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WORKING PAPER

India– UK Bilateral Trade An Assessment for Future Cooperation

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INDIAN INSTITUTE OF FOREIGN TRADE



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India– UK Bilateral Trade

An Assessment for Future Cooperation¹

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Abstract

India and the UK is currently engaged in a trade negotiation aiming to foster multidimensional partnership between them. In this backdrop the current study has made a brief assessment of trade and investment scenario. It uses both quantitative and qualitative tools to identify major products of interest, opportunities and challenges faced by businessmen both sides. Using standard quantitative tools, the paper looks into issues such as competitiveness, trade margins, products with high comparative advantage, complementarity and perception of quality of products exported. Further, discussion with companies, chambers and associations it identifies major bottlenecks for improving trade relations and new sectors with high opportunities. India enjoys a positive trade balance with the UK. It is one of the major sources of investment projects for the UK, while the UK is the sixth-largest investor in India. The economic relationship between India and the UK has strong potential for growth in both trade in goods and trade in services in future. Their partnership is poised to create shared prosperity and deliver leadership in global economic governance.

1. Introduction

The spirit of globalization is embraced throughout the world but at the same time regionalization and bilateral cooperations are preferred by nations. India's trade cooperation model reiterates this spirit as it a very active player in WTO forums and has signed number of Free Trade Agreements (FTAs) with different trade blocs and countries around the world. A Free Trade Agreement is a deal in which two or more nations agree to eliminate or lower customs duties on the maximum amount of goods they trade, as well as remove non-trade barriers on a sizeable portion of partner country imports and loosen regulations to encourage bilateral investments and services exports. FTAs allow for competitive advantages over non-FTA member countries in the partner country market. This facilitates drawing in foreign capital to support home production, access to raw materials, intermediate products and capital goods for value-added manufacturing, long-term objectives for customer welfare and efficiency. These agreements span ten to thirty different subjects.

So far, India has signed trade agreements with the ten ASEAN member states (Association of Southeast Asian Nations), Bhutan, Thailand, Singapore, Malaysia, Korea, Japan, Australia, UAE, and Mauritius. On 10th March 2024, India-European Free Trade Association (EFTA) signed a Trade and Economic Partnership Agreement (TEPA). EFTA countries comprise of Switzerland, Iceland, Norway & Liechtenstein. Furthermore, India is now in the process of negotiating trade agreements with several of its trading partners. The UK, Oman, Peru, Israel, and the European Union (EU) are all parties to the ongoing negotiations. Negotiations for a



comparable agreement with Canada is currently halted. Even the negotiations with Oman are nearing their conclusion as well. India's interest in FTA driven economic cooperation is now reflecting through its interest in issues such as labour, digital trade, environment, and gender.

India is also actively engaged in ongoing FTA negotiations with various Indo-Pacific Economic Framework (IPEF) partner countries. The negotiations focus on market access, compliance with environmental and labour standards, and the reduction of high import duties.

At the similar front, India and UK are currently in their fourteenth round of negotiations, concentrating on tariff reduction and handling regulatory issues. In order to improve bilateral trade, which is presently worth GBP 38.1 billion yearly, both parties want to complete the FTA.

In last two decades, FTAs have evolved covering not just trade issues but broader areas such as government procurement, trade facilitation, trade remedies, intellectual property rights, investments, and customs cooperation. These are referred to as First Generation FTAs. However, world is increasingly becoming sensitive to new age concerns like labour, human rights, digital trade, environment and sustainable development, and gender. Developed nations are increasingly emphasizing and discussing on the fulfilment of these standards while engaging in trade agreements. These are becoming the non-negotiable part of FTA signing procedure. It is important to note that many of these issues are shaping the contour of future cooperation between India and the UK. India as a country requires to balance between its national priorities and the advantages which it can potentially derive from India-UK trade cooperation.

Of late, India is engaged in the review process of several FTAs already signed to resolve the disagreements which cropped up under FTA regime. There are some factors which affect the signing of FTAs with India's trade partner like nationalism, rules of origin, protection of agriculture sector, IPRs etc. Free trade agreements are recognized as a sign of mutual trust between two countries or regions, and in effect, as a commitment to treat each other's businesses and investments as though they were domestic. They are not just about tariff reductions and transactional approaches of give and take on market access or intellectual property rights. The main obstacles to free trade will always be protectionism and political disagreements. Therefore, before hastily joining or withdrawing from free trade agreements, India must match its trade policy with its views on other matters both at home and abroad. India-UK FTA negotiation promises to address the possible long-term disagreements and look for a close cooperation.

At this background, the current study makes an assessment of opportunities and challenges mostly from India's side and to some extent from UK's side.



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India and The United Kingdom

The partnership between India and the United Kingdom is not new. The relationship has come so far from a deep historical connection and a shared past to a vibrant development cooperation programme at present. The bilateral trade in goods in 2022 has been around US\$ 20.86 billion and service trade was almost equal amount (US\$ 20.41 billion). The relationship is multi-dimensional in spirit. India is the second-largest source of investment projects for the UK and the UK is the sixth largest investor in India with USD 34 billion as FDI in India. With the formation of Joint Economic and Trade Committee (JETCO) in 2005, both the nations attempted to address restrictions that were hampering the trade & investment. The MoU signed in 2010 themed on Cultural Cooperation with the idea of creating a “living bridge” between the two. As the world is embracing the idea of free trade agreement to take the current level of economic engagements to significantly higher levels. Both the parties are also interested in signing FTA. The FTA negotiation initiated in January 2022 aiming an ambitious target and 14 round of negotiation have completed in March 2024. Every nation has its own advantages and disadvantages when it desires to increase the global engagements. So does India, vibrant diaspora and high prevalence of NTMs in United Kingdom are tailwinds and headwind respectively in the bilateral relationship. Both the nations are attempting to increase the intensity of engagements. Value chain resilience, free and fair trade, multilateral global economic order, etc. are the interests of UK. The goals of Global Britain, Commonwealth revitalization and role of India in the Indo-Pacific region are other realms of further interactions. The introduction of Enhanced Trade Partnership (ETP) will also stimulate the economic engagements. India and the UK has mutually agreed on the “Future of India-UK relations: 2030 Roadmap”. Presently, both the nations are engaged into FTA Negotiation in various areas namely merchandise trade, services, investment, tariffs, rules of origin, intellectual property rights, labor, movement of skilled professionals, environment etc. The economic partnership deeply touches upon the business growth in both the nations. They are encouraging industry in each other’s country in wellness products, food products, home product and interiors, medical, optical, and instrumentation devices, metallurgy, pharmaceuticals, shipbuilding industry etc.

It is important to note that despite a positive growth of trade between India and UK, in terms of absolute terms or in terms of global share UK has been a much smaller player for India compared to other developed nations. In 2023, less than 3% of India’s merchandise exports went to the UK and for imports UK occupies only 1% of India’s imports. This clearly indicates that both countries require to work closely for harnessing the future opportunities. Detailed data of bilateral services are available from UK side. In 2022, around 1.67 % of UK services went to India and 3.83% of its service imports were from India and majority of that

Timeline of Economic Engagement



Indo-British Trade Agreement of 1939, which established the legal framework for the expansion of trade and growth of beneficial economic relations. Both the nations have come far and mutually decided to change the trajectory of economic engagements. Table 1 demonstrates the timeline of economic relationship between the two.

Table 1: Timeline of India-UK Trade Partnership

Year	Description
1939-50	45% of Indian exports to Britain. Tea replaced Jute as largest export item to Britain. Consumer goods imports fell, and Capital goods imports rose due to India's strict import substitution policy.
1950- 60	Top exports are Tea & Jute. Capital goods from Britain accounts for one-third of imports. India was fifth-largest market in 1960 for the UK's export.
1960-70	Bilateral trade increased by more than 50%. However, the commodity traded remained the same.
1970-73	An upward trend in trade relations accompanied by the surge in export to UK.
1982-85	India's BOT with UK was negative.
2001-19	Bilateral trade risen rapidly since early 2000; grew by 9.74 % (2019); grew by 10% y-o-y avg. (2016-19). India enjoys trade surplus since 2004 & there is unchanged composition for 10 years.
2020	Decided to form Enhanced Trade Partnership to overcome market access hurdles, improve bilateral T&I etc.

2. Objective of the study

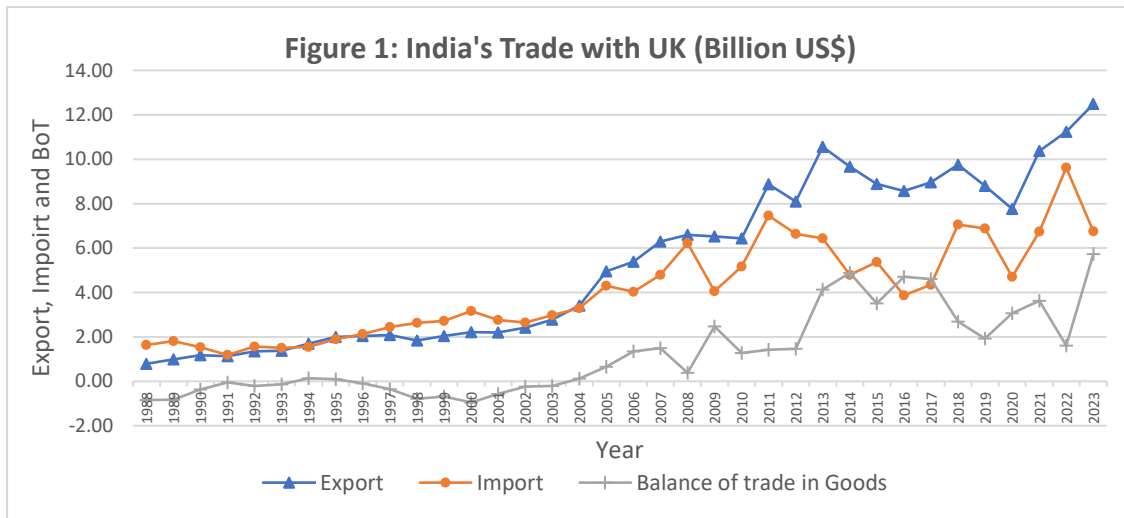
The study aims to analyse the current status of India-UK trade and investment relation with an objective to provide inputs for future cooperation. This will complement the ongoing FTA negotiation between the countries. Using various trade indices, it identifies strength and weakness of different sectors, provide insights in terms of competitiveness. Further, opportunities and challenges are identified through discussion with companies, chambers and

associations. The rich inputs provide a holistic view and guiding path for India-UK economic relationship.

3. Bilateral Trade: Composition and Dynamics

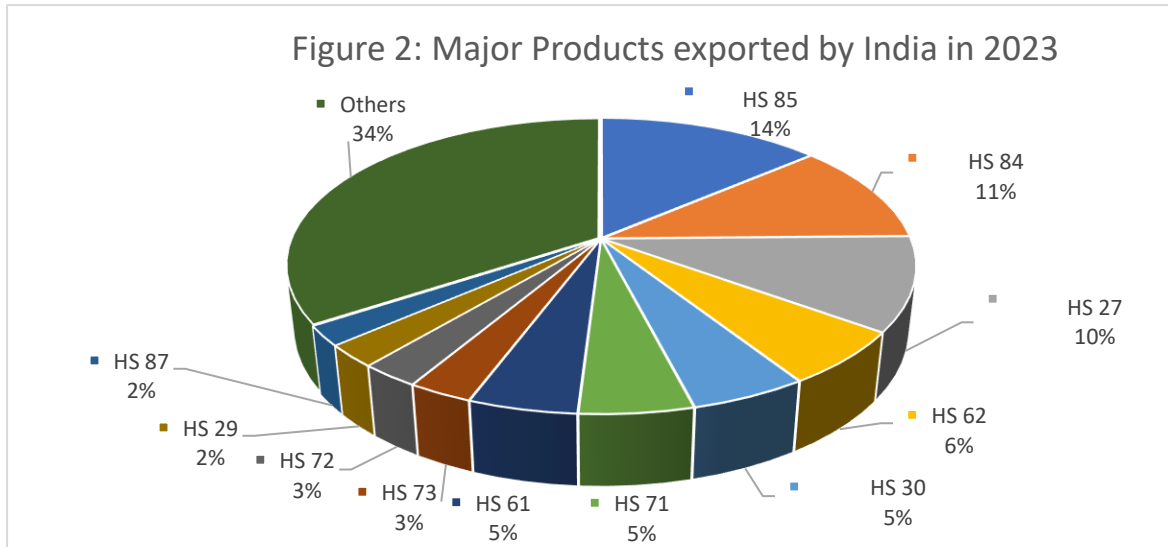
3.1 Trade in Goods

Figure 1 below shows the dynamics of trade in goods between India and UK. As per the UN-Comtrade data, the bilateral trade has gone up significantly in last two decades. Though initially the UK maintained a surplus but since 2005 onwards, India's export became more than its imports and thereby India's trade deficit converted into surplus. The figure also indicates more volatile imports of India from the UK especially 2010 onwards. In 2022, India's import from the UK reached the highest level of US\$ 9.62 billion. However, it could be a post-covid pent-up demand. On the contrary, India's export declined from 2014 (except 2017 and 2018). However, it jumped back in 2021 and increased consistently thereafter. In 2023, India's merchandise exports to UK were US\$ 12.48 billion.



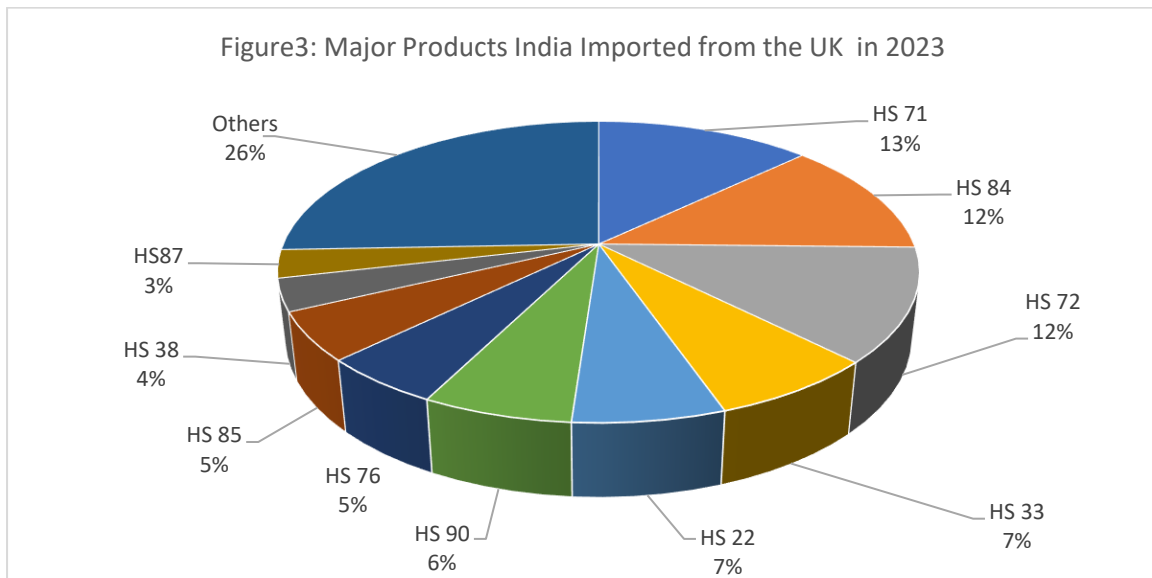
Source: Calculated using Comtrade data

Figure 2 and 3 provide product level information about India's export and import considering the UK as partner. Machinery both electrical and mechanical), apparels, pharmaceutical products, precious stones, iron & steel products, chemicals and auto components occupy more than 65% of India's exports. Historically, India was exporting agrocltural commodities, minerals, apparel products and country's export basket has undergone a major change in last two decades.



Source: Calculated using Comtrade data

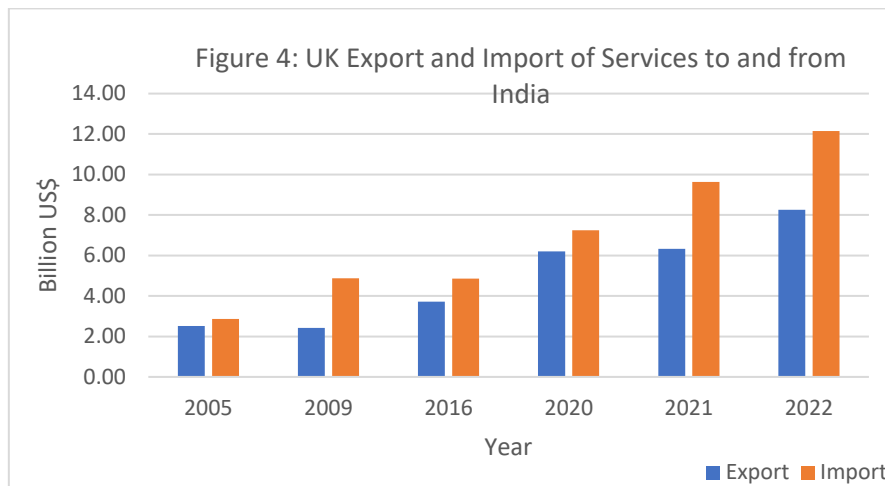
The structure of India's imports from the UK is described in Figure 3. Machinery, precious stones, iron & steel, beverages & spirits, essential oils, optical & photographic instruments, other chemical products, etc consists of more than 75% of India's imports.



Source: Calculated using Comtrade data

3.2 Trade in Services

Receiving bilateral service trade data, especially sector-wise data is challenging as we find gaps and lack of consistency in the existing database. The data received from Trade Map indicates a consistent rise of service trade between India and the UK. The trade deficit of the UK has increased over the years. In 2022, UK imported approximately US\$ 12.15 billion of services and exported US\$ 8.26 billion worth of services in 2022. Table 2 describes more detailed trade between India and UK. India exports significantly ‘Other Business Services’ which comprises of various professional services such as Advertising, Architectural and engineering services, trade related services, waste management, professional and management consulting, R& D services etc. Apart from this, India exports telecom, computer and IT services also. India’s major import from UK in 2022 has been travel, transport, other business services, financial and insurance service. Table 2 also reveals that service market is quite big in the UK and India. Both the countries need to explore further to increase their presence in each other’s market.



Source: Trade Map

Table 2: Major Services Exported and Imported by the UK in 2022 (US\$ Million)

	Export to		Import from	
	India	World	India	World
Other Business Services	1,022	183,881	8,325	12,278
Telecom, Computer and IT	330	42,564	1,552	17,435
Travel	5,003	68,165	1,437	82,601
Transport	774	32,601	250	34,562
Financial Service	341	89,451	221	20,906
Insurance & Pension Services	155	142	86	7,473
Maintenance & Repair Service	76	4,572	44	2,508
Personal, Recreation and Ent Services	67	6,768	43	9,719
Construction*	37	4,014	15	5,112

* Data is for 2020. Due to covid-19, construction sector was affected severely

Source: Trade Map



3.3 Participation in Global Value Chain

UK and India are vibrant trade partners and it is expected that they have also contributed to each other's exports with the rest of the world. Currently, it stands around 0.4% of the total value added in gross exports of India and UK. Both these countries are more closely connected with the USA and China in terms of sourcing parts and components to enhance their exports to the world. The on-going FTA negotiation between India and the UK must investigate this and devise a way out to enhance the number.

Table 3: Forward and Backward linkage between India and the UK

UK forward linkages for exports	In 2020, 0.4% of the total value added in gross exports from India originated in the UK. In 2020, 17.2% of the value added content in gross exports from India reflected foreign imports. The largest sources of foreign value added for gross exports from India were China (2.0%), United States (1.7%), and Saudi Arabia (1.4%).
UK backward linkages for exports	In 2020, 0.4% of the total value added in gross exports from the UK originated in India. In 2020, 14.3% of the value added content in gross exports from the UK reflected foreign imports from abroad. The largest sources of foreign value added for gross exports from the UK were United States (2.4%), Germany (1.5%), and China (1.2%).

Source: Trade and Investment Factsheet, Department of Business & Trade, UK²

3.4 Investment

Both the UK and India are actively engaged in investing in each other countries. As per the data available in the Trade and Investment Factsheet, Department of Business & Trade, Govt of UK, In 2021, UK outward FDI stock in India was £19.1 billion, 5.4% or £980 million higher than in 2020. India accounted for 1.1% of the total UK outward FDI stock in 2021. Its overall outward investment was £1.8 trillion and majority of that goes to United States, accounting for 26.1% of the total UK outward FDI stock, followed by Netherlands (8.8%) and Luxembourg (7.2%). On the other hand, India accounts for only 0.5% of the total UK inward FDI stock in 2021. The stock of FDI

² <https://assets.publishing.service.gov.uk/media/6695280fce1fd0da7b592575/india-trade-and-investment-factsheet-2024-07-18.pdf>



from India in the UK in 2021 was £9.3 billion, 3.6% or £347 million lower than in 2020. UK has significant scope of investing in India both in manufacturing and services. FTA promises to bring a better cooperation for bilateral investment.

4. Understanding Nuances of India-UK Trade

In this section, some popular trade policy analysis tools are used to understand the state of cooperation and competition between India and the UK. The analysis aims to provide inputs for policy cooperation under ongoing FTAs.

- **Trade Intensity**

Trade Intensity³ is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade.

Table 4: Rising Trade Intensity between India and UK

Year	Trade Intensity Index
2010	0.70
2011	0.74
2012	0.75
2013	0.90
2014	0.83
2015	0.88
2016	0.82
2017	0.83
2018	0.87
2019	0.74
2020	0.78
2021	0.84
2022	0.75

Source: Trade Map

Table 4 indicates that all the index values are greater than 0.50 and closer to unity. This signifies stronger trade ties between the two. However, still there is much scope to increase the intensity

³ Mathematically, Trade Intensity can be calculated as below

$T_{ij} = (x_{ij}/X_{it})/(x_{wj}/X_{wt})$; where x_{ij} and x_{wj} are the values of country i exports and of world exports to country j and where X_{it} and X_{wt} are country i total exports and total world exports respectively.



of current trade engagements. Trade intensity is witnessed highest in 2013 followed by 2015. However, intensity of trade is found to be reduced marginally post 2015.

• Revealed Comparative Advantage: India & UK

While Trade Intensity reveals overall picture of trade between the countries, Revealed Comparative Advantage (RCA)⁴ indicates competitiveness at the sector level. Generally, it is defined for a sector's comparative advantage vis-vis the pattern of the world trade. However, with slight modification, a sector's competitiveness in a partner country can also be gauged. Index value more than 1 reflects that the sector has comparative advantage.

Table 5 and 6 give an idea of India and the UK's comparative advantage with respect to partner country. It is clear that India has comparative advantage in more number of sectors compared to the UK. Both the countries have higher RCA in sectors such as chemicals, stones/glass, metals, etc. Hence, both the countries may consider a better intra-industry trade between these sectors. Any collaborative effort may also lead to global market access of the companies in these sectors. Apart from this, India will have better comparative advantage in products like minerals, leather products, footwear, textile & apparel, metals, etc.

Table 5: India's Sector wise RCA (2023)

	Exports to UK			Exports to World		
	Exports	% of Total	RCA	Exports	% of Total	RCA
01-05_Animal	0.13	1.02	0.47	10.80	2.5	1.21
06-15_Vegetable	0.60	4.79	1.73	24.99	5.79	1.61
16-24_FoodProd	0.24	1.94	0.34	13.23	3.07	0.85
25-26_Minerals	0.07	0.54	1.28	6.21	1.44	0.86
27-27_Fuels	1.28	10.27	0.98	89.33	20.71	2.17
28-38_Chemicals	1.32	10.58	1.05	58.31	13.52	1.26
39-40_PlastiRub	0.38	3.02	0.84	11.53	2.67	0.67
41-43_HidesSkin	0.20	1.57	2.89	2.91	0.67	1.15
44-49_Wood	0.33	2.63	1.01	3.77	0.87	0.46
50-63_TextCloth	1.87	15.01	4.18	34.23	7.93	2.14

⁴ Measures of revealed comparative advantage (RCA) have been used to help assess a country's export potential. The RCA indicates whether a country is in the process of extending the products in which it has a trade potential, as opposed to situations in which the number of products that can be competitively exported is static. It can also provide useful information about potential trade prospects with new partners. The RCA index of country i for product j is often measured by the product's share in the country's exports in relation to its share in world trade: $RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$

Where x_{ij} and x_{wj} are the values of country i's exports of product j and world exports of product j and where X_{it} and X_{wt} refer to the country's total exports and world total exports.. If the index value exceeds unity, the country is said to have a revealed comparative advantage in the product.



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64-67_Footwear	0.27	2.13	2.82	3.20	0.74	0.93
68-71_StoneGlas	0.87	6.98	0.88	39.62	9.18	1.91
72-83_Metals	0.99	7.92	1.61	34.94	8.1	1.22
84-85_MachElec	3.09	24.73	1.25	61.63	14.28	0.54
86-89_Transport	0.42	3.36	0.24	27.40	6.35	0.61
90-99_Miscellan	0.44	3.53	0.33	9.31	2.16	0.23

Source: Calculated from WITS

Table 6: UK's Sector wise RCA (2023)

	Exports to India			Exports to World		
	Exports	% of Total	RCA	Exports	% of Total	RCA
01-05_Animal	0.01	0.06	1.21	7.62	1.46	0.71
06-15_Vegetable	0.01	0.06	0.02	3.58	0.69	0.19
16-24_FoodProd	0.32	2.47	2.74	20.68	3.97	1.1
25-26_Minerals	0.02	0.16	0.13	0.84	0.16	0.1
27-27_Fuels	0.06	0.48	0.04	42.67	8.19	0.86
28-38_Chemicals	0.55	4.28	0.39	65.67	12.6	1.18
39-40_PlastiRub	0.21	1.64	0.4	14.28	2.74	0.68
41-43_HidesSkin	0.01	0.06	0.22	1.36	0.26	0.45
44-49_Wood	0.29	2.27	1.35	7.12	1.37	0.71
50-63_TextCloth	0.08	0.59	0.25	7.94	1.52	0.41
64-67_Footwear	0.01	0.07	0.19	1.15	0.22	0.28
68-71_StoneGlas	6.73	52.28	3.89	84.04	16.13	3.35
72-83_Metals	1.70	13.24	1.7	26.64	5.11	0.77
84-85_MachElec	1.86	14.42	0.45	115.08	22.08	0.83
86-89_Transport	0.36	2.77	0.75	66.72	12.8	1.22
90-99_Miscellan	0.66	5.16	0.83	55.78	10.7	1.16

Source: Calculated from WITS



- **Trade Complementarity**

Let us now see, how both the countries are ready for a trade agreement. At the aggregate level, this can be measured through Trade Complementarity Index⁵. Higher complementarity indicates that export and import of the partner countries match indicating that the exports have sufficient demand in the importing country.

Table 7 provides information that trade complementarity between India and the UK has not improved much in last 7-8 years. This is still less than 60%. The result indicates for detailed study at the product level and how we can improve the complementarity between the countries.

Table 7: Trade Complementarity between India and UK

Year	Complementarity Index Value
2015	57.36
2016	54.85
2017	53.59
2018	55.27
2019	56.25
2020	57.07
2021	57.54
2022	54.22

Source: Trade Map

- **Intra-Industry Trade**

Trade complementarity indicates the demand for goods in each other's market. There could be many reasons behind this. One of them is the possible integration between the industries, which can be measured through intra-industry trade. Grubel Lloyd intra-industry trade

⁵ The trade complementarity (TC) index indicates prospects for intraregional trade in that it shows how well the structures of a country's imports and exports match. It also has the attraction that its values for countries considering the formation of a regional trade agreement can be compared with others that have formed or tried to form similar arrangements. The TC between countries k and j is defined as:

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

Where x_{ij} is the share of good i in global exports of country j and m_{ik} is the share of good i in all imports of country k. The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.



index⁶ is one of the popular measures by which we can gauge how industries in both the countries are linked.

Table 8 below shows that overall intra industry trade (IIT) between India and the UK is low which declined slightly from 20.67 in 2015 to 19.19 in 2023. However, sectors in which countries showing higher RCA reflect varying IIT. Machinery and Transport sector are quite intensely linked while metal, stones/glass are not. Chemical sector in India and the UK are moderately linked. The analysis indicates that prospects of developing value chain for innovation and global trade are high among the sectors with higher IIT.

Table 8: Intra-Industry Trade Index for trade between India and the UK (%)

GL-IIT at HS 4 digit	2015	2023
All (HS4)	20.67	19.19
Chemicals (HS 28-38)	22.27	22.24
Stones/Glass (HS 68-71)	4.2	11.17
Metals (HS72-83)	15.68	11.05
Machinery (HS 84-85)	56.61	37.12
Transport (HS 86-89)	39.35	40.08

Source: Calculated using data from WITS

- Trade Margin of Indian Exports**

In this section, we have made an attempt to understand the structure of change in India's exports over the period 2015 till 2023. We look into some of the sectors in which India has higher RCA. The change in exports could be because of extensive margin (adding new products in the category) or due to intensive margin (exporting existing products more intensely to the same country). There could be some products which have experienced declining exports.

Change in Exports = Extensive Margin +Intensive Margin -Declining Exports- Death Margin

Table 9: Trade Margin of Indian Exports in UK Market during 2015-2023

Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	57	29	0.77
Intensive	Increased exports	568	5828	154.40
Shrinking	Declining Exports (-)	402	2081	55.13
Death	Exports became zero (-)	32	1.3	0.03
	Total	1059	3774.7	100.0

⁶ Grubel Lloyd index is written as $[1 - \{(\sum X_i - M_i) / (\sum X_i + M_i)\}] \times 100$, where X_i and M_i are export and import value of i th good, which a country is trading with its partner. The value of the index lies between 0 and 100. Higher the value higher is intra industry trade.



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Note: Calculation has been done at HS-4 level, Export Change value is in US\$ Million

Source: Calculated from data available in WITS

The table indicates that UK being a traditional trade partner of India, the change in exports is overwhelmingly due to intensive margin. Out of 1059 products (at HS-4 level) selected only 57 has been new products. More importantly, more than 400 products India experienced a declining export. Hence, rise in exports happened only in 568 products. The analysis can be done at sector level also.

Further details of export changed is given in Table 8 below. In this table a few sectors specific trade margins are described. Sectors (Refer to Table 4) in which India has shown higher bilateral RCAs with the UK are selected.

Vegetable sector had a low growth in exports during the selected period. Chemicals, metal had moderate growth. Only substantial positive export change is visible in machinery sector. Surprisingly, labour intensive products like textile and footwear, India experienced a negative export change. Same is for minerals. In textile and footwear, India could not keep pace and extensive margin is nominal. Perhaps India is facing tough competition from other Asian players in these products. In case of machinery sector, we have observed higher intra-industry trade implying close collaboration among the firms in both the countries. However, intra-industry value has also been declined (see Table 8). Out of 129 products under HS 4 category of 84 & 85, India experienced positive export change in 68 products but also negative change in 60 products. The analysis highlights the need for India to go for trade negotiation with the UK and secure market share of these products. HS 84 and 85 may be driving the trade between these two countries significantly in coming days.

Table 10: Sector wise Trade Margin of Indian Exports in UK Market during 2015-2023

Vegetables

Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	5	0.11	0.14
Intensive	Increased exports	43	168	218
Shrinking	Declining Exports (-)	31	91	118
Death	Exports became zero (-)	3	0.009	0.01
	Total	82	77	100.0

Minerals



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Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	6	16	-22.66
Intensive	Increased exports	13	7.9	-11.19
Shrinking	Declining Exports (-)	10	94	-133.11
Death	Exports became zero (-)	2	0.52	-0.74
	Total	31	-70.62	100.0
Chemicals				
Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	10	0.093	0.02
Intensive	Increased exports	80	510	120
Shrinking	Declining Exports (-)	64	86	20
Death	Exports became zero (-)	5	0	0.00
	Total	159	424	100.0
Textile & Clothing				
Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	5	0.013	0.00
Intensive	Increased exports	52	107.1	-20.11
Shrinking	Declining Exports (-)	82	639.3	-120.01
Death	Exports became zero (-)	4	0.507	-0.10
	Total	143	-533	100.0
Footwear				
Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	0	0	0.00
Intensive	Increased exports	0	3.9	-1.74
Shrinking	Declining Exports (-)	10	227.5	-102
Death	Exports became zero (-)	8	0	0.00
	Total	18	-224	100.0
Metal				
Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	7	12	2.81
Intensive	Increased exports	87	485	115
Shrinking	Declining Exports (-)	38	76	18
Death	Exports became zero (-)	3	0.023	0.01
	Total	135	421	100.0
Machinery (Mechanical and Electrical)				
Trade Margin	Description	No of products	Export Change	Margin (%)
Extensive	New products	0	0	0.00
Intensive	Increased exports	68	2267	113
Shrinking	Declining Exports (-)	60	259	13
Death	Exports became zero (-)	1	0.107	0.01
	Total	129	2008	100.0

Note: Calculation has been done at HS-4 level, Export Change value is in US\$ Million



Source: Calculated from data available in WITS

- **Perception about Quality of Indian products**

Quality of products traded are important for price relaxation and change in market share. This also indirectly hints at the state of competitiveness. As we don't get the data on the quality of products traded, economists use proxy to get an understanding or perception about quality. Table 11 briefly explains this. Products exported are of higher quality if with the rise in price, market share of the product increases in the partner country. Similarly, with lowering of prices and rising market share may indicate innovation and/or economies of scale.

Table 11: Changing Price vs Changing Market Share:

	Unit Price Increase over Period A to B	Unit Price Decrease over Period A to B
Share in Partner Country Import Increase over Period A to B	Improvement in product quality perception	Innovation, realization of economies of scale advantages, Trade facilitation
Share in Partner Country Import Decrease over Period A to B	Growing inefficiency	Decline in product quality perception, shift in the market demand pattern

Source: Prepared the basis of Reis and Farole (2012)⁷.

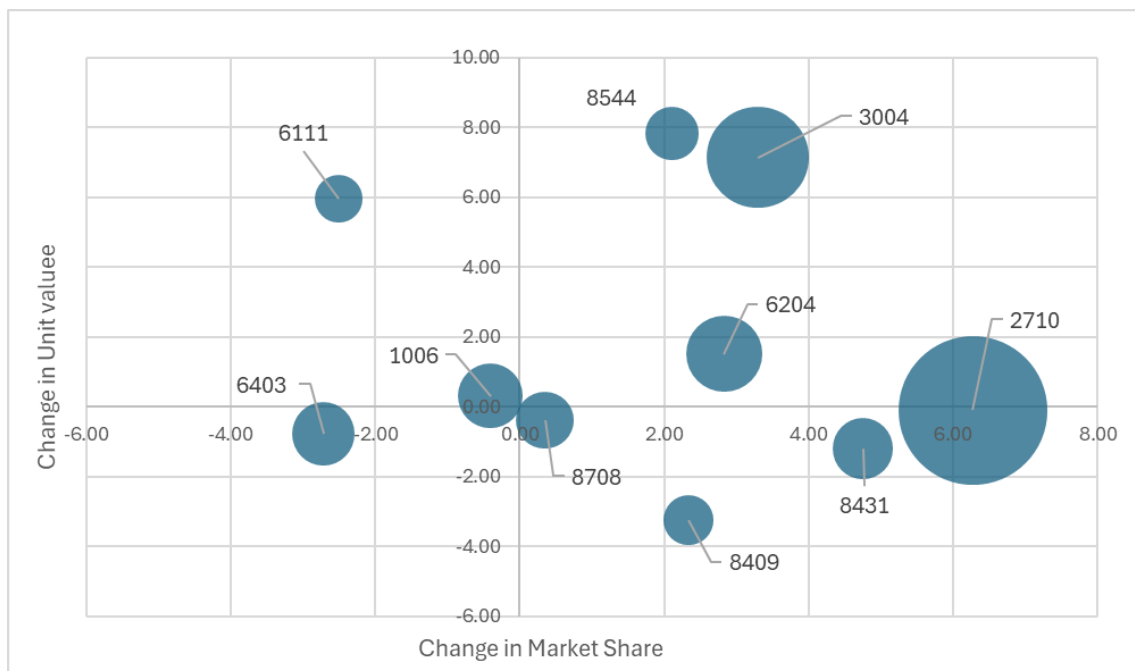
The four-quadrant method helps us to understand how Indian products are perceived in British market. To carry on this exercise, Indian export data and unit price/value at HS 4 level has been collected. For UK, product wise import from India and the world extracted from WITS database. The change between 2023 and 2015 in unit value and Indian market share in UK is calculated. The top 10 exports of India in 2023 are placed in the four quadrant diagram (Figure 5).

At HS-4 level in 2023, product with highest export value has been HS 2710 (Petroleum oil and oils obtained from bituminous mineral). The product experienced a highest market share gain among the top exportable. However, its unit price has been declined a bit indicating that India gained through economies of scale. On the contrary, product HS 3004 (Medicaments excluding goods of heading 3002,3005 or 3006, consisting of mixed or unmixed products) and HS 8544 (insulated wire and cable) enjoy better quality perception as with rising prices India's

⁷ Trade competitiveness diagnostic toolkit, World Bank

market share in UK has also increased. In case of HS 6204 (Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts,, etc) market share increased with slight in prices too. However, HS 6111 (babies garments) is showing a growing inefficiency. Rice (1006) is also facing declining market share. Machinery such as 8409 and 8431 (engine parts) and 8708 (auto parts) enjoy benefits of economies of scale. As mentioned earlier, HS 84, 85 and 87 are the areas where future cooperation may benefit both the countries. Lastly footwear (HS 6403) is facing a trouble of declining market share even with lowering of prices.

Figure 5: Quality Perception Mapping of India's Top Exportable Products to UK in 2023



Note: 4 digit HS Code of each product is given against the bubble. Bubble size depicts India's export to UK in 2023.

5. Opportunities and Factors Enabling the Growth in India-UK Business^{8,9}

There exist multiple opportunities for trade and investment in different sectors to grow and prosper between India & UK when in hindsight there is a growing intent to two-fold the India-UK bilateral trade to £50 billion by 2030. The growing middle-class population (28% of the

⁸ This section is based on discussion with industry associations like CII, FICCI and few companies in India and UK apart from analysis of various published reports including news items. Also, <https://mumc93hqb31yn8t2z2jqkud-wpengine.netdna-ssl.com/wp-content/uploads/2019/06/UKIBC-Web-Edition-How-the-UK-can-Make-in-India.pdf>

⁹ This section is based on discussion with industry associations like CII, FICCI and few companies in India and UK apart from analysis of various published reports including news items



total population in India)¹⁰ in India could be of tremendous advantage to British businesses which is estimated to be as large as that of the US. Due to India's much younger demographics compared to the US, it is also expected that India's middle class will be the largest in the world by 2025 (around 583 million people¹¹). Even the growing digitisation of global trade holds great potential in this bilateral trade of services and goods in the hindsight of close historical and cultural links between the UK and India, thus, creating perfect conditions for India-based businesses wishing to expand into the UK market.

India and the UK have been establishing a robust bilateral relationship, subsequent to a Joint Trade Review in 2018. This trade review sought a deeper trade and investment relationship, further supporting about 400 thousand jobs in each other's economies. Institutionalized talks guide bilateral economic and commerce cooperation in order to boost trade and investment between the two countries. Under the auspices of these organisations, both sides meet on a regular basis to assess the success of bilateral trade and investment. The India-UK Joint Economic and Trade Committee (JETCO) and the India-UK Economic and Financial Dialogue are the two primary bilateral institutional structures (EFD). Various JWGs, such as the India-UK CEO's Forum and the India-UK Financial Partnership, support them.

In the recent talks of enhanced trade partnership (ETP), the extent of its strength and comprehensibility was also witnessed by its aim to work even on the issues of climate change, reversing biodiversity loss and on biotransformation technology, which enables plastics to become fully bio-degradable. Moreover, the issues relating to defence and security are increasingly becoming a potential alignment for India and the UK. Thus, a series of trade working groups have been initiated to help both sides "better understand each other's position" on potential chapter areas including standards, tariffs, IP and data regulation.

Further, even programs such as the Access India Program (AIP) facilitate investments by UK SMEs in India. The goal of the initiative was to discover high-potential UK SME companies and help them establish themselves in India, with a concentration on UK SMEs that have high-end technology but aren't significant investors. Also, a total of 50 organisations were shortlisted in two Cohorts in partnership with UK-IBC, the Knowledge Partner chosen for the first phase. They are in various stages of entering the Indian market. During the second phase of AIP, they will receive assistance. UKIBC has been re-selected as the Knowledge Partner for AIP-II based on the RFP. Under AIP-II, a minimum of 20 new enterprises will be chosen. In addition, the companies chosen in phase one will receive assistance. The AIP-II was launched on January

¹⁰ <https://www.thehindubusinessline.com/opinion/the-shrinking-middle-class/article34599774.ece#:~:text=Since%201990%2C%20the%2020%2Dfold,of%20the%20total%20taxpayer%20base>

¹¹ https://www0.gsb.columbia.edu/mygsb/faculty/research/pubfiles/3021/Great%20Expectations_The%20Rise%20of%20the%20Indian%20Middle%20Class.pdf



17, 2020, and is now underway. Twenty SMEs were chosen under the AIP-II by the end of March 2021, and six workshops were held to guide the chosen enterprises (AIP-I&II).

Even, the UK-India Tech Alliance was formed by NASSCOM and techUK to allow collaboration on developing future capabilities in new technologies by nurturing a strong skills base in both the UK and India, with the support of both governments. The alliance would be made up of high-level technology industry stakeholders from the United Kingdom and India. The UK has announced the establishment of a UK-India Tech Hub. The tech hub will house a network of individuals and activities aimed at facilitating the exchange of ideas, investment, and prosperity between India and the United Kingdom. Cyber security, AI/data, future mobility, digital manufacturing, healthcare, electric vehicles, and digital identification will be among the fastest-growing areas.

Along with significant bilateral investment and partnerships on cutting-edge R&D, trade is only one facet of the UK-Indian economy. However, it is a significant factor since, especially for SMEs, trade frequently comes before investment and other substantial types of bilateral interaction. Businesses and governments, notably those in India's state governments, and the UK's devolved administrations can play a part in enhancing bilateral commerce. A focused and tenacious program will show results.

However, the two countries, promoting businesses now in each other's country can likely benefit further from the India-UK FTA proposed to be ratified soon. This allows for understanding the trade opportunities. *The prospects for growing Indian businesses in UK should result in focussing sectors, which include:*

- There exists a great market for *Wellness products* in UK. India has the potential to tap into that market. However, India would have to add uniqueness in the form of product or price differences or through other ways in its wellness products.
- The United Kingdom is a net importer of EU *food and food products*. About a quarter of the fruits and vegetables consumed in the United Kingdom are grown in the country. The UK imports around 40 billion Euros worth of food from the EU, accounting for more than 70% of its total food imports. The UK Global Tariffs (UKGT) has announced the liberalisation and lowering of tariffs on a number of these products, which will take effect in January 2021. As a result, a member of India's Agri and Food goods might be able to compete for exports to this high-value market. They would, however, have to adhere to environmental, animal welfare, and food safety regulations.
- A well-known Indian metal trading company that specialises in recycled ferrous and non-ferrous scrap metals like iron, aluminium, and zinc, has found a market in the United Kingdom. Because of the country's increased involvement in the export of recycled metal commodities, ease of doing business, and absence of a language barrier, it has been operating in the United Kingdom as a subsidiary. In fact, the iron & steel



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and aluminium & articles (HS 72 & 76) sector are some of the potential sectors for India's export to the UK¹².

- With global retailers and fashion houses striving to expand their sourcing methods, India has a lot of potential in the textile and clothing export market. However, Indian manufacturers must ace their production and technological capabilities in man-made fibre (MMF) or polyester-based garment categories such as winter-wear, active wear, sports-wear etc., as the majority of Indian exports are made up of cotton shirts, t-shirts, cotton blouses and so on.
- The market for Home Products and Interiors is also growing. Nearly half of India's exports to the UK are bed linens and curtains, metal mountings and fittings, carpets and rugs, combed wool yarn and towels, pottery, and furniture. The UK's preference for India's cotton-rich products can be witnessed here, however, countries such as Bangladesh, Pakistan, and Vietnam have an edge over India due to a zero-tariff arrangement. This pushes India to fasten the process of an FTA with the UK as Indian exporters may lose to competing countries that have a duty advantage.
- Furniture and timber market exports are also in full gear, as they have done well in the UK, and will be reinforcing India's strengths in natural products and experienced personnel. From £46 million in 2009-10 to £100 million in 2019-20, exports have more than doubled¹³.
- Indian airline firms' exports of advanced engineering parts for maintenance and repair to the UK market have been outstanding. The Make in India initiative continues to focus on this sector. In the long run, the Advanced Engineering segment is expected to grow. Based on a ten-year CAGR, it has been the fastest-growing export segment (exports to the UK)¹⁴.
- Plastics and packaging products such as polypropylene-based bags, laminated woven sacks, and flexible packaging have expanded at a rate of 10% (2014-15 to 2019-20, 5Y-CAGR) and accounted for close to £50 million in exports from India to the United Kingdom. Plastic plates, sheets, film, foil, and strip have increased at a 5Y-CAGR of 21%, accounting for 27% of the overall segment. Product innovation in response to environmental rules and consumer demand in the UK market will determine this segment's long-term success¹⁵.
- Medical, Optical, and Instrumentation Devices, which include optical fibres, scientific and measuring devices, and medical instruments, is another fast-growing area with a varied variety of applications and end uses. With a strong presence in the UK market, India has a bright future in this sector.

¹² <https://www.hcilondon.gov.in/page/economic-relations/>

¹³ FICCI, 2021

¹⁴ <https://www.santanderco.co.uk/sites/default/files/documents/uk-india-ascent-report-feb-2021.pdf>

¹⁵ FICCI, 2021



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- In the instance of the fungicide restriction requirement enforced by the UK on Indian basmati rice, the UK has the option to enhance trade post-Brexit with the ability to decide on standards on its own and assist India in complying with the requirement¹⁶.
- Given India's exceptional pharmaceutical export performance and its dominant position in the global generic industry, India's exports have been successful in the UK market as well. Due to collaborative work by the Serum Institute of India and Wockhardt partnering with the UK government, academia, and industry on vaccine trials and manufacturing (including the Oxford/AstraZeneca vaccine), India's position in the global vaccine market is expected to gain traction with the support of the UK and India governments. As a result, India's export volumes to the UK and the rest of the world are expected to skyrocket.

The pharmaceutical industry in India, which already exports to more than 150 nations and supplies 20% of the world's generic medications, is anticipated to expand over the next several years. One of the major products that the UK imports from India is pharmaceuticals. Additionally, as part of the "Make in India" initiative, the government is taking several steps, including the establishment of a Pharmaceutical and Medical Technology Zone. This has the potential to lower the manufacturing cost of medications and medical equipment together with other industry improvements. In this sense, the UK needs to take into account this chance and continue trading pharmaceutical goods with India.

- A large amount of pharma production in India is done by companies like Wockhardt, which use locally manufactured components from the UK. This demonstrates the strength of the India-UK ties. In addition, numerous pharmaceutical businesses from the UK have a presence in India. They use products made in India that are manufactured locally.
- Additionally, the Indian shipbuilding industry is becoming a globally competitive, export-led business, with Kochi-based Cochin Shipyard Limited emerging as a major participant in the UK market for offshore and oil industry vessels (Offshore Supply Vessels and Anchor Handling Tugs).
- With the demand of organic products rising all over the world, the Government of Assam has approached UK government to further promote organic products in UK with a diverse range of horticultural products.
- Special Economic Zones (SEZs) are located throughout India and can be useful for export manufacturing activities such as importing components from the UK and matching them with Indian components to create a finished product (and paying import duties and GST). The finished products can subsequently be marketed in India or exported overseas, including back to the United Kingdom. Furthermore, the Indian

¹⁶ UK-India trade review calls for flexibility on food standards and chemical rules, Unearthed news, 11 July 2018



government provides a variety of tax and other incentives to encourage *Atmanirbhar Bharat*, which vary by sector and state and are quite particular. Local Indian offices can advise on the various incentives available to businesses and the best places for them.

- In the context of the India-UK trade relationship and the impending disruptions in China's supply chain production (majorly due to the ongoing pandemic), there has been a shift in the supply chain where India has the potential to take over a significant portion of the supplies currently coming out of China due to its excellent and efficient entrepreneurial capabilities. Not just trade; according to UBS research, 20-30 percent of China's production capacity might leave the country. Given a variety of factors in India's favor, it is especially well-positioned to gain a larger portion of this market in comparison to other neighboring nations such as Bangladesh, which has supply chain issues, and Vietnam, which requires imported fabrics (and labour costs are rising). India, as a result, offers a one-stop shop for fashion and homewares, from raw materials to completed goods.

Considering the ways for UK businesses to explore Indian markets, certain indicators can be listed:

- The acceptance of UK Certificates of Free Sale in India and the removal of the necessity for extra accreditation of UK medical devices when exporting to the Indian market has enhanced access to medical devices. This also enables the study and development of new pharmaceutical goods linked to biopharmaceutical finished products, as well as the licencing of new pharmaceutical products.
- The UK's work with the Serum Institute of India (SII) to create the Oxford University and AstraZeneca COVID-19 vaccines is an example of sophisticated research and technology collaboration and a sign of the deepening India-UK trade relationship.
- An increase in student flows, skills transfer and information sharing between the UK and India is projected as a result of mutual recognition of educational degrees and professional services.
- India's legal market is set for liberalisation via trade deals, thanks to the removal of hurdles in the Indian legal services market¹⁷. This could result in a large increase in the export and import of legal services from the UK to India.
- Since Brexit, the opportunity for trade has multiplied. India is always conducting back-end office services like banking and IT services; thus, the service industry has a lot of potential. Both Infosys and HCL Technologies will together create 2,000 new digital jobs in the UK as part of government efforts to create a stronger UK-India relationship.
- UK enterprises in India may seek to utilise their new skills to take advantage of India's FTAs with other countries, which allow Indian-produced goods to access markets such

⁹<https://www.law.com/international-edition/2021/05/06/indias-legal-market-set-for-liberalisation-via-trade-deal-uk-lawyers-believe/?sreturn=20210918173836>



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as ASEAN countries, Bangladesh, Nepal, Sri Lanka, and Africa at reduced or zero percent duty.

As a result, the ETP has provided direct opportunities in India for British businesses in industries such as food and drink, life sciences and increased green investments to support India's sustainability and decarbonisation drive. Although the UK India Business Council has requested steps to ensure tax parity between UK and Indian enterprises, as well as lower tariffs on alcoholic spirits and medical gadgets, among other things, in its pre-FTA proposal to the UK Department of International Trade. The United Kingdom and India have also agreed on a potential new technology cooperation that will bring together enterprises, venture capital, colleges, and others from various parts of the UK with states in India. The UK and India will work on developing technologies, building mentoring ties, and exchanging staff in order to encourage innovation and productivity. Additional links focusing on augmented and virtual reality, innovative materials, fintech, edtech, and artificial intelligence are planned (AI).

With the implementation of the new UK Global Tariff on January 1, 2021, a visible aspect of the UK's exit from the EU is visible. In this sense, the Department of International Trade's (DIT) role in facilitating the discovery of business prospects and interacting with MSMEs has been extremely beneficial to Indian businesses and entrepreneurs. Another enabling element for Indian enterprises is the simplicity with which licencing requirements can be met; in many cases, a licence is not even required for a company to set up a shop in the United Kingdom. Even small firms find the customs in the United Kingdom to be really helpful and friendly.

There are several priority sectors including Agri-Tech, Chemicals, Food & Drink, Financial Services, Professional Business Services, Creative, Sports, Urban & Infrastructure, Technology & Innovation, Energy, Defence, Healthcare & Life Sciences, Aerospace, Space and Advanced Engineering in the Indian Market where there are market access barriers which if resolved should allow UK companies to increase exports to India. In Agri-Tech, the UK's share is much lower than major competitor countries. However, India's need for mechanising the agriculture sector can open up new horizons for the UK exporters in promoting higher investments in storage and distribution, and thus improving agricultural productivity. Further, in the sectors including Chemicals and Sports goods, the UK occupies a lower position in exporting to India vis-à-vis peer economies. Besides, the UK is India's significant supplier of Energy goods, Aerospace and Aircraft, and Healthcare and Life Sciences.

India is one of the world's largest whisky markets and the potential for the wider food and drink industry are significant. The food and beverage market in India has transformed due to increased disposable income, rising urbanisation, and changing lifestyle of the Indian consumers, thus the demand in this sector is expected to grow and thereby create opportunities for UK exports. Therefore, given India's positive trade balance and the untapped trade potential, food and drinks remain to be an important sector for tariff liberalization under the future free trade agreement with the UK.



Besides, as India envisions itself as the manufacturing hub of the world, it may open up new export opportunities for the UK in the form of increased Machinery imports, where the UK is already the top exporter to India. The UK is a global leader in providing infrastructure services, such as those provided by architects, chartered surveyors, and engineers, and these services are in high demand. This demand will be unlocked when the sectors in India are liberalised to allow foreign firms to contribute to the country's compelling growth plans.

Additionally, the emergence of technological advancements may lead to the obsolescence of traditional machine tools hence creating untapped potential for the UK firms to export new age technologies through manufacturing supplies to Indian consumers. Furthermore, a rise in tech-focused services including telecommunications, computer and information services; and intellectual property leading to the market expansion will see ever-more UK exports in this area. Sectors such as communication and technology offer significant opportunities for UK exporters to tap into the Indian market.

6. Challenges in the Strengthening of India-UK Business

There are some challenges which create hurdle in the strengthening of India-UK Business from the perspective of tariff and non-tariff measures (NTMs). Most product lines (66%) exported from India to the UK do not face tariffs, however, only 3% of those exported from the UK to India are free from duty¹⁸. Additionally, 6% of goods imported into the UK face tariffs exceeding 15%, compared to 23% of goods imported into India. India's highest tariff on goods imported from the UK is on alcoholic beverages of 150%¹⁹. In the case of services, India is more restrictive in the trade of rail freight & transport services and legal & accounting services. However, free market access to both sides is important to strengthen India-UK business.

On the side of NTMs, India has more sanitary and phytosanitary measures, technical barriers to trade, quantitative restrictions, tariff-rate quotas, and safeguards than the UK.²⁰ The ease of doing business is one of the chief concerns of UK businesses looking to set up their operations in India as it is complicated to do so. The issue of Immigration policies is also recognized as the basis of being critical enablers to the India-UK relationship. The issue of e-visas, post-study employment opportunities, and social-security issues are some of the concerns of Indians working in the UK.

¹⁸<https://www.thehindubusinessline.com/economy/policy/india-uk-fta-uk-govt-lists-out-the-benefits-to-its-industry/article36163267.ece>

¹⁹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/989234/dit-india-uk-consult-info-note.pdf

²⁰ibid



The major issues highlighted by the Indian firms in the interviews²¹, under the NTMs category, are the lack of accessibility and trust in Indian firms by British companies; the absence of an online global trading place in India; and difficulty in opening bank accounts in the UK by Indian firms while setting-up the business there.

For the UK firms, these issues are Product licensing, Product distribution, setting up an Indian Liaison Office, Ease of doing business in India among others.

Challenges Faced by the Indian Firms while Accessing UK Market

- Indian entrepreneurial skills are outstanding and efficient. However, there is lack of visibility, transparency, accessibility and trust on Indian firms. Proper networks and links need to be established between the Indian manufacturers and UK firms and customers so that there is full transparency between them which in turn will build trust and good relationships resulting in strengthening of the India-UK trade relationship. The need for aggregation of firms, building strong networks by becoming more organized and structured, thus, becoming more accessible and reliable with greater logistics support can enable Indian firms reap benefits from trade with UK.
- Moreover, Global trading place (online) for India is missing. For example, Alibaba sort of a platform is lacking in India which can provide easy sourcing, payment facility and information to showcase Indian firms such as in case of agricultural or farm products, connectivity from the source is not there for assuring the quality of the product. This eventually reduces India's exports especially by MSMEs. As mentioned by one of the interviewees, Alibaba provides a guarantee through sharing the risk (on quality, finance, etc) with the small exporters through its platform. This provides confidence to UK importers and hence, act as a driver for export growth from China. Such platform should be created by India and trade fairs should be organized to showcase Indian firms and enhance their exports to the UK markets.
- Because of GSP benefits to Pakistan & Bangladesh, the textile products can be imported by UK at 0% duty, whereas from India, duty is charged. Considering that textiles sector is one of the most promising sectors of the Indian industry, it is losing a lot on this front. An FTA between India-UK can prove to be a great opportunity for Indian textile firms to maximise their exports to the UK.
- UK is one of the best countries to do business as it can be set-up within minutes which is reflected in its Ease of doing business ranking in 2020 (8th position compared to 63rd position of India²²). However, opening of bank accounts is one of the major issues faced by the Indian firms while trying to establish their business in the UK. The FTA should provide mutual recognition of financial services.

²¹ Limited interviews were conducted with few companies and chambers in India and the UK

²² <https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>



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- Indian businesses in the UK are constrained by the impact of visas on workforce hiring and mobility, difficulties with the registration of new pharmaceutical companies, and food standards such as restriction on food with dairy content. Such processes need to be simplified by the UK in order to deepen the India-UK trade relationship.
- There is a concern about the possibility of dumping of scraps into the Indian market by the UK firms post the India-UK FTA. For instance, in case of copper industry, UK is one of the top exporters of waste and scrap to India. The unorganized recyclers, which are involved in the manufacturing of products using scraps, work in poorly ventilated areas without masks and technical expertise results in exposure to dangerous and poisoning fumes and chemicals and hence, face safety hazards. Processing of scrap also creates environmental hazards like air pollution, water pollution, and noise pollution. Government should try to apply National Sword Policy in India, to restrict the imports of hazardous scraps post India-UK FTA. Indian Customs Authority can do some random sampling and may devise the rules for an end-use certification indicating high impurities must not be imported by India. Strict adherence to Pollution and environmental norms needs to be adhered to.

India is on the verge of becoming more competitive in a variety of manufacturing industries as the full effects of Make in India become apparent. It will become progressively more pronounced on clothing, shoes, vehicles, and technological equipment. Further, there is untapped potential for a large increase in Indian exports of its cultural and recreational services because of the wide and deep cultural ties between India and the UK. Additionally, it offers travel and tourism services. In connection with this, India could have had a stronger presence in the UK, a major hub for content development and post-production, as a result of its superiority in the creative industries. Further, India's competence in IT services should also help it grow significantly in the UK in an increasingly digital world. Moreover, there will be an increase in demand in the UK due to the presence of strong digital firms there and the expansion of services focusing on blockchain, AI, and digital manufacturing. This application of digital technology may give India the chance to export services in telemedicine, telesurgery, and tediagnosis, as well as outsourcing services for healthcare-related processes like transcription.

India's exports to the UK are diversified, ranging from labour-intensive agricultural products, textiles, and apparel, to machinery used extensively in global manufacturing networks, as well as high-end optical and medical products. Contrarily, the majority of the manufactured items that India imports from the UK are expensive in terms of both capital and technology. This suggests that India would need to concentrate on high-value manufacturing industries that are becoming significant contributors to Indian exports in addition to traditional sectors like agriculture, textiles, and clothes when negotiating an FTA with the UK.



The high prevalence of NTMs in the UK hurts India's exports. Due to the UK's GSP scheme, several crucial labour-intensive Indian exports are at a disadvantage compared to competing economies. India may concentrate on these goods when negotiating the proposed early harvest arrangement. While it is relatively simple to negotiate tariff barriers, the negative effects of NTMs on trade can only be remedied via active cooperation between the concerned agencies of the two countries. It is crucial to have measures under the FTA for prompt settlement of concerns relating to NTMs, at least in some crucial industries including engineered goods, chemicals, pharmaceuticals, and automotive.

Challenges Faced by the UK Firms while Accessing the Indian Market

Licensing of Products:

It is often required for products, and especially consumables, to be rigorously tested and approved to ensure contamination-free quality control (QC) and compliance with Indian standards. The QC process requires the assistance of third-party agents in India. The fact that there is no FTA between the UK and India at the moment means no agreement exists on these protocols, which in turn, restrict some of the products manufactured in the UK from entering into India. As a result, India needs to make its testing rules more flexible in order to attract UK-based products as well as more British investment in India which in turn will improve India's exports to the UK as well as globally by the British or Joint venture companies in India.

Distribution of Products:

While exporting to India, UK manufacturers need to search for a reputable exporter and distributor to plan out where and how to reach Indian States as they have varying policies, and some impose tariffs on imports from other states. In India, for instance, some states are 'dry' which means they do not allow or heavily regulate alcohol in their markets.

As a result, a comprehensive strategy for selling to India has to be developed in advance. With India's thriving professional services industry, foreign businesses need to make better use of local matchmaking services to expand their market reach and find a cost-effective strategy. However, professional services need a boost considering the legal hassles involved.

Ease of Doing Business (EODB) in India:

India's EODB Ranking is still low and it stood at 63rd position in 2020. It lags behind in terms of enforcement of contracts, payment of taxes and resolving insolvency. Other lagging factors include: political and economic instability, inadequate maintenance of law and order, unavailability of quality physical infrastructure and weak financial markets. Additionally, hiring people from India is difficult and limited by UK companies, especially for UK MSMEs due to basic legal issues. Major institutional and governance reforms are also needed for new businesses to set-up in India and expand their operations.



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In addition, both nations have tariff and non-tariff obstacles, where UK firms are faced with significant tariff barriers. For instance, agri-food companies looking to export to India encounter complicated sanitary and phytosanitary standards. By boosting the transparency of SPS regulations and facilitating easier trade between UK businesses, the FTA is anticipated to improve access for agri-food. The Indian market, thus has potential from the UK's perspective.

In relation to the UK's departure from the EU, university affiliations and student exchange programs are visible signs of the UK's transition. UK companies which are investing in India today will likely benefit from India-UK FTA which has been planned to put in place. Understanding of the Indian market and how it works, as well as the ideal locations for the desired product and services, at an early stage, will reap greater benefits once FTA is in place.

India is aiming to become the global manufacturing center with the "Make in India"² initiative. As a result, there will be more opportunities for the UK to export goods. The number one export from the UK to India is currently machinery, and as demand rises, this number will rise. An upward trend in tech-focused services, including telecommunications, computer and information services, and intellectual property, has been observed, and we expect it to continue. Financial, insurance, and pension services are also expanding. We will see an increase in UK exports in this sector as Jan Dhan Yojana, India's program for financial inclusion, grows and the insurance and pensions market mature.

By 2020, it is anticipated that India's medicines industry would have increased from its current £22 million to £39 billion size. With exports to more than 150 nations worldwide, India contributes 20% of the world's generic medicines, and its pharmaceutical sector accounts for 60% of the world's vaccine production. One of the major products that the UK imports from India is pharmaceuticals. Pharmaceutical imports to the UK currently total £325 million, or 5.5% of all imports. The government is establishing a pharmaceutical and medical technology zone in Bangalore as part of a plan to increase domestic production of medicines and medical equipment in India under the "Make in India" goal.

This has the potential to lower the manufacturing cost of medications and medical equipment by about 30% in comparison to market costs, together with other industry improvements. The UK must consider this chance and expand its pharmaceutical commerce with India. Moreover, India will become more competitive across a variety of manufacturing sectors as the full impact of Make in India becomes clear. It will become progressively more pronounced on clothing, shoes, vehicles, and technological equipment.

India is quickly rising to become one of the world's most data-rich nations. It is a hotspot for technological start-ups worldwide with a robust tech ecosystem, the lowest mobile data prices in the world, and many users of the internet. Thus, to encourage innovation and technology, unlock its future potential, and produce high-skilled jobs and sustainable economic growth, the India-UK tech cooperation strives to bring together the brightest minds working in the industry.



Besides, India is one of the most significant international fintech markets due to its enormous growth, adoption rate, and strong government support. Services including digital onboarding, lending, wealth management, and technology related to regulation, insurance, and blockchain are becoming more and more prevalent in India creating ample opportunities for the UK exporters. Furthermore, for UK businesses, there are a lot of prospects in the production of tractors, two-wheelers, cars, and commercial vehicles. The government of India has set a lofty goal for all new automobiles to be electrified by 2030. Due to its low production costs and rising domestic demand, India is an attractive outsourcing base for UK exporters.

There are untapped prospects for a large increase in the export of Indian cultural and recreational services due to the wide and deep cultural ties between India and the UK. Additionally, it offers travel and tourism services. In connection with this, India could have had a stronger presence in the UK, a major hub for content development and post-production, as a result of its superiority in the creative industries.

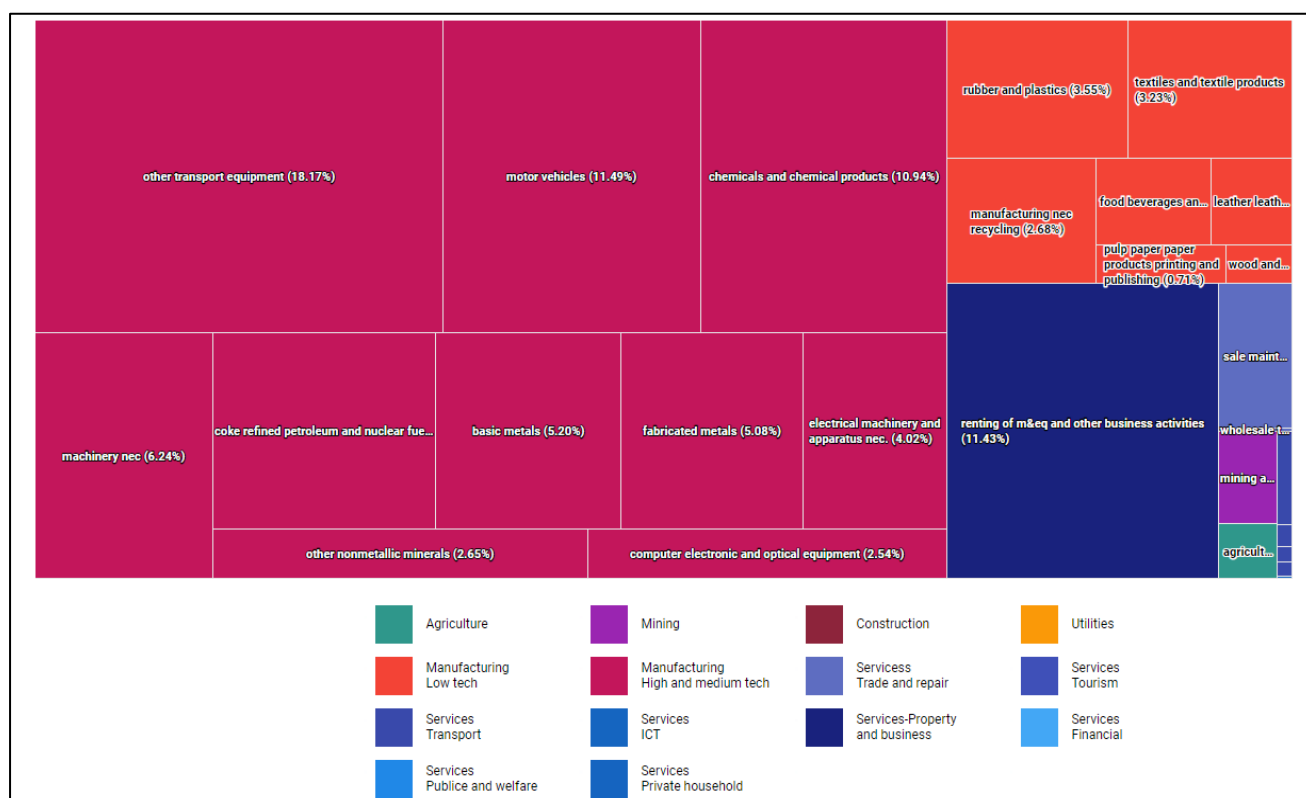
7. Conclusion

India and the UK shares a multidimensional partnership which has evolved from historical ties and transformed into a robust economic relationship. This is well reflected in the bilateral trade which increased from \$17.5 billion in 2021-22 to \$20.36 billion in 2022-23. Besides, India is one of the major sources of investment projects for the UK, while the UK is the sixth-largest investor in India. Both nations are engaged in ongoing FTA negotiations, aiming to enhance cooperation in various sectors, including trade, investment, and cultural exchange. India enjoys a positive trade balance with the UK, and in terms of the backward and forward linkages in GVCs participation. To underscore their economic interdependence, strengthening of these linkages through strategic trade agreements and various investments and collaboration is required. This will drive mutual economic growth and resilience. This paper also studies trade analytics to highlight the intensity, complementarity, and bilateral comparative advantage in trade with the UK. The economic relationship between India and the UK has strong potential for growth in both trade in goods and trade in services in future. Their partnership is poised to create shared prosperity and deliver leadership in global economic governance.

Appendix A

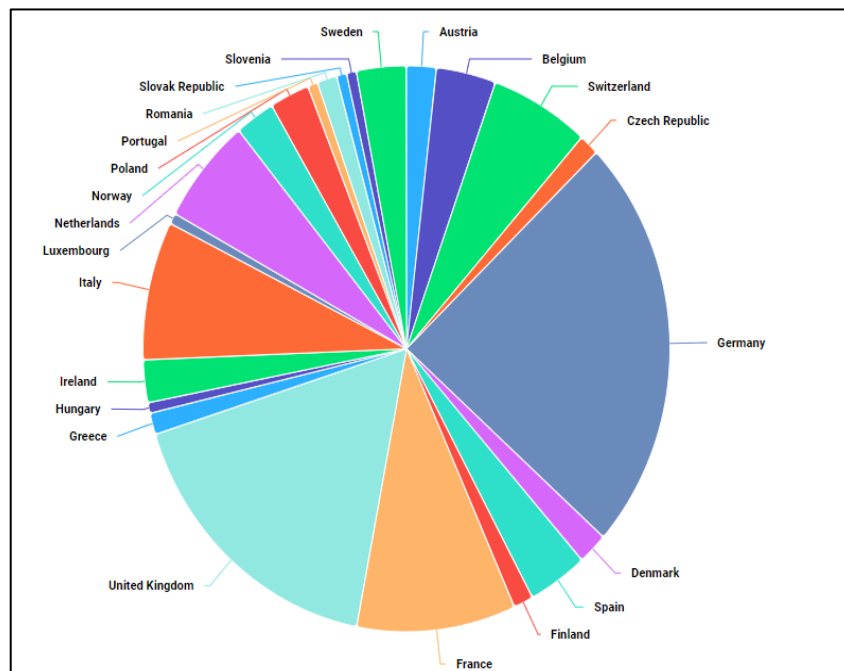
Figure A1: India's Contribution to the Exports of UK - Forward Linkage in India's GVC

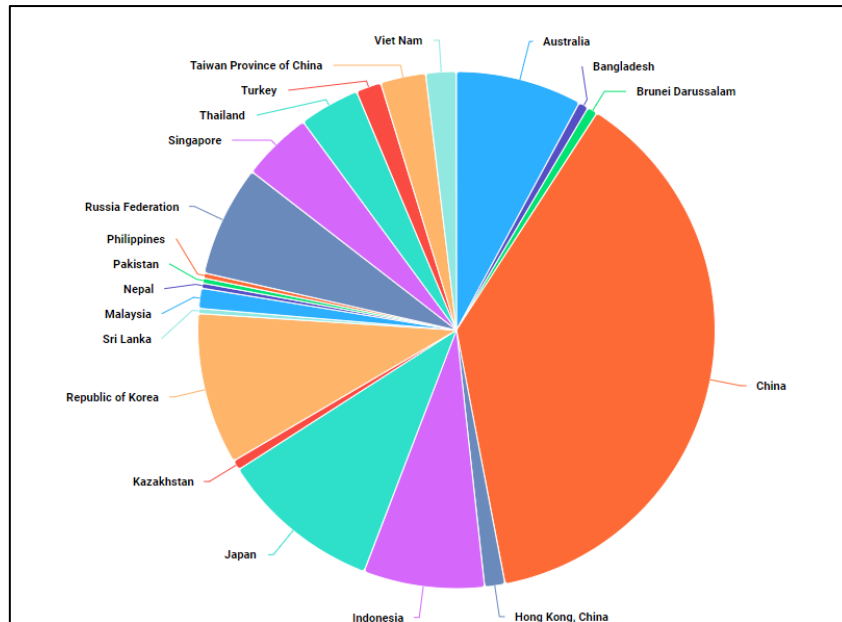
- Out of US\$ 11.43 billion gross exports in 2017, US\$ 1.62 billion is used by the UK in its own exports
- High and Medium tech products, service export from India is mostly part of UK's backward linkage



Source: Based on Data in RIVA Value Chain Analyser

Figure A2: India's Backward Linkage for its Exports to UK

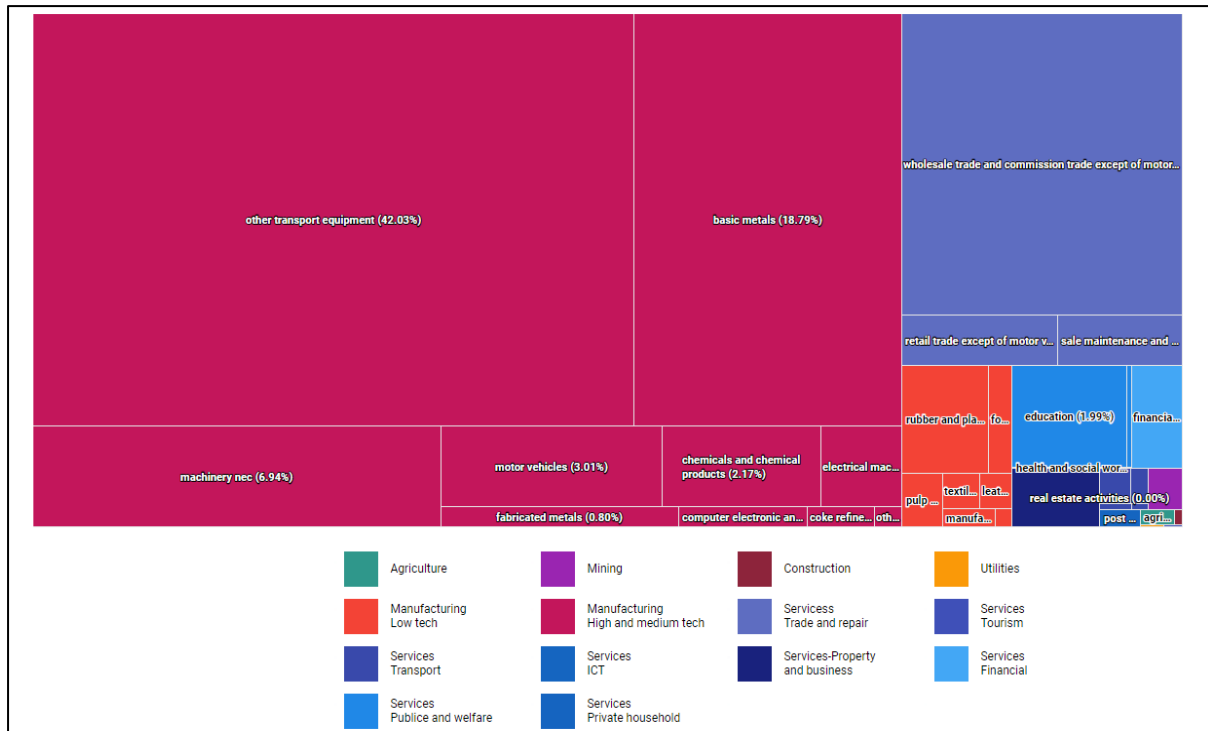




Source: Based on Data in RIVA Value Chain Analyser

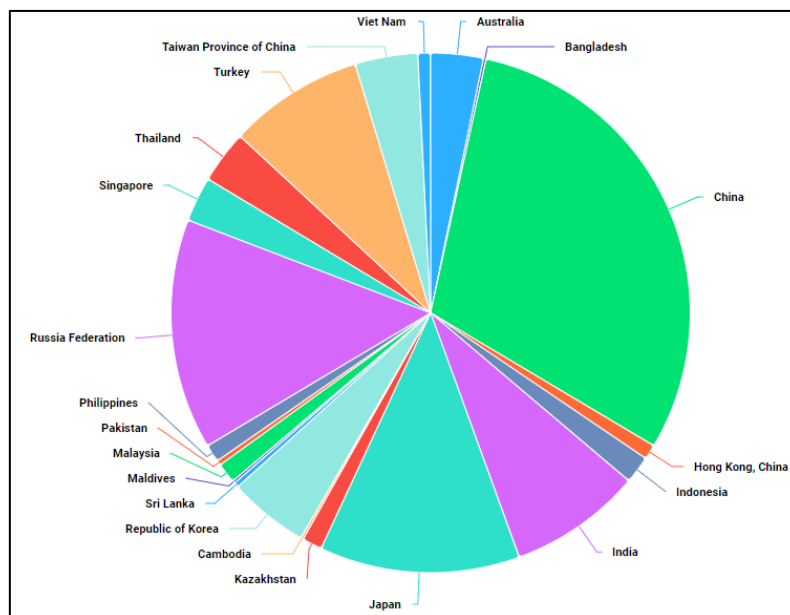
Figure A3: UK's Contribution to Exports of India - Forward Linkage in UK's GVC

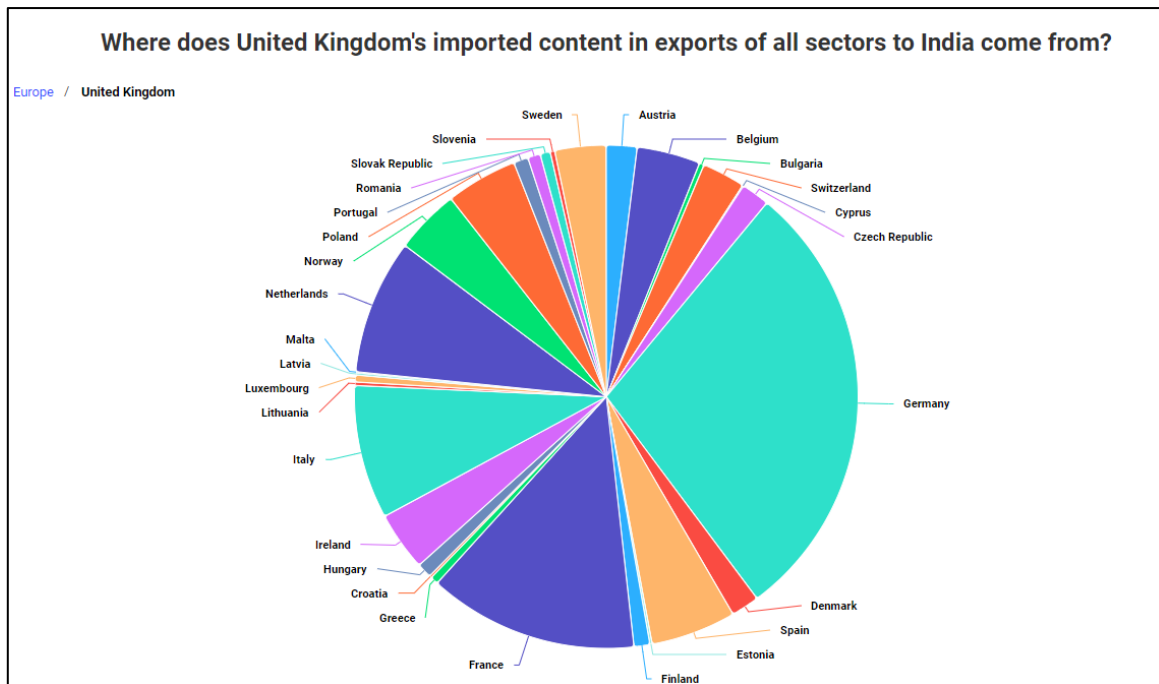
- In 2017, out of UK's exports of US\$ 11.18 billion to India, US\$ 997.67 million was used for India's exports to the world



Source: Based on Data in RIVA Value Chain Analyser

Figure A4: UK's Backward Linkage





Source: Based on Data in RIVA Value Chain Analyser

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