

Brief of India UK bilateral relationship

1. Economic Overview

(source – commerce.gov.in, ukibc india-uk bilateral relationship April 2018 report)

India UK has strong bilateral economic relationship with great potential for growth in both goods and services. Investment is the key part of the India-UK Bilateral relationship. Bilateral Merchandise trade between the two countries has been in the range of US\$14.5 billion in 2017-18, which has a large potential for growth, and trade in Services has been around US\$ 7 billion in 2016.

2. Economic engagements

Bilateral cooperation on economic and commerce matters are guided by institutionalized dialogues to enhance trade and Investment between the two countries. The delegation from both sides meet annually to review the progress of these Institutions. The four Bilateral Institutional Mechanisms are:

1. India-UK Joint Economic and Trade Committee (JETCO)
2. India-UK Economic and Financial Dialogue (EFD)
3. India-UK Financial Partnership (IUKFP)
4. India-UK CEO's Forum

2.1 India-UK Joint Economic and Trade Committee (JETCO)

Background:

The JETCO was established on January 13, 2005 to develop a strategic economic relationship following the Joint Declaration "India-UK towards a new and dynamic partnership" between the then Prime Ministers of the two countries in September 2004. The JETCO has been conceived as a business-driven institutional framework to enhance bilateral trade and investment through business to business relationship. Establishment of the JETCO gave a vibrant upward direction in the India-UK economic partnership.

Structure:

The JETCO delegations meet annually under the leadership of the Minister of Commerce and Industry (CIM) and the Secretary of State for International Trade alternating in both capitals. Till date, 12 meetings have already taken place.

Under the JETCO mechanism the business cooperation is promoted through formation of focused sectoral Joint Working Groups (JWGs) on trade to discuss and resolve trade related issues. The JWG meetings are organised under the co-leadership of a chair/co-chair each from India and UK. The feedbacks of these

meetings are given to the ministers from both sides, either at the Plenary session or at a close door Bilateral meeting.

12th JETCO:

The **12th** Ministerial meeting of the India-UK Joint Economic and Trade Committee (JETCO) took place on 11 January 2018 in London. The Indian delegation was led by **Shri Suresh Prabhu**, Honourable Minister of Commerce and Industry, and the UK side was led by the Rt. Honourable **Dr. Liam Fox** MP, Secretary of State for International Trade.

Both the Governments welcomed the strong economic performance in both countries and the opportunities this presents for business. They shared a vision for a deep and dynamic partnership where in governments and business work hand-in-hand to achieve shared prosperity for India, the UK and internationally. They noted recent development of their own Industrial Strategies and agreed to focus efforts in areas where India – UK can build on their distinctive strengths to take advantage of the market opportunities of the future.

Both the leaders discussed the progress of the three Joint Working Groups (JWGs) under the ambit of the JETCO; viz. on

- (i) Trade,
- (ii) Smart Cities
- (iii) Technological Collaboration, Advanced Manufacturing and Engineering.

Both sides agreed on the importance of stable business and regulatory regimes and welcomed the on-going partnership between the UK and India on sharing best practices on Ease of Doing Business.

Outcome:

(i)The Joint Working Group on Trade

- The Joint Trade Review highlighted a number of areas for mutually beneficial collaboration where progress could be made on addressing non-tariff measures. The priority areas identified were; **Life science, Food and Drinks, Chemicals, Automotive, Aerospace in the Goods sector and ICT, Education, Other Business Services, Financial Services in the Service sector**
- Cooperation on the effective capture of statistics on the service sector was also highlighted.
- Both Ministers asked officials and business to take forward the recommendations in the Joint Trade Review and to identify opportunities for increasing bilateral trade.

Recommendations:

JTR recommended that in the first phase analysis would be done on the following sectors to identify opportunities for increasing bilateral trade:

- a. **Life Sciences.** Build on the existing dialogue between the two regulators (UK's MHRA and India's Central Drugs Standard Control Organisation) with expansion to potentially include other bodies, such as UK's Office for Life Sciences. This work will seek to address regulatory and market access issues raised by each side.
- b. **Food and Drink.** This can include new collaboration under the proposed MoU between the Indian Department of Animal Husbandry, Dairy and Fisheries (DAHDF) and UK's Department for Environment, Food and Rural Affairs (DEFRA), and increased dialogue on issues raised in the report related to agricultural and marine products, animal health and import procedures in the food and drink sector.
- c. **ICT and IT enabled Sectors:** Issues have been raised by both sides in this sector. There are opportunities for policy clarity for example on the UK's approach to the General Data Protection Regulation (GDPR) or India's ICT conformity assessment procedures.

(ii) The Joint Working Group on Smart Cities

- The group discussed the way forward the ambitious Urban partnership agenda in a way that benefits business and the Governments, investors and urban experts to build smart and more inclusive cities that drive shared prosperity jobs and growth in India.

(iii) The Joint Working Group on Technological Collaboration in Advanced Manufacturing and Engineering

- Acknowledged good progress in areas such as FDI in aerospace, launch of Uchchar Avishkar Yojana (UYA).
- Setting up on Centres of Excellence in advance manufacturing.

Recommendations:

- Create Government & Industry showcase programs in automotive and aerospace
- Develop approach for leveraging UK catapult model for the Indian ecosystem
- Continue skills development in advance manufacturing and engineering.

(13th JETCO is scheduled for 11 December 2018 in New Delhi)

2.2 India-UK Economic and Financial Dialogue (EFD)

Background:

The India-UK Economic and Financial Dialogue (EFD) was officially established in February 2005 through signing of an agreement between former Finance Ministers of the two countries. This was in pursuance of the proposals set out in the India-UK Joint Declaration signed by the Prime Ministers of India and UK in September 2004.

The objective of the Dialogue as reflected in the agreement is to strengthen the financial and economic relationship between India and the UK, in the light of each country's economic policy agenda and within a global economic perspective. Among other issues, the Dialogue discusses sustainable economic development, structural reforms, reform of financial systems and markets, improving regulatory frame-works and international development. Till date Nine EFD has successfully taken place between the two countries.

09th EFD:

UK delegation led by UK Chancellor of the Exchequer Philip Hammond visited India to participate in the 9th round of the Economic & Financial Dialogue (EFD) between India and the UK on April 4, 2017. Both Finance Minister **Arun Jaitley** and Chancellor discussed how notwithstanding the UK's triggering of Article 50, India and the UK can work together to: strengthen the existing economic partnership in order to further boost trade and investment and; build on the bold vision for the India-UK Strategic Partnership set out by both the Prime Ministers during UK Prime Minister's November 2016 visit to India. The Dialogue covered discussions on Global economy and policy responses, Trade and investment, Improving the business environment, Financial services relationship, Financing India's growth and Developments in FinTech.

outcomes:

- India and the UK announced the launch of an Early Market Engagement for the joint UK-India Fund, namely a Green Growth Equity Fund which aims to leverage private sector investment from the City of London to invest in green infrastructure projects in India.
- **National Infrastructure Investment Fund**
Both governments reaffirmed their commitment to anchor invest up to £120 million each (i.e. totally £ 240 million) in the joint fund which will be established under the NIIF framework. To begin with, the fund aims to raise around £500 million, with the potential to unlock much more in future.
- It was announced that the initial investments will focus on India's rapidly growing green energy and renewable market. Eversource Capital, a joint venture between Lightsource BP and Everstone Group have been announced as the Green Growth Equity Fund Manager.

- Progress will be accelerated through early market engagement via the publication of a blueprint, with the aim to identify additional and complementary sectors for fund investments.

(The 10th EFD scheduled for April 2018 has been postponed)

2.3. India-UK Financial Partnership (IUKFP)

Background

The India-UK Financial Partnership was launched at the 7th India-UK Economic and Financial Dialogue held in Delhi on July 8, 2014. Shri Arun Jaitley, Finance Minister of India and Rt. Hon. George Osborne, the then Chancellor of the Exchequer welcomed the deepening of Financial Services links between the two countries and said that the partnership will strengthen links between the Financial Services industries of both countries and deepen cooperation between London and Mumbai, two of the World's leading Financial Centres. Mr Uday Kotak, Executive Vice Chairman and Managing Director, Kotak Mahindra Bank and Sir Gerry Grimstone, Chairman, Standard Life were appointed as co-chairs of the IUKFP representing India and the UK side respectively. It was decided that the Partnership would focus on the following work-streams:

- Development of corporate bond market
- Mutual sharing of expertise on financial sector and market regulation
- Enhancing financial training and qualification
- Financial inclusion
- Cross-border provision of financial and insurance services
- Pensions
- Internationalization of the Rupee
- Infrastructure funding

The last meeting of the India-UK Financial Partnership was held on April 4, 2017 on the side-lines of 9th India-UK EFD in New Delhi. Both governments welcomed the impressive progress by the India-UK Financial Partnership (IUKFP), under its co-chairs Mr Uday Kotak (Managing Director – Kotak Manhindra Bank) and Sir Gerry Grimstone (Chairmen of Standard Life & Deputy Chairman of Barclays) since its establishment as part of the 2014 Economic and Financial Dialogue. The two Finance Ministers recognised the success of this government initiated and private-sector led partnership in deepening links between our countries and generating commercial opportunities for both sides. Both sides welcomed the publication of further reports on financial inclusion, responsible shareholder engagement, rupee internationalisation and green finance.

outcomes:

- The Finance Ministers agreed to renew the IUKFP's mandate and looked forward to future papers on bank restructuring, fintech, disinvestment, India-UK trade and investment relationship – recommendations from financial and professional services – and ease of doing business in financial and professional services.

- Recognising the crucial role of insurance and reinsurance to manage complex risks in the economic system, the UK and India welcomed the opening of Lloyd's of London's first Indian branch to underwrite re-insurance business.
- Both sides also agreed to work to boost cooperation and collaboration between the regulatory authorities and industries in both countries to foster sharing of best practices.
- Both sides recognised the importance of developing strong pension systems, agreeing that India and UK can share experiences in this area.

2.4 India-UK CEOs Forum

Background

India-UK CEO's Forum was launched on July 29, 2010 during the visit of UKPM David Cameron to India, with the objective of the forum making recommendations to Governments for increasing the level of bilateral trade and investment between the two countries. Since then the forum has been regularly taken place.

Six priority areas were earlier identified by the CEO Forum in November 2015.

- (i) Smart Cities and Digital Economy
- (ii) Healthcare and Hygiene
- (iii) Education and Skills
- (iv) Manufacturing, Defence and Security
- (v) Financial and Professional Services
- (vi) Bilateral Ease of Doing Business.

It was agreed that the co-chairs will meet every quarter and the forum members will meet every six months.

04th India – UK CEO's Forum

Was held on 18th April 2018, in London during the visit of Prime Minister of India to the UK. The meeting was attended by both PMs. CEOs put forward recommendations to address market access barriers and further strengthen the UK India relationship – discussions centred around technology collaborations, data protection, ease of doing business, visas, arbitration and enforcing the rule of law.

Outcomes:

- Establishing a virtual incubator which would capitalise on the fact that both India and the UK have extraordinary start-up ecosystems and are two of the world's most innovative economies.

- This initiative will also serve to showcase some of the great projects being undertaken by UK and Indian startups in various sectors and will open up talks on how to maximise their potential to ensure win-win outcomes.
- To ensure that the UK's modern industrial strategy is focused on certain sectors where India is concerned, these could be the same as HMG's Joint Trade Review is focusing on namely – life sciences, food and drink and IT as well as labour-intensive sectors such as manufacturing, healthcare and tourism which would create jobs for the millions of young people entering the workforce.
- It was suggested that the UK government and businesses need to make efforts to build relationships with various states in India.
- The importance of helping UK SMEs to flourish in the Indian market was also discussed.
- It was suggested that the two countries must explore the idea of a tailored General Data Protection Regulation (GDPR) policy and use it to set standards that's compatible with the EU – this reform should get priority to build future of UK India relationship and serve as a blueprint in developing other greenfield regulations for UK and India.

3 Key elements of India – UK Economic Relation

1. Trade
2. Investment
3. Financial Infrastructure growth

3.1 Trade

- UK is among India's major trading partners and during the year 2017-18, UK ranked 17th in the list of India's top 25 trading partners
- Bilateral Merchandise trade between the two countries has been in the range of US\$14.5 billion and trade in Services has been around US\$ 7 billion in 2016.
- India's main exports to the UK are Articles of apparel & clothing accessories, power generating machinery & equipment, petroleum, petroleum products & related materials, miscellaneous manufactured articles, textile yarn, fabrics, made up articles, footwear, medicinal & pharmaceutical products, manufactures of metal, road vehicles and other transport equipment.
- The main imports from the UK to India are Power generating machinery & equipment, non-ferrous metals, metalliferous ores & metal scrap, general industrial machinery and equipment & machine, transport equipment, beverages, electrical machinery and appliances & electrical parts thereof, professional, scientific and controlling instruments and appliances, chemical materials & products.

3.2 Investment

- UK is the 4th largest inward investor in India, after Mauritius, Singapore and Japan with a cumulative equity investment of US \$26 billion (April 2000- June 2018), accounting for around 7% of all foreign direct investment into India. (*source – dipp.nic.in*)
- India continued to be the fourth largest investor in the UK and emerged as the second largest international job creator with Indian companies having created over 105,000 jobs in the UK. (*source - grant thorton report 2018*)
- The top fastest-growing companies in the India Tracker 2017 achieved an average annual growth rate of 31%.
- The total consolidated revenue for 800 Indian companies operating in the UK is £46.4 billion.
- The technology and telecoms sector continue to dominate the India Tracker, making up 23% of the list.
- The pharmaceutical and chemicals sector, accounting for 18% of the list, retains second place, while the business services sector enters the top three for the first time at 16%.
- Capital expenditure by Indian companies in the UK reached a staggering total of £4.7 billion.
- Indian companies created 120 FDI projects in the UK in 2017-18 and created 5,659 new jobs and safeguarded 532 jobs. (*source – gov.uk (dit) inward investment results 2017-18*)

3.3 Financial Infrastructure growth

- Pursuant to the announcements made during PM Modi's visit to the UK in April 2018 and November 2015, currently there are 24 Rupee Denominated Masala bonds which have raised \$5 billion and 8 Indian Dollar denominated Bonds are listed on London Stock Exchange. Some of the institutions listed on London Stock Exchange are;
 - i. European Bank of Reconstruction & Development (EBRD)
 - ii. Indian Railway Finance Corporation (IRFC)
 - iii. Indian Power Finance Corporation (PFC)
 - iv. Indian Renewable Energy Development Agency's (IREDA)
 - v. The Housing Development Finance Corporation (HDFC)
 - vi. National Thermal Power Corporation (NTPC)
 - vii. The National Highways Authority of India (NHAI)
- The FTSE SBI Bond Index Series was launched by the State Bank of India with global index and data provider FTSE Russell at the London Stock Exchange on 22 September 2017. The Indian market is around \$1.7 trillion, of which \$770 million is government issuances. This index will act as a key benchmark for Indian debt for foreign investors looking to invest in the Indian debt market and

will significantly contribute to the development and broadening of the Indian Bond Market.

4. Initiatives to boost further investments

- **Access India Programme**

High Commission of India, London initiated the 'Access India Programme' in September 2017 for facilitating investments by UK SMEs in India. The primary focus of the AIP programme was on companies interested in investing in India i.e. those intending to set up manufacturing facilities as part of the 'Make in India' initiative. Under the programme it was sought to identify high-potential UK SME companies and assist them in establishing themselves in India with the focus on the UK SMEs that possess high-end technology but may not be big investors.

Following the outreach activities, 57 companies were shortlisted in the first phase of which **24 companies made it in the first Cohort**. While the mission is working with 24 companies selected so far to help them establish in India, Mission has now embarked on the process of **selecting the second Cohort of companies. In the 2nd Cohort till now 26 companies have been selected, totalling 50 companies into the AIP Programme.**

5. Fast Track Mechanism

(Joint Statement 2015)

The UK-India Fast Track Mechanism was formally established between UK and India during PM Modi's visit to the UK in November 2015. To facilitate UK companies and investors in India, a fast track system has been established in March 2016. The Fast Track System was accordingly established in India with the key objectives of paving the way for identifying and solving problems faced by UK companies and investors with their operations in India.

A reciprocal Fast Track Mechanism was established by the UK side to identify and resolve issues faced by Indian companies who are either in the UK or looking to establish operation in the UK during the PM's visit to UK in April 2018.

Invest India is a specific point of contact for all UK investors facing problems with their operation in India. The Fast Track System is reviewed periodically by Secretary DIPP and the British High Commissioner to resolve issues faced by Indian companies in UK

DIPP and Invest India have put in place procedure and mechanism for implementation of the above MOU signed in March 2016. Mechanism is being worked out with DIT to address issues of concern of Indian Companies
