	100.0
48	Paper and paperboard; articles of paper pulp	188	10.0	39.7	10.0	10.0	20.0	29233.1	64.6
49	Printed books, newspapers and pictures	33	7.2	25.0	7.2	0.0	10.0	63222.5	61.1
50	Silk	12	17.0	100.0	17.0	10.0	20.0	313.9	20.0
51	Wool, fine or coarse animal hair	69	8.4	45.0	8.4	2.5	10.0	8340.0	100.0
52	Cotton	233	15.8	43.3	15.8	0.0	30.0	977.1	66.0
53	Other vegetable textile fibres	36	10.0	38.4	10.0	10.0	10.0	766.0	88.9
54	Man-made filaments	151	21.0	20.8	21.0	10.0	25.9	4179.9	97.5
55	Man-made staple fibres	67	21.2	22.5	21.2	20.0	25.8	4504.2	90.3
56	Wadding, felt and nonwovens and special yarns	39	12.5	24.4	12.5	10.0	20.0	2919.4	100.0
57	Carpets and other textile floor coverings	62	20.2		20.2	20.0	23.7	2955.1	43.8
58	Special woven fabrics and tufted textile fabrics	59	12.7	25.0	12.7	10.0	25.0	545.9	58.3
59	Impregnated, coated, covered or laminated textile	63	12.9	30.0	12.9	10.0	20.0	6708.1	85.7
60	Knitted or crocheted fabrics	18	16.1	30.0	16.1	10.0	26.6	857.6	26.7

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
61	Articles of apparel and clothing accessories, knitted	161	24.8	36.4	24.8	10.0	81.9	3915.0	54.6
62	Articles of apparel and clothing accessories, not knitted	191	22.6	37.5	22.6	20.0	66.6	6000.8	69.3
63	Other made-up textile articles; sets and worn clothing	96	11.0	35.0	11.0	10.0	20.0	6593.1	46.3
64	Footwear, gaiters and the like and parts	68	23.8		23.8	15.0	25.0	4134.4	0.0
65	Headgear and parts	10	10.0		10.0	10.0	10.0	230.5	0.0
66	Umbrellas, sun umbrellas and walking sticks	4	10.0		10.0	10.0	10.0	55.3	0.0
67	Prepared feathers and down and articles made of feathers	6	10.0		10.0	10.0	10.0	46.1	0.0
68	Articles of stone, plaster, cement, asbestos, mica	71	15.7	40.0	15.7	10.0	40.0	13928.8	100.0
69	Ceramic products	48	10.3	37.5	10.3	7.5	15.0	3864.6	60.0
70	Glass and glassware	86	10.3	37.7	10.3	5.0	15.0	15547.5	64.7
71	Natural or cultured pearls, precious or semi-precious metal	75	13.1	40.0	13.1	10.0	20.0	1942214.0	64.1

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
72	Iron and steel	349	8.9	39.8	8.9	2.5	12.5	375921.9	90.1
73	Articles of iron or steel	223	10.2	40.0	10.2	10.0	25.0	85687.0	60.6
74	Copper and articles	86	6.8		6.8	5.0	10.0	64407.7	0.0
75	Nickel and articles	25	0.0	39.0	0.0	0.0	0.0	46145.4	100.0
76	Aluminium and articles	95	8.5		8.5	2.5	10.0	267931.2	0.0
78	Lead and articles	17	5.6		5.6	5.0	10.0	59604.2	0.0
79	Zinc and articles	19	6.1		6.1	5.0	10.0	10341.0	0.0
80	Tin and articles	9	6.3	36.3	6.3	5.0	10.0	28.5	100.0
81	Other base metals; cermets; articles	53	6.5	40.0	6.5	2.5	10.0	22375.9	94.1
82	Tools, implements, cutlery, spoons and forks	96	10.0	25.0	10.0	10.0	10.0	11005.9	1.6
83	Miscellaneous articles of base metal	59	11.4		11.4	10.0	15.0	32876.1	0.0
84	Machinery and mechanical appliances	938	7.6	28.5	7.6	0.0	20.0	1187791.0	97.6
85	Electrical machinery and equipment	578	8.4	25.8	8.4	0.0	20.0	339132.9	90.8
86	Railway or tramway locomotives	18	10.0	40.0	10.0	10.0	10.0	5129.5	100.0
87	Vehicles other than railway or tramway	129	41.5	40.0	41.5	0.0	125.0	112475.5	51.9

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
88	Aircraft, spacecraft, and parts	15	7.8	28.2	7.8	2.5	10.0	99267.3	100.0
89	Ships, boats and floating structures	14	10.3	30.0	10.3	0.0	25.0	72532.3	66.7
90	Optical, photographic, cinematographic, measuring apparatus	257	7.8	32.8	7.8	0.0	20.0	319522.3	83.6
91	Clocks and watches and parts	35	16.7	40.0	16.7	10.0	20.0	373.7	58.3
92	Musical instruments; parts and accessories of such	15	10.0		10.0	10.0	10.0	178.4	0.0
93	Arms and ammunition; parts and accessories	6	10.0		10.0	10.0	10.0	683.9	0.0
94	Furniture; bedding, mattresses, and mattress supports	71	19.0	35.0	19.0	5.0	20.0	31240.6	2.5
95	Toys, games and sports requisites; parts and accessories	46	20.0	40.0	20.0	20.0	20.0	6150.3	4.6
96	Miscellaneous manufactured articles	95	11.1	27.8	11.1	10.0	20.0	2217.2	6.8
97	Works of art, collectors' pieces and antiques	15	8.3		8.3	0.0	10.0	20780.4	0.0

Note: Lower the value, greener the shade of the cells and vice versa. However, this would be opposite for cases like imports and binding coverage.

Source: WITS database and India Exim Bank Analysis

Annexure 2

Tariffs Imposed by the UK on Imports from India

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
1	Live animals	1	0.0		0.0	0.0	0.0	14.1	0.0
3	Fish and crustaceans	212	10.2		10.2	0.0	23.0	122025.1	0.0
5	Products of animal origin, not elsewhere specified	8	0.0		0.0	0.0	0.0	957.4	0.0
6	Live trees and other plants	41	6.6		6.6	0.0	10.9	4112.5	0.0
7	Edible vegetables, roots and tubers	163	8.0		8.0	0.0	15.2	57763.0	0.0
8	Edible fruit and nuts	114	5.9		5.9	0.0	20.8	71812.1	0.0
9	Coffee, tea, maté and Spices	47	1.9		1.9	0.0	12.5	125362.2	0.0
10	Cereals	123	1.7		1.9	0.0	12.8	117801.2	0.0
11	Products of the milling industry	63	12.0		12.0	7.7	19.2	12378.1	0.0
12	Oil seeds and oleaginous fruits	53	0.8		0.8	0.0	8.3	24022.0	0.0
13	Lac; gums, resins and other vegetable saps	27	2.3		2.3	0.0	19.2	20084.3	0.0
14	Vegetable plaiting materials	5	0.0		0.0	0.0	0.0	3074.4	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
15	Animal or vegetable fats and oils	80	5.8		5.8	0.0	12.8	27472.3	0.0
16	Preparations of meat, of fish or of crustaceans	99	20.2		20.2	5.5	26.0	11506.2	0.0
17	Sugars and sugar confectionery	41	13.1		13.1	12.8	13.4	36031.9	0.0
18	Cocoa and cocoa preparations	17	3.9		3.9	0.0	8.0	63.3	0.0
19	Preparations of cereals, flour, starch or milk	65	10.7		10.7	8.5	12.8	19385.2	0.0
20	Preparations of vegetables, fruit, nuts	538	16.8		16.8	0.0	33.6	66813.5	0.0
21	Miscellaneous edible preparations	71	9.6		9.6	0.0	17.3	27793.6	0.0
22	Beverages, spirits and vinegar	319	4.1		4.1	0.0	9.6	1886.8	0.0
23	Residues and waste from the food industries	66	1.8		1.8	0.0	12.0	22079.4	0.0
24	Tobacco and manufactured tobacco substitutes	35	45.9		45.9	10.0	74.9	4121.7	0.0
25	Salt; sulphur; earths and stone; plastering material	50	0.3		0.3	0.0	1.7	148154.8	0.0
26	Ores, slag and ash	10	0.0		0.0	0.0	0.0	10084.1	0.0
27	Mineral fuels, mineral oils and products	29	0.8		0.8	0.0	8.0	10700.9	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
28	Inorganic chemicals	207	4.8		4.8	0.0	5.5	25378.7	0.0
29	Organic chemicals	1284	4.8		4.8	0.0	6.5	369434.2	0.0
30	Pharmaceutical products	43	0.0		0.0	0.0	0.0	465833.6	0.0
31	Fertilisers	9	1.6		1.6	0.0	6.5	107.6	0.0
32	Tanning or dyeing extracts	155	6.1		6.1	0.0	6.5	73392.3	0.0
33	Essential oils and resinoids	49	2.7		2.7	0.0	17.3	52556.8	0.0
34	Soap, organic surface-active agents	33	1.9		1.9	0.0	6.5	18815.1	0.0
35	Albuminoidal substances; modified starches and glues	31	5.9		5.9	0.0	7.7	2416.2	0.0
36	Explosives; pyrotechnic products and matches	1	6.5		6.5	6.5	6.5	349.0	0.0
38	Miscellaneous chemical products	292	5.2		5.2	0.0	6.5	58515.1	0.0
39	Plastics and articles	505	6.1		6.1	0.0	6.5	195371.4	0.0
40	Rubber and articles	86	2.4		2.4	0.0	6.5	119272.4	0.0
41	Raw hides and skins (other than fur skins)	39	3.3		3.3	0.0	6.5	1735.7	0.0
42	Articles of leather; saddlery and harness	54	4.4		4.4	1.7	9.7	232984.4	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
43	Fur skins and artificial fur and manufactures	9	3.2		3.2	2.2	3.7	60.8	0.0
44	Wood and articles of wood	90	2.0		2.0	0.0	10.0	15743.3	0.0
45	Cork and articles of cork	11	3.5		3.5	0.0	4.7	100.5	0.0
46	Manufactures of straw	18	3.3		3.3	0.0	4.7	1877.2	0.0
47	Pulp of wood or of other fibrous cellulosic material	1	0.0		0.0	0.0	0.0	127.7	0.0
48	Paper and paperboard and articles of paper pulp	112	0.0		0.0	0.0	0.0	81019.0	0.0
49	Printed books, newspapers and pictures	21	0.0		0.0	0.0	0.0	53603.3	0.0
50	Silk	41	3.1		3.1	0.0	7.5	5201.4	0.0
51	Wool, fine or coarse animal hair; horsehair yarn	38	4.3		4.3	0.0	8.0	39116.7	0.0
52	Cotton	163	6.8		6.8	0.0	8.0	22630.8	0.0
53	Other vegetable textile fibres	25	3.7		3.7	0.0	8.0	14340.6	0.0
54	Man-made filaments	67	6.7		6.7	4.0	8.0	37215.9	0.0
55	Man-made staple fibres	83	6.6		6.6	4.0	8.0	19298.3	0.0
56	Wadding, felt and nonwovens and special yarns	85	6.3		6.3	3.2	12.0	32463.3	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
57	Carpets and other textile floor coverings	57	7.3		7.3	3.0	8.0	87554.4	0.0
58	Special woven fabrics; tufted textile fabrics and lac	64	7.2		7.2	5.0	8.0	17417.5	0.0
59	Impregnated, coated, covered or laminated textile	48	6.2		6.2	0.0	8.0	5345.6	0.0
60	Knitted or crocheted fabrics	29	7.9		7.9	6.5	8.0	3282.4	0.0
61	Articles of apparel and clothing accessories, knitted	169	11.7		11.7	8.0	12.0	747616.8	0.0
62	Articles of apparel and clothing accessories, not knitted	267	11.3		11.3	6.3	12.0	669516.2	0.0
63	Other made-up textile articles; sets and worn clothing	122	10.2		10.2	0.0	12.0	282113.8	0.0
64	Footwear, gaiters and the like and parts	91	10.8		10.8	3.0	17.0	298452.1	0.0
65	Headgear and parts	11	2.2		2.2	0.0	5.7	5212.6	0.0
66	Umbrellas, sun umbrellas and walking sticks	9	4.3		4.3	2.7	5.2	200.2	0.0
67	Prepared feathers and down and articles made of feathers	7	2.8		2.8	1.7	4.7	1368.7	0.0
68	Articles of stone, plaster, cement, asbestos and mica	62	1.1		1.1	0.0	3.7	86695.8	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
69	Ceramic products	64	4.5		4.5	0.0	12.0	48126.5	0.0
70	Glass and glassware	168	5.4		5.4	0.0	11.0	24362.6	0.0
71	Natural or cultured pearls, precious or semi-precious metal	41	0.8		0.8	0.0	4.0	621519.9	0.0
72	Iron and steel	279	0.2		0.2	0.0	5.7	97114.5	0.0
73	Articles of iron or steel	389	1.9		1.9	0.0	3.7	278676.6	0.0
74	Copper and articles	63	3.3		3.3	0.0	5.2	26040.1	0.0
75	Nickel and articles	14	0.9		0.9	0.0	3.3	7577.9	0.0
76	Aluminium and articles	117	6.3		6.3	0.0	10.0	56899.9	0.0
78	Lead and articles	8	1.9		1.9	0.0	5.0	1604.8	0.0
79	Zinc and articles	2	3.8		3.8	2.5	5.0	336.4	0.0
80	Tin and articles	5	0.0		0.0	0.0	0.0	1234.6	0.0
81	Other base metals; cermets; articles	54	3.9		3.9	0.0	9.0	820.9	0.0
82	Tools, implements, cutlery, spoons and forks	98	3.2		3.2	1.7	8.5	43273.7	0.0
83	Miscellaneous articles of base metal	64	2.2		2.2	0.0	3.7	112644.9	0.0
84	Machinery and mechanical appliances	912	1.7		1.7	0.0	9.7	921679.1	0.0

HS Code (2 digit)	Product	Number of Tariff Lines under AHS	AHS	BND	MFN	Minimum Rate in AHS	Maximum Rate in AHS	Imports (US$ '000)	Binding Coverage
85	Electrical machinery and equipment and parts	837	1.8		1.8	0.0	14.0	356946.3	0.0
86	Railway or tramway locomotives and rolling stock	14	1.8		1.8	0.0	3.7	4704.7	0.0
87	Vehicles other than railway or tramway rolling stones	256	5.4		5.4	0.0	22.0	271538.8	0.0
88	Aircraft, spacecraft, and parts	11	1.5		1.5	0.0	2.7	155590.7	0.0
89	Ships, boats and floating structures	7	1.8		1.8	0.0	2.7	7.8	0.0
90	Optical, photographic, cinematographic, measuring apparatus	271	1.1		1.1	0.0	6.7	159587.4	0.0
91	Clocks and watches and parts	32	4.1		4.1	0.0	6.0	1409.7	0.0
92	Musical instruments; parts and accessories of such	24	3.1		3.1	1.7	4.0	881.3	0.0
93	Arms and ammunition; parts and accessories	5	2.2		2.2	1.7	2.7	435.0	0.0
94	Furniture; bedding, mattresses and mattress supports	96	2.2		2.2	0.0	5.7	132867.6	0.0
95	Toys, games and sports requisites and parts	66	2.4		2.4	0.0	4.7	56176.4	0.0
96	Miscellaneous manufactured articles	69	3.1		3.1	0.0	10.5	14562.7	0.0
97	Works of art, collectors' pieces and antiques	10	0.0		0.0	0.0	0.0	11991.1	0.0

*Note: * Highlighted product is under preferential trade; since there is no bound tariff rate for the UK, the column is blank. Lower the value, greener is the shade of the cells and vice-versa. However, this would be opposite for cases like imports and binding coverage.*
Source: WITS database and India Exim Bank Analysis

Annexure 3

Impact of Trade Liberalisation by India on Imports from the UK

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
1	Live animals	30.0	12.0	316.7	115.5	0	432.1	-309.5	73.2
2	Meat and edible meat offal	30.0	12.0	4.7	1.1	0	5.8	-0.6	1.4
3	Fish and crustaceans	30.0	12.0	9289.2	479.5	0	9768.7	502.1	2197.7
4	Dairy produce; birds' eggs; and natural honey	40.0	13.1	2425.8	398.0	0	2823.8	-185.4	721.4
5	Products of animal origin, not elsewhere specified	30.0	12.0	9.8	28.4	0	38.1	-31.8	2.0
6	Live trees and other plants	32.5	9.5	6.5	4.1	0	10.6	-2.7	0.3
7	Edible vegetables and certain roots and tubers	35.0	12.6	1769.3	284.7	0	2054.0	-157.6	471.0
8	Edible fruit and nuts	30.0	12.0	231.3	178.3	0	409.6	-125.2	36.5
9	Coffee, tea, maté and spices	59.1	14.1	2516.4	387.1	0	2903.5	-167.0	1750.1
10	Cereals	35.0	12.1	8.7	3.1	0	11.8	-2.0	1.8
11	Products of the milling industry	32.1	12.3	1744.8	335.4	0	2080.2	-156.1	415.6
12	Oil seeds and oleaginous fruits	27.5	11.2	222.8	103.3	0	326.2	-82.0	53.6
13	Lac; gums, resins and other vegetable saps	29.9	12.0	168.8	194.7	0	363.5	-154.3	30.7

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
15	Animal or vegetable fats and oils	58.8	14.0	1933.4	226.8	0	2160.2	-9.8	1487.1
16	Preparations of meat, of fish or of crustaceans	30.0	12.0	11.3	0.0	0	11.3	-13.7	2.4
17	Sugars and sugar confectionery	43.9	12.5	148.7	263.1	0	411.8	-251.4	36.7
18	Cocoa and cocoa preparations	30.0	12.0	179.5	119.7	0	299.2	-101.4	47.8
19	Preparations of cereals, flour, starch or milk	31.3	12.1	270.8	327.7	0	598.5	-218.1	32.7
20	Preparations of vegetables, fruit and nuts	34.8	12.6	177.9	113.9	0	291.8	-101.6	39.5
21	Miscellaneous edible preparations	39.3	12.5	5393.0	2548.5	0	7941.6	-4445.1	1772.0
22	Beverages, spirits and vinegar	113.9	16.0	303170.8	101312.3	0	404483.1	-314052.0	272595.1
23	Residues and waste from the food industries	25.0	11.0	595.6	746.1	0	1341.7	-644.0	139.0
24	Tobacco and manufactured tobacco substitutes	30.0	12.0	4.6	11.6	0	16.2	-11.6	1.4
25	Salt; sulphur; earths and stone; plastering material	5.5	4.3	669.7	167.4	0	837.1	-107.9	31.5

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
26	Ores, slag and ash	3.2	2.7	6.7	4.2	0	10.9	-8.6	0.2
27	Mineral fuels, mineral oils and products	5.4	4.0	6712.3	6928.0	0	13640.4	-9044.7	404.8
28	Inorganic chemicals	7.5	5.5	3637.6	3560.6	0	7198.2	-3711.9	173.7
29	Organic chemicals	7.1	5.1	1443.9	1863.1	0	3307.0	-1330.3	100.1
30	Pharmaceutical products	9.6	6.4	1755.3	3235.0	0	4990.2	-2446.8	153.6
31	Fertilisers	5.8	4.4	175.5	104.1	0	279.6	-68.8	10.3
32	Tanning or dyeing extracts	8.4	5.9	2181.2	1711.4	0	3892.5	-1181.1	161.6
33	Essential oils and resinoids	19.3	9.8	19568.4	3695.1	0	23263.4	-1504.4	2662.2
34	Soap, organic surface-active agents	10.2	6.7	745.8	653.1	0	1398.9	-454.2	54.7
35	Albuminoidal substances	15.2	8.4	9270.1	861.1	0	10131.2	-46.6	1080.0
37	Photographic or cinematographic goods	10.0	6.7	34.6	37.4	0	72.1	-36.3	2.4
38	Miscellaneous chemical prod-ucts	8.5	5.8	2731.9	2962.6	0	5694.5	-2087.6	207.5
39	Plastics and articles thereof	9.7	6.4	7622.4	5446.5	0	13069.0	-3620.4	832.0

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
40	Rubber and articles thereof	10.3	6.8	1852.3	3271.0	0	5123.3	-2554.6	134.5
41	Raw hides and skins (other than fur skins)	7.8	5.2	5277.6	495.3	0	5772.9	-21.5	370.7
42	Articles of leather, saddlery and harness	13.2	7.9	1578.6	237.9	0	1816.5	-57.6	215.9
43	Fur skins and artificial fur and manufactures thereof	6.7	4.4	1.5	0.2	0	1.7	-0.7	0.1
44	Wood and articles of wood	9.8	6.6	5338.6	514.9	0	5853.5	-54.3	209.3
45	Cork and articles of cork	10.0	6.7	6.2	4.0	0	10.2	-2.8	0.5
46	Manufactures of straw	10.0	6.7	0.4	0.4	0	0.8	-0.3	0.0
47	Pulp of wood or of other fibrous cellulosic material	8.3	5.8	4205.8	5753.0	0	9958.8	-4645.9	394.5
48	Paper and paperboard; articles of paper pulp	10.0	6.7	1838.6	1302.4	0	3141.1	-871.3	140.7
49	Printed books, newspapers and pictures	7.2	4.8	2328.8	1688.9	0	4017.7	-1733.9	196.7

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
50	Silk	17.0	9.1	22.7	37.3	0	60.1	-28.2	3.2
51	Wool, fine or coarse animal hair	8.4	5.8	2371.4	83.9	0	2455.3	73.9	217.3
52	Cotton	15.6	8.3	8685.8	43.3	0	8729.1	885.8	1548.1
53	Other vegetable textile fibres	10.0	6.7	101.9	33.8	0	135.8	-19.8	8.7
54	Man-made filaments	20.8	10.2	1083.0	483.7	0	1566.7	-333.3	197.7
55	Man-made staple fibres	21.0	10.2	2633.5	518.9	0	3152.4	-211.7	438.3
56	Wadding, felt and nonwovens and special yarns	12.5	7.5	431.9	199.1	0	631.0	-122.7	48.5
57	Carpets and other textile floor coverings	20.0	10.0	20198.2	351.2	0	20549.4	1709.7	2249.3
58	Special woven fabrics and tufted textile fabrics	11.9	7.3	81.8	37.1	0	118.9	-22.8	13.6
59	Impregnated, coated, covered or laminated textile	12.9	7.6	314.8	371.0	0	685.8	-281.9	36.5

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
60	Knitted or crocheted fabrics	15.0	8.3	109.7	77.5	0	187.2	-55.2	16.0
61	Articles of apparel and clothing accessories, knitted	19.8	10.0	8268.5	491.1	0	8759.6	418.5	1138.5
62	Articles of apparel and clothing accessories, not knitted	19.9	10.0	9538.2	745.8	0	10284.0	330.7	934.9
63	Other made-up textile articles; sets and worn clothing	10.7	6.9	679.2	675.6	0	1354.8	-543.4	104.3
64	Footwear, gaiters and the like and parts	23.8	10.8	2734.1	693.7	0	3427.8	-315.7	547.4
65	Headgear and parts thereof	10.0	6.7	13.1	10.5	0	23.6	-7.0	1.2
66	Umbrellas, sun umbrellas and walking sticks	10.0	6.7	17.5	2.5	0	20.0	-0.8	1.7
67	Prepared feathers and down and articles made of feathers	10.0	6.7	74.4	2.1	0	76.5	3.4	7.1
68	Articles of stone, plaster, cement, asbestos, mica	15.7	8.0	885.4	640.7	0	1526.1	-441.3	142.0

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
69	Ceramic products	9.1	6.2	556.2	121.8	0	677.9	-56.1	39.9
70	Glass and glassware	10.3	6.8	1039.5	701.1	0	1740.6	-486.1	95.2
71	Natural or cultured pearls, precious or semi-precious metal	13.1	7.8	135550.6	102998.1	0	238548.8	-83143.6	15032.4
72	Iron and steel	8.9	6.1	5599.7	5334.7	0	10934.5	-3991.3	246.0
73	Articles of iron or steel	10.2	6.7	8834.7	5357.5	0	14192.2	-3828.3	764.9
74	Copper and articles thereof	6.8	5.0	1667.0	921.8	0	2588.7	-599.6	118.0
76	Aluminium and articles thereof	8.5	5.9	13832.5	3422.8	0	17255.3	-1899.2	989.4
78	Lead and articles thereof	5.6	4.3	219.5	680.2	0	899.6	-585.3	7.2
79	Zinc and articles thereof	6.1	4.6	226.7	185.4	0	412.1	-130.3	16.2
80	Tin and articles thereof	6.3	4.7	3.7	0.9	0	4.6	-0.4	0.3
81	Other base metals; cermets; articles thereof	6.5	4.8	2097.1	543.5	0	2640.6	-394.6	178.8
82	Tools, implements, cutlery, spoons and forks	10.0	6.7	683.3	488.5	0	1171.7	-325.7	57.6
83	Miscellaneous articles of base metal	11.4	7.2	9652.8	1182.8	0	10835.6	-508.3	1040.0

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
84	Nuclear reactors, boilers, machinery and mechanical appliances	7.6	5.4	76162.3	35062.5	0	111224.8	-22554.9	6642.7
85	Electrical machinery and equipment	8.4	5.5	27591.9	13436.6	0	41028.6	-8719.2	2359.2
86	Railway or tramway locomotives	10.0	6.7	22343.9	229.1	0	22573.0	1313.4	2059.4
87	Vehicles other than railway or tramway	39.4	10.5	984581.0	24831.5	0	1009412.6	100001.6	708285.3
88	Aircraft, spacecraft, and parts thereof	7.8	5.3	931.4	1190.4	0	2121.8	-1512.0	68.3
89	Ships, boats and floating structures	10.3	5.7	108209.3	2387.8	0	110597.1	5225.5	8219.7
90	Optical, photographic, cinematographic, measuring apparatus	7.8	5.4	5014.0	6958.7	0	11972.7	-5236.9	307.2
91	Clocks and watches and parts thereof	16.7	8.9	52.0	44.0	0	96.0	-33.2	9.6
92	Musical instruments; parts and accessories of such	10.0	6.7	10.8	7.9	0	18.7	-5.4	0.9
93	Arms and ammunition; parts and accessories thereof	10.0	6.7	467.5	25.1	0	492.5	7.5	46.0
94	Furniture; bedding, mattresses, and mattress supports	19.4	9.8	15255.2	3433.4	0	18688.6	-1641.0	2107.2

HS Code (2-digit)	Product	Old Simple Average Applied Duty Rate	New Simple Average Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
95	Toys, games and sports requisites; parts and accessories	20.0	10.0	831.9	771.8	0	1603.7	-571.9	124.2
96	Miscellaneous manufactured articles	11.2	7.1	291.6	117.2	0	408.8	-67.1	31.7
97	Works of art, collectors' pieces and antiques	8.3	5.6	632.3	775.7	0	1408.0	-671.6	58.2
Total				**1890167.7**	**369390.1**		**2259557.7**	**-385689.0**	**1046006.0**

Source: WITS database and India Exim Bank Analysis

Annexure 4

Impact of Trade Liberalisation by the UK on Imports from India

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
1	Live animals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Fish and crustaceans	10.2	6.5	5402.6	5303.9	0.0	10706.6	-4690.3	299.9
5	Products of animal origin, not elsewhere specified	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Live trees and other plants	6.6	4.9	82.2	118.3	0.0	200.5	-75.9	0.3
7	Edible vegetables and certain roots and tubers	8.0	5.1	2362.4	1624.1	0.0	3986.5	-1405.1	113.3
8	Edible fruit and nuts	5.9	3.9	1744.6	2546.0	0.0	4290.5	-1692.9	35.4
9	Coffee, tea, maté and spices	1.9	1.5	389.7	173.3	0.0	563.0	-219.9	14.1
10	Cereals	1.7	1.3	0.6	0.2	0.0	0.8	-0.1	0.0
11	Products of the milling industry	12.0	7.3	298.2	70.5	0.0	368.7	-126.3	17.4
12	Oil seeds and oleaginous fruits	0.8	0.7	81.0	12.6	0.0	93.6	-7.1	3.3
13	Lac; gums, resins and other vegetable saps	2.3	1.6	5.4	5.3	0.0	10.7	-3.8	0.1
14	Vegetable plaiting materials	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Animal or vegetable fats and oils	5.8	4.3	732.5	189.8	0.0	922.3	-190.7	33.2

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000))	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
16	Preparations of meat, of fish or of crustaceans	20.2	10.0	1283.7	1341.4	0.0	2625.1	-1018.7	149.5
17	Sugars and sugar confectionery	13.1	7.9	27.3	66.8	0.0	94.0	-47.9	1.9
18	Cocoa and cocoa preparations	3.9	2.8	0.3	0.6	0.0	1.0	-0.4	0.0
19	Preparations of cereals, flour, starch or milk	10.7	6.9	40.1	133.7	0.0	173.7	-109.1	4.2
20	Preparations of vegetables, fruit, nuts	16.8	9.1	3376.2	3877.1	0.0	7253.3	-4464.0	275.6
21	Miscellaneous edible preparations	9.6	6.3	776.5	1238.2	0.0	2014.7	-924.6	75.1
22	Beverages, spirits and vinegar	1.9	1.3	13.4	32.7	0.0	46.1	-22.9	0.8
23	Residues and waste from the food industries	1.8	1.4	19.9	30.6	0.0	50.5	-21.1	0.8
24	Tobacco and manufactured tobacco substitutes	45.9	13.4	16.5	7.3	0.0	23.8	-4.8	5.2
25	Salt; sulphur; earths and stone; plastering material	0.3	0.3	2.0	0.1	0.0	2.1	-0.1	0.0
26	Ores, slag and ash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27	Mineral fuels, mineral oils and products of distillation	0.8	0.7	5.1	6.4	0.0	11.5	-5.3	0.0
28	Inorganic chemicals	4.8	3.8	209.4	203.4	0.0	412.9	-216.7	8.9
29	Organic chemicals	4.7	3.7	3834.3	4108.8	0.0	7943.2	-4069.6	199.1

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
30	Pharmaceutical products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
31	Fertilisers	1.6	1.3	0.7	0.3	0.0	1.0	-0.2	0.0
32	Tanning or dyeing extracts	6.1	4.7	1014.3	797.8	0.0	1812.1	-1084.4	56.1
33	Essential oils and resinoids	2.7	2.1	422.8	270.9	0.0	693.7	-234.1	22.5
34	Soap, organic surface-active agents	1.9	1.6	16.7	22.4	0.0	39.1	-16.2	0.6
35	Albuminoidal substances; modified starches and glues	5.9	4.5	50.9	56.3	0.0	107.2	-40.3	2.7
36	Explosives; pyrotechnic products and matches	6.5	4.9	3.3	5.2	0.0	8.5	-5.5	0.2
38	Miscellaneous chemical products	5.1	4.0	368.5	368.1	0.0	736.6	-338.6	15.8
39	Plastics and articles	6.1	4.6	2218.5	3613.3	0.0	5831.8	-2730.7	107.6
40	Rubber and articles	2.3	1.9	157.8	250.7	0.0	408.5	-231.6	6.4
41	Raw hides and skins (other than fur skins)	3.3	2.7	183.7	8.6	0.0	192.3	-0.5	5.2
42	Articles of leather; saddlery and harness	4.4	3.5	1590.7	1651.6	0.0	3242.3	-1481.2	56.2
43	Fur skins and artificial fur and manufactures	3.2	2.8	0.8	0.5	0.0	1.2	-0.3	0.0
44	Wood and articles of wood	2.5	1.9	22.5	33.4	0.0	55.9	-23.8	1.3

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
45	Cork and articles of cork	3.5	2.8	1.3	1.1	0.0	2.3	-0.7	0.1
46	Manufactures of straw	3.3	2.8	15.0	12.4	0.0	27.3	-8.3	0.4
47	Pulp of wood or of other fibrous cellulosic material	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
48	Paper and paperboard and articles of paper pulp	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
49	Printed books, newspapers and pictures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
50	Silk	3.1	2.5	69.5	75.0	0.0	144.5	-70.6	3.6
51	Wool, fine or coarse animal hair; horsehair yarn	4.3	3.3	256.7	94.9	0.0	351.7	-249.5	10.5
52	Cotton	6.8	5.0	906.8	437.0	0.0	1343.8	-415.8	43.4
53	Other vegetable textile fibres	3.7	2.8	183.6	99.4	0.0	282.9	-109.8	6.7
54	Man-made filaments	6.7	5.0	1073.4	780.1	0.0	1853.5	-688.4	56.7
55	Man-made staple fibres	6.6	4.9	1332.0	247.9	0.0	1579.9	-247.0	81.1
56	Wadding, felt and nonwovens and special yarns	6.3	4.7	676.8	352.4	0.0	1029.2	-365.0	31.4
57	Carpets and other textile floor coverings	7.4	5.3	2486.3	1482.7	0.0	3969.0	-1605.5	119.3
58	Special woven fabrics; tufted textile fabrics and lac	7.2	5.3	253.7	220.1	0.0	473.8	-284.5	13.4

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
59	Impregnated, coated, covered or laminated textile	6.2	4.7	61.0	77.6	0.0	138.6	-59.2	2.9
60	Knitted or crocheted fabrics	7.8	5.6	238.1	75.5	0.0	313.6	-58.2	15.4
61	Articles of apparel and clothing accessories, knitted	11.7	7.4	30405.4	36036.3	0.0	66441.7	-28782.5	1728.1
62	Articles of apparel and clothing accessories, not knitted	11.3	7.2	25488.4	31250.3	0.0	56738.8	-26973.7	1644.4
63	Other made-up textile articles; sets and worn clothing	10.2	6.6	8840.6	9223.3	0.0	18063.8	-9315.0	516.4
64	Footwear, gaiters and the like and parts	10.8	6.6	5586.8	6723.1	0.0	12310.0	-6197.2	403.5
65	Headgear and parts	2.2	1.9	32.2	34.4	0.0	66.6	-23.2	1.0
66	Umbrellas, sun umbrellas and walking sticks	4.3	3.5	1.2	1.8	0.0	3.0	-1.2	0.1
67	Prepared feathers and down and articles made of feathers	2.8	2.4	100.6	5.0	0.0	105.6	-1.9	1.7
68	Articles of stone, plaster, cement, asbestos and mica	1.1	1.0	398.7	47.7	0.0	446.4	-39.4	4.6
69	Ceramic products	4.4	3.4	442.6	403.7	0.0	846.3	-292.2	41.3
70	Glass and glassware	5.4	4.0	276.8	466.9	0.0	743.7	-350.7	21.6
71	Natural or cultured pearls, precious or semi-precious metal	0.8	0.7	1888.9	938.6	0.0	2827.5	-792.7	45.8
72	Iron and steel	0.2	0.2	3.5	3.6	0.0	7.0	-3.3	0.0
73	Articles of iron or steel	1.9	1.7	1630.6	1022.6	0.0	2653.2	-775.1	46.2

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
74	Copper and articles	3.3	2.7	202.1	175.7	0.0	377.8	-143.9	6.6
75	Nickel and articles	0.9	0.8	2.2	3.3	0.0	5.5	-2.3	0.1
76	Aluminium and articles	6.3	4.7	555.2	950.1	0.0	1505.3	-796.7	26.4
78	Lead and articles	1.9	1.6	0.2	0.5	0.0	0.7	-0.3	0.0
79	Zinc and articles	3.8	3.1	1.6	3.2	0.0	4.8	-2.2	0.1
80	Tin and articles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
81	Other base metals; cermets; articles	3.9	3.0	5.7	5.8	0.0	11.4	-3.9	0.3
82	Tools, implements, cutlery, spoons and forks	3.2	2.6	177.9	228.4	0.0	406.4	-172.5	7.3
83	Miscellaneous articles of base metal	2.2	2.0	434.3	324.2	0.0	758.4	-247.9	10.7
84	Nuclear reactors, boilers, machinery and mechanical appliances	1.7	1.5	1397.4	1568.9	0.0	2966.3	-1154.8	28.9
85	Electrical machinery and equipment and parts	1.8	1.5	819.2	995.0	0.0	1814.2	-711.8	14.0
86	Railway or tramway locomotives and rolling stock	1.8	1.6	16.0	6.4	0.0	22.3	-6.4	0.3
87	Vehicles other than railway or tramway rolling stones	5.4	4.0	3105.5	4669.6	0.0	7775.1	-3273.3	167.5
88	Aircraft, spacecraft, and parts	1.5	1.3	123.7	178.9	0.0	302.6	-126.3	1.4

HS Code (2 digit)	Product	Old Simple Applied Duty Rate	New Simple Applied Duty Rate	Trade Creation Effect (US$ '000)	Trade Diversion Effect (US$ '000)	Price Effect (US$ '000)	Total Trade Effect (US$ '000)	Revenue Effect (US$ '000)	Welfare Effect (US$ '000)
89	Ships, boats and floating structures	1.8	1.6	0.0	0.0	0.0	0.1	0.0	0.0
90	Optical, photographic, cinematographic, measuring apparatus	1.1	1.0	178.6	239.5	0.0	418.1	-199.1	3.8
91	Clocks and watches and parts	4.1	3.4	16.9	12.7	0.0	29.7	-8.6	0.7
92	Musical instruments; parts and accessories of such	3.1	2.7	4.1	5.4	0.0	9.5	-3.7	0.1
93	Arms and ammunition; parts and accessories	2.2	2.0	10.5	0.7	0.0	11.2	-0.4	0.2
94	Furniture; bedding, mattresses and mattress supports	1.9	1.6	233.4	386.7	0.0	620.1	-277.7	7.2
95	Toys, games and sports requisites and parts	2.4	2.1	92.5	129.0	0.0	221.5	-92.3	1.8
96	Miscellaneous manufactured articles	3.1	2.6	47.3	89.5	0.0	136.8	-64.2	1.5
97	Works of art, collectors' pieces and antiques	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total		**-**	**-**	**116830.0**	**128757.0**	**0.0**	**245087.0**	**-110503.0**	**6631.2**

Source: WITS database and India Exim Bank Analysis

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Phone: (91 22) 22172600 Fax : (91 22) 22182572
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LONDON BRANCH

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Fax : (91 79) 26577696
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Bengaluru 560 001
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Fax : (91 80) 25589107
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Fax : (91 172) 4629175
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Fax : (91 44) 28522832
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NEDFi House, 4th Floor, GS Road,
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Fax : (91 361) 2237701
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Hyderabad
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6-3-639/640, Raj Bhavan Road,
Khairatabad Circle, Hyderabad 500 004
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Fax : (91 40) 23317843
E-mail : eximhro@eximbankindia.in

Kolkata
Vanijya Bhawan, 4th Floor,
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1/1 Wood Street, Kolkata 700 016
Phone : (91 33) 68261301
Fax : (91 33) 68261302
E-mail : eximkro@eximbankindia.in

Mumbai
8th Floor, Maker Chamber IV,
Nariman Point,
Mumbai 400 021
Phone : (91 22) 22861300
Fax : (91 22) 22182572
E-mail : eximmro@eximbankindia.in

New Delhi
Office Block, Tower 1, 7th Floor,
Adjacent Ring Road, Kidwai Nagar (E)
New Delhi - 110 023
Phone : (91 11) 61242600 / 24607700
Fax : (91 11) 20815029
E-mail : eximndo@eximbankindia.in

Pune
No. 402 & 402(B), 4th floor, Signature Building,
Bhamburda, Bhandarkar Rd.,
Shivajinagar, Pune - 411 004
Phone : (91 20) 26403000
Fax : (91 20) 25648846
E-mail : eximpro@eximbankindia.in

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Abidjan,
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Fax : (225) 27 20 24 29 50
Email : eximabidjan@eximbankindia.in

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House No. 46,
JakRose Estate Compound,
Woreda 07,
Bole Sub-city,
Addis Ababa,
Ethiopia.
Phone : (251 118) 222296
Fax : (251 116) 610170
Email : aaro@eximbankindia.in

Dhaka
Madhumita Plaza, 12th Floor,
Plot No. 11, Road No. 11, Block G,
Banani, Dhaka, Bangladesh - 1213.
Phone : (88) 01708520444
E-mail : eximdhaka@eximbankindia.in

Dubai
Level 5, Tenancy lB, Gate Precinct Building No. 3,
Dubai International Financial Centre,
PO Box No. 506541, Dubai, UAE.
Phone : (971 4) 3637462
Fax : (971 4) 3637461
E-mail : eximdubai@eximbankindia.in

Johannesburg
2nd Floor, Sandton City Twin Towers East,
Sandhurst Ext. 3, Sandton 2196,
Johannesburg, South Africa.
Phone : (27) 113265103
Fax : (27 11) 7844511
E-mail : eximjro@eximbankindia.in

Singapore
20, Collyer Quay, #10-02,
Tung Centre, Singapore 049319.
Phone : (65) 65326464
Fax : (65) 65352131
E-mail : eximsingapore@eximbankindia.in

Washington D.C.
1750 Pennsylvania Avenue NW,
Suite 1202, Washington D.C. 20006,
United States of America.
Phone : (1 202) 223 3238
Fax : (1 202) 785 8487
E-mail : eximwashington@eximbankindia.in

Yangon
House No. 54/A, Ground Floor,
Boyarnyunt Street, Dagon Township,
Yangon, Myanmar
Phone : (95) 1389520
E-mail : eximyangon@eximbankindia.in

Centre One Building, 21st Floor, World Trade Centre Complex, Cuffe Parade, Mumbai-400 005.

Ph.: (9122) 22172600 | Fax: (9122) 22182572

E-mail: ccg@eximbankindia.in | Website: www.eximbankindia.in, www.eximmitra.in

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