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High Commission of India
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ASCENT

Accelerating UK-India trade towards £50BN



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Foreword

Her Excellency Gaitri Issar Kumar, High Commissioner of India to the UK

"I congratulate all partners of High Commission of India, London – The Federation of Indian Chambers of Commerce and Industry, Sannam S4, Santander and Tayler Wessing - for their contribution to the Report 'ASCENT - Accelerating UK-India trade towards £50BN'.

India and the UK are, today, committed to forging an Enhanced Trade Partnership aimed at achieving prosperity, generating jobs, developing skills and facilitating essential supplies for the benefit of both our peoples. We have identified our complementarities across the sectors - which offer both sides tremendous opportunities for a win-win outcome.

ASCENT includes case studies that help to identify drivers of exports and imports and main contributors to the creation of value chains on both sides. It also analyses the interplay between trade and FDI and will be a useful handbook for businesses and investors on both sides."

The Rt. Hon. Baroness Usha Prashar of Runnymede CBE, PC, Chairperson, FICCI UK Council

"While UK-India trade is already an impressive £24 billion annually, a step on the journey to build a stronger UK-India relationship over the next 10 years is a realistic focus on reaching £50 billion. This report pinpoints the opportunities that exist for both British and Indian businesses alike. It also provides fresh insights that will serve as a useful guide for businesses and policy makers. India and the UK should aim at using the Enhanced Trade Partnership to jointly work on critical global issues of climate change, supply chain, defence & security, amongst others."

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List of Acronyms

ACP - Access India Programme
AI - Artificial Intelligence
AGR - Adjusted Gross Revenue
BFSI - Banking, financial services and insurance
BJP - Bharatiya Janata Party
BPM - Business Process Management
CAGR - Compound Annual Growth Rate
CAPEX - Capital expenditures
CEO - Chief Executive Officer
COAI - Cellular Operators Association of India
CHOGM - Commonwealth Heads of Government Meeting
CSR - Corporate Social Responsibility
CUCET - Central University Common Entrance Test
DoT - Department of Telecommunications
Edtech - Education Technology
EoDB - Ease of Doing Business
EQUIP - Education Quality Improvement Programme
EU - European Union
EUR - Euro
FDI - Foreign Direct Investment
FICCI - Federation of Indian Chambers of Commerce and Industry
FinTech - Financial Technology
FMCG - Fast-Moving Consumer Goods
FTA - Free Trade Agreement
FY - Fiscal Year
GBP - Great Britain Pound
GDP - Gross Domestic Product
GSMA – Global System for Mobile Communications Association
GST - Goods and Services Tax
IBC - Insolvency and Bankruptcy Code
ICT - Information and communications technology
IMF - International Monetary Fund
INR - Indian Rupee
IP - Intellectual Property
IT - Information Technology
IT-BPM - Information Technology - Business Process Management
ITeS - IT/IT- enabled service
JETCO - Joint Economic and Trade Committee
JWGs - Joint Working Groups
JV - Joint Venture
LEAP - Leadership for Academicians Programme
MNP - Mobile Number Portability

MFN - Most Favoured Nation
MoUs - Memorandum of Understanding
M&A - Mergers and Acquisitions
NASSCOM - The National Association of Software and Services Companies
NCERT - National Council of Educational Research and Training
NEP - New Economic Policy
NMC – National Medical Commission Bill
NRI - Non-Resident Indians
NSO - National Statistical Office
NTA – National Testing Agency
ONS - Office for National Statistics
PFCE - Private Final Consumption Expenditure
PHV – Private Hire Vehicles
PIO - Person of Indian Origin
PHDCCI - The PHD Chamber of Commerce and Industry
PM - Prime Minister
PRIME - Programme for Reskilling/Upskilling of IT Manpower for Employability
RBI - Reserve Bank of India
SIM - Subscriber Identity Module
SME - Small and Medium Enterprises
SPARC - Scheme for Promotion of Academic and Research Collaboration
UAE - United Arab Emirates
UK – The United Kingdom
UKIBC - UK India Business Council
UKIERI initiative - UK-India Education and Research Initiative
UNICEF - United Nations International Children's Emergency Fund
US – The United States
USD - United States Dollar
USOF - Universal Service Obligation Fund
UUKi - Universities UK International
WEF - World Economic Forum
YoY - Year-on-Year



INDIA AT A GLIMPSE

"INDIA HAS EXPERIENCED STRONG LEVELS OF ECONOMIC GROWTH OVER RECENT YEARS AND, DESPITE A MORE CHALLENGING PERIOD PRE-COVID-19, THE LONG-TERM PROSPECTS FOR THE COUNTRY REMAIN STRONG."

According to the IMF's World Economic Outlook (October 2020), India is the world's sixth-largest economy, in terms of nominal GDP[1], a rapid acceleration from 2010 when it sat ninth, behind France, UK, Brazil, and Italy. India has experienced strong levels of economic growth over recent years and despite a more challenging period pre-COVID-19, the long-term prospects for the country remain strong.

Fundamental-DRIVEN Economy

India's growth story has been based on its fundamentals. While inflation was a problem in the early stages of development, it has been brought down to four percent between 2014–19. Equally, India's fiscal and current account deficits, which used to be six percent and three percent, respectively, had been reduced to half pre-Covid. With this internal and external macro-stability, India's national currency (the Rupee) stabilised, making India a leading investment destination among the emerging markets.

[1] Nominal GDP is an assessment of economic production in an economy but includes the current prices of goods and services in its calculation. GDP is typically measured as the monetary value of goods and services produced. Since nominal GDP is calculated using current prices it does not require any adjustments for inflation.



Enabling Policies

In 2019, India's incumbent ruling government (Bharatiya Janata Party (BJP)) was re-elected for a second term with a substantial majority. It continued to drive the programme of reforms in a number of areas. These include:

- Improving the business environment
- Positioning India as a manufacturing hub
- Making changes to the education system to help skill India's vast youth
- Galvanising the entrepreneurial spirit and start-up culture in India
- Improving foreign relations between India and other countries
- New investment policies

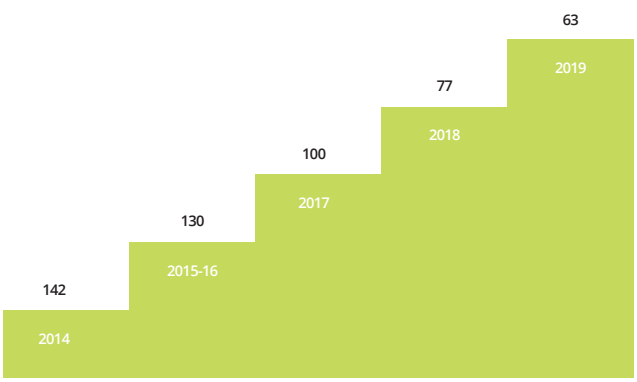
Improvement in 'Ease Of Doing Business' in India

India's ranking in the World Bank's 'Ease of Doing Business' (EoDB) jumped to 63 in 2019 (up 79 positions since 2014). To achieve this, examples of key underlying reforms implemented include:[3]

- Simplifying the process to incorporate a company
- Streamlining the process (in terms of time and cost) for obtaining construction permits
- Easing cross-border trade by enabling post-clearance audits,
- integrating trade stakeholders in a single electronic platform,
- upgrading ports' infrastructure and enhancing the electronic submission of documents
- Introducing a new Insolvency and Bankruptcy Code in 2016 with the aim of improving rates of debt recovery and the timeline for recovery
- Introduction of single goods & services tax
- E-governance

While great strides have been made, there remains a substantial opportunity to improve and the government appears committed to continuing this journey.

Ease of doing business in India ranking:[2]



[2] India moves up 14 spots to 63 on World Bank's ease of doing business ranking, India Today, 24 October 2019
[3] These changes largely apply to Delhi and Mumbai (where the World Bank's survey focuses)

Making India a Manufacturing Hub

Formally introduced on September 25, 2014, PM Narendra Modi's 'Make in India' initiative has been a deliberate move to position India as a major global manufacturing destination. Focusing on 27 priority sectors, this is supported by policy initiatives to improve the ease of doing business and to attract investment (e.g. production linked incentives).

To illustrate this for just one sector, there are over 100 mobile phone manufacturers in India and Samsung moved one of its largest manufacturing sites to Noida (in the state of Uttar Pradesh) in 2019.[4] Apple and Xiaomi are also invested in Indian manufacturing capacity.

This is a strategy for the short, medium and long term. While India has emerged amongst the world's top destinations for FDI, accounting for 85 percent of all FDI coming into South Asia, the manufacturing sector made up less than a quarter of the total FDI inflows in 2018-19 (£6.13 bn).[4]

With the global supply chain disruption caused by Covid and ongoing geopolitical dynamics, it looks likely that we will see organisations diversify their supply chains. India is well-positioned to support organisations achieve this.

Skilling by Reforms in the Education Sector[5,6]

In July 2020, India launched a new National Education Policy (NEP). This is intended to provide an overarching vision and a comprehensive framework to guide the development of both school and higher education across the country. Since it has not been presented in Parliament, the new NEP is presently a policy and not yet in law. At this stage, it is directional and needs collaboration between the Centre and the states for implementation. The NEP proposes sweeping changes in both school and higher education, including:

- **School Education**
  - Overhauling the school education curriculum—"reformed" Board exams, a reduction in the syllabus to retain "core essentials" and Different word? Focus? Emphasis? on "experiential learning and critical thinking"
  - Redesign pedagogy in a 5+3+3+4 configuration corresponding to foundational, preparatory, middle, and secondary
  - Vocational education along with internships from Class 6

- **Higher Education**
  - Opening up of Indian higher education to highly-ranked overseas universities
  - Replacing the Universities Grant Commission (UGC) and the All India Council for Technical Education (AICTE) with a single regulator—Higher Education Commission of India
  - Introduction of a four-year multidisciplinary undergraduate programme with multiple exit options
  - Flexibility to offer different designs for Master's programmes
  - Setting up a National Research Foundation
  - Credit transfer systems

The incumbent government has set a target of 2040 to implement the (100+) action points from the policy.

Galvanising the Entrepreneurial Spirit in India

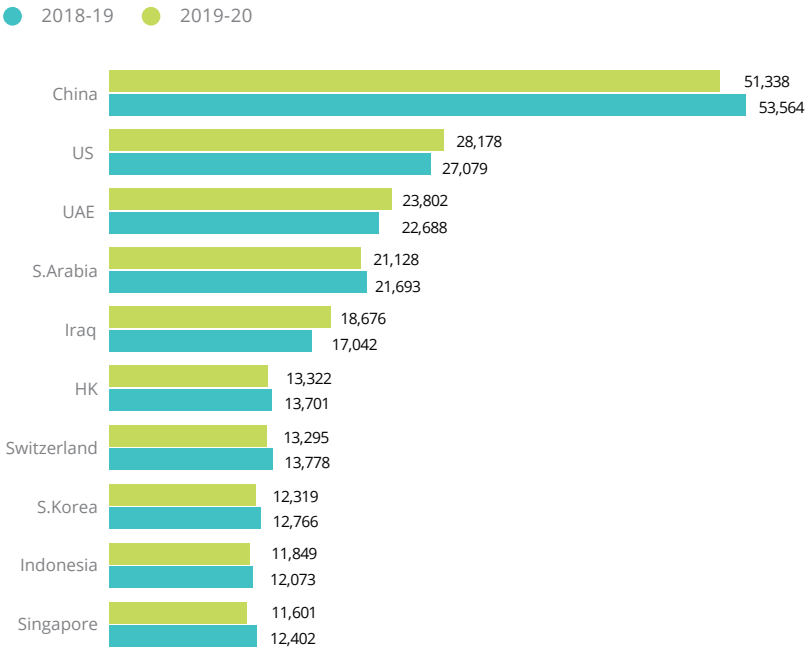
To ensure the growth of new business in the country, the Indian government launched Start-up India in 2016 to foster a start-up culture and build an inclusive ecosystem for innovation and entrepreneurship by providing tax breaks, easier compliance and other benefits to entrepreneurs. This applies in diverse sectors such as technology, agriculture, manufacturing, healthcare, education and social sector.[7]

On 11 March 2020, Piyush Goyal (Commerce and Industry Minister) confirmed that 28,979 start-ups had been recognised by the Department for Promotion of Industry and Internal Trade (DPIIT). Collectively, more than 90 percent of the DPIIT-recognised start-ups reported a total of 337,335 employees.

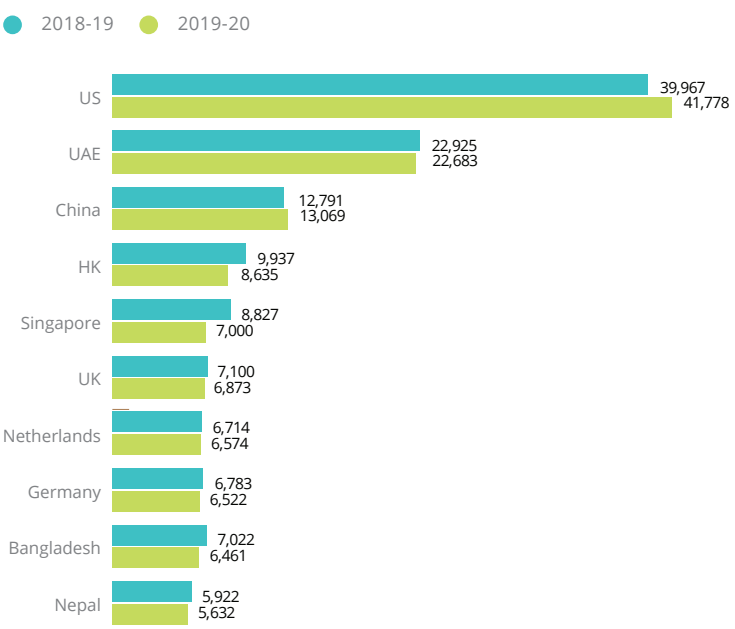
The government is funding start-ups through a Fund of Funds (FFS) finance scheme.[8] As of 31 March, 2020, GBP 372.6 mn had been invested in 338 start-ups by 53 Alternative Investment Funds.[9] With the boost to this sector, we have also seen additional benefits, such as 5,441 new 'tinkering' labs, 22 new incubators, and new research parks established.[10]

[4] Making 'Make in India' work, The Hindu Business Line, 19 March 2020
[5] Explained: Reading the new National Education Policy, 2020, Indian Express, 10 August 2020
[6] What has the National Education Policy 2020 proposed? The Hindu, 02 August 2020
[7] About StartUp India, Ministry of Commerce and Industry accessed on 19 December 2019
[8] SIDBI launches fund to promote innovation & entrepreneurship, Oct 2016, moneycontrol.com
[9] Status of FFS as on March 31, 2020 SIDBI website accessed on July 27, 2020
[10] The status report, Startup India, 23 November 2018

India's top 10 Import partners (in GBP mn)



India's top 10 Export partners (in GBP mn)



Fostering International Relations

The rise in international trade over the past year highlights the intention of the government to focus on making India a promising trading partner in the global arena. India's share of world exports rose to 1.71 percent in the fourth quarter of FY 2019 from 1.58 percent in the third quarter of FY 2018.[11]

The Government of India has been deliberate in attempting to strengthen the alliance with neighbouring countries under its 'neighbourhood first' foreign policy. Since June 2019, PM Narendra Modi has visited the Maldives, Sri Lanka[12] and Bhutan to promote bilateral trade and cooperation. These visits have led to the signing of various MoUs between the countries, strengthening bilateral ties.[13]

The government has also created an Act East policy, making its East Asian neighbours a foreign policy priority, boosting its standing as a regional power. Despite this, the US is India's largest trading partner and ties here continue to flourish, with many trade and defence deals, undertaking joint military exercises and the like.

[11] India is only major Asian economy that's growing its export share during trade war, The Economic Times, 1 August 2019
[12] Why PM Modi chose Maldives for his first foreign visit, Times of India, 8 June 2019
[13] PM Modi holds talks with Bhutan's PM, signs 10 MoUs, Business Line, The Hindu, 17 August 2019

Recent Economic Headwinds

Pre-Covid, the country found itself in a somewhat more challenging position economically than the government expected. Business confidence and consumer sentiment dropped significantly in 2019 and 2020, negatively impacting GDP growth. Through 2019, the leading economic indicators, i.e. inflation rate, interest rate, etc, continued to show signs of concern, pushing the government into reform-cum-stimulation mode. The Reserve Bank of India lowered interest rates throughout the year, pausing only in December 2019 and resuming to help revive the economy from the COVID-triggered lockdown.

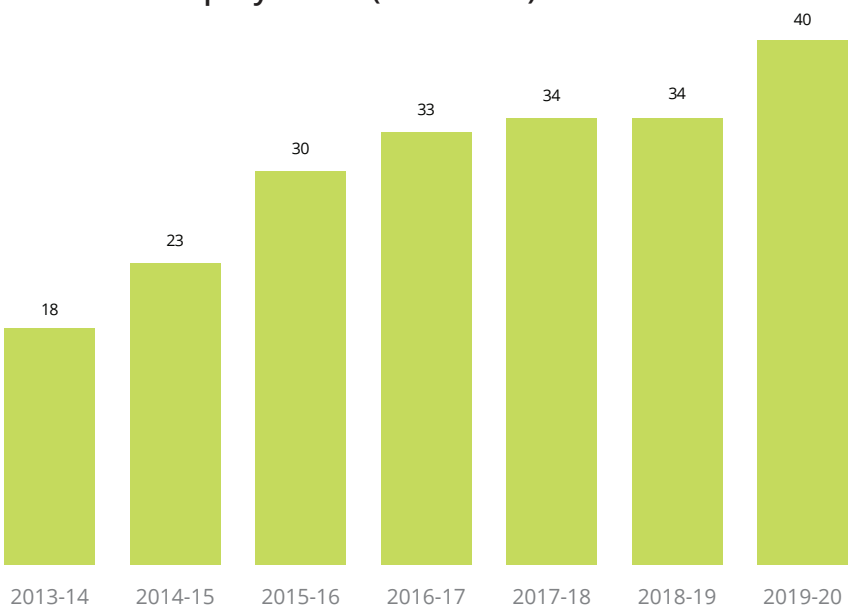
Surging FDI Inflows Hints at Favourable Liberalisation Policy

Despite the recent economic slowdown, there has been a surge in Foreign Direct Investment (FDI) equity inflows. FDI in India grew by 13 percent to GBP 40 bn in the financial year 2019-20.

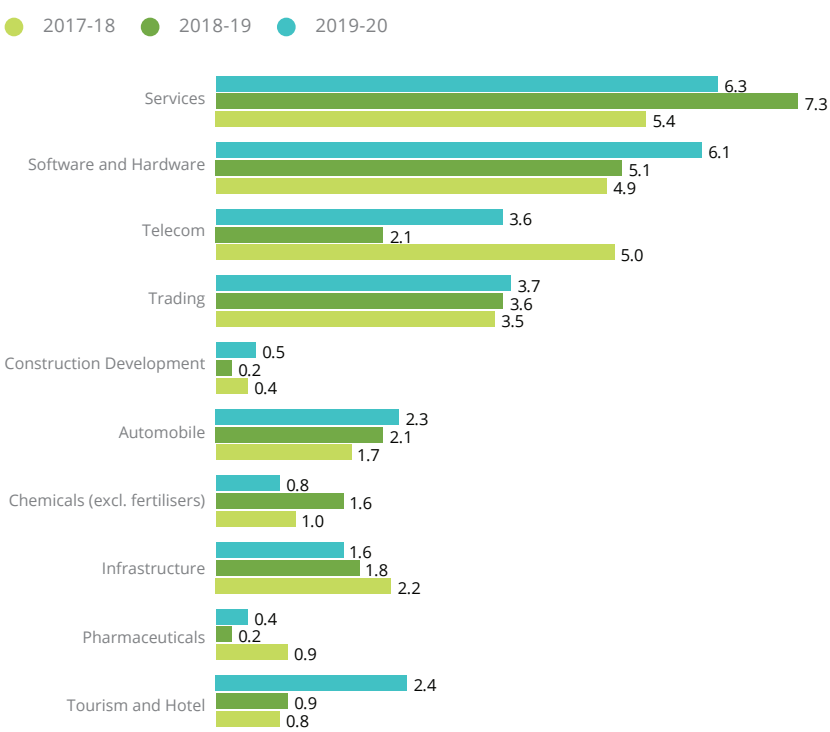
The easing of foreign investment rules, long-term domestic growth potential, and anticipated stability in the domestic currency have helped drive inflows into the country.[14]

For foreign investment rules, FDI requirements have been eased in insurance (for intermediaries), coal mining, contract manufacturing, single-brand retail, and digital media. This builds on earlier changes in sectors such as defence, medical devices, construction development, retail, and civil aviation.[15]

Annual FDI Equity Flows (in GBP bn)[16]

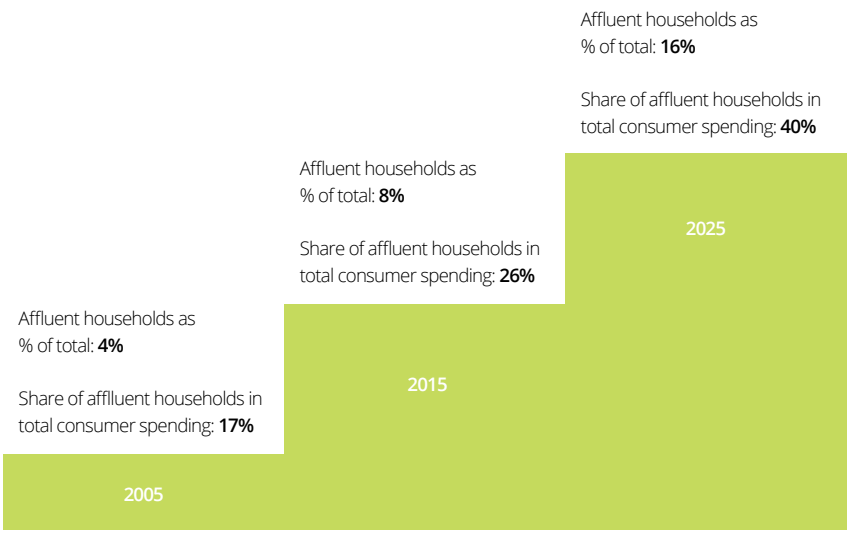


Top 10 Sectors Attracting FDI Equity Investments in FY 2020 (in GBP bn)[17]



[14] Slowdown fails to negatively impact inflow of foreign investment; this is what makes India attractive, Financial Express, 29 November 2019
[15] FDI equity inflows up 28% in June quarter to $16.3 billion, from $12.75 billion last year, Business Today, 5 September 2019
[16] FDI Statistics Archives, Department for Promotion of Industry and Internal Trade website accessed on 18 December 2019
[17] FDI equity inflows up 28% in June quarter to $16.3 billion, from $12.75 billion last year, Business Today, 5 September 2019

Increasing Contribution of Affluent Households in the Indian Consumer Market[19]





Favourable Demographics

With the rise of the affluent class and people in urban areas, the Indian economy is evolving in its social outlook.

The rise in consumer spending is driven by multiple factors such as growth in income, a billion diverse internet users, and a very young population. The new Indian consumer is more affluent, more willing to spend, and has more evolved preferences and aspirations than consumers of the past.[18]

In 2018, the expenditure of affluent households has increased 5.5 times the corresponding figure in 2008

The increasing proportion of consumption expenditure in household income and the rise of tier 2 and 3 cities (driven, in part, by urbanisation) make way for economic growth and infrastructure development in India.

Leveraging Demographic Dividend by Skilling

India's working-age population is expected to be 18.6 percent of the global labour force by 2027, up from 18 percent in 2017.[20] Therefore, India will have the world's largest working-age population (age group 20–64) by 2030. A recent UNICEF report states that, although India will have the highest number of secondary school graduates among South Asian nations by 2030, nearly half of them will lack sufficient to enter the workforce.[21] This underlines the importance of the recently launched National Education Policy (NEP) and the Skill India initiative (among many others).

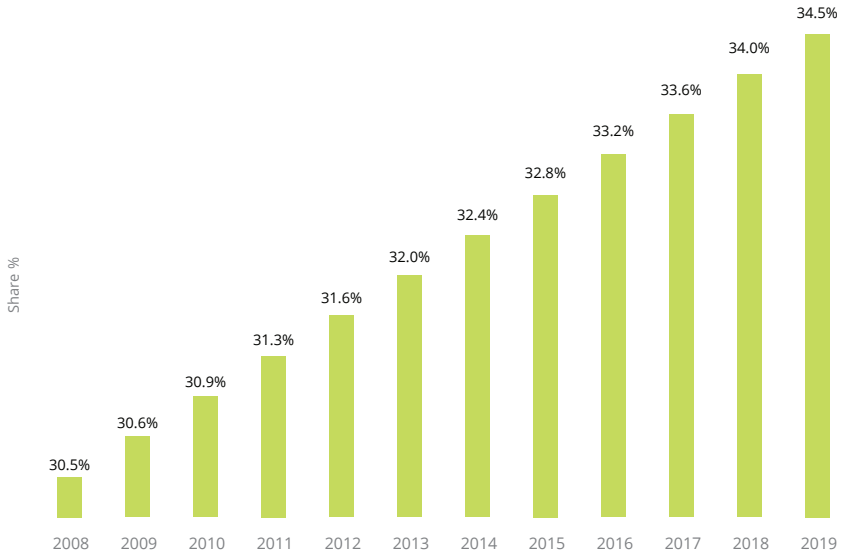
[18] Future of Consumption in Fast-Growth Consumer Markets: India, World Economic Forum, 7 January 2019
[19] The New Indian, The Rise Of Aspirations And More, The Boston Consulting Group accessed on 19 December 2019
[20] India seen topping global labour force in next decade, Livemint, 31 August 2017
[21] From demographic dividend to liability?, Deccan Herald, 25 November 2019

Leading Urbanisation with Infrastructural Development

As with many countries, the urban population in India is on a constant rise. However, India's unique rate of urbanisation has been very different from most other countries as it is not concentrated in a few cities (such as in Indonesia or Thailand), not as dispersed as in the US,[22]and not as fast as in China.

It has been estimated that about 40 percent of India's population will live in urban areas by 2025, accounting for more than 60 percent of total consumption. This will lead to a rise of the many tier 2 and 3 cities that will account for a large part of this growth.[24] Simultaneously, the top nine metro cities will be significantly richer than other cities. There will also be more than 5,000 small urban towns (50,000–100,000 persons each) with similar income profiles, where aspirations are fast converging with those of urban India.[25]

Urban Population (30 % of the Total Population) in India[23]



Impact of COVID-19 on Indian Economy[26, 27, 28]

Predicting the impact of Covid-19 while it is still in flight has its obvious challenges.

According to the October 2020 IMF's World Economic Outlook, India's economy is forecast to shrink by 10.3 percent, returning to 8.8 percent growth in 2021, the largest level of growth across advanced and emerging markets and developing economies.

The impact of the contraction will vary across sectors, states, and social groups. Agriculture and government are less likely to witness a contraction, which is important as these two sectors accounted for almost 30 percent of total Gross Value Added (GVA) in 2019-20.

Contractions in each non-farm, non-government economy sub-sector will have a different impact across states and jobs. A comparison of year-on-year growth in GVA and jobs in 2018-19 shows that the construction sector and the trade, hotels, transport, storage and communication sector had the highest employment elasticity in the non-farm, non-government sector.

Government debt is likely to jump to 84.5 percent of the Gross Domestic Product (GDP) in 2020-21 from an estimated 71 percent in 2019-20. The rating agency Fitch lowered the nation's outlook to negative (from stable) after eight years, while retaining the lowest investment grade. The last time Fitch cut India's outlook to negative from stable was in 2012.

[22] The New Indian, The rise of aspirations and more, Boston Consulting Group accessed on 19 December 2019
[23] Urban population (% of total population) India, The World Bank accessed on 19 December 2019
[24] The New Indian, The rise of aspirations and more, Boston Consulting Group accessed on 19 December 2019
[25] The three biggest challenges for India's future, World Economic Forum, 7 January 2019
[26] Economic impact of Covid-19 pandemic to vary in sectors, Hindustan Times, 14 Jun 2020
[27] https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020
[28] Unreal optimism, 09 Jul 2020, The Statesman



Case Study: Zensar

Zensar is an India Headquartered publicly listed software and services company which forms part of the wider RPG Group. Zensar provides digital and technology solutions to global customers but traces its origin back to 1922 when a British original-equipment company established a subsidiary in India.

Zensar set-up in the UK in 2000 and services B2B clients, typically FTSE 100 companies, in retail and consumer services, hi tech manufacturing, retail banking and insurance. The UK presence was boosted in 2016 via the acquisition of Foolproof which is Europe's largest specialist in the field of experience design. Zensar now has 450 employees in the UK and 10,000 globally.

Why the UK?

On why Zensar is focused on the UK, Chaitanya Rajebahadur (Chai), Executive Vice President and Head of Europe for Zensar Technologies comments 'the UK is the 2nd largest IT outsourcing market globally and the largest in Europe. This is a major factor for Zensar's presence, growth and focus in the UK. In addition, compared with other countries, there is a good availability of talent, visa regulations are easier to navigate and the English language makes doing business much easier."

Covid-19 and Brexit

Zensar has benefited from two major trends which have been accentuated over the Covid-19 pandemic period, Cost Optimization and Digital Transformation. Both these are becoming strategic imperatives for our clients and Zensar is working alongwith the CFO's, CMO's and CIO's to find solutions addressing cost, agility, and digital transformation. This looks likely to further continue.

From a Brexit perspective, the organization has felt little impact, the company has been able to manage its EU and European operations effectively and are pleased to see that the trade deal has concluded positively.

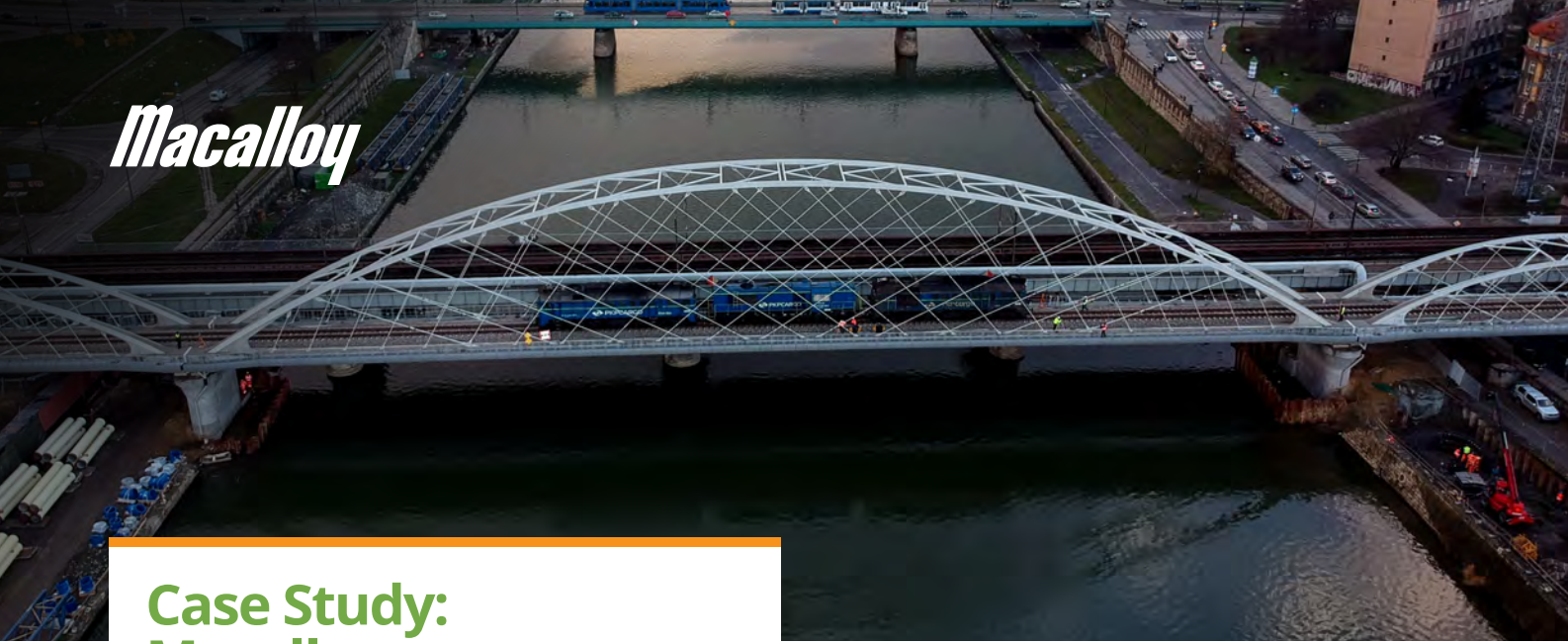
Practical matters

In terms of the running of the business in the UK, the tax structure in the UK is viewed as being relatively benign and it is hoped that this will improve as the UK now has greater flexibility on positioning itself internationally. Talent has been readily available and the recent changes in post study work will both benefit students wanting to travel to the UK for their studies but also employers such as Zensar.

Chai comments, "One area we would like to see additional efforts in how mid-sized companies are able to secure government projects. We have lots to offer but find the overall process quite challenging and onerous to navigate."

Words of advice

Chai's advice to market entrants to the UK is to have a very strong focus on regulatory compliance, consider investing in the North of the UK where there is a lot of good quality talent pool and to choose locations close to universities, providing strong collaboration opportunities.



Case Study: Macalloy

Background

Macalloy has been trading with India for over 20 years, competing with companies from China, Germany, and Thailand to offer an engineering solution for pre-stressed concrete constructions. Macalloy first developed the Post Tensioning Bar in the 1940s; this has since evolved to include a unique fatigue-resistant thread form. Mainly for use in bridges, wind turbines (as anchor bolts), high rises, and strong floors, it can also be used in a variety of temporary as well as permanent constructions.

To meet the demand of more modern-day structural designs and requirements and ensuring that the maximum amount of space within more modern-day buildings is utilised, Macalloy developed a Tensions Structures system in the 1980s. The Tension Bar System has a high yield strength that supports roofs, balconies, bridges, canopies, facades, suspended structures, etc, while using less material and keeping an architecturally aesthetic look.

The company was attracted to India primarily because of the large market size and the potential of infrastructure requirements and opportunities in the area – i.e. rail, road, and metro. Based in Sheffield, Macalloy employs 80 staff members. All are focused on delivering high quality products and excellent customer service.

Macalloy both engages with clients directly and is using a distributor. The regions we are most active in are Kerela, Tamil Nadu (Chennai), Maharashtra, and New Delhi.

Two-Way Trading

While the company is aware of the Make in India initiative, the priority right now is trading. This is a two-way activity for Macalloy: exporting into the market, but also taking advantage of India as a sourcing destination by importing Indian stainless steel, something they support via traditional financing mechanisms (e.g. letter of credit).

They have maintained steady growth over the last few years and 2019 marked their most successful year trading with India, with exported goods reaching a total of £1-2 mn.

Strength of Brand Britain in a Price-Competitive Market

Managing Director Peter Hoy believes, "Brand Britain is strong in India, and UK companies should leverage this when looking at developing their brand visibility in India."

This alone won't guarantee success and needs to be balanced with a strong value proposition that is price competitive.

"India has to be one of the most price-competitive markets for us," remarks Hoy.

Katarzyna Paciorek, Area Sales Manager, comments on the importance of effective working relationships, saying, "Another factor that is key has been finding good partners to represent us in the form of a local agent or distributor. This helps us tap into market opportunities via buyers, specifiers, and consultants, but also in areas such as guiding us on local market norms and assisting with some of the more challenging areas such as logistics."



UK AT A GLIMPSE

The UK has long been a major and active player globally whether measured in trade and investment, diplomacy, development, democracy, etc. Its economy is currently ranked fifth largest globally IMF's World Economic Outlook (October 2020) measured by GDP with obvious social and economic strengths. Its recent departure from the European Union and the extended period since the EU Referendum in June 2016 has resulted in a meaningful inflexion point for the country for which the consequences are yet to fully crystalise. The emergence of Covid-19 has added to this pressure.

The Economy

The UK holds a strong global position in GDP terms and its solid historic GDP growth has been supported by the business friendly environment and a very supportive monetary policy.

While there is a vibrant goods sector in the UK (with manufacturing and production accounting for 21 percent of GDP in 2019), its service sector dominates, accounting for approximately three quarters of GDP. This is most visibly driven by its global position as a financial centre but also with strengths in business services and consumer facing services such as retail, entertainment, creative industries, etc. In terms of sectors driving GDP growth for services over the last decade, the top four categories are professional scientific and technical, real estate, business support services, and information and communications.[29]

The UK remains the 5th largest exporter of both goods and services and the 5th largest importer of goods, underling the importance of working internationally to the economy.

Looking at other economic indicators, the UK has been in a low interest environment for a long period of time, with interest rates at or close to 0.5 percent since 2009. The official bank rate is currently 0.1 percent. UK inflation (CPI) has been on a steady downward trend from mid-2017. It is now below the 2 percent target at a 5 year low of 0.5 percent.[30] Commentators appear to expect inflation to remain within its target range for the foreseeable future.

Taking a longer term view, key economic priorities for the government appear to be:

- Global Britain – As well as close working with the EU, the UK's relationship with countries outside the EU becomes even more important. Active trade related agreements or related discussions are underway with Japan, the US, Canada, India, Australia, New Zealand, and Vietnam are encouraging in this respect.

- Regional growth agenda – As a region, London continues to dominate the UK in terms of economic performance. While continuing to nurture London, ongoing efforts will be required to 'level up' the regions through policy, investment (infrastructure, connectivity, universities, housing, social care, etc) and local ownership.

- Infrastructure – At a mini-budget in July 2020, the government signalled its intention to start an investment programme in a variety of areas of infrastructure (roads, broadband infrastructure, etc). This theme looks likely to be required in the medium to long term, although the COVID-19-related debt will make this position more challenging in the medium term.

- Skills and expertise – The UK has an exceptionally strong research base through both its university network and those businesses that use the UK as a base for research and development. This is key for both the services and goods sectors (advanced engineering, etc) and ongoing focus on ensuring that the UK the people required to work in these sectors is vital. Recent changes in immigration routes suggest this is front-of-mind for the government given the shortage of talent in some areas.

- Industrial strategy – There is strong focus on implementing the industrial strategy to enhance business competitiveness in advanced manufacturing, knowledge-intensive traded services and enabling industries such as energy and construction.

[29] Economy Economic output and productivity Output Services sector, UK Services sector, UK: 2008 to 2018 https://www.ons.gov.uk/
[30] https://www.ons.gov.uk/economy/inflationandpriceindices



Ease of Doing Business

The UK is renowned globally as a highly advantageous place to do business. The combination of the business climate, geographic / timezone advantage, English language, and the rule of law presents a compelling proposition.

As of 2019, based on World Bank's latest Ease of Doing Business ranking, the UK ranks 8th globally (up from 9th in 2018), 2nd in G7 (after the US) and 2nd in Western Europe (after Denmark).[31] This reflects an operating environment where integrity and transparency are important while also providing an enabling environment to do business.

One Country, Multiple Countries, Cities, and Regions

The United Kingdom is made up of four constituent countries (England, Wales, Scotland, and Northern Ireland) and elements of government are devolved to local legislatures / executives in order bring decision making closer to its 66 million citizens and to make the process of governing more democratic.

In addition, the UK's devolved governments, regions and localities in the UK are increasingly active bringing focus on their particular offerings internationally and with India. Taking cities / regions as an example, London & Partners, Manchester India Partnership, West Midlands India partnership all drive India centric activity.

As with India, there is regional variation in terms of sectoral strength and profile. Perhaps not surprisingly, London features strongly but other regions are also important:

- GDP per capita - London: £54,686, South East: £34,083, East of England: £30,069, Scotland: £29,660.[32]

- Expenditure on R&D (2018[33] top four regions) - South East: £7,029 mn, London: £5,886 mn, East of England: £6,598 mn and West Midlands: £3,285 mn,

- Technology investment - Manchester, London, Bristol, and Cambridge feature in Europe's top 20 cities and Manchester feature as Europe's fastest growing tech cluster.[34]

- Food and drink production (Gross Value Added) - Scotland: £4.04 bn, East Midlands: £3.86 bn, Yorkshire and the Humber: £3.41 bn, and North West: £3.28 bn.

[31] Press release: UK rises to 8th on World Bank's 'Ease of doing business' index, https://www.gov.uk
[32] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2018
[33] Country and regional breakdown of expenditure on R&D in the UK: by sector of performance, 2018 https://www.ons.gov.uk/
[34] technation - UK Tech for a Changing World, 2020 https://technation.io/report2020/#forewords

Brexit and Impact on Tariffs[35]

From 1 January 2021, the UK has implemented a new UK-specific tariff to imported goods. This UK Global Tariff (UKGT) replaced the EU's Common External Tariff, applied. The UKGT will apply to all goods imported into the UK unless:

- An exception applies, such as a relief or tariff suspension

- The goods come from countries that are part of the Generalised Scheme of Preferences

- The country that the goods are being imported from has a trade agreement with the UK

This presents a sizeable change and opportunity and is explored in more depth later in this report



COVID-19 Impact on the UK Economy

The Covid-19 pandemic has resulted in a considerable impact on the UK as measured by many indicators. The UK government was quick to respond with supporting economic measures, including:

- Income support schemes for workers and self employed (the furlough scheme)

- Loan scheme for business (backed by government)

- Various reductions and delays in payments (e.g. VAT)

As a predominantly service-based economy, the economy has been hit hard by Covid-19 with trade, tourism, real estate, and hospitality all highly impacted by the various restrictions imposed.

The speed with which the economy will recover is largely dependent on the the roll-out of Covid-19 vaccines. The UK's has had a prominent role in the development of vaccines and is among the first countries to commence roll-out.

[35] https://www.gov.uk/guidance/uk-tariffs-from-1-january-2021



UK-INDIA BILATERAL TRADE

The UK-India Relationship

The deep bilateral relationship between India and the UK has been characterised with a dynamic and engaged 1.5 mn strong Indian diaspora and centuries of shared history. The two nations are thousands of miles apart with different cultures, but both are built on shared values of democracy, the rule of law and committed to open markets and free trade.

Bilateral cooperation between India and the UK is guided by institutionalised dialogues of India-UK Joint Economic and Trade Committee, Economic and Financial Dialogue, and the India-UK Financial partnership. At the recent (July 2020) first virtual Joint Economic and Trade Committee (JETCO), Liz Truss (UK Secretary of State for International Trade), Piyush Goyal (Indian Minister of Commerce and Industry, Ranil Jayawardena (UK Minister for International Trade), and Hardeep Singh Puri (Indian Minister of State for Commerce and Industry) agreed to establish an Enhanced Trade Partnership as a part of the roadmap leading to a future FTA.

The enhanced trade partnership has been heralded as an important signal of commitment to deepen the partnership and focus on addressing market access barriers, to expand bilateral trade and investment and to build confidence and momentum towards an FTA.

The UK and India have a fruitful trade and investment relationship that delivers jobs and prosperity in both countries. UK-India trade has increased steadily since early 2000, and last year grew by 9.74 percent to over GBP 24 bn.

Getting Bilateral Trade to £50BN

Bilateral trade with India has experienced healthy levels of growth in recent years, growing nearly 48% from 2016 to £24BN in 2019, with UK Exports to India increasing by 48% and Indian Exports to UK increasing by 49% over the same period.

From 2016 to 2019, bilateral trade in goods increased by an average of 10% per annum. In 2019, trade in services was 82% of that in goods (having grown from 42% in 2014) and underlining the importance of this export category for both countries.

The trajectory of the trading relationship shows two countries working hard to increase engagement. Maintaining the trajectory shown between 2016 and 2019 would result in bilateral trade touching £50BN in 2025. However, there is common recognition that the two countries can do better and with 2020 being negatively impacted by Covid-19, now is the time for India and the UK to build on its solid trade and political relationship and raise the sights in a post-Brexit environment.



India's Export to the UK

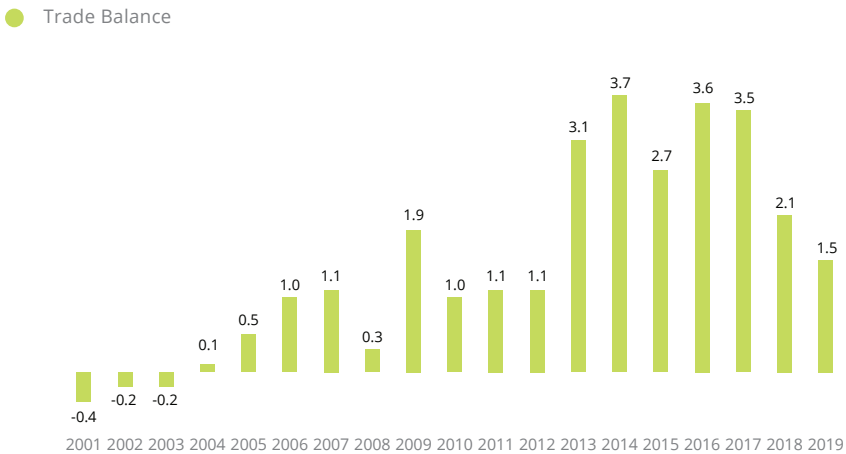
Since 2004 India has maintained a consistent trade surplus with the UK. The strategic partnership in 2004 envisaged annual summits and regular meetings between the Foreign Ministers of the two countries to ensure quick decision making.[36] This appears to have worked effectively.

The composition of trade between the two countries has not changed considerably over the last 10 years. There has been a steady increase across segments with top sectors being Engineering Products and Capital Goods (both directions), Chemicals (both directions) Fashion and Apparels (India to UK), and Industrial Metals.

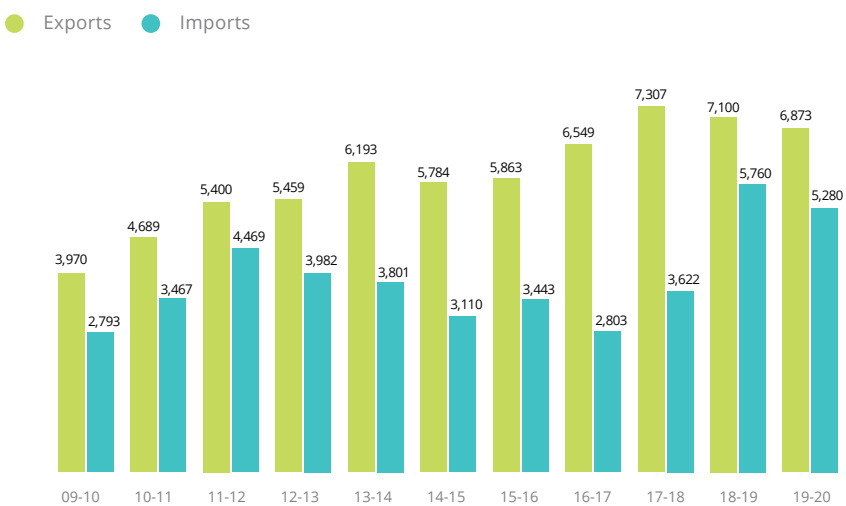
For example, Engineering Products and Capital Goods have grown by 10.5 percent annually (India to UK) and 8 percent annually (UK to India) over last 10 years. The combined trade (imports and exports) in this segment increased from £2.1 bn in 2018 to £3.2 bn in 2019.

There are both tariff and non-tariff barriers that have held back levels of trade and it is worth noting the substantial role that each country plays with FDI in the other (i.e. the relationship cannot be solely characterized by looking at trade). The UK is the largest G20 investor in India and on the other side, India is amongst the top 2 source markets for FDI into the UK.

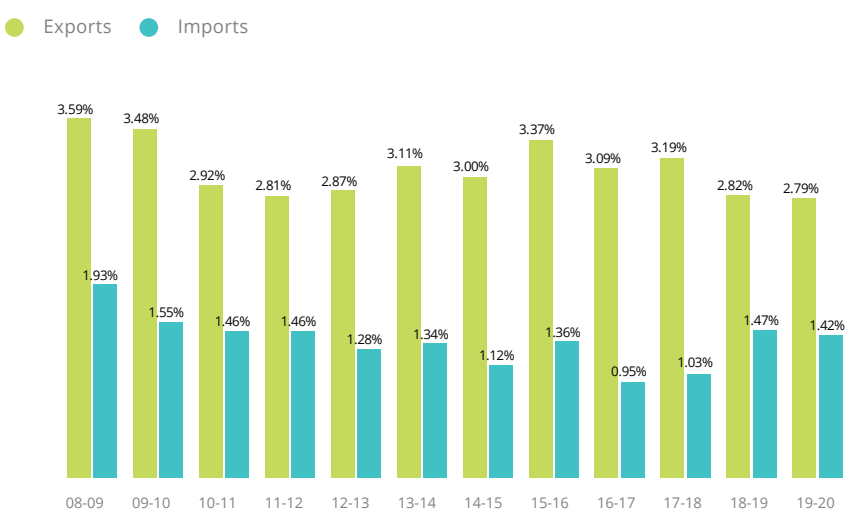
India's Trade Balance in Goods with the UK (in GBP bn)[37]



Trends in India's trade with the UK (in GBP mn)



Share of the UK in India's International Trade Mix



[36] India-UK relations, Ministry of External Affairs, May 2014
[37] Bilateral trade between India and UK, Trade statistics for international business development, accessed on 23 December 2019

India's exports to the UK - Top export categories (by value), 2019-20[38]

Rank	Segments	Value	Share	5Y	10Y
1	Fashion	1,775.47	25.9%	0.2%	3.9%
2	Advanced Engineering	1,413.19	20.6%	8.4%	10.5%
3	Home Products and Interiors	647.29	9.4%	3.6%	6.8%
4	Food Products	507.82	7.4%	2.5%	6.6%
5	Pharmaceuticals	454.45	6.6%	5.5%	7.6%
6	Jewellery and Gems	404.89	5.9%	4.4%	5.8%
7	Industrial—Metals	308.39	4.5%	3.4%	9.5%
8	Automotive	227.17	3.3%	-7.7%	-3.9%
9	Chemicals	197.11	2.9%	3.5%	5.3%
10	Industrial—Petroleum	182.29	2.7%	34.7%	-1.5%

Values are in GBP mn | Share is based on India's total exports to the UK | 5Y and 10Y Growth are CAGR

The key takeaways from the five- and ten-year annual growth estimates of the top ten exports from India to the UK are:

- Between 2014–15 to 2019–20, most categories—except Automotive—have grown.

- Industrial Petroleum, Advanced Engineering (Engineering and Capital Goods), and Pharmaceuticals have been among the fastest growing categories over last five years.

- India's export of Food Products grew from £275 mn in 2009 to £594 mn in 2017-18, and and has since reduced, now standing at £507 mn.



[48] Export Import Data Bank, Department of Commerce accessed on 23 December 2019



Case Study: Supply Compass

Supply Compass Manufacturing and Sourcing Limited is a British fashion software company that established two offices in India (Mumbai and Hyderabad), within twelve months of its launch in the UK in 2016. It has been successful in connecting approximately 50 high street fashion brands from across Europe, the United States, Australia, and New Zealand to valuable manufacturing hubs. They are currently operating with a team of 20 between the two regional workplaces, functioning with India as the sourcing ground. Supply Compass uses an advanced Product Development and Production Management technology to facilitate trade and tackle market competition.

The decades-old Indian textile heritage with skilled artisans combined with an open SME market created a perfect mix for setting up business in India. Manufacturers in India have the capacity to deliver high value, reflected in the trade figures of Indian cotton production, are flexible in nature, and possess the desired working etiquette with regard to time management, all of which were factors in Supply Compass's decision to open local offices. Indian farms and mills are far more sustainable than those in Bangladesh and Sri Lanka concerning logistic convenience, affordable labour, and a modern market.

Gus Bartholomew, co-founder of the company, expresses the urgent need to digitise supply chains in India to improve production efficiency. The Non-Tariff Barriers control the volume of trade in India, but fewer entry barriers make it very straightforward to operate in the Indian market and India's high-quality IT skills enabled a smooth transition for the tech team in India. The introduction of the GST hampered the manufacturing business for a brief period of time. The nine percent charge in India makes it difficult to match the prices of the competing nations like Bangladesh and Sri Lanka that don't have a GST. During the initial phases of the implementation, it became difficult to transport goods easily from one state to another, but the conditions have improved over time.

At the start of the COVID-19 lockdown, the market faced disruption for a minimum of three weeks due to the sudden closure of factories and logistic disruption along with skyrocketing air freight prices. However, as factories are reopening with special permissions and social distancing measures, production is back underway. Supply Compass has also launched a Young Designer Program to collaborate with budding designers from India during the pandemic. Currently, the capacity of output is halved but is balanced out with a lowered demand for the products. India holds a competitive advantage in the textile industry that will likely create a surge in sales post-pandemic.

Supply Compass is in an intense growth phase. Their turnover has escalated significantly, and the profits are in line with the UK.

"We expect the business to triple in size and aim to quadruple the capacity of our workforce in the next two years," Bartholomew states. They are keen on advancing their tech team and connecting to more merchandise and factory outlets. Bartholomew shares that it is essential for the young start-ups to understand the motive behind setting up a business in India.

"The advantages of the various geographical landscape with regards to technology and finance need to be clarified. The principles from the retro-business model won't fit the Indian environment," he cautions.

India's export to the UK - Top Three Export Categories (by Value), 2019–20

We look at the three most significant product categories in the India to UK Exports basket in terms of how they have fared over the last 10 years and more importantly what is behind the trends.

Fashion

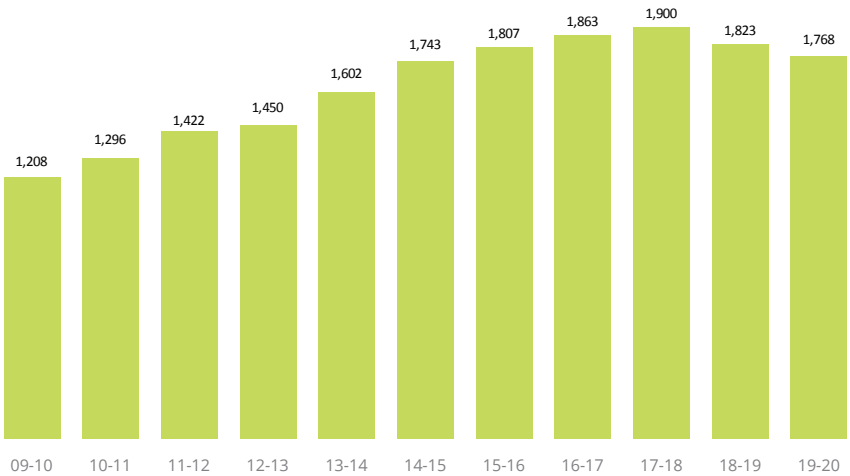
The Indian textiles industry is extremely varied, with the hand-spun and hand-woven textiles at one end of the spectrum and the capital-intensive sophisticated mills at the other end The decentralised power looms[39]/ hosiery and knitting sector forms the largest component of the textiles sector. The size of the Indian textiles industry is valued to be $140 bn with $40 bn in exports and the balance $100 bn being India's large domestic market. India's textiles industry contributed 2 percent to the GDP of India and employed more than 45 mn people in 2018-19.

High economic growth has resulted in higher disposable income. On the back of strong consumption, the sector has experienced rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess, Next, Zara, and H&M into the Indian market.

Invest India predicts the sector will grow to $300 bn by 2024–25, which would increase India's global market share from 5 percent to 15 percent.[40]

In terms of categories within the fashion segment, India has been dependent on a cotton-dominated value chain which has meant that Indian exporters have been unable to make significant headway in other segments (like winterwear or sportswear). Fashion and Apparel exports to the UK have also seen a reduction in the last 2 years, with exports down by almost 5 percent since the peak of £1.9 bn in 2017-18. As we explain further in this report, India has the potential to develop this sector, and with global retailers and fashion houses looking at diversifying their sourcing, this will be a sector to watch out for.

India's Fashion and textile exports to the UK (GBP mn)





[39] The Indian textile industry consists of traditional handlooms (with primitive technology), power looms(a technologically improved form of handlooms), and composite mills (advanced technology). The handlooms are most scattered throughout the country—seen in the villages. The power looms are decentralized—spread in and around some identifiable centers. The composite mills are well organized and integrated to a large extent—spinning, weaving, and processing under the same roof.

[40] India textile-apparel exports to hit $300BN by FY25, fibre2fashion.com



Case Study: Rolls Royce

Rolls Royce is a world-leading, British industrial technology company that has an 85-year-long association with the Republic of India. Their diversified activities vary from civil and defence aerospace to gas and diesel power systems. The multinational company employs around 1,000 to 2,000 personnel in the country and has played an integral role in the Indian Armed Forces since 1932. Patrick Horgan, the Director of Global Government Relations for Rolls Royce, remarks that today approximately 750 Rolls Royce engines power the Indian military aircrafts, Navy and Coast Guard ships, and battle tanks. This enduring relationship has played a significant role in building a strong clientele base in India.

India is a choice market in several regards: the availability of talented human resources with an affinity for engineering skills, a great supply chain and manufacturing capability, and the presence of a multi-sector. The Rolls Royce joint venture with Hindustan Aeronautics Limited in the International Aerospace Manufacturing Private Limited and their data and digital partnership with Tata Consultancy Services sheds light on their promising business trajectory and growth potential in India. The large economy offers a competitive advantage with its favourable demographics and development paths.

India prevails as a prime partner on account of its openness towards innovation, skilled engineering, and digital and technological advancements in power, manufacturing, and industrial capability. These advancements come at an appropriate cost along with the support of the government. Issues arise from the slow-paced working operations and business predictability which is affected by changes in government. Aside from these routine operational hurdles, the company does not face any market access difficulties, as it operates on a B2G model with no direct links to customers.

The company's three focal sectors have had varying experiences over the years. The Civil Aerospace Sector in India has a high entry barrier, with Rolls Royce and GE Aviation as the major players. Business volume dwindled as a consequence of the pandemic and Horgan states that this sector will undergo a sluggish recovery phase, possibly lasting until 2024.

Rolls Royce, as well as other contemporaries, will be compelled to resize their business in the face of this shift. Prior to the pandemic, the business had been anticipating a steady growth following new investments in the supply chain, but it seems it will be a smaller business in India and globally. The upside has been the transition and resulting investments in modern technology.

The Defence Aerospace Sector has several well-known international competitors like GE Aviation, Safran, MTU Aero, and Honeywell Aerospace operating in India. Although these multinationals boost competition in the field, they lack the history that benefits Rolls Royce's performance. This sector in India and globally is seeing some profit from the COVID-19 situation due to consistent government spending in defence.

The Para System Business of power generation for data centres is evolving consistently during the pandemic: the increase in video conferencing necessitates the protection of data integrity.

Although revenue performance did not reflect the nation's growth potential, a stable revenue was recorded in India until 2019 and the company foresees opportunities in the future, provided the Indian market can maintain stability in operating conditions for investments and business activities. Horgan notes that with appropriate channels to market, railways and data centres may present avenues for growth in India. The latest privatisation of railway operations in India will be a good opportunity for Rolls Royce, with commercially-oriented players focused on conserving the efficiency of rolling stocks and performance of vehicles with the least environmental impact. There is also a significant defence force and security challenges that encourage a vision for a collaboration between the UK and Indian governments, given their good rapport.

For new entrants to the Indian market, it is necessary to invest time and patience. The work environment in India differs in terms of laws, customs, and the business model itself, all of which need to be accounted for. It is important to manage costs and build relationships to take advantage of India's role in the global economy.

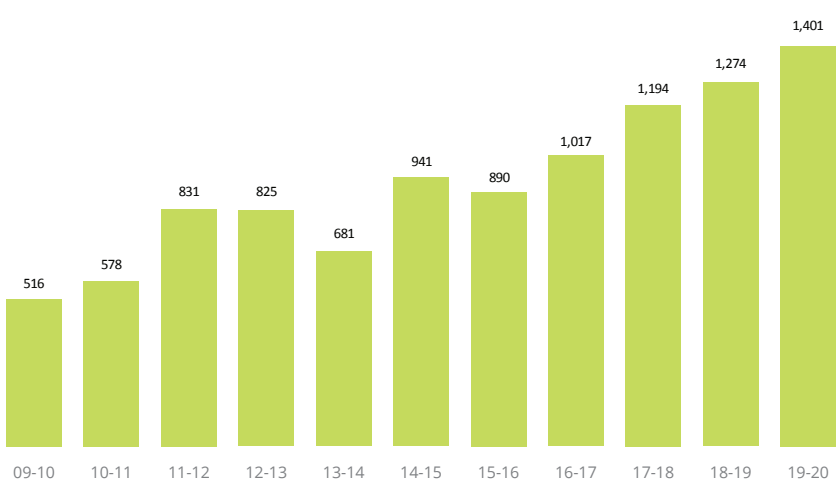
Advanced Engineering

Unlike the fashion and apparels sector, this is a much more diverse sector comprised of low-high value and precision engineering goods with strong linkages in the supply chain across the two markets. Some of the prominent players, including Cummins, Perkins, JCB, Caterpillar, Bharat Forge, Goodrich (UTC), Motherson Sumi, and Gardner Aerospace, have manufacturing facilities in both countries and have immensely contributed to the impressive growth of this sector over the last 10 years.

Some of the key constituents of this sector include:

- Turbo-propellers, compressors, and turbines
- Earthmoving machinery parts
- Passenger and cargo-ferrying water vessels
- Machinery parts and engine parts for aircraft

Advanced Engineering: India's Exports to the UK (GBP mn)



Earthmoving and construction equipment forms a significant chunk of this category. JCB is a great example of a successful British company using India as a manufacturing destination for the world. On the back of their manufacturing operations in India, JCB is now exporting to over 93 countries.

With a healthy ecosystem for aerospace and defence manufacturing and around 3,000 mirco, small, and medium enterprises exclusively focused on the sector, India has the potential to take a meaningful part of the international supply chain. Over the last decade, a number of large Indian conglomerates have entered into partnerships with leading global majors: Tata Advanced Materials, Tata Advanced Systems, Mahindra Aerostructures, Godrej Aerospace, Larsen & Toubro, Wipro, and Bharat Forge. Some of the leading international players active in India include Rolls Royce, BAE System, Boeing, Airbus, Lockheed Martin, Safran, Collins Aerospace, Eaton, Honeywell Aerospace, UTC, Dassault, Saab, and GKN.[41]

From an inward-looking industry dependent on government orders, the Indian shipbuilding industry is becoming an internationally competitive, export-led industry.[42] Kochi-based Cochin Shipyard Limited has emerged as a major player in the offshore and oil industry vessels space (Offshore Supply Vessels and Anchor Handling Tugs), having recently secured an order for two automated vessels from the Norwegian government.[43]

The Advanced Engineering segment also comprises exports to the UK of parts for maintenance and repair by Indian airline companies. As the Indian government continues its focus on the segment under its Make in India initiative, the Advanced Engineering segment is poised for growth in the long run. It has been the fastest growing export segment (exports to the UK) based on a ten year CAGR.

[41] http://www.indiandefencereview.com/news/private-sector-in-aerospace-and-defence-an-evolving-success-story/
[42] Competitiveness of Indian Ship Building Industry, July 2015, International Journal of Innovative Research and Development
[43] Move to develop indigenous shipbuilding, ministry orders only 'Make in India' tug boats, 04 Sep 2020, The Tribune

Home Products and Interiors

Almost half of the exports from India to the UK comprised the following:

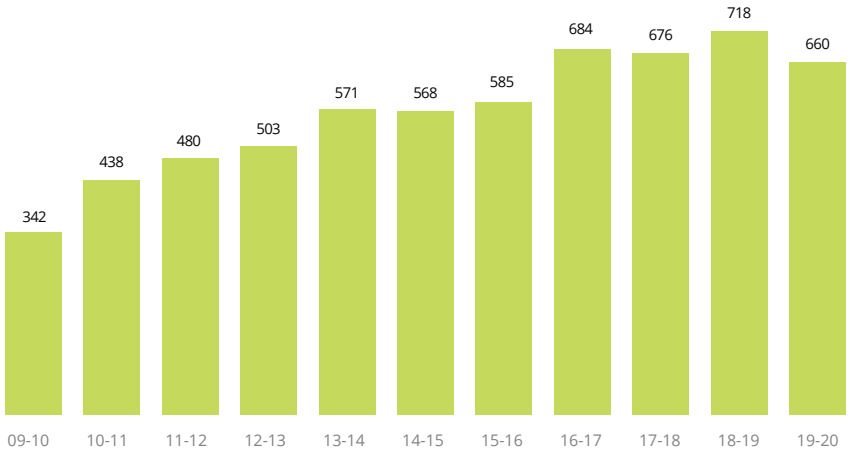
- Bed linens and curtains
- Metal mountings and fittings
- Carpets and rugs
- Combed wool yarn and towels
- Ceramics and furniture

The US and UK are the top two destinations of linen exports from India. This also plays to India's advantage of cotton-rich products, with the UK showing a distinct preference for cotton textiles, a shift from its pro-blends over the last five years.[44] Worldwide, cotton-based bed linen has performed well, thereby contributing to the revival of India's exports.

India has built a competitive position in cotton and cotton-related exports on the back of modern machinery and scale, especially in fine thread count duvets and bedspreads. Also, specific to this segment, consistency in the quality of supply seems to be giving buyers around the world a boost in confidence in Indian bedspreads.[45] With China and Pakistan, India contributes to 60 percent of the total global bed linen trade. India also faces competition from Portugal and Turkey given their nearshore proximity to European nations.

Exports of furniture and wooden products have also done well, again reinforcing India's strengths in natural products and skilled manpower. Exports have more than doubled to £100 mn in 2019-20 from £46 mn in 2009-10.

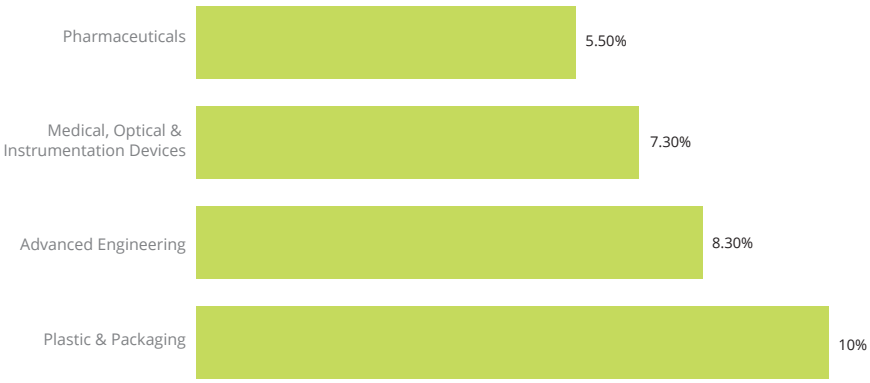
Home Products and Interiors: India's Exports to the UK (GBP mn)



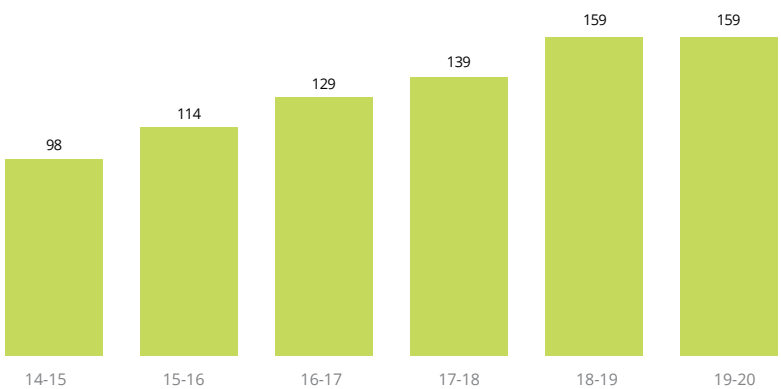


[44] India's cotton bedlinen exports continue on the growth path, June 2016, Textile Excellence
[45] Bedspreads: Selling Comfort for A Fortune? June 2016, Dollar Businessin

Fastest Growing Export Categories (5Y CAGR, 2014-15 to 2019-20)



Plastic and Packaging: India's Exports to the UK (GBP mn)



Analysis of the Top Four High Growth Segments (2015–16 to 2019–20)

We analysed the India-UK exports data to identify the fastest growing categories over the last 5 years (with a minimum base of £50 mn in exports). Apart from Advanced Engineering which we referenced earlier in this report - Plastics & Packaging, Medical & Optical Devices, and Pharmaceuticals have materially outpaced the overall growth in the India-UK exports.

Plastics and Packaging

Packaging materials like Polypropylene-based bags, laminated woven sacks, and flexible packaging grew at 10 percent (5Y-CAGR) and at 31 percent share of the segment was close to £50 mn of exports. Plastic plates, sheets, film, foil, and strip grew at 21 percent (5Y-CAGR) and had a share of 27 percent of the overall segment. Household plastic articles such as tableware and kitchenware grew at 13.1 percent with a 13 percent contribution to the sector.

This category is largely dominated by packaging material, moulded plastics, and polymers. The long-term viability of the segment will thus depend upon product innovation in response to environmental standards and consumer demand.



Medical, Optical and Instrumentation Devices

Again, this is a fast-growing segment with a diverse set of applications and end use comprising optical fibres, scientific and measuring devices, and medical instruments and products. The top categories in this segment include:

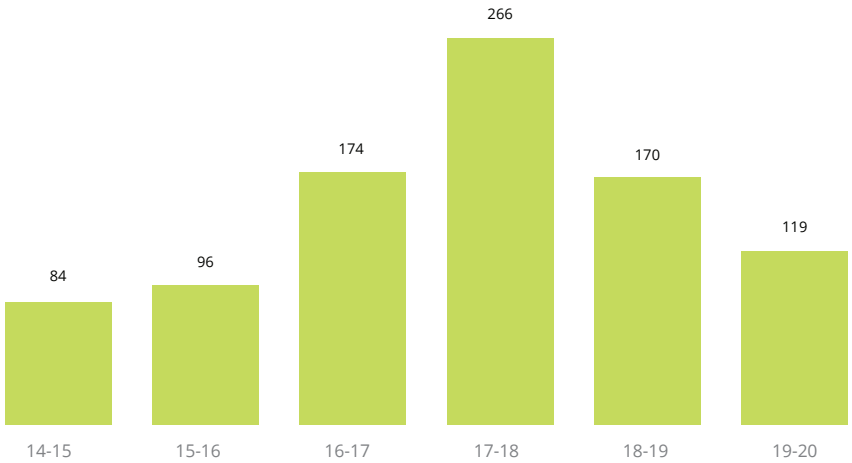
- Optical fibre, sheets and plates of polarising material, lenses, prisms, mirrors, and other optical elements (share: 20%)
- Gas, liquid, and electricity supply or production or calibrating meters (share: 15%)
- Instruments, appliances, and measuring machines used in medical, surgical, dental, veterinary sciences, including scintigraph, electro-medical, and vision testing apparatus (share: 13%)
- Surveying, hydrographic, oceanographic, hydrological, meteorological, geophysical instruments and appliances (share: 4%)

The optical fibre, sheets and plates of polarising material, lenses, prisms, mirrors and other optical elements grew at 14 percent (5Y-CAGR). In terms of share, optical fibre and cables were the largest category, growing at 12.7 percent (5Y-CAGR).

The surveying, hydrographic, oceanographic, hydrological, meteorological, geophysical instruments and appliances grew by 37 percent (5Y-CAGR). Spectacle lenses were the leading category and grew at 15 percent (5Y-CAGR).

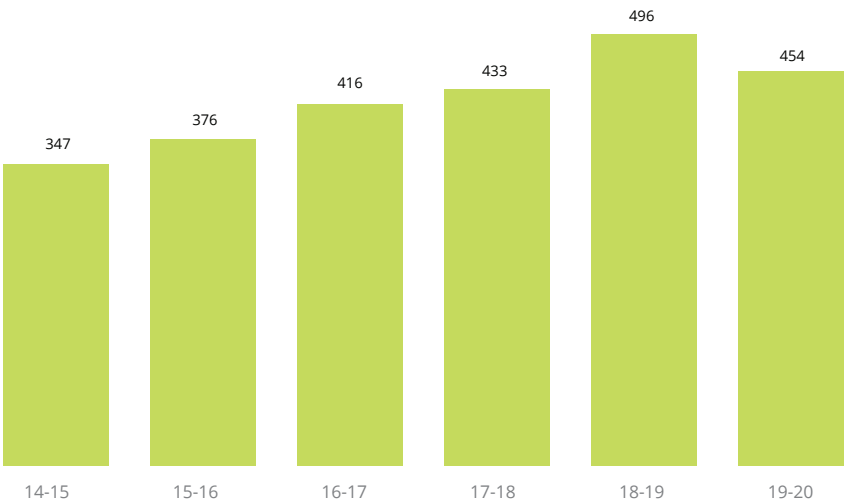
The spike in 2017–18 was on the back of Gas and Electricity (Supply and/or Production) Meters (including calibrating meters) as the gas meters' exports (in value) had doubled from previous years. Indian firm Secure Meters, with their UK operations, are among the largest players in the utility meter segment. India is also a large player in the optical fibre segment with players like Sterlite Industries significant to Indian exports.

Medical, Optical and Instrumentation Devices: India's Exports to the UK (GBP mn)





Pharmaceuticals: India's Exports to the UK (GBP mn)[46]





Pharmaceuticals

The top category in this segment, medicine for retail sale, accounts for more than a 20 percent share.

Exports of medicine for retail sale grew by 4.1 percent (5Y-CAGR). Most of these medicines were anticancer drugs, nonsteroidal anti-inflammatory, analgesics and antipyretic drugs, antihypertensive drugs, all of which collectively accounted for a 25 percent share in India's pharma export.

Exports of medicaments containing a derivative of penicillin for retail sale grew by 6.9 percent, those containing vitamins or provitamins by 4.7 percent (5Y-CAGR), and medicaments for therapeutic prophylactic uses not for retail sale were muted at 0.2 percent (5Y-CAGR).

India's pharmaceutical export performance is not a surprise given its position in the generics market worldwide. The success of India's exports has been active and with the support of the UK and India governments.

India's position in the global vaccine market is expected to gain traction on the back of collaborative work by the Serum Institute of India50 and Wockhart[47] with several global vaccine candidates for COVID-19. With the Serum Institute and Wockhardt partnering with the UK government, academia, and industry on trials and manufacturing of the vaccine (including the Oxford / Astrazeneca vaccine), export volumes from India to the UK and the world look promising.

[46] Serum Institute gets DCGI nod to resume clinical trial of Oxford COVID-19 vaccine, September 2020, The Hindu
[47] Wockhardt announces COVID-19 vaccine partnership with UK Government, August 2020, Pharmiweb.com

UK's Export to India

India has been a powerhouse of growth over the last 3 decades. Since 1995, the country's nominal GDP has jumped more than 700%.[49] It is no surprise therefore that some of the most developed economies are looking at India as the single biggest opportunity market. In the case of the UK, this reflects not only in the export numbers but also the strong FDI inflow into India particularly over the last 20 years. As we detail later in this section, UK's growth in exports to India is not only impressive, but it is also 2nd fastest amongst other peer countries including Germany, France, Spain and Netherlands. Over the last 5 years, in 7 of the top 8 categories, UK's exports to India have grown faster than Germany although Germany's exports are almost double of UK's exports to India.

There is also a strong interplay between FDI and Trade. The chemicals sector has received a lion's share of British investment in India at $12 billion since 2000 followed by drugs and pharmaceuticals at $8.8 billion.[50] Both these sectors also feature as amongst the fastest growing sectors for exports to India.

The key takeaways from the five- and ten-year annual growth estimates of the top ten exports from India to the UK are:

- Chemicals has shown a sharp growth, especially in the last five years (18 percent YoY) from £159 mn in 2014-15 to £323 mn in 2019-20

- Advanced Engineering, even at a high base, has accelerated its growth rate in the last five years from under £700 mn in 2014-15 to £1.5 bn in 2019-20

- Alcohol, a key export from Scotland (primarily Whisky), grew from £33 mn to £135 mn between 2009 and 2014 and since then has not managed to grow significantly

- Medical, Optical and Instrumentation Devices have grown to a £250 mn mark from £109 mn in 2009-10

UK's exports to India - Top export categories (by value), 2019-20[48]

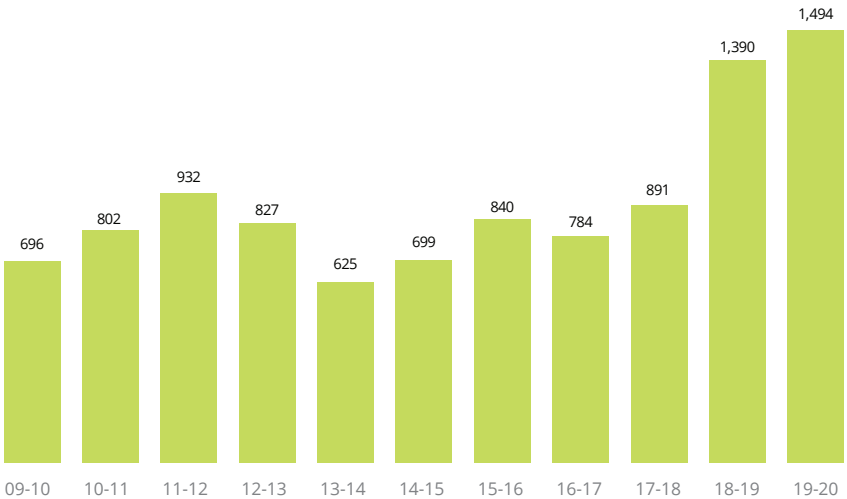
Rank	Segments	Value	Share	5Y	10Y
1	Advanced Engineering	1,494.03	28.3%	16.4%	7.9%
2	Jewellery and Gems	1,396.18	26.4%	14.4%	6.8%
3	Industrial – Metals	690.93	13.1%	2.2%	2.6%
4	Chemicals	323.83	6.1%	17.9%	8.1%
5	Medical, Optical and Instrumentation Devices	252.80	4.8%	7.3%	8.7%
6	Industrial – Petroleum	198.03	3.8%	41.9%	15.8%
7	Other Retail	192.89	3.7%	6.7%	1.6%
8	Alcohol and Beverages	132.99	2.5%	0.0%	14.6%
9	Home Products and Interiors	126.85	2.4%	6.5%	4.1%
10	Plastic and Packaging	93.79	1.8%	3.8%	6.0%

Values are in GBP mn | Share is calculated out of India's total imports from the UK | 5Y and 10Y represent CAGR for the last 5 years and 10 years respectively



[48] Export Import Data Bank, Department of Commerce, accessed on 2 January 2020
[49] weforum.org/agenda/2020/02/india-gdp-economy-growth-uk-france/
[50] https://www.cbi.org.uk/media-centre/articles/uk-is-front-runner-as-largest-western-investor-in-india-cbigrant-thornton/

Advanced Engineering: UK Exports to India (GBP mn)





UK's export to India - Top Three Export Categories (by Value), 2019–20

Advanced Engineering

The top five Advanced Engineering categories exported from UK to India are:

- Gas turbines
- Light-vessels, Unless these are names of specific products, they shouldn't be capitalised.
- Aircrafts parts
- Vacuum pumps, compressors and fans, ventilating/recycling hoods
- Electrical transformers, static converters, and inductors

Within the gas turbines imports, turbo-jets of a thrust<25 kilonewton and aircraft engines are major products.

The imports grew on the back of insulated electric conductors, pumps and compressors, and gas turbines which grew at 39 percent, 30 percent, and 33 percent (5Y-CAGR) respectively.

Growth in the gas turbines segment was driven by turbo-jets (5Y-CAGR: 44%) and parts and components of turbo jets and propellors (5Y-CAGR: 33%).

Growth in the pumps and compressors segment was driven by air compressors for towing (5Y-CAGR: 59%), vacuum pumps (5Y-CAGR: 38%), and compressors used in refrigerating equipment (5Y-CAGR: 25%).



Case Study: Multi Trade Links Ltd

Multi Trade Links Limited is a leading Indian metal trading company dealing in recycled ferrous and non-ferrous scrap metals such as iron, aluminium, zinc, lead that lack a market potential in the UK. As a subsidiary of the MTC Group, it has been functioning in the United Kingdom since 2008. The entity serves around thirty suppliers with its B2B model, employing four staff members on its offshore site.

The MTC Group was trading with the UK prior to the foundation of their UK office; most of their activities are still carried out from India, except those that require a physical presence in the UK. As a global city with a strong financial centre, London has drawn the company to the UK market owing to the country's increased involvement in exporting recycled metal commodities, ease of doing business, and absence of a language barrier. Logistic convenience is of prime importance to the trading business. The UK being an island country accelerates trading opportunities: MTL targets a 200 mile radius from the ports for prospective clientele.

Shrin Bajaj, director, acknowledges that the UK has provided the entity with a smooth entry point, free of any barriers during its establishment. The schemes and policies in the UK regulatory framework skew more toward financial support that is rather small-scale for the entity's business. In comparison to India, the highly digitised banking sector in the UK has facilitated the operations of the company's accounts. According to Bajaj, the Indian banks in the UK need to undergo reforms in order to be competitive in the international market as they lag in terms of technological advancements. As for the business trajectory in the near future, the firm does not expect to see a significant change in economic activity in the post-Brexit transition period, as the UK will still remain a hub for industrial activity.

Today, increasing environmental awareness is being met with the implementation of strict government regulations. This is not a major concern for MTL given that they engage in metal scraps that are non-hazardous in nature, but the business still awaits the relaxation of environmental laws in the UK. Over the years, the volume of trade has witnessed growth as India benefits from the protective environmental policies worldwide, especially due to the inadmissibility of such metal scraps in China. However, the current COVID-19 situation has disrupted the volume of international trade, reducing it by 30 percent.

Bajaj advises new entrants from India that patience is key: it may be two to three years minimum to see valuable returns in the UK. "Most businesses in India are run by families who tend to possess a short-sighted goal. They need to be encouraged to expand in the globalised world," he says.

He believes that India has a huge scope of improvement for its economy to cope with the rapidly escalating world market. If the Indian market fails to grab the opportunity, it will lose out to another market economy. As part of one of the largest metal scrap processing companies in India, "Multi Trade Links aims at achieving minimum liability with a maximising return once trade volume settles in the long-run. We also hope to diversify and expand our areas of expertise."

Jewellery and Gems

Precious stones and precious metals have been significant exports from the UK to India. The sector has seen huge volatility, especially over the last five years. The overall share of the UK as a source for precious stones and metal imports has increased from 2 percent to 3 percent. The share of the commodity within the goods imported from the UK has increased from 23 percent to 26 percent. Gold accounts for 46 percent of this category, with silver at 28 percent, diamonds at 15 percent and platinum at 9 percent.

The gems and jewellery sector contributes around 7 percent of India GDP and employs over 4.6 mn people. India is a significant hub of the global jewellery market and is the world's largest cutting and polishing centre for diamonds.

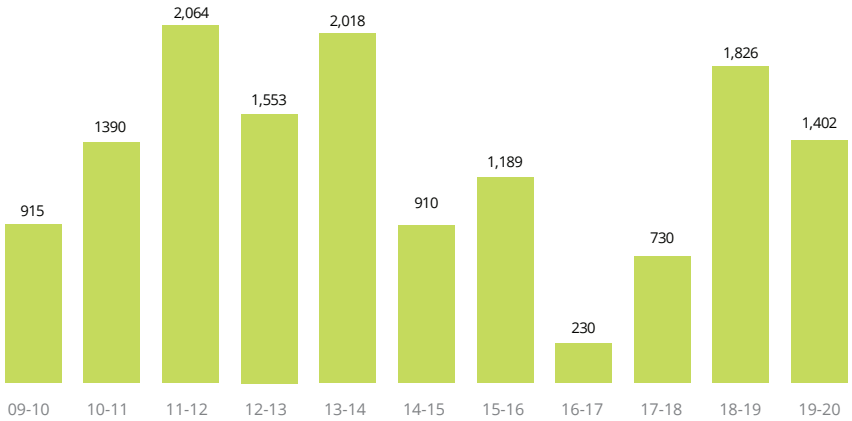
Industrial Metals

The top four categories of industrial metals the UK exported to India are mostly waste and scrap of iron, aluminium, copper, and lead.

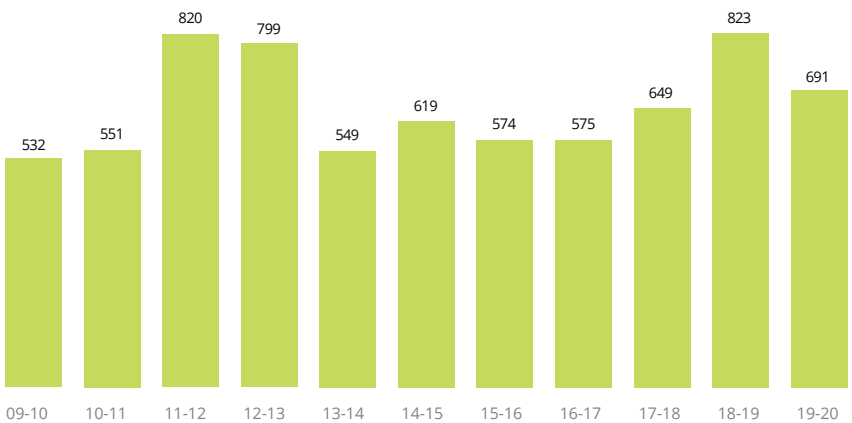
Around 80 percent of processed ferrous and non-ferrous scrap metal arising in the UK is exported. The major export destinations for UK scrap metal include Turkey, India, and Pakistan. India is currently the world's second largest scrap importer even as the country is in the process of drafting a comprehensive metal recycling policy. India's metal producers have been asking for higher taxes on imports of aluminium and copper scrap after China's decision to restrict purchases flooded the global market with supplies.

Inflows of aluminium scrap are at cheaper prices than primary aluminium because of a lower import tax and discount to London Metal Exchange prices. Calls have been made for restrictions for aluminium scrap imports in India to encourage the domestic aluminium industry and recycling of indigenous scrap. Ferrous scrap, which is the largest chunk of this import, is used as input by secondary steel manufacturers for producing rebar used in construction.[51] The upcoming vehicle scrap policy is expected to lead to higher availability of domestic scrap.[52] UAE, which competes with the UK as a leading exporter of scrap, has temporarily suspended scrap exports which is leading to a resurgence of demand for scrap from the UK.

Jewellery and Gems Exports: UK Exports to India (GBP mn)



Industrial Metals: UK Exports to India (GBP mn)





[51] Surging Scrap Metal Imports Has India Producers Seeking Tax Hike, January 2020, Bloomberg Quint
[52] Surging Scrap Metal Imports Has India Producers Seeking Tax Hike, January 2020, Bloomberg Quintc



Case Study: Rotolok

Background

Rotolok is a global market leader and manufacturer of rotary valves that offers a range of economical products for the powder and bulk handling industries. The company sells via distributors/agents, direct sales to end users, and OEMs.

Rotolok has sold products in the Indian market for many years but made the decision to establish a local presence in 2012. The company's team of 15 employees in Sri City sells and manufactures for the Indian market. Several major factors influenced the decision to set up and build out its operations in India including underlying economic factors (GDP growth, etc) and government initiatives such as the Make in India campaign.

Successes

Rotolok initially planned for its Indian business to reach the breakeven point in year four; it achieved that in year two. Until COVID-19, sales growth had been strong and the company has recently invested further in India by establishing a Research & Development presence to help support its innovation agenda.

Rotolok's Managing Director Sean Swales underlines this, saying, "We are still just scratching the surface. Our ambition is to grow market share on the basis of a high quality product and innovation." With key industries such as construction and food processing looking likely to be growth sectors, this appears a realistic ambition.

Being Realistic

While Swales is seeing success, he also counsels the need to be realistic when setting out.

"Doing business India takes time and it's important to set your investment agenda accordingly. It took us a number of years to lock our strategy and find the right site. We considered a number of what looked like easier short term options and in the end we opted to invest directly and I am glad we did."

Equally, while India has delivered substantial improvements in ease of doing business, there is still work to do.

"Bureaucracy is still very much a feature of working in India and navigating it takes time and absorbs precious management bandwidth," Swales points out. Ongoing improvements in this area are both expected and required.

Enabling Factors

Rotolok benefited from the easing of FDI restrictions as part of its market entry to India. It also benefited from incentives relating to the import of the larger CNC items (based on supporting a minimum level of commited export). Swales also highlights the following as being particularly helpful in their market journey:

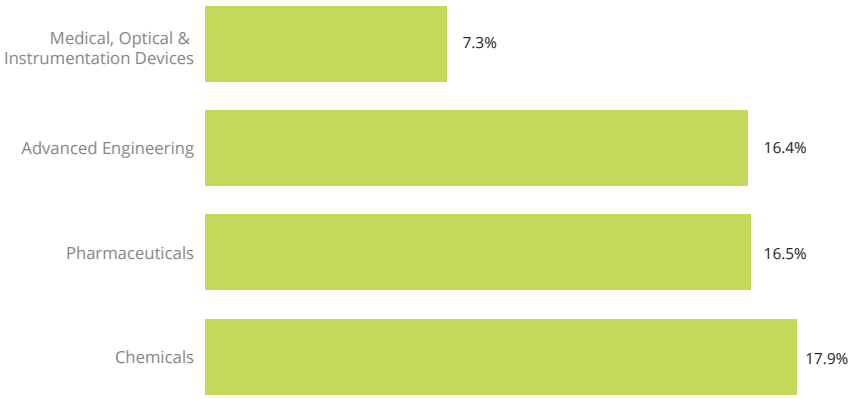
- Support from the Department of International Trade (in multiple areas)
- Sri City – a location that is supportive to investors and which has proven to be a good decision for Rotolok
- Market partners such as Sannam S4, Santander and HSBC who have worked hard to make meaningful connections and support us in this journey.'

Advice

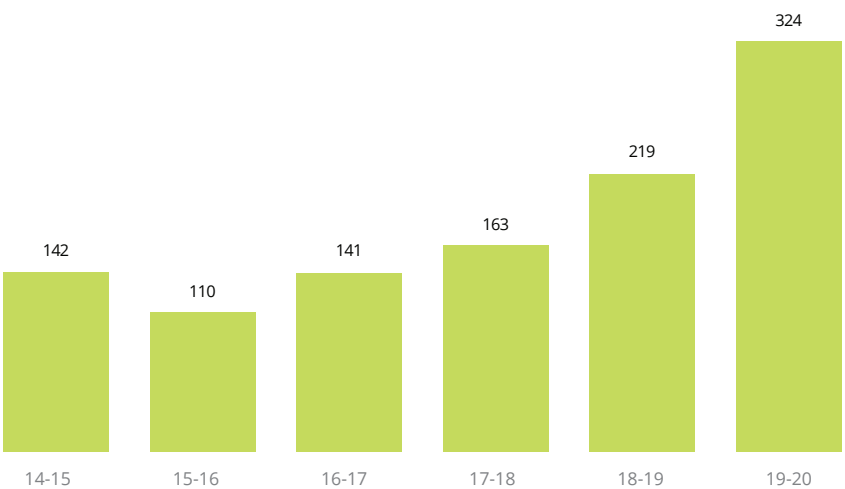
Rotolok's advice for new UK entrants in India:
- Really commit yourself to the country, people, and suppliers.
- Establish a strong team of advisers and listen to them.
- Be positive. Be optimistic. Be confident.

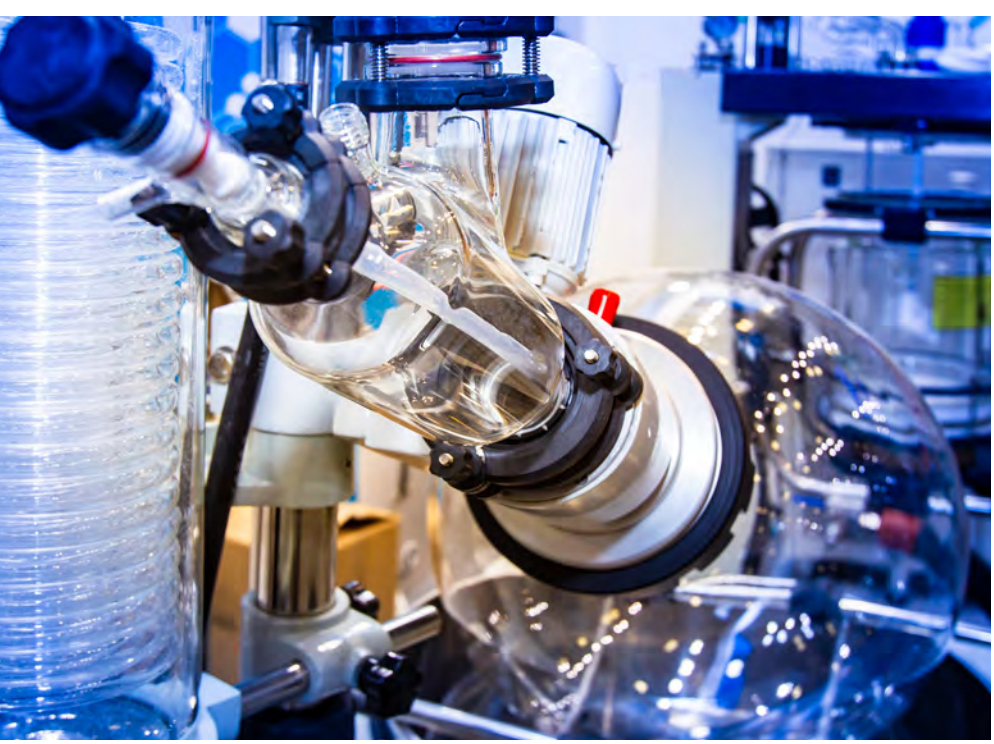
Swales is committed to India for the long term. Near term priorities involve focusing on getting back to pre-COVID-19 levels of performance but looking forward, ambitions are high. With a particularly strong team at his side, the next goal is to double the size of the existing business.

Fastest Growing Export Categories, UK to India (5Y CAGR, 2014-15 to 2019-20)



Chemicals: UK Exports to India (GBP mn)





Fastest Growing categories - UK exports to India

We look at the four fastest growing product categories in the UK's exports to India. Pharmaceuticals, Chemicals and Advanced Engineering all had 15%+ CAGR growth over the last 5 years. Apart from the above, Industrial Petroleum and Gems and Jewellery have shown strong growth rate however given their commoditized nature, we have not included them in the analysis.

Chemicals

The top category in the chemical imports from the UK is colloidal precious metals, inorganic and organic compounds of precious metals and amalgams of precious metal. This category grew over 9X over the last 5 years registering a 50% annualised growth. Within the category, gold compounds and amalgams grew at 21 percent and 28 percent (5Y-CAGR) respectively. Within the amalgams, noble metal solutions of platinum, rhodium and palladium registered a robust 53 percent growth (5Y-CAGR). It is understood that palladium and associated compounds have widespread use including automotive (catalytic converters), petrochemicals, industrial chemicals, water treatment, textiles, optical and glass, and wider research.

Johnson Matthey is a great example of a British chemicals company investing in India and it is no coincidence that Chemicals exports to India (18% 5Y CAGR) have greatly benefitted through the value chain created by such companies.

There are also significant exports of specialty chemicals including chemicals used in textile, construction, automotive, and personal care products.



Case Study: Accord Healthcare Limited

Accord Healthcare is the UK entity of Intas Pharmaceuticals, an Indian company headquartered in Ahmedabad. The company delivers vital medicines to over 85 countries globally and is one of the largest providers of medications by volume to the UK National Health Service.

Accord Healthcare was attracted to the UK as it showcases a transparent and stable market for pharmac euticals. The ease of initiating businesses and the availability of exceptional talent from the field was an additional bonus and therefore was an attractive investment choice for Intas, which allowed significant opportunities for innovative investment across infrastructure and technology.

Additionally, the UK regulatory authority (MHRA) is seen as one of the world's leading agencies and throughout the COVID pandemic has demonstrated appropriate speed and flexibilities. Going forward in the post Brexit world there are potentially further opportunities to consider such as evolving technology to replace Patient Information Leaflets (PILs) with more digitised versions, which was also an attractive proposition, which not only helps reduce Accord's environmental impact but also develops time efficiencies in the time-consuming process of retesting goods entering the UK.

"We would like to see a continued, sensible approach to the regulatory framework that allows appropriate flexibilities," remarks Dr James Burt, Executive Vice President (EMENA).

As a monopsonist structure with a low priced-market, earning profits in the UK is quite challenging, made more difficult because the healthcare sector is undergoing immense pressure during the pandemic. Energy and resources have been diverted away from the production of other drugs and cancer treatments to focus on the COVID-19 pandemic.

"The general opinion that the pharmaceutical industry is prospering in the current COVID-19 outbreak is a myth. Although sales may have initially peaked between March and May, the overall volume of patients has dropped considerably in some clinical areas. For example, fewer patients have been receiving chemotherapy, as the NHS has of course been extremely focussed on COVID-19 patients and now the vaccine programme," Burt explains.

According to government statistics, COVID-related deaths are high for the elderly, the age bracket who consumes the most medication. This trend has affected the size of the market and changed the volume of medication produced. To ensure continuity of supply Accord Healthcare opted to employ an extra 10 per cent of production employees to supplement their workforce as a contingency measure in the UK, thereby increasing costs and operating above normal capacity.

Maintaining a balance in trade between India and the UK takes work, as a variety of factors such as availability of resources, market competition, and satisfaction of the country's demand are important in determining future opportunities. Dr Burt expresses that resilience and connecting with the world are the two key points to operating in the UK. Newcomers from India should concentrate on employing a talent bank within the operating region rather than just importing labour from India.

Pharmaceuticals

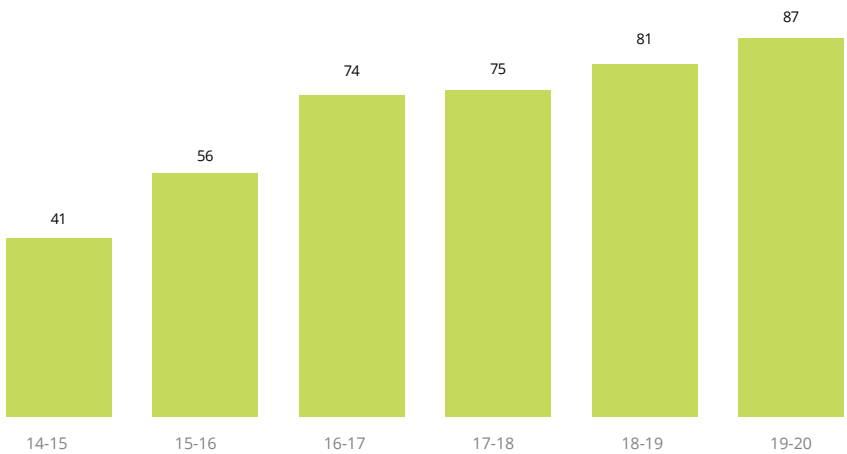
The key categories in pharmaceutical imports from the UK to India comprise:

- Mixed or unmixed products for therapeutic or prophylactic use packed in measured and unmeasured doses for retail sale
- Blood fractions and immunological products
- Wadding, gauze, bandages, dressings, adhesive plasters, and poultices

Blood fractions and immunological products grew the most at 75 percent (5Y-CAGR), followed by dressing material which grew at 35 percent (5Y-CAGR) and therapeutic or prophylactic drugs in measured doses for retail sale at 16 percent (5Y-CAGR).

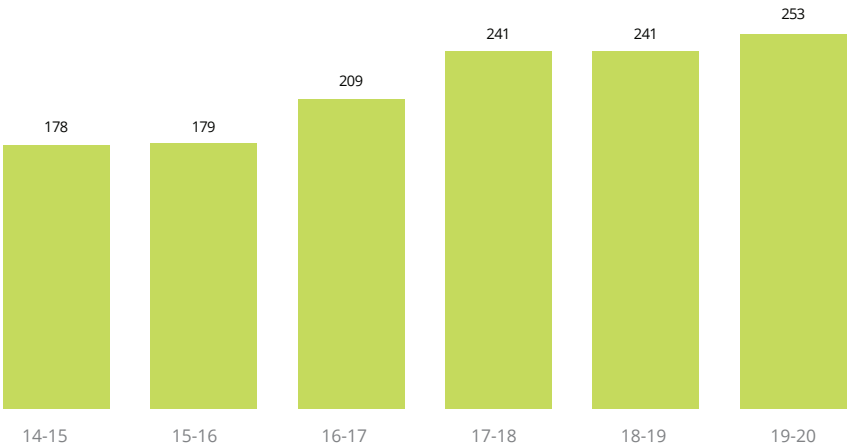
Note: due to complex interplay between chemical compounds and API for pharmaceutical industry, there may be cases where this data under Chemicals may reflect some degree of pharmaceutical products and v/v.

Pharmaceuticals: UK Exports to India (GBP mn)





Medical, Optical, and Instrumentation Devices: UK Exports to India (GBP mn)





Medical, Optical, and Instrumentation Devices

The top two categories in the Medical, Optical, and Instrumentation Devices are the following:

- Appliances of beta/gamma radiations such as radiotherapy apparatus, x-ray tube and generators, high tension generators (share 20%)

- Instruments and apparatus for physical or chemical analysis such as polarimeters, refractometers (share 18%)

Exports of radiation appliances grew by 24.3 percent (5Y-CAGR), reflecting a strong growth in the UK's manufacturing capabilities and rapid increase in Indian healthcare infrastructure spending. Within this category, diagnostic apparatus for surgery, radiography, and radiotherapy grew at 34.3 percent (5Y-CAGR). The importers for this type of equipment are hospitals engaged in the treatment of critical diseases, such as cancer. This is likely to support both domestic needs as well as patients from overseas (medical tourism).

Imports of instruments and apparatus for physical or chemical analysis grew at 7.3 percent (5Y-CAGR). Growth in this category was driven by gas or smoke analysis apparatus (5Y-CAGR: 11.4%), spectrometers, spectrophotometers and spectrographs using optical radiation (5Y-CAGR: 12.1%), and chromatographs and electrophoresis instruments (5Y-CAGR: 11.9%). Here, end-users are understood to be research and educational institutions and R&D houses within pharmaceutical companies in India.

What the UK Can Learn From India's Other Trading Partners?[53, 54]

The EU is India's largest trading partner, accounting for €80 bn worth of trade in goods in 2019 or 11.1 percent of total Indian trade, on par with the US and ahead of China (10.7 percent). The total services trade is around €30 bn (2018) with a net trade balance of €1.2 bn in favour of India.

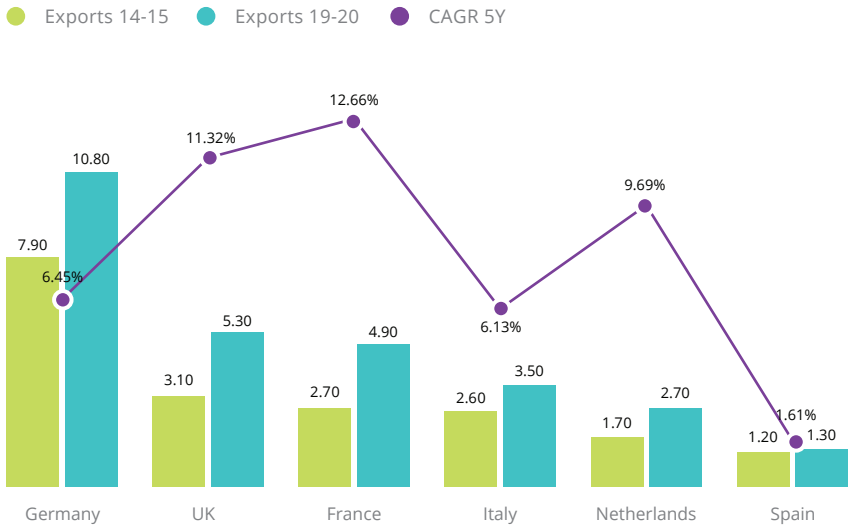
Given the context of the UK's trade with India, particularly with UK exports, we analyse how other comparable economies in the Europe have fared in their trade with India.

With Germany leading, the other top EU countries exporting to India have been Belgium, the UK, France, Italy, the Netherlands, and Spain. Belgium's exports to India have mainly been uncut diamonds given its eminent position as the largest trading hub for diamonds. For the purpose of this comparative analysis, we will therefore exclude Belgium.

Interestingly, all these markets have held their positions over the last ten years and, except for Spain, all of them have grown their exports to India between 5 percent and 7.5 percent on a 10Y-CAGR basis. While Germany leads the overall export numbers, France has been the outperformer with 5Y-CAGR at 12.6 percent with the UK not far behind at an impressive 11.3 percent annual growth.

To assess the UK's export performance with India, we analyse the 2019-20 export performance of other neighbouring European countries with India.

Top 6 EU Countries Export Trade with India





[53] Economic impact of India-China conflict: Why there won't be just one loser, The Week, June 2020
[54] US surpasses China to become India's top trading partner, Economic Times, February 2020

How do UK Exports Stack Up?

Commodity	Germany	France	Netherlands	Spain
Food Products		>>	>>	
Alcohol and Beverages				
Medical, Optical & Instrumentation Device	>>	>>	>>	
Chemicals			>>	
Home Products and Interiors			>>	>>
Advanced Engineering				
Automotive				
Pharmaceuticals				

Green Cells indicate sectors where country exports to India are more than UK exports to India.
>> Indicates 5Y CAGR faster than UK

Food Products Comparison with the UK

While on a headline basis all four EU countries export more than the UK, a large portion of the exports is also commodity exports in the form of soya and oil seeds (Netherlands), barley and oil seeds (France), and olive oil (Spain). The Netherlands' food exports to India included soya oil, seeds and fruits, and chocolate and cocoa preparations. France continues to lead in cheese and diary exports.

Food Products Comparison with the UK

£150 mn Dutch Foods exports to India.

£60 mn Netherlands vegetable and soya oil exports to India

French Food exports to India **19% Annual CAGR (5Y)**

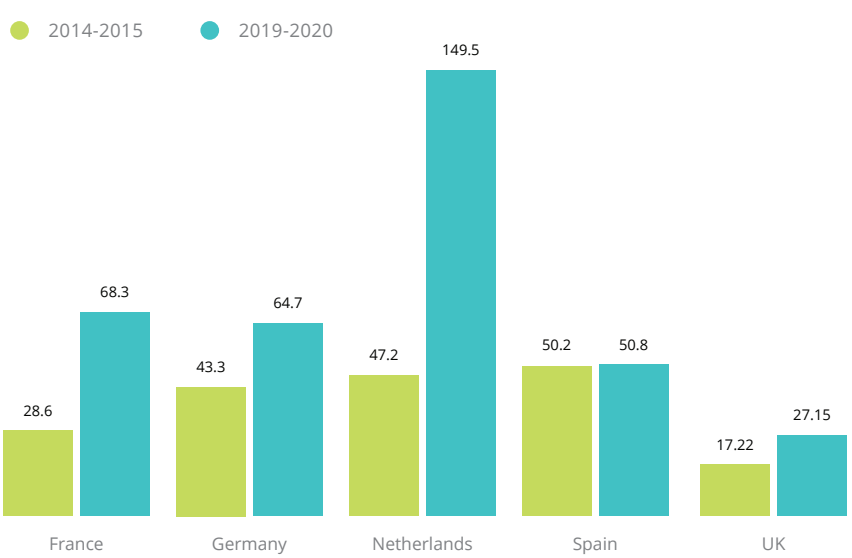
France leads in **cheese** £10 mn exports from France to India

Whey Protein exports from the UK grew by **51% annually (5Y CAGR)**

Candy & Gums
Is a large category with Germany and Netherlands each exporting £17 mn to India

Seafood
The UK is the only significant Seafood exporter amongst the above set of countries.
Fish and Sea Food exports have grown by 18% annually (5Y CAGR)

Food Product Exports to India (£mn)

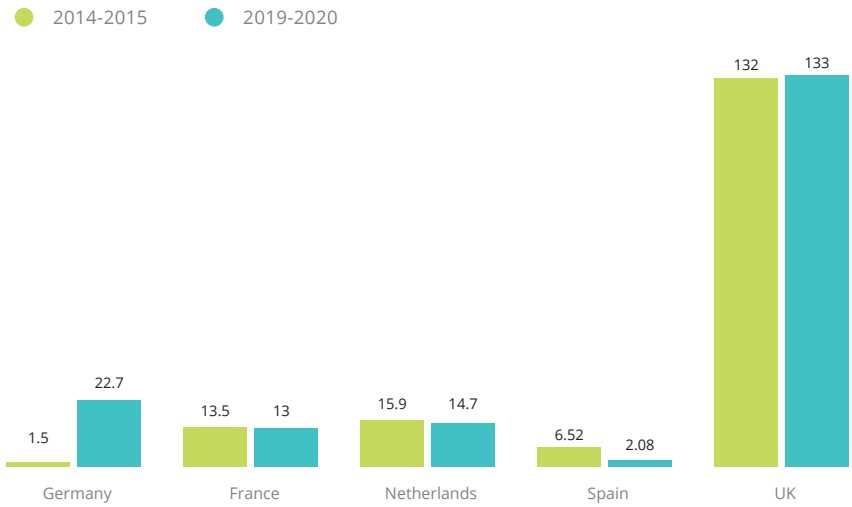


Alcohol

The UK is a clear leader with FY19-20 exports of around £133 mn. Exports have increased from a base of £34 mn in 2009-10 reaching a peak of £168 mn in 2017-18. Alcohol imports face a high import tariff in India (circa 150 percent) and given that there is a significant growth potential for UK exports, this needs to be further addressed in the India-UK bilaterals.

France was the leading wine exporter among European countries, followed by Italy, Spain, and the UK.

Alcohol Exports to India



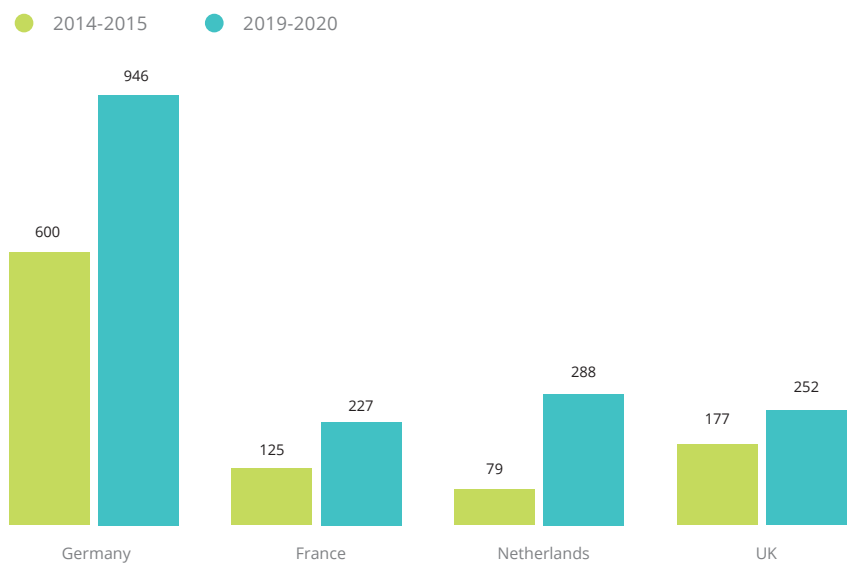
Medical, Optical, and Instrumentation Device

The Netherlands and Germany registered not only a higher value of exports but also grew faster than the UK. The key segments in the Netherland's exports under this category included medical instruments and appliances, prosthetics, implants and aids for the impaired, radiation appliances and lab (chemical and physical analysis) instruments and apparatus.

This is one of the largest export categories from Germany into India with close to £1 bn of exports in 2019-20. Germany's export mix was quite similar to the Netherlands' and also includes large radiation appliances (radiotherapy apparatus, x-ray tube and generators, and high-tension generators), and automatic regulating and contouring instruments and apparatus.

The Netherlands' growth in Medical, Optical and Instrumentation Device exports to India was the highest at 30 percent, followed by France (13 percent) and Germany (9 percent), compared to the UK's 7 percent. Spain's exports to India under this category remain low at less than £30 mn.

Medical, Optical, and Instrumentation Device Exports to India







Case Study: Inver House

Background

Inver House, a subsidiary of ThaiBev, decided to focus efforts on bringing their premium alcohols (single malt whiskies, a blended whisky and its own gin) to India in 2013. Originally targeting Maharashtra and Delhi, they have since extended to other cities and areas such as the Punjab. Their products are sold to corporate clients such as high-end hotels and bars via distributors and to consumers via duty free stores, which are a major channel for the company globally. Inver House also partners with other brand multipliers, such as luxury brands, industrialists, the British High Commission, and others, to position its offering.

Inver House has deliberately taken its time in working with India, building brand profile in the early years rather than concentrating solely on sales. It has done this with frequent travel around the market, close working with its distributors, and support from a local India market entry partner (in their case, Sannam S4). There is a medium-term plan in place which will amplify these efforts but are very much building for the long term.

Drivers and Potential in India

Nearly one in every two bottles of whisky bought around the world is now sold in India, and seven of the top ten global whisky brands are Indian. Indian whiskies notwithstanding, India is still the sixth biggest global destination for Scotch whisky. The Indian influence on the whisky market is not waning either, with the IWSR reporting double digit growth last year.

"India is a compelling market for Inver House judged by almost every metric," according to Malcolm Leask, Vice President Sales, International.

"Premiumisation of the market is expected to feature strongly in future growth which makes the market attractive to a premium player like Inver House. On top of this, it is hoped that import taxes may reduce over time, which will also serve to stoke demand and market growth."

Challenges

While the market opportunity is clear and the approach adopted is working, the journey to sell premium alcohols in India has been, and continues to be, one with challenges:

Regulatory - there have been frequent regulatory changes which carry a burden to those operating with India. While there have been improvements in some areas of the economy, the feeling is that things have actually become more difficult recently and this has definitely impacted sales. The team at Inver House doesn't believe this is intentional but navigating the regulatory landscape across national and state levels is challenging, with no central body to engage.

Duties and logistics – movement of goods through customs, particularly given the ever-changing regulatory requirements, is a constant challenge.

"Inver House would have hoped to be slightly further ahead with its investment plan for India by now versus what we planned in 2013," asserts Leask. However, this does not change their medium-term plans and the "slowly, slowly" approach is yielding results.

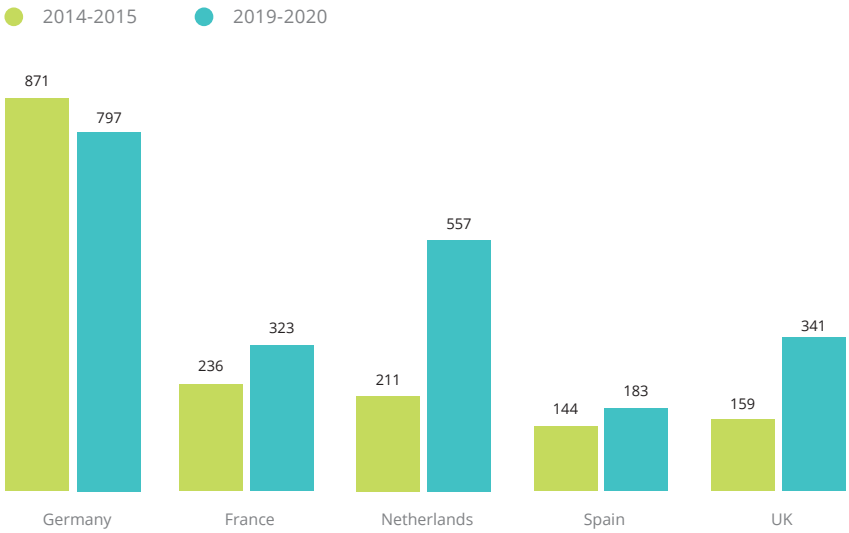
"We know what we are doing, we now know the market, have a partner and are proving what is required to grow the brand. We obviously have to navigate changing and challenging market conditions resulting from COVID-19 but that does not impact our medium-term ambitions and the effort and investment that will be required," comments Leask.

Advice to New Markets Entrants

"India is too important to ignore, almost for any category," says Leask. "New UK entrants in India should do their research and explore the options for market entry, take an active role, and use a partner for local support."

"Go in with eyes open," advises Leask. "Do your ground work. Size right and cost the plan correctly. Build and be realistic about the cost base in India and factor in local factors e.g. wage inflation. Expect to put the time in and the opportunities can be untapped."

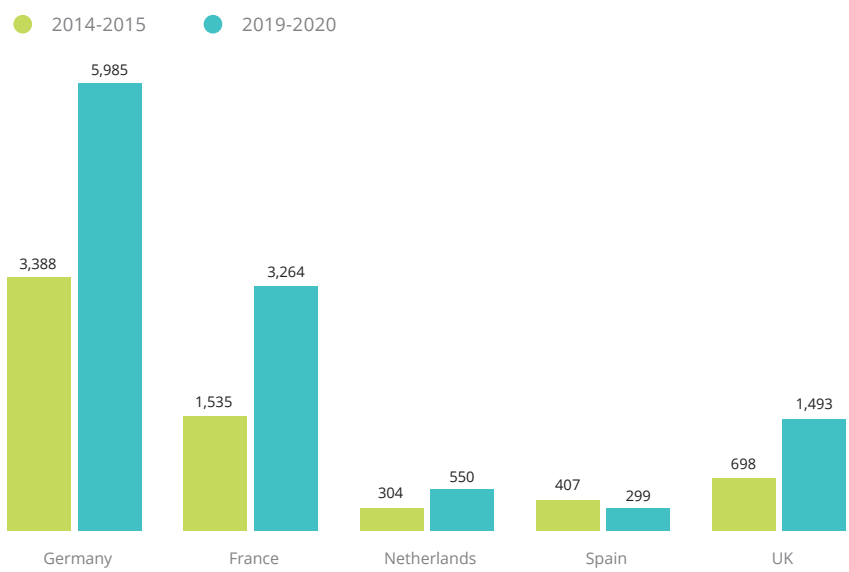
Chemical Exports to India



Chemicals

Chemicals has always been a strong export sector for Germany with £800 mn of exports in 2019. Over the last five years, the Netherlands chemical exports to India have increased by an impressive 21 percent YoY followed by the UK at 16 percent YoY growth. Both the UK and Netherlands have outperformed France which was second in 2014-15 and is now ranked fourth largest exporter among these five countries.

Advanced Engineering Exports to India



Advanced Engineering

Another strong sector for Germany, the sector represents over 60 percent of Germany's exports into India. This is also a sector where France has made significant inroads in the last five years, growing its exports by over 16 percent annually. The UK has managed to outperform all other countries in terms of growth rate at 16.5 percent.

A large part of the export growth for both Germany and France is on the back of the aerospace sector where exports (HS Code 88) grew from £190 mn to £1.6 bn (2014-19) in the case of Germany and from £870 mn to £2 bn for France.

[55] https://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/Pharma%20and%20Medical%20Products/PMP%20NEW/PDFs/778886_India_Pharma_2020_Propelling_Access_and_Acceptance_Realising_True_Potential.ashx

Import Diversification

Supplier Diversification – Can India Step Up as the UK Seeks Supply Resilience?

China clearly holds a dominant position as a major manufacturer / supplier to many global economies. The UK's trade deficit with China was -£18.3 bn in 2019. This was the UK's second largest trade deficit with an individual country, the highest deficit being with Germany at -£19.6 bn. In the aftermath of the Covid-19 crisis and current geopolitical environment, there is a school of thought that the UK needs to reduce its dependence on China. This is also reflected in "Project Defend" which reportedly looks at identifying key economic vulnerabilities with an aim toward ensuring critical supply lines are no longer dependant on individual countries and recognising that the UK continues to operate in a global trading system. This all points toward a future direction where the UK needs to expand its work with other / alternative sourcing partners.

Even before Covid-19 made headlines, McKinsey, in its annual Apparel CPO Survey[56] in October 2019, also pointed toward an acceleration of sourcing shifts away from China by US companies. More than half of procurement executives from North America were planning to reduce their sourcing value from China by more than 10 percentage points over the coming year.

Dire supply chain issues are reining in as CFOs are becoming clear in their short-term expectations and necessary changes to withstand disruptive forces such as the COVID-19 pandemic. The importance of diversification in sourcing remains a critical long-term goal (three years) with 56 percent planning to find alternate and additional sourcing options in reaction to COVID-19.[57]

And even without COVID-19, China has been ceding ground particularly in the labour-intensive light manufacturing industries. As incomes continue to rise, China's comparative advantage is being lost to other emerging economies. In 2013, China's exports of apparel accounted for 60 percent of the rest of the world's production, but the proportion has since dropped to 51 percent in 2019.[58] There is a school of thought that the UBS estimates that companies may shift between 20-30 percent of their Chinese manufacturing capacity. In its survey of the US firms surveyed, 34 percent produce in China. Of those, 76 percent have moved or are planning to move capacity out of China, with a third planning to move in the near future. The relocations will not happen overnight but they will slowly chip away at China's dominance in manufacturing.

Beyond diversification and some redundant sourcing, CFOs intend to be more careful about which suppliers they choose, supply chain risk would need to be priced into the overall cost calculations. Companies may be more tolerant of unit cost increases when they measure them through supply chain shock scenarios.[59]

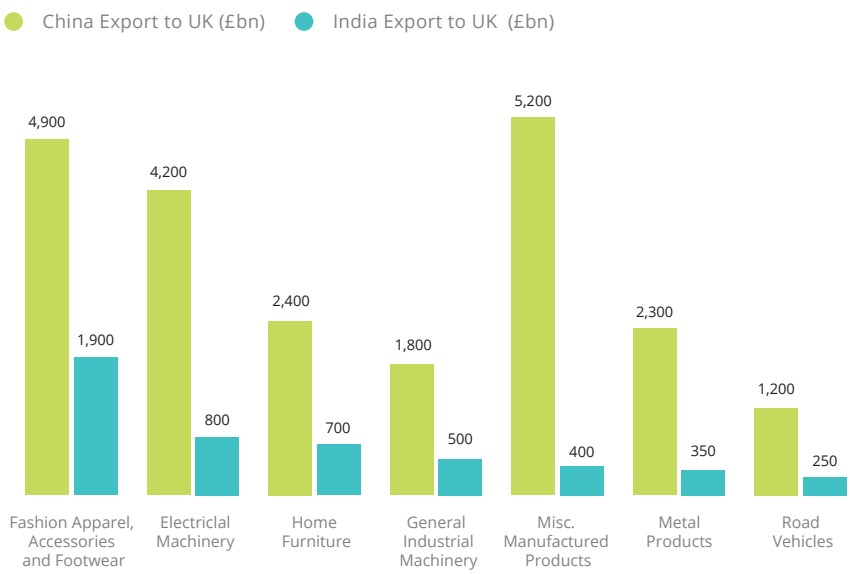
In the context of the UK-India trade relationship and with this imminent shift in supply chain, India has the potential of taking over a meaningful share of the supplies currently coming out of China. Not just trade, as the UBS study[60] found out 20-30 percent of production capacity could move out of China which at $2.5 tr of Chinese exports would imply annual supplies adding up to $500-750 bn.

[56] https://coresight.com/research/coronavirus-insights-us-survey-update-consumers-turn-against-made-in-china-select-findings/
[57] https://www.ubs.com/global/en/investment-bank/in-focus/covid-19/2020/supply-chains-are-shifting.html
[58] https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx
[59] PwC: Supply chains unlikely to relocate post-coronavirus, April 2020, Supply Chain Dive
[60] https://www.ubs.com/global/en/investment-bank/in-focus/covid-19/2020/supply-chains-are-shifting.html

Top 9 Import Categories (UK Imports from China)

Top 9 Import Categories (UK Imports from China)	China Export to UK (£mn)	India Export to UK (£mn)
Fashion Apparel, Accessories and Footwear	4,900	1,900
Electrical Machinery	4,200	800
Home Furniture	2,400	700
General Industrial Machinery	1,800	500
Misc Manufactured Articles (e.g. Toys, Sports Goods, Stationery)	5,200	400
Metal Products	2,300	350
Road Vehicles	1,200	250
Telecom Equipment	7,300	Not Significant
Office Machines Printers, Computers, etc	4,800	Not Significant

Exports to UK from India and China



We analyse the current categories of UK imports from China to determine where India could be an additional / alternate supply partner for the UK. The chart below represents the top nine import categories (UK imports from China) and how India fares across those categories.

The four categories which clearly standout here are fashion (including apparel accessories and footwear), homeware and furniture, electrical machinery and general industrial machinery. Across each of these 4 categories, India is currently exporting over £500 mn worth of goods reflecting a strong and meaningful export portfolio already in place.

China's exports to the UK across these categories is over £13 bn while India is roughly £4 bn and even a 10 percent diversification shift could mean 35 percent growth in exports from India.



Labour Intensive and Light Manufacturing

- Fashion Apparel, Accessories and Footwear
- Homeware and Furniture

Both are labour intensive, light manufacturing sectors with China dominating world exports. Chinese exports amount to 40 percent of global textile and apparel trade and 26 percent of furniture trade.[61]

India is especially well-placed to get a higher share of this segment given a number of factors are in India's favour. In contrast to Bangladesh, which suffers supply chain frictions, and Vietnam, where fabrics must still be imported (and labour costs are rising), India provides a one-stop shop in categories such as fashion and homewares from raw materials to the finished product.

In fact, India is a well-established supplier of textiles and fashion to the developed world, with annual exports of $40 bn a year (in addition to $100 bn of domestic sales). The sector has strengths across the entire value chain and is well diversified across segments including traditional handloom products, handicrafts, wool and silk products and the organised textile industry.

India's access to base supplies is a key strength, offering a point of competitive advantage over other, large apparel exporting nations such as Vietnam, Cambodia, and Bangladesh which depend on it – as well as China – for raw materials. India is the world's largest producer of both cotton and jute, and the second largest producer of polyester, silk and fibre.

However, Indian manufacturers need to further develop their expertise in the man-made fibre (MMF) or polyester-based garment segments like winter-wear, active wear, sports-wear, etc as most Indian exports are catering to the product basket of summer and casual wear that includes cotton shirts, t-shirts, cotton blouses, etc.

To unlock its potential to seize market shares in this labour-intensive segment, India needs further reforms particularly given the importance of scale manufacturing in these sectors. Other critical areas include lowering of input costs, faster approval processes and efficient logistics infrastructure.

Advanced Engineering – Electrical and Industrial Machinery, Capital Goods

This is a broad sector encompassing subsectors like electrical machinery (transformer, switchgear, cables, electric machines) and industrial machinery (pumps, valves, bearings, machine tools, hand and power tools), and aerospace. As we have already discussed under the Exports to the UK section, the advanced engineering sector has the potential to gain market share in the UK's global import basket particularly given the sensitivities with China. Several large UK players with manufacturing operations in India like JCB, BAE Systems, and Rolls Royce may also lead to further intensification of supplies coming out of India.

[61] https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx



Case Study: Aspen Pumps

Background

Aspen Pumps is a UK company with a mission to champion innovation that will make the engineer's life easier. Their offer focuses on condensate removal pumps, tools, installation accessories, rooftop support systems, and specialist chemicals. The company has been working with corporate clients, schools, and hospitals in India and set up its business in 2014 after initial efforts using an in-market representation model to help explore the market.

As Aspen Pumps' Territory Director EMEA and India, David Odlin, explains, "The decision to set up locally was a natural next step that allowed us to demonstrate a commitment to the market, our distributors and clients, exert higher levels of effort, control, etc."

A vital component in reaching the company's ultimate objective of becoming a market leader by outperforming competitors in the air conditioning (AC) market in India is actually being in India. Aspen Pumps has a global policy that dictates full commitment to strategic markets.

"That drives the need to build organically, and if that takes time then we accept that," says Odlin.

Growth Potential

India was a clear choice for Aspen Pumps for several reasons: it has one of the largest AC markets globally, has a solid technical base / understanding, and a solid central government has created a reliable regulatory environment.

At the moment, the market in India is predominantly a 'specifiers' market (Aspen Pumps sells to those parties defining the specification, e.g. government, MNCs etc) Aspen targets these specifiers to drive business to its local distribution partners, leveraging its own brand position to provide business opportunity for customers. Aspen has noted strong growth in the last few years and expects the Indian market to be a good long term bet as the market evolves to include developing distribution and replacement markets.

Covid-19 Challenges Won't Disrupt Long Term Opportunity

Some challenges can be prepared for, like navigating regulations by working with supportive companies (in our case, with Sannam S4). Others, like facing a global pandemic, happen suddenly and offer little opportunity for pre-emptive measures.

"Covid 19 has impacted us in virtually every way possible" Odlin admits "from team members, port facilities, access to client premises, project issuance, etc."Odlin emphasises that at times like these, this is where local representation and business links are so important "we have been able to run regular training courses for customers and specifiers in market during the lockdown periods. This is much easier to manage with an in-market foothold and our business is very much about relationships"

However, Odlin is hopeful that the business will regain a sense of normalcy in the coming months, particularly in light of decision-making from the central government. He is confident in the Aspen Pumps team and their will to grow in the market, noting the first step forward is to regain their position post-COVID.

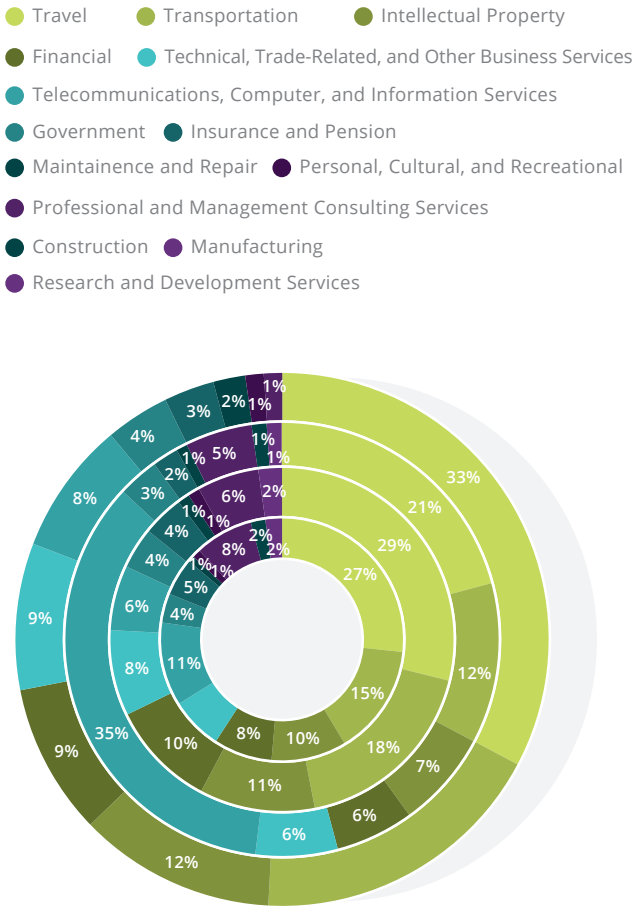
Seeking Advice, Remaining Flexible

"We strive to make sure we support local initiatives in India. We have exhibited at the ACREX show in recent years, and we are now forging a relationship with the sector trade group to coordinate regional training and events. Obviously that has been difficult in the past 12 months but as we get back to some normalcy, we will back on the road with industry colleagues, promoting cooling best practice to engineers and specifiers."

Even with the improvements being delivered in the local environment in India, it's important to have local support in setting up management of local presence. Likewise, new UK entrants in India would do well to commit to the country and invest the time in finding capable, knowledgeable, trustworthy partners and distributors to work with.

"Do what you need to do at the right time," Odlin recommends. "Be prepared to flex and develop over time; build gradually." This is a recurring theme when talking to organisations about working in India and requires management in both India and the home markets to think differently, avoiding comparing India to other countries.

UK Exports in Services to India by Service Type 2016–19 (from Inside to Outside)[63]



Trade of Services Between India and the UK is Significant

The UK is a major global player in the export of services with exports to the EU that are nearly as high as the level of goods it exports and the US being its largest export market.

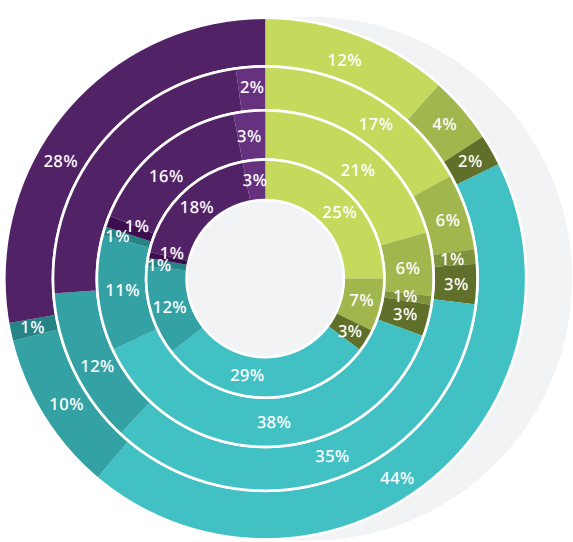
Both exports and imports of services to and from India have been rising from 2016 to 2019. Between 2016–19, exports grew 10 percent (CAGR) while imports rose by 27 percent (CAGR). The balance of trade has been consistently skewed toward imports in value.

In 2019, the top three services the UK exported to India included travel, transportation, and intellectual property. Travel has occupied the largest share of the UK's exports to India by value during 2016 to 2019.

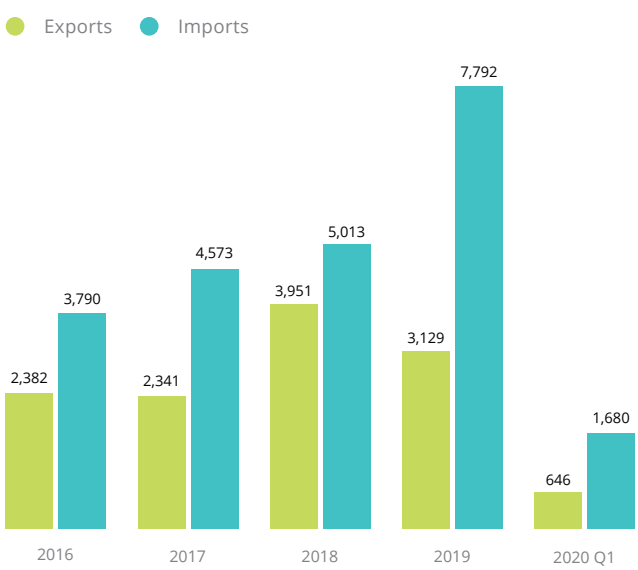
Outside of the EU, India comes second after the US in exports of services to the UK. The top three services the UK imported from India included technical, trade-related, and other business services, professional and management consulting services, and travel. Technical, trade-related, and other business services have occupied the majority share of the UK's imports from India by value during 2016 to 2019.

Given that the UK is the second largest exporter of services to the world and India has a very strong services sector, growing at 10 percent per annum, it seems likely there are untapped opportunities for both UK and Indian businesses to increase bilateral trade in services.[66]

UK Imports of Services from India by Service Type 2016–20 (from Inside to Outside)[64, 65]



UK Trade in Services Exports and Imports to and from India (in GBP mn)[62]



[62] UK trade in services: all countries, non-seasonally adjusted, July 2020, Office for National Statistics
[63] UK trade in services: service type by partner country, non-seasonally adjusted, July 2020, Office for National Statistics
[64] UK trade in services: service type by partner country, non-seasonally adjusted, July 2020, Office for National Statistics
[65] Other business services include Research and development services, Professional and management consulting services, Technical, trade-related and other business service
[66] The UK India Bilateral Trade relationship, UK India Business Council, April 2018

UK Global Tariff – Opening Up Opportunities for Increased Trade

The introduction of the UK Global Tariff on 1 January 2020 presents a visible part of the UK's separation from the EU. The UK Global Tariff (UKGT) is tailored to the needs of the UK economy and will support the economy by making it easier and cheaper for businesses to import goods from overseas. It is applicable in pounds (GBP), not euros (EUR).

The introduction of UKGT streamlines and simplifies nearly 6,000 tariff lines and includes scrapping unnecessary tariff variations, rounding tariffs down to standardised percentages and getting rid of all "nuisance tariffs" (those below 2 percent).

The UKGT also expands tariff free trade by eliminating tariffs on a wide range of products. The UKGT ensures that 60 percent of trade will come into the UK tariff free on WTO terms or through existing preferential access from January 2021 and successful FTA negotiations will increase this.

As part of preparing this report, we have scrutinised the top 25 categories of goods imported by UK. This includes the top 10 imports from India and an additional 15 categories traded more actively with other countries. Key highlights from this analysis include:

Almost all pharmaceuticals and most medical devices (including ventilators) are tariff free in the UKGT

The greatest levels of savings (change in duty vs amount traded in 2019-20) are derived in the following areas (2 digit HS code):

- Aircraft, spacecraft, and parts thereof
- Electrical machinery and equipment parts thereof, sounds recorders and reproducers, television image and sounds recorders and reproducers, parts and accessories of such articles
- Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof
- Organic chemicals
- Chemical products NEC
- Plastics and articles thereof
- Essential oils and resinoids, perfumery, cosmetic, or toilet preparations
- Apparel and clothing accessories (not knitted or crocheted)
- Toys, games, and sports requisites, parts and accessories thereof
- Textiles, made up articles, sets, worn clothing and worn textiles articles, rags

The top five categories of goods (using 8 digit HS code) with more than 7 percent improvement in duties are:

- Preparations based on odoriferous substances, containing all flavouring agents characterizing a beverage, of an actual alcoholic strength of > 0.5% vol, of a kind used in the drink industries (HS Code 33021010)
- Woven fabrics of cotton, containing at least 85% cotton by weight, mixed principally or solely with man-made fibres and weighing <= 200 g/m², unbleached (excl. plain woven fabrics) (HS Code 52101900)
- Aeroplanes and other powered aircraft of an unladen weight <= 2.000 kg (excl. helicopters and dirigibles) (HS Code 88022000)
- Heterocyclic compounds with nitrogen hetero-atom[s] only, containing an unfused imidazole ring, whether or not hydrogenated, in the structure (excl. hydantoin and its derivatives, naphazoline hydrochloride "INNM", naphazoline nitrate "INN", phentolamine "INN", and tolazoline hydrochloride "INNM") (HS Code 29332990)
- Compound stabilisers for rubber or plastics (excl. anti-oxidising preparations) (HS Code 38123990)

It is also worth noting that the UK will promote a sustainable economy by cutting tariffs on over 100 products to back renewable energy, energy efficiency, carbon capture and the circular economy.

Trade Barriers Between India and the UK Hamper Trade Volume

Several factors limit the trade between India and the UK. These can broadly be categorised into tariff and non-tariff barriers.

Non-Tariff Barriers

Ease of Doing Business

The UK has worked closely with the Indian government to encourage improvements in a variety of areas related to ease of doing business in India. As an example, contributing to progress in the Insolvency and Bankruptcy Code, IP protection, etc. Progress is now focused on several fronts.[67]

- Extending the progress made on ease of doing business to state and district level
- Strengthening IP enforcement
- Data protection
- Drug pricing framework (to support the Ayushman Bharat initiative)
- Streamlining customs approvals
- Taxation
- Defence offset
- Sectoral focus on non-tariff barriers in food and drink, life sciences and healthcare, and digital and data services

Standards

Differing standards can act as an impediment to trade e.g. fungicide limit requirements for basmati rice.[68] In a post-Brexit environment, the UK will have the flexibility to decide such standards itself. This may present some opportunity to increase trade.

A recent example of this is an agreement signed in late 2018 that covered sheep meat. This followed a detailed process of inspections and negotiations by the UK government, working with the Agriculture and Horticulture Development Board (AHDB) and UK Export Certification Partnership (UKECP) whereby exporters can take advantage of the Indian market as soon as the administrative listing process is completed and export certification is made available. This was expected to increase exports by £6 mn over five years.[69]

Immigration

Immigration policies are one area which is recognised as being critical enablers to the UK-India relationship. This is an area which is frequently raised as being a blocker. However, evidence suggests both governments are working to improve the situation.

On the Indian side:

- Introduction of the e-visa has proven to be an important step forward for those wishing to engage in casual business (among other areas)

On the UK side:

- Removal of the post-study work restrictions on students wishing to seek employment in the UK after their studies have been notified, along with a reduction in the salary level to be attained

- Introduction of the Graduate Route Visa, providing uncapped opportunities for scientists, mathematicians, and researchers, whereby candidates are required to be endorsed by UK Research & Innovation, not the UK's immigration office

- Introduction of a points-based visa system which swaps unlimited flow of workers from the EU with a controlled flow of immigration from across the globe, including India (where the importance of English language in the points formula looks likely to be advantageous to the English-speaking population)

Efforts to work through further improvements in this area are encouraged. In particular, improving the ability of companies to manage international secondments and re-exploring social security arrangements.

Tariff Barriers

India has made strides to improve the investment climate for foreign firms wishing to enter the market. Equally, the UK positions itself with a compelling proposition for firms wishing to set up there. For India, the trade environment is somewhat more challenging with tariffs featuring widely and, on a global level, still at relatively high levels. Taking one example, India imposes a tariff of 150 percent on imported whisky while it accounts for 90 percent of the food and drink that UK exports to India.[70]

To overcome these barriers and taking advantage of the post-Brexit environment, the UK has expressed a desire to seek trade agreements with India (as well as some other non-EU countries). A UK-India trade agreement has the potential of expanding business opportunities between the two countries. While alignment is likely in many areas, there will be key areas that need addressing and commentary from both sides. The most recent JETCO suggests this may well be possible at some point using the Enhanced Trade Review as the next building block.v

[67] India, UK set up 3 new bilateral trade working groups, Economic Times, July 2019
[68] UK-India trade review calls for flexibility on food standards and chemical rules, Unearthed news, 11 July 2018
[69] Exports boost for UK industry as India opens market to British sheep meat, export.org.uk
[70] Memorandum by The Scotch Whisky Association, House of Commons





UK-INDIA BILATERAL INVESTMENT

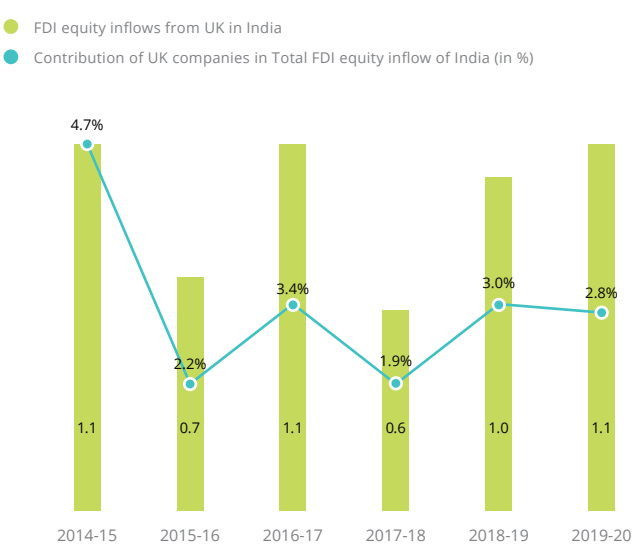
FDI is a key source of non-debt financial resources for the economic development of any country and the UK-India relationship is characterised by healthy levels of FDI activity.

UK Investments in India Increase Owing to Government Initiatives

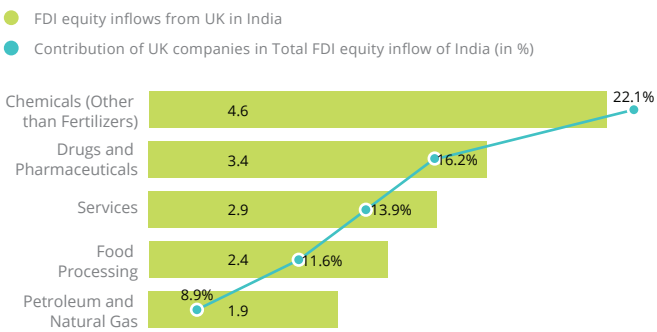
A.T. Kearney's FDI Confidence Index 2019 ranks India as the 16th most attractive FDI destination in the world, reflecting a deliberate focus on the global economy and seeking foreign investment.[71] UK investments in India increased to GBP 1.02 bn during 2018–19, a 59 percent growth year-on-year, representing 3 percent of all FDI in India.[72]

The strength of the UK as a trading partner lies in the diversity of its sectoral engagement with India. More than half of British firms in India are investing in the services sector, and more than a third in the manufacturing sector.

UK FDI Equity Investment in India[73]



Top 5 Sectors Attracting FDI Equity Inflows from the UK (from January 2000 to December 2018)[74]



[71] Facing a Growing Paradox, A.T. Kearney Foreign Direct Investment Confidence Index report 2019
[72] FDI factsheet, DIPP, April 2000- March 2019
[73] FDI Statistics, Department for Promotion of Industry and Internal Trade accessed on 23 December 2019
[74] FDI Synopsis on UK, Department for Promotion of Industry and Internal Trade, accessed on 09 Jul 2020

Focus on Technology

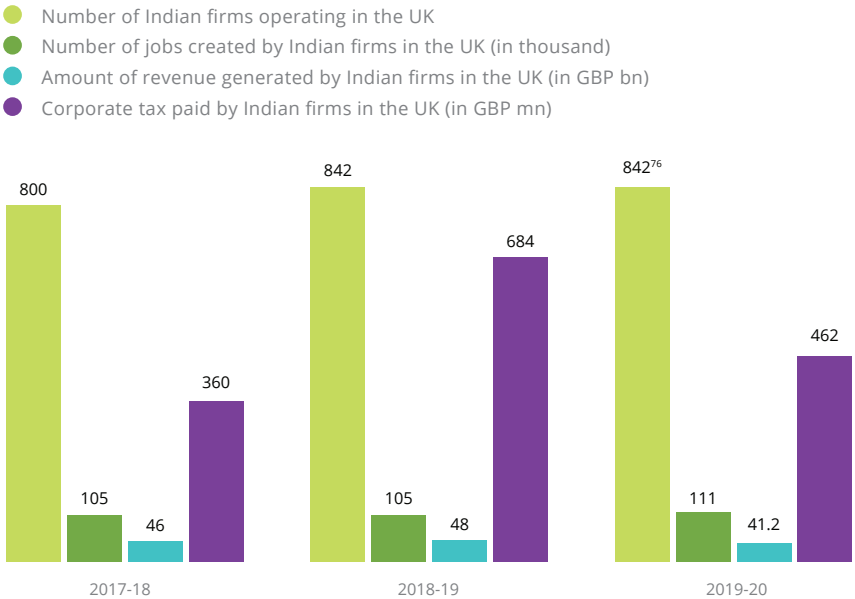
In 2018, the UK and India agreed on an ambitious new tech partnership to pair businesses, venture capital, universities, and others from different regions in the UK with states in India. The partnership is intended to encourage innovation and productivity by helping businesses in the UK and India collaborate on emerging technologies, develop mentoring relationships and exchange staff. Initially, the pilot focused on connecting the UK with Pune in Maharashtra, focusing on future mobility, including low emission and autonomous vehicles, battery storage, and vehicle light-weighting. Additional connections have been envisaged (e.g. with Bangalore) to focus on augmented and virtual reality, advanced materials and artificial intelligence (AI).[75] Activity is evidenced by a recent mission to India focused on AI.

In 2018–19, the share of India's FDI in the UK financial and service sectors increased to 50.8 percent of total FDI compared with 40 percent in 2017–18. The growth is attributed to technology-enabled start-ups, e-commerce, and IT/IT-enabled service (ITeS). New sub-sectors such as education technology (Edtech) and financial technology (FinTech) are expected to build new opportunities with increasing investments.

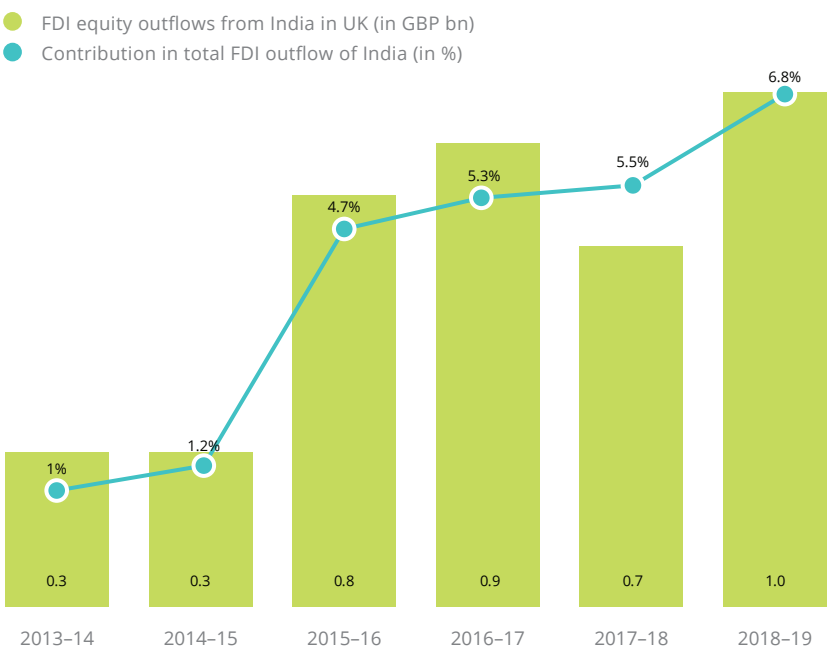
The Go Global Programme, part of the UK-India Tech Partnership launched in April 2018, is intended to support Indian start-ups as they expand internationally, building links with the UK's digital sector and paving the way for future economic partnerships. Under this scheme in July 2019, the UK announced it would invest GBP 40 mn in Indian start-ups focused on emerging technologies. 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.

[75] Why should UK businesses expand into India now?, Growth Business, 19 July 2018

Growth in Investment by Indian Companies in the UK[78]



Indian FDI to the UK , 2013-19



Make in India

In order to drive FDI, one area the India government is likely to continue to focus on is its flagship Make in India programme, aiming to capitalise as organisations seek to diversify their global supply chains. This will require ongoing reform to create a smooth journey for investors in areas such as land acquisition, enforcement of contracts, etc.

Resilient in FDI Despite Brexit Uncertainty

Through their investment in the UK, Indian companies create jobs, contribute tax, and play an important role in deepening and extending the long-standing ties between India and the UK. In 2019, the contribution of Indian companies to the UK economy increased significantly. In the context of Brexit uncertainty over the last two years, this trend represents a somewhat surprising but welcome increase in the size of the contribution.[77]

Investment from India to the UK has increased since 2013. The fall in the value of sterling, making UK assets increasingly attractive to overseas investors, low rates of corporation tax, and the ease of doing business are significant draws to the UK market.[79]

[76] "Whilst the total number of Indian companies is the same as 2018-19, 68 new companies were registered in the UK and 68 companies dissolved or ceased trading, or restructured, or are no longer in Indian ownership. Source: India meets Britain Tracker 2020, Grant Thornton'
[77] Indian companies' contribution to the UK economy surges, Grant Thornton, 25 April 2019
[78] India meets Britain Tracker 2020, Grant Thornton
[79] Indian investment in UK on rise despite Brexit: Report, The Economic Times, 25 April 2019
[80] Data on overseas investment, Reserve Bank of India accessed on 23 December 2019





Case Study: The Open Group

Background

The Open Group is a global, member-led consortium that develops open, vendor-neutral technology standards and certifications. Having worked with India for many years, The Open Group made the decision to invest for the long term and set up operations there in 2016.

The primary reason for setting up locally in India was to try to spread adoption of The Open Group standards to non-IT organisations, spearheading this by supporting the Government of India's Digital India strategy through the use of Enterprise Architecture and the TOGAF(R) Standard.

The focus has included programs for capacity building as well as the development of awareness of the opportunities and benefits that flow from the use of standards in the areas that The Open Group specialises in. Highlights of its collaborations thus far kinclude

Supporting Indian Ministry for Electronics and IT (MeitY) in its work to develop the India Enterprise Architecture (IndEA) reference architecture as a standard approach for designing the architecture of India, ministries, states, government agencies, etc
Accreditation of Indian Government Enterprise Architecture course, which is based on The Open Group TOGAF(R) Standard.

It took time to gain traction with the government, but this was acknowledged at the outset. This investment of time has seen gradual progress (also in the commercial sector), resulting in a rise in revenues over the years, exceeding expectations in most respects.

In addition to working with the Government of India and key state governments, The Open Group also engages with corporate clients.

The importance of India is reflected by the inclusion of HCL on The Open Group Governing Board and the membership of all major IT companies. The presence of the powerhouses of Indian IT in the development of standards within The Open Group is a validation of the importance of the standards that The Open Group develops, but also a recognition of their significance in the use of IT in India and throughout the world.

Potential

The factors that drew The Open Group to India were government initiatives such as Make in India, Start-up India, and Digital India, the desire to support the Government of India in capacity-building ambitions, levels of interest in accreditation, the volume of qualified Enterprise Architects in India, and the associated level of latent demand.

These all remain core objectives to the mission of The Open Group in India. According to James Scott, Chief Financial Officer, The Open Group will also explore standards development in related sectors where The Open Group is involved, such as process control and oil and gas.

Challenges

In setting up in India, The Open Group has had to navigate what is acknowledged to be a challenging local business environment. However, its ability to work in India has significantly improved since it first established a business in India (e.g. making payments locally to vendors, etc).

As far as challenges are concerned, these range from finding the right talent, working to access government, and managing "red tape," to covering the country with a relatively compact team.

Success Takes Time and Local Support

Scott advises that UK companies establishing operations in India should be prepared for more bureaucracy than they are used to, but that "With the right guidance, this shouldn't be a deterrent if a company has a long-term mindset and is willing to be patient and invest the time to progress."

For The Open Group, Scott has "been impressed with the quality of local talent and their ambition for development" and feels that "the decision to combine these skills with those of an expat has worked extremely well for us."

"You will need to orient yourself to a different way of working—be respectful to local norms," he underlines. "The sales process is highly respectful, but expect to invest the time with repeated engagements."



Research, IP Development, and Education

The UK's higher education system is among the strongest globally with very high quality research taking place across a diverse range of fields. More than half of this research takes place via international collaborations,[81] in order to tap into genuine depth of expertise.

Research provides the basis for both improvement in societal terms but also the ability to develop and commercialise IP, thereby driving job creation and economic prosperity. With the talent India possesses, this should be an attractive proposition. For India to unlock this opportunity, it will need to create an environment whereby partnerships can be easily operationalised. While India's new National Education Policy is encouraging in this respect, India will also need to secure and isolate the funds to attract and retain the quality of faculty and researchers required.

[81] HIGHER EDUCATION RESEARCH IN FACTS AND FIGURES https://www.universitiesuk.ac.uk/

Mergers & Acquisition and Joint Venture Activity

Merger and Acquisition (M&A) and Joint Venture (JV) activity is an important medium to expand product portfolios, enter new markets, acquire technology, and gain access to research and development.

M&A in India

2018 was a bumper year in M&A deals in India with deal value more than double any of the previous four years. 2019 was a more challenging year globally and in India. Despite that, India recorded similar levels of activity to the previous year (albeit reduced in deal value, returning to 2017 levels).

For inbound M&A, the last three years (2017-19) have seen consistent volumes of 80-100 deals a year. Equally, for outbound M&A, deal volumes remained relatively consistent ranging within 75–100 transactions a year. Deal values on inbound and outbound M&A varied quite significantly across the period, with a significant jump in the total value of deals announced in 2018.

The technology space dominated the M&A landscape in terms of deal volumes, with most transactions coming from start-ups, IT/ITES and e-commerce. Other significant sectors which have seen consistent growth in deal volume over the last three years included pharmaceuticals, healthcare, biotech and banking & financial services.

M&A activity in India in 2020 appears to have held up remarkably well during the Covid-19 period and with improved performance over 2019. The key driver appears to be consolidation on opportunity-driven acquisition. With the economy starting to recover after a challenging Covid-19 period, commentators are optimistic for 2021.[83]

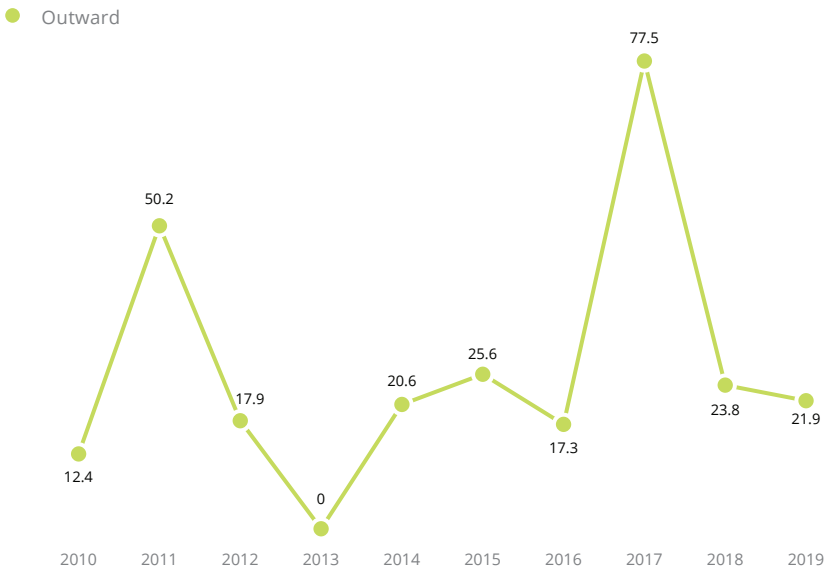
Summary of M&A Activity in India, 2017-2019[82]

	Number of transactions			Deal Value ($M)		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
Domestic	228	270	255	5,834	34,269	16,419
Cross-border	162	191	176	8,140	38,556	10,228
Internal M&A	23	13	12	26,451	17,469	1,345
Total M&A	**413**	**474**	**443**	**40,425**	**90,294**	**27,992**
Cross Border						
Inbound	86	100	95	5,962	25,741	8,237
Outbound	76	91	81	2,178	12,815	1,991



[82] Annual Dealtracker, 14th Annual edition 2020 https://www.grantthornton.in/
[83] https://www.consultancy.in/news/3542/a-review-of-indias-ma-equity-investments-and-exits-market-in-2020

Value of Outward M&A Deals in the UK[89] (GBP bn)





M&A in the UK

The UK is one of the major players in the global M&A market. Despite having a strong M&A domestic market, London as a financial centre plays a crucial role in funding corporate and private equity activities globally.[84]

Inward M&A[85] declined 32 percent YoY to GBP 53.8 bn in 2019 partly as there weren't any "very high-value deals"[86] during the year to supersede the Comcast Corp's (US) acquisition of Sky PLC (UK) for over GBP 30 bn. Excluding this deal from the 2018 data, the value of all deals in 2019 increased by 11 percent YoY

The 2019 deal values were still larger than those between 2010–15, though there weren't any "very high-value deals" in the year. There were 12 deals valued more than £1bn[87]—including Kirkbi A/S (Denmark) acquiring Merlin Entertainment Limited and Vinci SA's (France) majority stake acquisition in Gatwick Airport Limited. In 2018, there were only six such deals, which suggests that the value of inward M&A deals in 2019 was based on a larger volume of deals completed.

The value of outward M&A deals[88] declined by 12 percent YoY to GBP 20.9bn in 2019 partly as no high-value deals were completed in either year, following two in 2017. The 2019 deal value was comparable to 2014 (£20.6 bn).

[84] Plotting a new course: The impact of Brexit on M&A activity, Deloitte 2016
[85] Foreign companies acquiring UK-based companies
[86] Very high value: GBP 10 bn +
[87] High value: GBP 1 bn–10 bn
[88] acquisitions of UK-based companies abroad
[89] Mergers and acquisitions involving UK companies, annual overview: 2019, 3 March 2020, ONS

UK India Activity

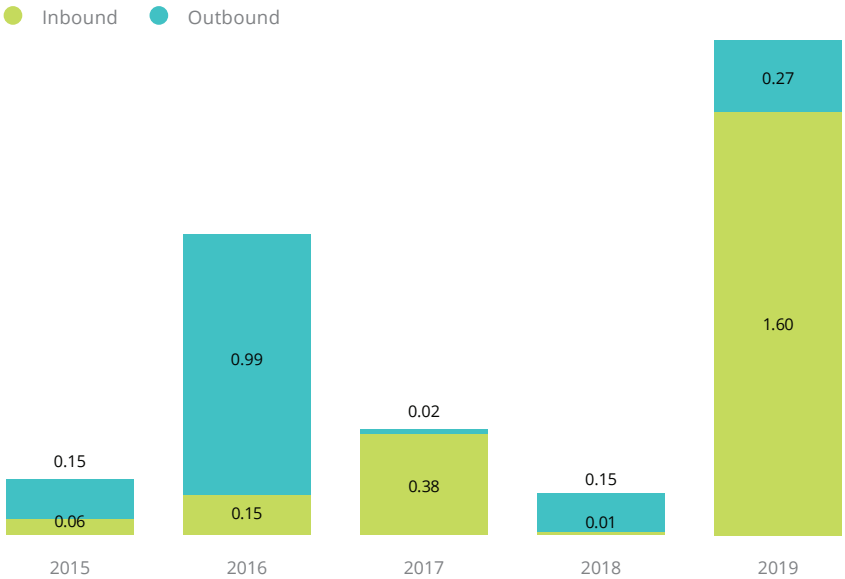
As far as cross border M&A relating to India is concerned, the India-US corridor dominates all other country level activity, representing 35 percent of total activity.

After a lukewarm 2017 and 2018, deal activity in 2019 picked up in outbound and inbound transactions. Indian companies targeted prominent UK brands to build their portfolio and obtain more energy security through the acquisition of companies in natural resources. The acquisition of Essar Steel India by a consortium of UK-based ArcelorMittal and Nippon Steel in December 2019 was one of the notable deals recorded this year.[90]

For 2019, outbound transactions from India in 2019 were spread over 24 geographies. In total, thirty transactions were executed in the UK, Germany and Switzerland making up 25 percent of outbound deal volumes. Of these, there were nine outbound transactions representing £337 mn and three inbound transactions representing £2 bn.

Not surprisingly, commentators reported dramatically reduced levels of M&A activity in H1 2020 as a result of Covid-19. Anecdotally, activity levels appear to have picked up in H2 2020. It remains to be seen whether the position post-COVID-19 presents opportunities for fresh activity, in part focused on distressed assets.

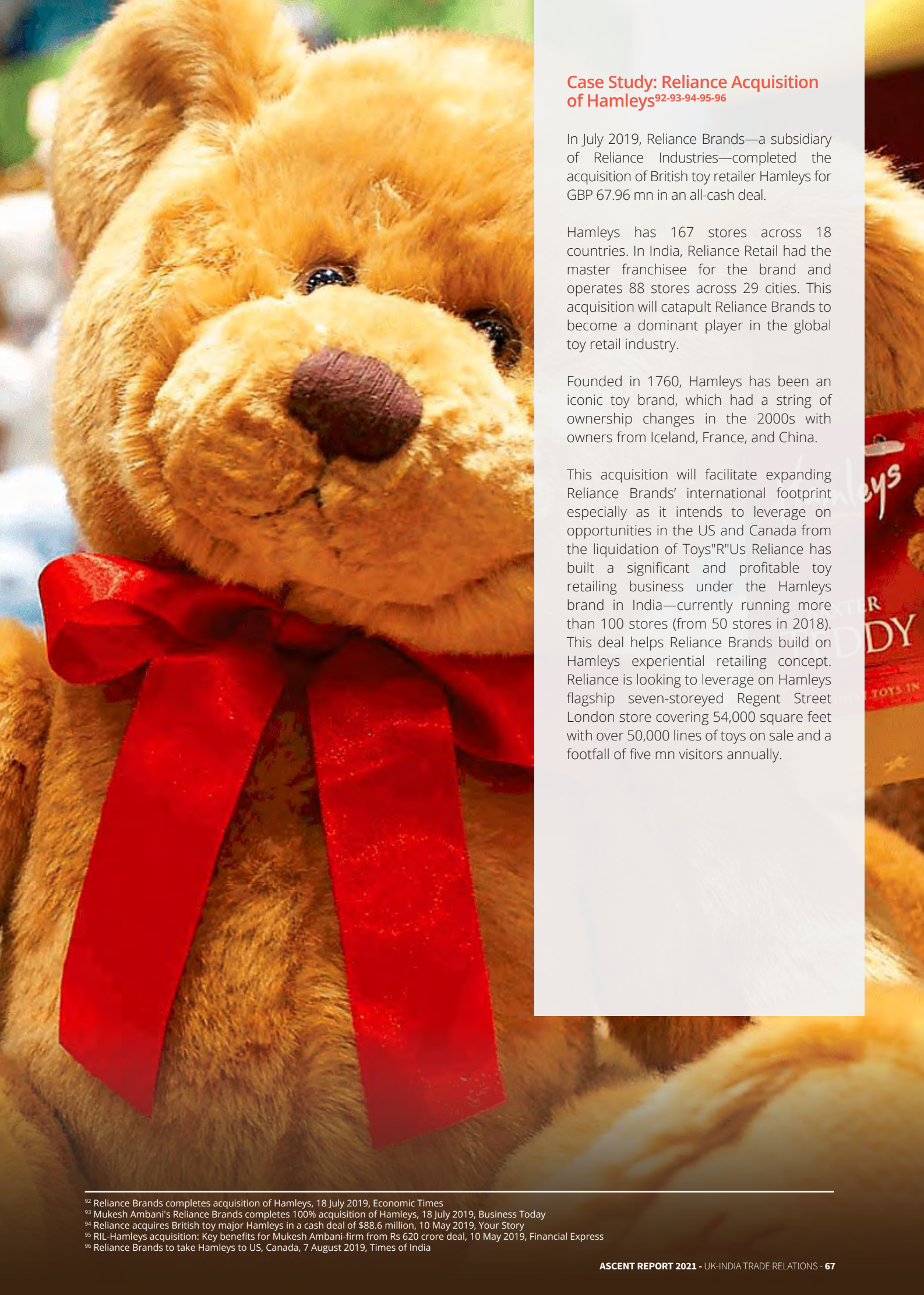
UK-India M&A Activity by Value (in GBP bn)[91]



Top M&A and JV Deals Between India and the UK in 2019

Acquirer	Target	Industry	Deal Value (GBP mn)
RA Hospitality Holdings- Cayman	Oravel Stays Pvt. Ltd.-OYORooms.com	Start up	1,585.9
Clarivate Analytics	Decision Support Group (Piramal's UK Analytics company)	Pharma, healthcare and biotech	750.5
Varian Medical Systems Inc	Cancer Treatment Services International	Pharma, healthcare and biotech	223
Cairn India Holdings Ltd.	Anglo American Plc	Energy and Natural resources	158.59
Reliance Industries Ltd.	Hamleys Global Holdings Ltd.	Retail and consumer	70.57
TVS	Norton	Automotive	16
Sterlite Technologies Limited	Impact Data Solutions Group	IT and ITeS	11.89
Motherson Sumi Systems Limited	Bombardier Transportation (Rolling Stock) UK Ltd.	Manufacturing	11.1
Nord Anglia Education Inc	Oakridge International schools	Education	NA
Royal Dutch Shell	Orb Energy Pvt Ltd.	Energy and natural resources	NA
Bharti Airtel, UK Government	One Web	Telecoms	NA

[90] Annual Dealtracker, 14th Annual edition 2020 https://www.grantthornton.in/
[91] Annual Dealtracker, Grant Thornton, 14th Annual edition 2018



Case Study: Reliance Acquisition of Hamleys[92-93-94-95-96]

In July 2019, Reliance Brands—a subsidiary of Reliance Industries—completed the acquisition of British toy retailer Hamleys for GBP 67.96 mn in an all-cash deal.

Hamleys has 167 stores across 18 countries. In India, Reliance Retail had the master franchisee for the brand and operates 88 stores across 29 cities. This acquisition will catapult Reliance Brands to become a dominant player in the global toy retail industry.

Founded in 1760, Hamleys has been an iconic toy brand, which had a string of ownership changes in the 2000s with owners from Iceland, France, and China.

This acquisition will facilitate expanding Reliance Brands' international footprint especially as it intends to leverage on opportunities in the US and Canada from the liquidation of Toys"R"Us Reliance has built a significant and profitable toy retailing business under the Hamleys brand in India—currently running more than 100 stores (from 50 stores in 2018). This deal helps Reliance Brands build on Hamleys experiential retailing concept. Reliance is looking to leverage on Hamleys flagship seven-storeyed Regent Street London store covering 54,000 square feet with over 50,000 lines of toys on sale and a footfall of five mn visitors annually.

[92] Reliance Brands completes acquisition of Hamleys, 18 July 2019, Economic Times
[93] Mukesh Ambani's Reliance Brands completes 100% acquisition of Hamleys, 18 July 2019, Business Today
[94] Reliance acquires British toy major Hamleys in a cash deal of $88.6 million, 10 May 2019, Your Story
[95] RIL-Hamleys acquisition: Key benefits for Mukesh Ambani-firm from Rs 620 crore deal, 10 May 2019, Financial Express
[96] Reliance Brands to take Hamleys to US, Canada, 7 August 2019, Times of India



UK AND INDIA POST-BREXIT

Now that the UK has formally left the EU, in parallel with re-basing the nature of its relationship with the EU, it is aiming to engage with non-EU countries in a more expansive manner for mutually beneficial relationships, built partly on trade.

Building Blocks Towards a Free Trade Agreement

In the 14th meeting of the India-UK Joint Economic and Trade Committee (JETCO) on 24 July 2020, an Enhanced Trade Partnership was agreed to as part of a roadmap that could lead to a future FTA. The Enhanced Trade Partnership sought to address non-tariff barriers to trade, and establish a specific dialogue to explore routes to removing tariff barriers.

Key highlights include:[97]

Trade Partnership

- Food and drinks sector: exploring issues impacting food & drink trade and sharing best practices on regulatory frameworks and clearance processes.

- Law and justice: considering a framework for the enhancement of cooperation between judicial and legal professionals and on alternative dispute resolution systems.

- Data and digital: to support the digital economies of both countries, proposed MoU between the Department for Digital, Culture, Media, and Sport, and the Ministry of Electronics and Information Technology. Further discussions on data regulation and interoperability.

- Medicines and Healthcare: MoU between the UK Medicines and Healthcare products Regulatory Agency and the Central Drugs Standard Control Organisation.

- Intellectual property: develop and strengthen the positive impact of a strong, reliable environment that supports, rewards, and protects innovation and creativity.
- Defence Technology: working cooperation to underline the UK's intent to co-develop intellectual property to create future technologies in India.

There were also agreements to pursue joint activity in response to COVID-19 and with healthcare and the green agenda in mind (in the lead-up to COP 26):

- Ongoing collaboration on vaccine research, design, and manufacturing.

- Key supply chains open and ensure any restrictions to trade are targeted, proportionate, transparent, and temporary whilst not creating unnecessary barriers to trade.

- Measures to increase flows of investment in growing sectors.

- Develop a strategy to focus on product efficiency, including a focus on four high energy-consuming product categories: room air conditioners, refrigerators, motors, and lighting.

- Endorsement of BP's recent $70 mn investment into the Green Growth Equity Fund to catalyse financing into sustainable infrastructure in India.

- Support for Indian Railway's objectives of energy security, consumption efficiency and greening of energy supply.

[97] Joint Statement of the 14th Meeting of the India-UK JETCO, 29, July 2020, UK Gove

Details were also provided in ICT, food and drink, and life sciences to make progress in removing barriers that will have a materially positive impact to business.

In addition to these areas highlighted in JETCO and in addition to those areas identified earlier in this report, commentators also highlight opportunities in:

- Food and agricultural products - positioning India as a possible exporter to the UK to replace exports from other countries. Here Indian exporters would need to comply with the regulatory framework and accompanying phytosanitary requirements, depending on what framework the UK adopts.

- Auto components - India is a major supplier of auto components to the EU region while the share to the UK is about 5 percent. India may look to expand this.

- Readymade garments – while this is already an active export from India to the UK, a Trade Agreement which covered this area would likely result in a boost in trade post-Brexit.

On an equally positive note, a 2016 study carried out by the Commonwealth Secretariat after the Brexit vote identified products where they believe increased trade can take place. The report cites that a well-negotiated bilateral trade arrangement between the UK and India has the potential to increase bilateral trade by 26 percent.[98]

Brexit Will Impact the Access of Indian Businesses to the EU Market

Many Indian companies such as JLR, Accord Pharma, TVS, and Infosys have set up operations in the UK and derive revenue from European operations. With the UK-EU Trade Agreement recently successfully finalised, it is hoped that major disruption has been averted.[99]

Firms will likely have made steps to de-risk their operating models by establishing a presence in the EU but the full effect of this will only become clear in the coming years. The UK is highly motivated to ensure it remains the right place for businesses to set up and operate. To support this, Allen Simpson, Managing Director of Strategy and Corporate Affairs at London & Partners and the Mayor of London's official promotional agency, is quoted as saying, "In recent years we have seen a large number of Indian businesses choosing London for international expansion and in 2018 the UK capital attracted more investment projects from India than any other global city."

[98] https://thecommonwealth.org/media/press-release/uk-india-bilateral-trade-deal-boost-uks-exports-26-billion
[99] Brexit And Its Impact On Indian Economy, The Finapolis, 18 March 2019



Case Study: Native Snacks

Background

Native Snacks is a company primarily offering healthy vegan and gluten free snacks derived from foxnuts/makhana. The company currently sells 90 percent of their products through B2B wholesale and onto companies like UBS, Deloitte, Google, and Uber. The remaining 10 percent goes directly to consumer via Amazon and their website. As far as retail is concerned, they retail through Holland & Barrett, Ocado, Selfridges and will shortly be launching across Sainsbury's convenience stores.

Native Snacks journey is fully intertwined with India since most of the world's foxnuts/makhana are sourced from India. Their journey started with Alibaba and Indiamart, where the Native Snacks team began looking for suppliers of foxnuts/makhana. This led to introductions and visits to farmers in Bihar, checking a number of producers to source the top quality foxnuts/makhana.

Challenges

At the outset the challenge was that neither Alibaba nor Indiamart helped in qualifying the quality of producers and/or food processors. This meant a lot of trial and error in an area of India that is not the usual destination for foreign organisations and with an industry not very used to exporting. "We have had several failed attempts at working with parties in the market but we are working with these new suppliers to achieve the desired level of product consistency and efficiencies in the supply chain," says Native Snacks -Co-Founder, Darcy Ogston.

Future Potential

The product is processed and packaged by a well known and BRC-recognised facility in the UK. The company is looking to further enhance their sourcing arrangements from India; they now have two leading suppliers who are going to get a BRC certification soon. This will allow the suppliers to offer Native Snacks greater traceability of the products and to a higher standard which is required for supermarket listings and manufacturers in the UK and Europe. "We are incredibly proud of the success we have achieved in a relatively short period of time (2 years)," Darcy says. "Not only are we launching the products nationwide through Sainsbury's, but we are also in active discussions with very large players in the US, Italy, and Netherlands and will shortly start supplying packaged snacks to them."

Advice for New Entrants in India

Any company looking at sourcing food from India should be willing to travel and spend time in India with their partners. Invest considerable time here and get an honest view of the ground reality, standards and logistics processes. In our case, this has been and continues to be mission critical to ensure standards are met, suggests Ogston.



SOFT POWER



The Living Bridge

The Indian diaspora, or the 'Living Bridge' of an estimated 1.5 million people and their people-to-people connections, has to be a key foundation on which to build the future UK-India relationship: socially, economically, culturally, and politically.

Diaspora is a crucial part of international ties and without easy movement between the UK and India, there can be no living bridge.[140] It:

- Enables high levels of international remittances facilitating the inflow of foreign exchange to the home country.

- Provides potential market channels for Indian and UK businesses to expand.

- Is a potent diplomatic resource between India and the UK.

- Encourages engagement over a longer period than some other stakeholder groups since there are relationships that aim to endure over many generations.

The contributions of the Indian diaspora are clear to see. Almost 30 years ago, the wealth generated by Indian diaspora-owned UK businesses was estimated at around £7 bn. It is now considered to be closer to £75 bn. According to Grant Thornton-FICCI research of 654 companies with a turnover of over £100,000, their cumulative annual turnover was at £36.84 bn. These companies provide jobs for more than 174,000 people in the UK. They paid more than £1 bn in corporation tax and invested £2 bn through capital expenditure. The research suggests there are more than 65,000 Indian diaspora-owned companies in the UK. The Joseph Rowntree Foundation forecasts concentration of the Indian ethnic group in the UK's most highly paid occupations by 2022. The GT-FICCI research suggests five key sectors the Indian diaspora-owned businesses are focused on reflecting the natural inclination of the community toward real estate, trading, and medicine. As per World Bank data, in 2018, India, the world's top recipient of remittances, received a staggering £60.27 bn from overseas Indians.[100]

Recognising the importance of engagement with the Indian diaspora, there was a proposal for the UK to set up a council of people of Indian origin to advise the British High Commission to increase diaspora involvement with royal and ministerial visits to India, and to engage diaspora communities outside London in a "national conversation" about UK-India ties.[101]

[100] India to retain top position in remittances with $80 billion: World Bank, The Economic Times, 8 December 2018
[101] Building Bridges: Reawakening UK-India ties, House of Commons Foreign Affairs Committee, 11 June 2019



Education, Education, Education

Student Mobility

Education and student mobility are key enablers to what would have historically been called 'soft power.'

The UK has been one of the leading global destinations for those Indian parents wishing their children to study overseas. This is largely driven by the quality of the Higher Education system in the UK. After a difficult period caused by immigration restrictions, this is the third consecutive year in which the number of Indian students going to the UK has increased.[102] With the notification of the intention to reinstate a two-year post study work permit from the academic year 2020–21 (along with other attractive visa options for skilled and entrepreneurial individuals), a further rise in the number of Indian students applying to UK universities is expected.

This aligns well with the UK's 'International Education Strategy' launched in March 2019, outlining the country's intention to increase the total number of international students choosing to study in the UK from the current level of 460,000 to 600,000 each year by 2030.[103]

Study in India

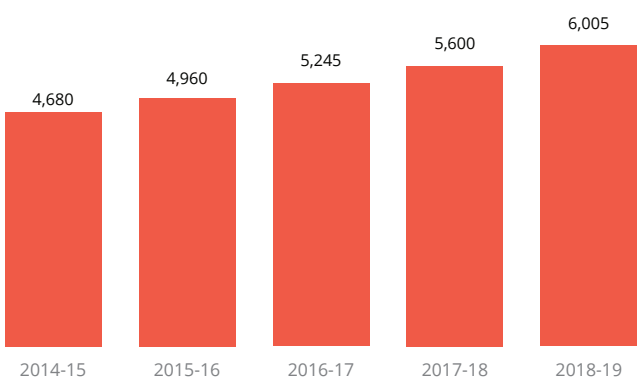
India is also focused on building its reputation as a study destination. As it relates to the UK, the "UKEIRI Mobility Programme: Study in India" is an initiative of Universities UK International (UUKi) and British Council India started in April 2006 to enhance educational linkages between India and the UK. The third phase of the programme started in July 2019 to generate up to 200 opportunities for undergraduate students at UK universities to visit India by March 2021.[104]

Focus on Academic Collaboration

To further strengthen the education ties with the international partners, higher education and research partnership initiatives have been announced by the Indian government. 'Leadership for Academicians Programme' (LEAP), started in 2018, focuses on enhancing the leadership capacity of 1,000 education administrators from India. The programme will utilise the UK's expertise in the field of higher education administration and leadership thereby strengthening academic collaborations between the UK and India. Under Scheme for Promotion of Academic and Research Collaboration (SPARC), launched in 2018, UKEIRI has approved institutional grants to 60 selected proposals during the scheme's first call.[105]

Indian academics are among faculty staff in almost every British university, conducting research and teaching a range of subjects. The largest number of Indian academics are in clinical medicine, biosciences, business and management, mechanical, aero and production engineering, and information technology.[106]

Number of 'British Indian' academics at UK universities[107]



[102] UK hails 63 % hike in Indian student visas, The Economic Times, 28 November 2019
[103] Indian students to benefit from improved UK post-study visa offer, The Economic Times, 16 March 2019
[104] This new India-UK scheme will fund UK students to visit India for higher studies, India Today, 25 July 2019
[105] What we do cited in UK-India Education and Research Initiative, UKIERI website accessed on 20 December 2019
[106] Teaching talent: UK universities recruit more Indian academics, number reaches 5600 in 2017-18, Hindustan Times, 29 January 2019
[107] HE academic staff by ethnicity and academic employment function, Academic years 2014/15 to 2018/19, HESA



Case Study: CreditEnable

Background

CreditEnable is a multi award-winning credit insights and technology company that applies proprietary data analytics, AI, and technology to build solutions to the world's biggest financial challenges. The company builds and operates managed digital marketplaces for SME credit, providing decision-optimising solutions to help lenders grow efficiently and digital services to help SMEs access affordable credit when they need it. Founded as a UK-based entity in 2017, CreditEnable entered the Indian market in 2017 and now employs a team of around 30 individuals. The company's digitally managed SME credit marketplace includes 22 lender partners (banks, NBFCs, and FinTechs) and over 100 000 registered SME users.

Drivers and Future Opportunities in India

Numerous factors attracted CreditEnable to the Indian market, including a high real GDP growth rate, a large population base and the availability of skilled labour, the adoption of digitisation and existing business partners in the area.

"CreditEnable's technology and business model is a great fit with the Indian market. There is a $390Billion SME credit gap in India, and tens of millions of creditworthy SMEs that can benefit from assistance in accessing affordable SME credit, so this was an ideal market to choose as our first commercial market," says Nadia Sood, CEO, CreditEnable.

Nadia continues, "In both India and the UK there is movement toward open banking and more digital innovation, with lenders looking to adapt and innovate for growth. CreditEnable's offering is aligned with market needs and dynamics and we are in a unique position to lead the charge around digitisation in lending in the India SME sector as well as globally."

Nine months after the launch, the company saw threefold growth—success which is expected to continue as digitisation increases the number of potential customers and rapid growth of the Indian economy brings in more lenders and SME customers. The company is constantly innovating around new products for SMEs and offered free digital health checks to SMEs across India to help them adjust and cope with the disruption brought about because of COVID.

Challenges

As CreditEnable offers a digital customer journey, a failure to adopt this model would have been a huge detriment. To counter this potential obstacle, the company took the approach of educating current and future customers of the advantages of going digital. The COVID pandemic and subsequent push for online alternatives actually accelerated uptake of digitisation across the entire lending process.

Given the constraints brought about during COVID that made it increasingly difficult for lenders and borrowers to meet in person, CreditEnable onboarded new lender partners with greater product ranges in order to increase the flexibility of what the company can offer SME customers and to help lenders accelerate their digitisation agendas.

Advice

Nadia would encourage UK entrants into India to have a strong focus on building local partners and networks. Additionally, companies looking to work within financial services should seek to scale in a digital-friendly way across regions, thorough customer research, and by ensuring a close interaction with lenders to gain a clear idea of how to align with their strategic priorities to build product that is lender aligned and customer-centric.

"Do your due diligence both on what SMEs need and what lenders want, and understand the differences in customer demand and supply across geographies and sectors," advises Sood. "It's a huge market and targeting makes all the difference."

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