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Trade and Industry Committee

Trade and Investment opportunities with India: Government Response to the Committee's Third Report of Session 2005–06

Fifteenth Special Report of Session 2005–06

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), Glenn McKee (Second Clerk), David Slater (Second Clerk), Robert Cope (Committee Specialist), Grahame Allen (Inquiry Manager), Clare Genis (Committee Assistant) and Joanne Larcombe (Secretary).

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Fifteenth Special Report

The Committee published its Third Report of Session 2005–06[1] on 10 July 2006. The Government's response was received on 10 October 2006 and is published as an Appendix to this Report.

Government response

Introduction

The Government welcomes the Trade and Industry Select Committee's report as both useful and timely in informing UK Trade & Investment's new strategy, particularly in regard to commercial activity with India. The report makes some valuable recommendations and adds weight to our decision to focus a greater proportion of UKTI's resources on emerging markets, to give greater priority to our bilateral trade policy work in these markets and to use our overseas network more strategically to reinforce our work in India.

Some of the Committee's recommendations have already been reflected in our new strategy for action, e.g. "by March 2008, UKTI will have worked with the devolved administrations and the RDAs to review their representation overseas ". A copy of the document "Prosperity in a Changing World" is attached.[2]

The report makes a number of positive statements about the quality of our staff in our diplomatic missions and trade offices in India. As part of the new strategy, it is the Government's intention to add further resources in India to help British businesses achieve greater success in a market of increasing opportunity.

We welcome the Committee's recognition of the Indo-British Partnership Network (IBPN) as the "leading player for the private sector in the UK" in relation to India. Having seed-funded the launch of the IBPN, we expect the private sector members to support further development of the organisation. The Indo-British partnership has already made a good contribution, with active participation in briefing businesses in the UK and India of the opportunities in both markets. Members have joined ministerial delegations on visits to India. The Government is particularly appreciative of the contribution to the India-UK Joint Economic and Trade Committee (JETCO) made by the IBPN Board. They have played a leading role in identifying opportunities in sectors where UK and Indian companies have the potential to do more and have identified the actions needed by governments to create a better business environment.

1 Third Report from the Trade and Industry Committee, Session 2005-06, Trade and Investment Opportunities with India, printed as HC 881-I on 22 June 2006.

2 The passages in bold type are direct quotations from the Committee's list of conclusions and recommendations.

2 Not printed.

Conclusions and Recommendations

The Government's response to each of the Committee's conclusions and recommendations are as follows:

UK's trade and investment record with India

1. "India is an important trading partner for the UK, and increasingly so. However, we are concerned that UK exports have been overstated and that the real balance of trade deficit is much larger than has been reported. These statistics appear to be showing the re-export of imported goods and the export of goods in sectors in which the UK does not have a comparative advantage over its competitors. These are unsustainable in the long run." (Paragraph 27).

The Government believes that there is scope for substantial growth in bilateral trade and investment. In addition to traditional areas of success, we want to encourage high value and high tech UK exports. UKTI's new R&D programme will encourage partnerships with Indian counterparts.

The Government is pleased to report that among the UK's top six export sectors to India, sales of non-road transport equipment has risen by 68% from £88 million in 2001 to £147 million in 2005; of general industrial machinery by 83% from £54m to £98m in the same period; and of specialised industrial machinery by 92% from £48m to £93m. In all three cases this is faster than the rate of growth of total UK exports to India of 58% over the four years.

Some trade, such as sales of rough and unworked diamonds, shows the UK's strengths as a market and transport hub; it also reflects Indian strengths, in this case in the cutting of small gemstones. In global terms, the UK enjoys a strong position in the diamond trading market.

2. "As India develops, Indian companies are taking advantage of the opportunities for trade with the UK. UK exports to India however, are not increasing at the same rate as those of our main competitors, suggesting to us that UK companies are not taking advantage of the trade opportunities an increasingly open Indian economy is providing." (Paragraph 28)

As of 2005, the UK remains the second largest European Union supplier of goods to India: after Belgium if diamonds are included, and after Germany if they are excluded.

Analysis of our imports from India also signals the openness of the UK economy and recognition of the benefits of globalisation for UK consumers. UK Company success in India can be found in almost every sector, from architecture to pharmaceuticals, to franchised UK retail operations. Joint ventures exist in aerospace, automotive components, energy (oil, gas and bio-diesel) and nanotechnology. Through the Joint Economic and Trade Committee the UK government, in partnership with business, is working to open up more opportunities in infrastructure, life sciences, agribusiness and hi-tech sectors.

The Committee should note that the Government is engaged in regular dialogue with the Government of India to recognise the benefits of removing barriers to foreign participation in important sectors. We continue to lobby the Government of India for increased liberalisation in those sectors where the UK leads the world, such as retail, financial, legal and business services, both bilaterally through the annual ministerial meeting under the JETCO process and internationally through the EU and the WTO. The UK-India Air Services Agreement and the increasing presence of UK financial institutions in India have resulted from sustained government effort.

The Government agrees that we need to continue to raise awareness among UK businesses of the opportunities in India. As part of UKTI's new strategy, we will do this through direct contact with UK companies in a range of priority sectors. We will also develop a marketing campaign, with the support of the UK regions (Regional Development Agencies and Devolved Administrations) to inform companies throughout the UK about the Indian market.

3. "We are concerned that the UK is falling behind its main competitors when it comes to investing in India. Flows of FDI between the two countries have been increasing, but while Indian companies appear to be taking advantage of the increased opportunities to invest in the UK, UK FDI in India, although substantial, is not increasing commensurately. However, there is evidence to suggest that UK companies' investments in India may have been underestimated due to reporting technicalities. Profits of UK companies that have invested in India in the past do not appear in the official statistics. There is also evidence to suggest that UK companies are investing in India through third countries—mainly Mauritius— because of the tax advantages. We recommend that the UK Government tries to collate these figures, so that a more accurate picture can be obtained." (Paragraphs 34 and 35)

India is now the third biggest investor in the UK, after the USA and Japan and from worldwide sources, we remain the EU's leading recipient of FDI. Much of this Indian investment is new and very welcome. It is important to recognise however, that the UK has also been investing in India and that some of this investment has taken place over a long period of time. Many UK businesses are long established in India and their reinvestment levels are significant. The new, and growing, UK investment in India will increase as India liberalises further.

The Indian net Foreign Direct Investment position in the UK was estimated to be £186 million at the end of 2004, compared with a UK net FDI position of £1674 million in India. This latter figure has more than tripled from £532 million at the end of 1996. For some of the figures are sourced from the Indian Government.[*sic*] Unremitted profits are included in the net foreign direct investment flows published by the Office for National Statistics.

The UK had an estimated net FDI position of £844 million in Mauritius at the end of 2004, up from £185 million at the end of 1996 and we can assume that the majority of this was destined for India but there are no practical means to discover how much of this has been reinvested in other countries.

Government statisticians continue to improve our statistics on services and the Committee will recognise the severe limitations in tracking offshore financial centres. We are only aware of investments in the public domain.

A plethora of support agencies

4. "There are a large number of UK bodies seeking a role in trade and investment with India. Too often the result has been duplication and competition. The UK Government has to take a grip on this situation. What is needed is a strategic framework and consolidation around clear aims. This may well mean that the UK needs to reduce the number of bodies represented, not just to co-ordinate their work. Organisations should realise that it is not necessary for them to be directly represented in India in order to promote trade, or increase Indian awareness of their regions or sectors. In particular, bodies should use existing UKTI offices and representation to further their cause. Indian governmental bodies and companies are familiar with, and understand, UKTI: they often do not understand the status, powers or intent of other bodies." (Paragraph 106)

The Government's diplomatic posts are the only conduits for bilateral official engagement on trade and investment policy. JETCO is a mechanism for discussion, rather than an institution and this is led by UKTI. The Asia Task Force is an advisory group of business leaders that is making a valuable contribution to policy implications arising from the growth of emerging markets. UK Trade & Investment acts as the Secretariat for this initiative. UKTI's new strategy addresses the Committee's recommendation when it states "by March 2008, UKTI will have worked with the devolved administrations and the Regional Development Agencies to review their representation overseas and maximise effectiveness, ensuring that they deliver what is best for the UK in a coherent manner." The English RDAs' overseas offices' activities are limited to inward investment promotion, not trade promotion activities.

The engagement of the private sector through their trade associations, chambers of commerce and other groups are a natural reflection of the importance of India to business and the Government views their efforts as a positive contribution.

5. "We recommend that a decision is taken to position the IBPN as the leading player for the private sector in the UK; it should become the de facto Indo-British Chamber of Commerce and so the natural voice of commerce in relation to Indian trade and investment issues." (Paragraph 107)

UK Trade & Investment took the decision to help reinvigorate the Indo-British Partnership Network under Lord Bilimoria's leadership in 2004. Since then the Board of Directors has played an increasingly valuable role as the voice of business in relation to India and directly in the JETCO process. The Board is developing a business plan, which will enable the IBPN to increase their membership and business activity. The role and scope of the IBPN will be driven by its private sector membership. The Government would welcome it if the IBPN attracted businesses with active interests in India and drew under its umbrella the support and participation of representative organisations. The IBPN has already benefited from its affiliation with the Confederation of British Industry, the British Chamber of Commerce and the Corporation of London. Members of the IBPN do not currently have plans to become a chamber of commerce.

6. "We recommend that the individual English Regional Development Agencies do not establish representative offices or hire locally engaged staff in India and that existing

operations should soon be shut down. Their work should be co-coordinated exclusively through UKTI." (Paragraph 108)

The 2006 UKTI Strategy, published last July states that: "by March 2008, we will have worked with the Devolved Administrations (DAs) and the RDAs to review our overall national presence overseas and maximize effectiveness to ensure that this valuable resource delivers what is best for the UK in the most coherent manner."

A joint UKTI/DA/RDA working group is in the process of being set up, under the auspices of the Committee on Overseas Promotion to take forward this review and make recommendations. It would be premature to take decisions or comment, until the outcome of this forthcoming review.

The role of UKTI

7. While visiting India we found that UKTI's offices there were staffed by a highly competent and dedicated staff who worked hard to promote India as a potential export market to UK companies and the UK as a place of choice for Indian FDI. However, we felt that due to financial constraints, the teams were having to react to opportunities which arose, rather than be proactive in finding them. There was a lack of resources to enable the teams in India to focus on the future opportunities India will provide. We feel that without this ability, UK companies will be left to follow their main competitors instead of leading them. (Paragraph 187)

The Government was pleased at the Committee's recognition that UKTI's officers in India are a high performing team. The Government recognises the significance of the Indian market, which is why our team in India is our second biggest globally, after the USA. As part of UKTI's new strategic focus on emerging markets, India is a high priority and the team will be strengthened as resources are released from other markets. We aim to deliver more by focussing on high value/high impact work and by outsourcing work that can be delivered as effectively by others.

UKTI will continue to emphasise the proactive search for inward investment leads aimed at companies that have the potential to add the highest value to the UK economy.

8. "We are pleased that the 2006 Budget appears to have shifted the emphasis of UKTI's support in India away from 'new to export' small enterprises, as we do not see India as an appropriate first market for them. We believe that there are also some skills shortages and infrastructure problems, which in the main Indian cities could either choke the engine of the Indian economic miracle or, more likely, lead to the emergence of new centres of economic activity in less well known states and cities. The UK Government and UKTI must make sure that companies which may be considering 'setting up' in India are aware of these constraints, and prepare them to look to some of the less well known cities." (Paragraph 186)

UK Trade & Investment supports an on-going programme of "Doing Business in India" events across the UK. We use these events to outline the realities, as well as the opportunities, of doing business in India. The bespoke advice provided by UKTI to prospective UK investors and exporters also includes reference to the constraints, as well as the opportunities. SMEs with the potential to succeed will continue to be supported by

UKTI staff in the UK as well as in India. The Budget of 2006 formalised UKTI's mandate to make representations on behalf of large UK corporates for major business propositions. The new approach will also include a project to engage with established businesses to help them to develop a strategy for emerging markets, including India. We also recognise that "second cities" in India are becoming increasingly important. We already have representation in several of these cities—Ahmedabad, Bangalore, Chandigarh, Hyderabad and Pune. We also monitor economic development and key companies in other cities so as to inform UK business of new opportunities as and when they arise.

9. "We are particularly concerned about the arbitrary division between export promotion and inward investment activity which seems to owe more to a need to define a role for the Regional Development Agencies (RDAs) rather than to any rational assessment of the UK's commercial needs and priorities. Often we should be encouraging UK companies to undertake a broad spectrum of activities, including the establishment of joint ventures in India, or even greenfield investment there in new plants or offices. Competition between regions for inward investment is also an inevitable result of the current arrangements. UKTI should be free to engage fully with UK companies interested in India's markets, offering a one-stop shop for all their reasonable needs for advice and assistance. The RDAs should only have a role in promoting the benefits of their region after an Indian company has taken the decision in principle to locate in the UK. In England, the resources saved from RDA activity should be redirected back to UKTI." (Paragraphs 188 and 189)

As part of the new strategy, UKTI has restructured. There is no longer a division between investment and trade. The new "Business Directorate" is adopting an approach that develops relationships with UK and foreign companies on a sectoral basis. This unified approach is also being reflected in our diplomatic posts in India where the trade and investment teams have merged. As stated earlier, the interaction between UKTI and the RDAs is under review.

10. "We recommend that, under its five-year strategy to be announced later this year, the UK Government should also increase the resources available to UKTI for its work in India. If it does not, we fear the UK may well find itself missing the 'last train' in India. We look forward to the new strategy and in the future we will return to it to judge just how far UKTI, and the Government, have progressed towards fulfilling the strategy's aims and objectives." (Paragraphs 190 and 192).

In advance of the next Spending Review, UKTI is re-prioritising its deployment of resources. £5.6 million of resources currently used by other markets will be released as staff changes are made and these will be directed to diplomatic missions in emerging markets. India, together with China, will be given top priority. The document "Prosperity in a Changing World" sets out the timelines for all the actions planned as part of UKTI's new strategy.

11. "Both in relation to this and earlier inquiries into the UK's trading relations with various countries, we and our predecessors have felt concerns about how the resources of UKTI are being allocated between its various responsibilities: export support and promotion for small, medium, and large enterprises; attracting foreign direct investment by overseas companies into areas of the UK which most need it; its role in

promoting the UK higher education sector alongside the British Council; and whether the allocation of UKTI's resources between countries can be considered optimal. As a result we intend shortly to undertake an enquiry into this and other aspects of UKTI's work." (Paragraph 191)

The Government looks forward to the outcome of the Committee's further enquiry into UKTI.

Barriers to trade and investment

12. We recommend that the UK Government continue to press India for reductions in all high duty levels while offering its full assistance in arguing within the EU for a position in the world trade talks, which offers the liberalisation of EU and US markets that India has a right to expect, especially with regards to agricultural products. (Paragraph 41)

The Government continues to drive forward the JETCO process, lobbying the Government of India on specific trade and business issues, as well as the wider liberalisation of the Indian economy.

In addition, we work through the Department of Trade and Industry to ensure that our bilateral engagement is consistent with our EU and WTO policy objectives. The UK remains fully committed to achieving an ambitious, pro-development outcome to the World Trade Organisation Doha Development Agenda. This is the UK's primary trade policy objective. The UK also supports the European Commission's proposal to consider the feasibility and nature of an EU-India Comprehensive Economic Cooperation Agreement (CECA). But the timing of this is still being considered and it must not undermine the DDA.

13. "There is red tape and bureaucracy in India. However, we found little evidence to suggest that this acted as a barrier to trade against UK companies' goods and services in particular. Where red tape and bureaucracy existed—for example, the documentation needed for importing into India—requirements on UK exporters were the same as for companies from other countries. There was some evidence that a system of corruption and the payment of 'speed money' still occur in India. However, the Indian Government, through legislation such as the new Transparency Laws, is attempting to tackle this issue. We recommend that the UK Government urge the Indian Government and UK companies to ensure that such laws are upheld and do everything in its power to assist the Indian Government to reduce further the problems of excessive bureaucracy and corruption." (Paragraph 50)

The Government regularly raises any outstanding or unresolved business issues with their Indian counterparts. Our advice to business is to always comply with the laws of the countries in which they operate and to uphold the highest standards of business ethics.

14. "We found that there is some evidence to suggest that UK companies have been risk-averse when it comes to investing in India. However, our witnesses told us that this may not be due simply to UK companies' beliefs that India is too risky a market. There are barriers to investment in the form of Indian Government restrictions on foreign direct investment (FDI) in sectors in which UK companies have traditionally invested

overseas—sectors in which they hold a competitive advantage, for example legal and insurance services." (Paragraph 60)

15. We recommend that the UK Government encourage the Indian Government to liberalise fully the service sector and strongly urge the complete opening up of the financial services market in India. The UK Government must also take a proactive role in helping to keep the UK financial sector informed of developments in Indian Government policy so that when liberalisation occurs, UK companies will be ready to take advantage of the new markets. (Paragraph 90)

16. We believe a liberalised legal service market would bring positive benefits to the legal systems of both countries. However, Indian Government restrictions on domestic law firms are stifling the ability of India's law firms to become the type of companies, which, we believe, would be more than able to compete against global law firms, should the market for legal services be liberalised. Any resultant gains in the efficiency of Indian law firms could only be beneficial to Indian commerce. We recommend that the UK Government, through the Joint Economic and Trade Committee (JETCO), urges the Indian Government to provide a conducive regime to its domestic law firms. The UK Government should also press the Indian Government to commit itself to a timetable for the liberalisation of the legal services market. (Paragraph 85)

The Government's interaction with UK businesses does not suggest that they are risk averse. We agree that UK business has been prevented from fulfilling its potential in India as a result of restrictions on FDI in those sectors where the UK is a world leader e.g. financial services.

The Government is stepping up its effort to market the City of London and the UK Financial Services sector, along with our commitment to lobby on regulatory issues and barriers to trade and investment. We are developing a communications programme aimed at building awareness and reinforcing the reputation of the UK as a global leader in financial services among influencers and decision-makers in key markets worldwide.

The Government will continue to push forward our market access agenda, through ministerial contacts, multilateral negotiations, bilateral lobbying and the JETCO process.

Some promising sectors

17. "We visited a number of pharmaceutical and biotechnology laboratories while we were in India, and were very impressed by the facilities and by the determination of the companies to employ the best staff and to conduct research of the highest quality. Research on new drugs and other healthcare products is extremely difficult, time-consuming and expensive. The UK is arguably second only to the US in this sector, but future breakthroughs are likely to be more, not less, difficult. We think that there is considerable scope for mutually beneficial co-operation between Indian and UK-based companies and Indian and UK universities and research establishments in this sector." (Paragraph 71)

UKTI is developing a £9 million programme of intensive support for innovative and R&D-intensive companies, in consultation with the RDAs, to:

— promote to multinationals and overseas companies the benefits of undertaking R&D in the UK;

— help multinationals and overseas companies to collaborate with UK companies and/or research organisations;

— help R&D-intensive UK companies to penetrate overseas markets and multinational supply chains; and

— support the sustainable internationalisation of new R&D-intensive UK companies.

For overseas-owned companies, the programme will include the pinpointing and showcasing of relevant R&D excellence in UK research establishments and the wider knowledge supply chain.

For UK-based businesses and organisations the programme will include tailored support to enable them to engage effectively with multinationals and to penetrate overseas markets sustainably, thereby maximising the return on their R&D investment.

Key elements of the programme are:

— determining priority companies both for inward investment and as potential high-value exporters;

— targeting priority overseas companies with cross-public sector virtual teams, spearheaded by UKTI and involving the RDAs and others; and

— deploying a new cadre of up to 20 specialists with expertise in key technology sectors over the next two years.

This work will be supported by a growing science and innovation network team within the British High Commission in India.

18. "We were concerned that the UK's perception of India had been seriously distorted by the media's focus on the perceived threat to UK jobs from outsourcing, particularly from call centres, creating a view that these centres were the dominant feature of the Indian economy. We saw, while we were in India, that the true scale of business process outsourcing (BPO) goes far beyond customer contact centres (CCCs). UK commentators and analysts need to understand that the complete range of BPO activity includes everything from software development to accountancy services and medical secretary services to typesetting." (Paragraph 74)

The Government recognises the value to the British economy of a range of outsourcing models. Sourcing components and pre-fabricated parts are well-established practices in the British manufacturing industries. Globalisation and technology has led to new business models in the service industries. Some decisions are made purely on the grounds of cost. More often, the commercial considerations include decisions about how to use the skills and talents of UK based employees in the value chain. Outsourcing of book-keeping work to India has not in any way diminished the world class standing of British accounting firms.

Service to customers and turnaround times have improved in many instances. British companies with Indian operations are now able to complete medical transcription work overnight. 24/7 monitoring of systems and fault reporting is now possible because of remote stations in India.

Just as UK companies have taken the decision to outsource to India, Indian companies have taken the decision to outsource to the UK. HCL Technology is just one of 500 Indian companies to invest in the UK, all of whom have created jobs in the UK economy. HCL not only saved a former BT call centre in Belfast from closure, they have expanded their operation and are now one of the biggest employers in Northern Ireland. Although UKTI does not see a need to actively promote outsourcing, we will continue to offer support to all UK companies investing in India and all Indian companies investing in the UK.

The Government's role in promoting India

19. "There is a worrying lack of familiarity with the Indian market amongst some parts of the UK business community. The UK Government needs to address this by making more information available on the Indian market to UK companies, even those which are not currently seeking to enter the market there." (Paragraph 99)

In addition to UKTI's national programme of "Doing Business in India Events" we are seeking to extend our outreach to UK business by working more closely with key stakeholders including the IBPN, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII), all of whom are keen to work with UKTI to stage more sector-based events across the UK.

To encourage UK businesses to visit India, UKTI is extending eligibility for the Tradeshow Access Programme to experienced exporters, both to those seeking to do business in emerging markets and to innovative companies wishing to exhibit at high-technology events. UKTI's regional teams are also able to support SMEs in visiting new markets.

Under the new UKTI strategy, Senior Trade and Investment Advisers in our diplomatic missions will develop closer relationships with key UK companies in their sectors.

20. "The UK Government needs to engage more systematically with senior members of the UK business community, especially those from medium sized enterprises, to bring about a 'step' change in their perceptions of India. This would overcome the perceptions that too frequently hold back investment, highlighting the very significant business opportunities in India, and so result in more commitment from the top." (Paragraph 100)

By January 2007, we will have dedicated account managers in place for key business groups i.e. high-value potential investors, major exporters, exporters including medium sized companies, to emerging markets and R&D-intensive companies to ensure we are best placed to help our clients internationalise. From January 2007, we will develop relationships with these companies to inform them about opportunities in India, and to support them if they choose to develop business there.

On 10 October, the UK India Investment Summit will give more than 100 business leaders the opportunity to hear directly from the Indian and British Prime Minister of their commitment to expand commerce between the two countries.

We will continue to invite business leaders to join British ministers when they visit markets whenever appropriate, including visits to India by the Foreign Secretary, the Secretary of State for Trade and Industry and the Minister for Trade.

We will also engage with business leaders through regular discussion groups led by the Chief Executive of UKTI and other senior staff.

Opportunities for the Higher Education Sector

21. "Overall, the UK higher education sector has not been as good as some of their overseas competitors in promoting themselves in India. However we believe this is changing. This is welcome, but education is also operating in an increasingly competitive globalised market. UK HEIs must redouble their marketing activities and refine their courses to maximise the considerable and growing opportunities in the Indian market." (Paragraph 127)

The effectiveness of the UK's marketing activity in India is improving, with 131 UK Higher Education Institutions as members of the Education UK India Country Partnership (second only to China's membership). In addition to this, 11 representative offices are now established in India and over 80 UK institutions will be touring India in November, as part of the British Council's exhibitions. The number of Indian students attending UK Universities this year is in excess of 20,000 and is now comparable to the number of Indian students attending US universities.

In recognition of the changes to and increased competitiveness of the international student market, the second phase of the Prime Minister's Initiative for International Education (PMI) was launched in April 2006. This phase of the PMI aims to:

— secure the UK's position as a world leader in international education;

— sustain the growth of the number of students taking a UK education;

— build on measures taken under the first phase to make the UK a more welcoming and attractive study destination.

22. "The cost of studying in the UK is generally comparable with other countries. However, other countries, especially the US and Australia, provide far more scholarships and other financial incentives for Indian students to study there. We do not believe that charging fees for UK courses proves a disincentive to the richest of Indian students. However, we recommend that the Government should look very closely at the current regime of higher education funding in the UK to see if there is more that could be done to attract to the UK the brightest Indian students, who may not be amongst the richest." (Paragraph 132)

Our most recent scholarship survey indicated that there are around 700 scholarships available for Indian students to study in UK. No comparable figures are available for the US and Australia. The UK offers a world-class education, internationally recognised qualifications and more intensive courses, which are often shorter than our competitors, making a UK education excellent value for money.

23. Investment by overseas HEIs in Indian HEIs is still prohibited. We agree with the British Council that the UK's current approach to investment in greenfield campuses should be one of 'wait and see', not least as there are major concerns over costs, the regulatory risks, the possible reduction of standards within such campuses and the consequent reputational risk to UK HEIs. However, should the current restrictions on investment change, the UK Government should help to ensure that those HEIs wishing to invest in India are in a position to take advantage of the huge opportunities which would be opened to them." (Paragraph 164)

Much is being achieved by UK institutions working in partnership with local institutions. We estimate that there are approximately 60 partnerships delivering a large range of UK qualifications in India with approximately 6,000 Indians studying for British higher educational qualifications in India. The UK-India Education and Research Initiative (UKIERI) is cultivating an additional range of collaborative programmes. In addition we are working very closely with the Indian Government and regulatory bodies to positively influence any policy relating to regulation of foreign institutions.

24. "The UK-India Education and Research Initiative (UKIERI) has the potential to increase collaboration between the education sectors of the two countries. We consider, however, that an average of £4 million per annum is insufficient funding to make a significant impact, given the size of India and its education sector. We recommend that the Government publicly commits itself now to increase investment in UKIERI, should it prove a success, given matching investment by the private sector." (Paragraph 175)

The Government is committed to encouraging private sector investment to match government investment in these projects. Both the UK and Indian Governments regard partnership with the private sector as vital in maximising the impact and sustainability of the Initiative. The Government has already invested over £12m over the next five years, and secured four corporate champions for the Initiative amounting to £2m in cash and a further £2m in kind. In June 2006, the Government of India pledged matched funding of between £6 and £8 million for science and technology research projects under UKIERI. As the Initiative matures, and research and education projects come on-stream, further private sector sponsorship is being sought, with industrial partnership a desirable criterion for major and standard awards.

In-country intelligence has indicated that UKIERI is already being cited as an example of good practice amongst European competitors.

25. "We recommend that the Government carries out a study of ways in which companies' involvement in the UKIERI can lead to their greater collaboration with HEIs, both in the UK and India." (Paragraph 176)

As further private sector funding is secured and public-private partnerships are delivered, UKIERI evaluation processes will essentially serve this role, identifying ways in which academic-business links can be sustained in the longer-term. Plans are already underway to address alumni needs to ensure that individual and institutional links are maintained across public and private sectors.

Visas and work permits

26. "Overseas students at Scottish higher education institutions are allowed to gain work experience for two years after graduation. The Government proposes that in England, they should be allowed to work for one year after graduation. Education policy may well be a devolved matter but immigration policy is not. Allowing overseas students to remain to work in the UK following a period of study constitutes the issuing of a work permit and is therefore a matter for the Home Office, no matter how long a period of time is involved. The Scottish system must be brought into line with that of the rest of the UK as a matter of urgency and we believe that two years is the minimum time that should be given to all overseas students of a particular calibre under any transitional scheme between studying in the UK and pursuing a full time career here, or returning to their home country." (Paragraph 145 and 146)

The difference in the amount of leave granted under the Science and Engineering Graduates Scheme (SEGS) and the Fresh Talent: Working in Scotland scheme (FTWiSs) reflect the different aims of the two schemes. SEGS is designed to make the UK a more attractive study destination and to encourage more international students to come here. It allows participants to gain the experience necessary to switch into an employment category. FTWiSs, as part of the Scottish Executive's Fresh Talent Initiative, aims to counter Scotland's falling population by encouraging people to consider living and working in Scotland.

The issue of work permits is to be regularised with the introduction of the Points Based System (Tiers 2 and 3). Work permits are obtained by the employer and limit the recipient to only working with that specified employer for the approved period (up to 5 years). They are issued only after the employer can demonstrate that the position cannot be filled either by the indigenous work force or from within the EU. Under the points-based system for managed migration, a new Post Study sub-category of Tier 1 (Tier 1 is for highly skilled migrants) will subsume these two schemes (SEGS and FTWiSs). The Government is currently looking into all aspects of policy for this sub-category.

The UK Science and Engineering Graduate Scheme (SEGS) was amended on 1 April 2006, to expand the number of qualifying courses and align more closely with the aims of the Prime Minister's Initiative, which is to make the UK a more attractive study destination and to encourage more international students. It is however still only valid for year. It is of course open to students at the conclusion of either programme to switch into work permit employment or the Highly Skilled Migrant Programme should they be eligible for such employment.

27. "We recommend that the UK Government should commission a study of the costs and benefits for the UK economy, and overseas students, of extending this period further in the future." (Paragraph 146)

The Points Based System (PBS) standardises the current routes to study and work in the UK. The UK Science and Engineering Graduate Scheme (SEGS) has only recently been reviewed. The transition to PBS is to be phased and further revision may be considered at that time.

28. “We understand the Government’s caution with regards to ‘new’ employees of Indian-based UK companies and ‘new’-to-the-UK Indian companies, given the current security situation and continuing problems with illegal immigration. However, reducing impediments to the movement of skilled workers, and in the IT sector in particular, given the speed of change, is essential if the UK is to benefit from globalisation. In this context, a measure of discretion must be available to the immigration services, who would naturally look to employers to provide adequate assurances.” (Paragraph 152)

The Government has already made provision in India to streamline the visa process for regular bonafide business travellers. The Business Express Programme (BEP) is designed to assist reputable companies in obtaining visas with the minimum of delay and documentation, to enable their staff to travel to the UK on business. Membership is open to companies who have a demonstrable track record of business travel and is by invitation.

The Programme is designed to help:

— Employees being sent for a business visit of six months or less in the UK;

— Employees being sent to the UK to undertake work permit employment. Their dependants (i.e. their spouse and dependent children) may also apply through the BEP as work permit dependants, either at the same time as the employee or shortly afterwards.

BEP applications are made online and average around 100 per day. On receipt at the visas department, they are prioritised and issued within 24 hours.

Corporate Social Responsibility and Caste issues

29. “We recommend that UK companies operating in India should be careful not to break the letter or spirit of the laws protecting Scheduled Castes and Scheduled Tribes. Preferably, they should take note of the ‘Ambedkar Principles’, launched by the International Dalit Solidarity Network, and look carefully at their recruitment and employment policies in India.” (Paragraph 98)

Baroness Royall, representing the UK Government, supported the UK launch of the Ambedkar Principles in July 2006. DFID is committed to playing its part in addressing caste-based discrimination. Its programmes directed for example at education, health and access to justice specifically monitor the impact on Dalit and other disadvantaged groups.

UK banks, Lloyds TSB, Standard Chartered, HSBC and Barclays, have taken an active stance on promoting the Ambedkar Principles. Apart from participating in the launch they have disseminated information on the Principles to their Indian operations. The Government welcomes the awareness raising work undertaken by The Dalit Solidarity Network UK.

Under the UK Presidency the EU-India joint action plan was agreed, identifying key areas in which the EU and India agree to work together including human rights. The British High Commission in New Delhi has also discussed the issue of caste discrimination with the Indian National Commission for Minorities and National Commission

More generally, the Government is committed to ensuring that businesses takes account of the social and environmental impacts of their activities worldwide, and follow the principles outlined in the international instruments on Human Rights. We encourage all UK businesses to comply with the laws of the country in which they operate. Discrimination on the grounds of caste is inconsistent with the standards that the UK applies and is illegal in India.

The UK government endorses a range of international activities designed to encourage responsible business behaviour. The UK endorses the OECD Guidelines and UN Global Compact on corporate behaviour.