



House of Commons  
Trade and Industry Committee

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# Trade and Investment Opportunities with India

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Third Report of Session 2005–06

*Volume I*





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Third Report of Session 2005–06

## *Volume I*

*Report, together with formal minutes*

*Ordered by The House of Commons  
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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), Robert Cope (Committee Specialist), Grahame Allen (Inquiry Manager), Clare Genis (Committee Assistant) and Joanne Larcombe (Secretary).

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### Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number.

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## Summary

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How the UK reacts to globalisation is one of the most important issues facing the UK Government. To know how to react, it is necessary first to understand the real nature of the challenge. The decision to undertake an inquiry into India was born of an often-expressed concern that the UK is making less of its opportunities than our global competitors. Representatives of both the Indian Government and the UK and Indian private sectors expressed their concerns that our unique relationship with India should be generating a much higher level of trade and investment than was actually the case. The Committee undertook this detailed examination of trade and investment relations with India to learn about the specific issues in this vital trading relationship and to inform the Committee's wider work on the actions the UK must take to remain competitive.

India's economy is the fourth largest in the World with the second largest population, of 1.1 billion. Awareness of the developments in the Indian economy has grown sharply in recent months. Our Report found, however, that the UK's understanding of what is happening in India is still only partial. We were concerned that the UK's perception of India has 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 are the dominant feature of the Indian economy. We saw in India that the true scale of business process outsourcing (BPO) goes far beyond call centres. We also saw the growth of manufacturing industry of considerable quality in the automotive and aerospace sectors and the vast opportunities for the UK's higher education sector.

There are three themes that flow through this Report and which should be regarded as our principal conclusions on which our more detailed recommendations are based.

First, that the UK is not as engaged with India's markets as it should be. Despite our long history of commerce with India, UK companies are falling behind their major competitors, perhaps because UK companies tend to see India as a source of low-cost labour rather than an emerging market in its own right. The UK needs to be far more entrepreneurial in its approach to India if it is to take advantage of the huge opportunities this vast country has to offer our companies and institutions.

Second, the Indian market is liberalising at a rate not always fully appreciated in the UK. Constant vigilance is needed by those wanting to do business with India, if the fullest advantage is to be secured by them from this progressive liberalisation. However, uniform and continuing progress cannot be assumed and UK diplomacy must continue to urge the Indian authorities to continue on their chosen course—and to demonstrate by example in world trade talks our own country's adherence recognition of the merits of liberalisation.

Third, that the UK's institutional arrangements to support trade with and investment both in and from India are characterised by enthusiasm but also by confusion. A great deal of good work is being done, but by too many overlapping bodies with ill-defined responsibilities, and often inadequate resources. Viewed from India, the UK is a small country, and our efforts need to be far more focussed to have a real impact.



# 1 Introduction

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1. How the UK should react to globalisation is one of the most important issues facing the UK Government. To know how to react, it is necessary first to understand the real nature of the challenge. We undertook this detailed examination of trade and investment relations with India to learn about the specific issues in this vital trading relationship and to inform our wider work on the actions the UK must take to remain competitive.

2. Our decision to begin the new Parliament with an inquiry into India was born of an often-expressed concern that the UK is making less of its opportunities than our global competitors in the US, Europe and the Far East. We had heard representatives of both the Indian Government and the private sector express concern that our unique relationship with India should be generating a much higher level of trade and investment than was actually the case. Currently, it was said, we were losing ground relative to those competitors.

3. The purpose of our inquiry was to establish the facts about the opportunities and threats from India, and to explore what more could be done to increase commercial activity between our two countries to our mutual advantage.

4. Awareness of the developments in the Indian economy has grown sharply in recent months. During our inquiry, and particularly since the Davos conference at the beginning of 2006, levels of interest in India globally have clearly been growing. Our report found, however, that the UK's understanding of what is happening in India is still only partial.

5. We were told during our visit to India that the country still faces many challenges—growing income inequalities, serious environmental issues and poor infrastructure were the three issues most often highlighted to us as causes for concern. Concern about the first of these has recently led to the very controversial decision by the Indian government to reserve a high proportion of university places for lower castes.

6. We also saw for ourselves the huge self-confidence of the business community, the growth of the Indian middle class as major consumers, the underlying strength of the rule of law and democracy and the commitment of the Indian Government to the continued liberalisation of India's markets.

7. We were concerned that the UK's perception of India has 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 are the dominant feature of the Indian economy. While we were in India, we saw that the true scale of business process outsourcing (BPO) goes far beyond call centres and there is a sophistication and range of services offered under this beguilingly bland generic title. We also saw the growth of manufacturing industry of considerable quality in both the automotive and aerospace sectors.

8. There are three themes that flow through this Report and which should be regarded as our principal conclusions on which our more detailed recommendations are based.

**9. First, that the UK is not as engaged with India's markets as it should be. Despite our long history of commerce with India, UK companies are overall falling behind their**

major competitors, perhaps because too many UK companies tend to see India simply as a source of low-cost labour, overlooking that it is an emerging market in its own right. The UK Government, business, and indeed the higher education sector, all need to be far more entrepreneurial in their approach to India if they are to take advantage of the huge opportunities this vast country has to offer our companies and institutions.

10. Second, the Indian market is liberalising at a rate not always fully appreciated in the UK. Constant vigilance is needed by those wanting to do business with India, if the fullest advantage is to be secured by them from this progressive liberalisation. However, uniform and continuing progress cannot be assumed and UK diplomacy must continue to urge the Indian authorities to continue on their chosen course—and to demonstrate by example in world trade talks our own country's recognition of the merits of liberalisation.

11. Third, that the UK's institutional arrangements to support trade with and investment both in and from India are characterised by enthusiasm but also by confusion. A great deal of good work is being done, but by too many overlapping bodies with ill-defined responsibilities, and often inadequate resources. Viewed from India, the UK is a small country, and we need to be far more focussed to have a real impact.

12. India's economy is diverse in the extreme, encompassing as it does: subsistence farming and modern agriculture (accounting for around 21% of gross domestic product (GDP) and 60% of total employment); rural handicrafts and a range of modern industries (accounting for around 28% of GDP and 17% of employment); and many services (accounting for around 51% of GDP and 23% of employment).<sup>1</sup>

13. Following independence in 1947, India's economy was highly centralised and largely closed to outside trade, with economic policies based on import substitution<sup>2</sup> and state ownership of 'key' industries.<sup>3</sup> India was characterised as a country of minimal import, export and investment potential by western companies and pre-1990, real GDP growth was averaging just over four percent per annum.<sup>4</sup> From the middle of the 1990s, India's government embarked on a series of market reforms including a relaxation of the restrictions on foreign ownership of Indian companies in some sectors and the privatisation of state-owned industries. The reforms gave an immediate boost to the economy and real GDP growth averaged seven percent between 1994 and 1999.<sup>5</sup> More recently, India's economy has been growing at a trend rate of just over six percent per annum<sup>6</sup> as the present Indian Government has continued the process of economic

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1 CIA, *Factbook*, 2005 CIA website (14 June 2006): [www.cia.gov/cia/publications/factbook/index.html](http://www.cia.gov/cia/publications/factbook/index.html)

2 The policy of protecting an indigenous industry against imported goods of a similar type.

3 Appendix 30, Annex A, para 2

4 OECD website (14 June 2006): [stats.oecd.org/WBOS/default.aspx?DatasetCode=CSP6](http://stats.oecd.org/WBOS/default.aspx?DatasetCode=CSP6)

5 Indian Ministry of Statistics and Programme Implementation (MOSPI), *National Accounts Press Release: Statement S-1.2: Macro economic aggregates and population*, available on the MOSPI website (14 June 2006): [mospi.nic.in/3\\_macro\\_agg\\_const.pdf](http://mospi.nic.in/3_macro_agg_const.pdf)

6 OECD website (14 June 2006): [stats.oecd.org/WBOS/default.aspx?DatasetCode=CSP6](http://stats.oecd.org/WBOS/default.aspx?DatasetCode=CSP6)

reforms. Real GDP growth was 8.5 percent for the financial year ending March 2004,<sup>7</sup> 7.5 percent for the year ending March 2005, and 8.4 percent for the year ending March 2006.<sup>8</sup>

14. As the Indian economy continues to develop, it is ‘migrating’ up the value chain.<sup>9</sup> The Indian middle class, on even conservative estimates, is forecast to grow to around 200 million people in the next 15 years.<sup>10</sup> This will raise consumer demand as incomes rise, steadily increasing the market opportunities for UK companies to trade their products and services. We were concerned that UK companies were not taking sufficient advantage of the opportunities a fast developing India was providing and so decided to undertake an inquiry to ascertain why this was. The original terms of reference for our inquiry included looking at the difficulties and opportunities faced by UK companies, and the role of the Government in assisting UK companies wishing to trade, or forge investment links with India, including the responsibilities of UK Trade & Investment (UKTI).

15. During our inquiry we took formal evidence from: Tata Consultancy Services (TCS) and Diligenta; Aviva Offshore Services and Norwich Union; UKTI; the Indo-British Partnership Network (IBPN) (represented by Mr Karan F Bilimoria, CBE, DL, Chief Executive of Cobra Beer Ltd, and Chairman of the IBPN and Dr Shailendra Vyakarnam, Director of the Centre for Entrepreneurial Learning, University of Cambridge and Board Member of the IBPN); The India Group (represented by Mr Sonjoy Chatterjee, Managing Director and Chief Executive Officer of ICICI Bank (UK) Ltd and Chairman of The India Group, Mr Anwar Hasan, Managing Director of Tata UK, and Mr Sirjiwan Singh, Head of Wockhardt UK Limited); and Mr Ian Pearson MP, the then Minister for Trade.

16. We had meetings with Kamal Nath, India’s Minister for Commerce and Industry and visited a call centre in Belfast, owned by Hindustan Computers Limited (HCL) a major Indian IT company. We also undertook a visit to India, where our attention was continually drawn to the opportunities presented for the UK higher education sector by the companies and organisations we met. We took formal evidence upon our return from representatives of higher education institutions (HEI) with an interest in India. These were Lord Patten of Barnes, Chancellor of Oxford University and Newcastle University, and Dr Tidu Maini, Pro Rector, Development & Corporate Affairs for Imperial College London. We also took evidence from the British Council, which has responsibilities for promoting the UK’s education sector in India.

17. We received 28 written memoranda from other companies, trade associations and individuals, which are listed on page 65. We express our gratitude to those who provided evidence to the Committee and those who met and discussed issues with us during our visit to India.

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7 MOSPI website (14 June 2006): [mospi.nic.in/nad\\_summary\\_constant\\_supply.htm](http://mospi.nic.in/nad_summary_constant_supply.htm)

8 Astaire Research, *The India Report*, 31 May 2006

9 Q 372

10 Appendix 1

## 2 The UK's poor trade and investment record with India

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### Trade with India

18. India's trade and investment with the UK should be at a higher level than with its main competitors, given that "the UK has always enjoyed a special trading relationship with India".<sup>11</sup> As a proportion of total UK-World goods trade, both UK exports to, and imports from, India increased between 1992 and 2005—from 0.9 percent to 1.3 percent for exports, and from 0.7 percent to one percentage point for imports.<sup>12</sup> The UK balance of trade in goods with India has fluctuated between deficit and surplus in the recent past, but was at a deficit of £47 million in 2005.<sup>13</sup> Exports of goods to India were valued at just over £2.8 billion, making India the 16<sup>th</sup> largest export market for UK goods that year. Imports of goods into the UK were valued at just under £2.8 billion, making India the 22<sup>nd</sup> largest source of UK imports.<sup>14</sup>

19. The trade in services with India has been at a lower level than the trade in goods. India ranked 22<sup>nd</sup> as a destination for exports of UK services (£800 million and 0.8% of all UK service exports) and 19<sup>th</sup> as a source for UK services imports (£1 billion and 1.3% of all UK service imports) in 2004.<sup>15</sup> The balance of services trade has been in deficit since 1998, having gone from a surplus of £57 million in 1992 to a deficit of £203 million in 2004.<sup>16</sup> This suggests the UK is becoming a more important market for Indian services, as highlighted by the recent increase in offshoring of business process outsourcing (BPO) by UK companies.<sup>17</sup>

20. The services deficit, combined with a slight deficit on goods trade, has brought about a deterioration in the balance of trade with India, which has gone from a £186 million surplus in 1992 to a deficit of £242 million in 2004, although 2003 saw a £110 million surplus.<sup>18</sup>

21. From an Indian perspective, the evidence suggests that the UK is also an important trading partner for India. In 2004/05 the UK was India's fourth largest goods trade partner (4% of India's World trade in goods), after the US (11%), China (6%) and Belgium (4%).<sup>19</sup> India's main trading partners, broken down by exports and imports, were:

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11 Appendix 11, para 1.1

12 ONS, *Pink Book*, 2005, table 9.4 and ONS, *Monthly Review of External Trade Statistics*, table G1, February 2006

13 ONS, *Monthly Review of External Trade Statistics*, table G1, February 2006

14 *Ibid.*

15 ONS, *Pink Book*, 2005, table 9.5 and Appendix 11, para 1.2

16 ONS, *Pink Book*, 2005, table 9.5

17 Appendix 18, page 3

18 ONS, *Pink Book*, 2005, table 9.3

19 FCO website (14 June 2006): [www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192](http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192).

— Exports—US (17%); China (6%); Singapore (5%); Hong Kong (5%); the UK (4.5%); and

— Imports—China (6%); US (6%); Switzerland (5%); Belgium (4%); Germany (4%); Australia (3%); and the UK (3%).<sup>20</sup>

22. Major goods items traded between the UK and India have come from “the traditional manufacturing sector such as textiles, apparels, crude materials and various manufactured articles”.<sup>21</sup> These have included:

— Exports to India—pearls, precious and semi precious stones; machinery and transport equipment; metal scrap and other crude materials; and other manufacturing;<sup>22</sup> and

— Imports from India—textiles and readymade garments; gems and jewellery; footwear; electrical machinery and transport equipment; metal manufactures; power generating equipment; organic chemicals; and vegetables and fruit.<sup>23</sup>

23. The main services traded between the UK and India have included:

— Services exports to India—financial/business services; royalties and licence fees; transportation and travel; insurance; communications; construction; and

— Services imports from India—transportation and travel; IT and other information services; and other business services.<sup>24</sup>

24. Trade between the UK and India is expected to continue to grow in the future.<sup>25</sup> UKTI told us that the trade figures between India and the UK show promising and continuing signs of growth, with this year’s export figures showing a 27.2% increase over the same period last year.<sup>26</sup> Sectors in which the growth in trade are currently most pronounced include:<sup>27</sup>

Imports into the UK from India

— **Medicinal and pharmaceutical products:** This category first appeared in the ‘top ten’ items exported to the UK in 2003. In the first three quarters of 2005, exports reached £67 million, suggesting an average growth rate of around 50 percent per annum over the last two years.

20 FCO website (14 June 2006): [www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192](http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192).

21 Appendix 11, para 1.1

22 *Ibid*, page 4, table 1B

23 FCO website (14 June 2006): [www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192](http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1018965323192).

24 Appendix 11, para 1.2

25 *Ibid*, para 1.2

26 Appendix 29, page 6, para 3

27 Appendix 11, para 1.1

- **Apparels:** As a result of the abolition of the quota system under the Multi-Fibre Agreement (MFA) imports of apparels have risen to £519 million, again suggesting an average growth rate of around 50 percent per annum over the last two years.

Exports from the UK into India

- **Pearls, precious and semi-precious stones:** The UK does not have a large domestic precious/semi-precious stones industry. Most exports are thought to have been imported from Belgium and other countries for re-export to India.<sup>28</sup>

- **Metal scrap:** This is another category which does not reflect the traditional UK economy.

25. ‘Metal scrap’ and ‘pearls, precious and semi-precious stones’ make up almost two-thirds of UK exports to India, indicating “a trade basket where the UK does not have a competitive advantage over other nations”.<sup>29</sup>

26. We were concerned that the growth in India-UK trade had been slower than the overall growth in Indian-EU trade. India’s exports to the UK have grown at a compound annual growth rate (CAGR) of 12 percent per annum compared to a CAGR for Indian exports to the EU as a whole of 13 percent. Of far more concern is that UK exports to India are growing at a CAGR of just two percent per annum compared to a CAGR of 14 percent for the EU.<sup>30</sup>

**27. 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.**

**28. 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.**

## Foreign Direct Investment (FDI)

29. As the Chinese economy has become saturated by Foreign Direct Investment (FDI)<sup>31</sup> India is being increasingly viewed as a priority destination for FDI.<sup>32</sup> A recent survey of the

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28 Appendix 29, page 6, para 3

29 Appendix 11, para 1.1

30 *Ibid*, para 1.3

31 In this case we have defined FDI as an investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in a country other than that of the investor where the purpose is to have an ‘effective voice’ in the management of the enterprise. Source: HC Library, *Foreign Direct Investment*, Standard Note SN/EP/1828, June 2005,

32 Q 309 (Mr Hasan)

World's leading companies' executives' confidence in, and preferences for, FDI found that while for a third year running, China remained the top ranked country,<sup>33</sup> India was ranked second in 2005 (moving the US into third place) rising from third in 2004 and sixth in 2003. FDI into India has been estimated to have averaged around £250 million per annum prior to the regulatory reforms of the mid-1990s, but has increased year on year since then until, in 2004, FDI into India amounted to just over £3 billion.<sup>34</sup> UKTI told us that this suggested that: "the Indian reform programme is beginning to be recognised on a wider scale" and that: "India still lags behind China in World FDI, but is gaining on it".<sup>35</sup>

30. In 2004, net FDI by UK companies in Indian subsidiary and associate companies amounted to just over £269 million. This was one half of one percentage point of all net direct investment by UK companies overseas and a rise of £80 million (39%) on the 2003 total.<sup>36</sup> Our witnesses were worried that although the statistics suggested the UK was doing reasonably well in isolation, compared to other countries the situation was relatively poor, especially given the UK's historical links with India.<sup>37</sup> The UK was only the fourth largest provider of FDI into India in 2003/04 (11% of total FDI by overseas companies in India) after Mauritius (26%), the US (20%) and the Netherlands (13%).<sup>38</sup> Provisional data for 2004/05 suggests that the UK may be further losing ground, having fallen to sixth in the ranking of investors in India, now behind Germany and Japan.<sup>39</sup>

31. However, the official statistics are incomplete and do not report the whole story. The Commonwealth Business Council (CBC) and UKTI told us that UK companies are investing in India through Mauritius because of its economic relationship with India, which allowed investors special tax breaks.<sup>40</sup> They also told us that India does not include the reinvestment of retained earnings by overseas companies back into their local companies in its official statistics.<sup>41</sup> Many UK companies have had investments in India for many years, so that the re-investment of profits may be considerable over time.

32. According to UKTI, by far the most dramatic new trend in the UK-India business relationship has been the recent growth of Indian companies as investors into the UK, as India's restrictions on investing overseas have been reduced.<sup>42</sup> Gross outward FDI from India into the UK by Indian companies or their subsidiaries has risen from an average £14 million per annum before 1995 to £1.3 billion in 2004; 2004 was the first year gross FDI in the UK by Indian companies exceeded outward FDI.<sup>43</sup> These interests range from IT

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33 AT Kearney, *Global FDI Recovery Clouded By Savings Glut Overhang*, 7 December 2005. AT Kearney website (24 April 2006): [www.atkearney.com/main.taf?p=1,5,1,169](http://www.atkearney.com/main.taf?p=1,5,1,169)

34 UNCTAD, *World Investment Report, 2005*, UNCTAD website (18 January 2006): [www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1](http://www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1)

35 Appendix 29, Annex B

36 National Statistics First Release, *Foreign Direct Investment 2004*, 13 December 2005

37 For example see Q309 (The India Group)

38 Reserve Bank of India, *Annual Report, 2004/05*

39 *Ibid*, page 82

40 Appendix 11, para 2.3 and Q156 (Mr Ahmed)

41 *Ibid*, para 2.2

42 Appendix 29, page 6, para 5

43 'Warning to British firms as India's investment rises', *The Times*, 17 January 2006

enabled services, for example HCL's call centres in Belfast and the joint venture between Pearl Group Ltd and TCS—Diligenta—in Peterborough, through to pharmaceuticals and other manufacturing.

33. However, not all of the benefits of this investment have accrued to the UK economy. Net inward FDI by Indian companies and subsidiaries into the UK has been estimated to have amounted to around –£18 million in 2004, suggesting that Indian companies have tended to repatriate their profits back to India rather than re-investing them in the UK.<sup>44</sup>

**34. 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.**

35. However, there is evidence to suggest that UK companies' investments in India may have been underestimated due to reporting technicalities. Profits of UK companies which 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.

## 3 Barriers to trade and investment

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36. We asked our witnesses whether they thought there were barriers to trade and investment with India, which could account for the UK's recent poor trade and investment performance. Our witnesses told us that India was still not a completely open economy and suggested that at least some barriers remained, some pertaining to trade, some to investment (FDI) and some that were applicable to both.<sup>45</sup>

### Barriers to trade

37. There are a number of issues affecting UK companies seeking to export to India, which effectively act as barriers to trade. These barriers include heavy import duties, excessive red tape and bureaucracy, and corruption.<sup>46</sup>

### Tariff barriers

38. India has been a country of high tariff barriers since independence.<sup>47</sup> Tariffs act as a barrier to overseas companies entering the Indian market by making their goods and services more expensive than those produced domestically. EEF, the manufacturers' organisation, told us that: "the average applied tariff for industrial imports into India is around 16% and the bound rate (the rate at which they are legally entitled to apply tariffs if they wish) is around 35% for industrial products. While there are examples of higher tariffs elsewhere".<sup>48</sup> One extreme and atypical, albeit important, example of high import tariffs in India brought to our attention was that faced by the producers of bottled spirits, and UK scotch whisky producers in particular.<sup>49</sup>

39. Prior to 2001, India maintained a restrictive import licensing regime for bottled imported spirits. Following an EU-US challenge at the WTO, India agreed to remove all its quantitative restrictions. The Scotch Whisky Association (SWA) told us that the: "elimination of these restrictions [by the Indian Government] was accompanied by the introduction of an 'additional customs duty' ranging from 75 percent to 150 percent. This new duty was applied in addition to a 'basic customs duty' of 210 percent and a 'special additional duty' (subsequently abolished in 2004)".<sup>50</sup> The SWA considered that the cumulative duty burden on scotch whisky was at this time a "prohibitive" 460 percent to 710 percent.<sup>51</sup>

40. The overall duty burden has been reduced in recent years, but not eliminated, and today the cumulative duty rate ranges from 212.5 percent to 525 percent for bottled-in-

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45 For example see Appendix 29, page 7, para 4

46 *Ibid.*

47 Appendix 12, para 10

48 Appendix 14, para 12

49 For example see Qq 176, 179 and 245

50 Appendix 28, para 3

51 *Ibid.*

Scotland scotch whisky.<sup>52</sup> Many Indian states have also applied further discriminatory taxes on imported spirits, including the application of licence fees, special duties and import fees. These, the SWA told us, were not imposed on domestic products.<sup>53</sup> The high duties, together with the non-tariff barriers applied to imported spirits, worked to restrict market access.

**41. We heard from representatives of the Indian Government, that reciprocity is the key to further progress. 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 regard to agricultural products.**

### **Excessive red tape and bureaucracy**

42. There was a view amongst the majority of our witnesses that conducting business in India was made unnecessarily difficult due to burdensome red tape and excessive bureaucracy and that, because of this, there was the opportunity for corruption.<sup>54</sup>

43. Dr Maini, Pro Rector of Development & Corporate Affairs for Imperial College London (ICL), told us that within the education sector at least: “the only barrier one has in India is things take time to happen. It is a very bureaucratic slow process, they have learned it well from us and they really have perfected it”.<sup>55</sup> Mr Bilimoria, Chief Executive of Cobra Beer Ltd and Chairman of the Indo-British Partnership Network (IBPN) told us that a 2004 report by the World Economic Forum<sup>56</sup> had found that, after poor infrastructure, the second and third most problematical factors for those doing business in India was inefficient bureaucracy and corruption, respectively.<sup>57</sup>

44. The India Group confirmed that these obstacles ‘put off’ many businesses wishing to operate in India. It also told us that the “removal of excessive bureaucracy and red tape, particularly in business transactions with the public sector, together with a lack of transparency, these barriers deter prospective investors”.<sup>58</sup> Rio Tinto gave us the example of the process they had to go through each time they wished to gain a mining lease (Reconnaissance Permit), which the company described as: “bureaucratic and time consuming. It is further complicated by the need to coordinate with the forestry approvals process”. They thought the interpretation of the laws, policies and approvals in India was inconsistent.<sup>59</sup>

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52 *Ibid.*

53 Appendix 28, para 5

54 See Qq 164, 245, 303, 349, 450 and Appendix 14, para 16

55 Q 450

56 See also World Economic Forum, *Global Competitiveness Report 2005-2006*, September 2005. WEF website (14 June 2005): [www.weforum.org/site/homepublic.nsf/Content/Report+India+2005+-+competitiveness](http://www.weforum.org/site/homepublic.nsf/Content/Report+India+2005+-+competitiveness)

57 Q 245

58 Appendix 17, page 6

59 Appendix 21, page 3

45. However, Mr Egan of Aviva suggested to us that red tape and bureaucracy in India were no worse than elsewhere and, in some cases, could be more problematical in the UK: “my experience of India is not that it is really any more bureaucratic than the UK, it is just different. It is getting used to a different culture and it is bureaucratic on the left side where we might be on the right side”<sup>60</sup> and he added: “we have opened up some buildings in some pretty short order and it feels no more bureaucratic to me than doing it in the UK”.<sup>61</sup> In his own individual experience of corruption Mr Egan told us that: “with the types of companies that I ended up dealing with it absolutely does not exist, I have not come across it. Where it is still prevalent would be much more in day to day life: if you want to get a telephone put in, you can get it put in more quickly if you are willing to pay a commission” and then: “it took us 18 months to get a licence. Could we have got that licence quicker? I think we probably could have done, but that world has really changed in the last few years. Everything I hear and everything I saw has said that to me”.<sup>62</sup> UKTI confirmed Mr Egan’s view of delays in the planning process by telling us about the results of a survey of UK companies operating in India it had carried out: “we produced a list of issues of most concern. Top amongst those was skills; that is, skills shortages. Next, interestingly, was the issue of planning and the delays in the planning system”.<sup>63</sup>

46. The IBPN told us that although there were still too many ‘rules and regulations’<sup>64</sup> in India, and that this led to corruption, red tape and bureaucracy were being reduced: “it is coming down, and again there is a direct correlation between the licence raj and the red tape and the bureaucracy being lifted and corruption going down, so the fewer permissions you need the fewer licences you need the less scope there will be for corruption. I think it is on a downward trend, but it is still very much an issue in India. That said, companies operate in India very efficiently and refusing to have anything to do with corruption at all”.<sup>65</sup> Deepak Lalwani, Director at Astaire and Partners agreed with this assessment: “an important case can be made at Government level to the Indians to drastically cut red tape and streamline procedures to create a more business-friendly environment for Foreign Direct Investment(FDI) into India. UK businesses would find it more attractive to invest in India if the image of India’s red tape could be reduced”.<sup>66</sup>

47. When we asked UKTI if corruption was a problem for UK companies in India, it told us that although the problem was one it had not come across, its advice to UK companies when asked for money was to avoid it: “it is a difficult area to address because it is not a subject that we deal with day-in, day-out. From my own knowledge of the marketplace, the expression quite often used for what you describe is ‘speed money’. It simply means that something does get done that little bit faster and at times it can be on a very petty basis. I

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60 Q 70 (Mr Egan)

61 Qq 81-82 (Mr Egan)

62 Q 78 (Mr Egan)

63 Q 168 (Mr Whiteway)

64 Q 302 (Mr Bilimoria)

65 Q 303 (Mr Bilimoria)

66 Appendix 1

think in some respects people have learned to live with that but our advice to any UK businesses is a clean-hands policy”.<sup>67</sup>

48. Mr Chatterjee, Managing Director and Chief Executive Officer of ICICI Bank (UK) Ltd and Chairman of the India Group, told us that the treatment of UK companies was no different from that of Indian companies: “the same platform would apply whether it was a British company or an Indian company in that we are all in this together, whether it be bureaucracy or whatever is linked to that”.<sup>68</sup> Mr Hasan, Managing Director of Tata UK and member of the India Group, also told us that it was imperative that UK and Indian companies together faced up to corruption and did not give way to requests for speed money: “corruption is a huge issue and it is to do with the attitudes. I can only tell you of the Tata example of how we have faced up to corruption. We have lost licences, we have lost commercial advantage in these kinds of situations, it is now known that Tatas just don’t pay and it would take you a week, it will take you a year, it will take you five years, but at the end of the day they get to realise that Tatas don’t pay, and that this is in their ethos, so when you reach that stage, people just don’t ask us anymore”.<sup>69</sup>

49. From the Indian Cabinet Minister for Commerce and Industry Mr Kamal Nath, and while we were visiting India, we heard about new freedom of information laws<sup>70</sup> which had been introduced. Under these, individuals and organisations who were experiencing delays could ask public bodies the reason for those delays and how long it would be before they could expect resolution. We were told that this had reduced corruption, and particularly the payment of ‘speed money’,<sup>71</sup> which in the past had been requested by corrupt employees.<sup>72</sup>

**50. 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.**

## Barriers to investment

51. The most obvious barrier to investment in India is the restrictions imposed by the Indian Government which we examine later. However, one further explanation for UK

67 Q 166 (Mr Ahmed)

68 Q 350

69 Q 349

70 See Q 167 for example

71 Q 350

72 See Q 81

companies' relatively poor recent investment record in India, suggested by our witnesses, was that UK companies viewed India as too risky a market for their investments.<sup>73</sup>

### **UK companies' attitudes to investment risk**

52. In a recent study of FDI, KPMG, the accountancy group, suggested that the UK's leading companies were less 'adventurous' than those in the US and Europe when it came to investing in developing countries, such as India. The study found that the top UK-listed companies were, on average, twice as active as their US counterparts and 40 percent more active than European companies in terms of the numbers of their acquisitions.<sup>74</sup>

53. However, UK investors suffered "from 'own back yard' syndrome, overwhelmingly preferring familiar and well-tried regions".<sup>75</sup> Almost 80 percent of acquisitions by UK companies were made in Western Europe over the five years to 2005, rising to 90 percent in 2005. This compared to continental European companies, which made 74 percent of their acquisitions in western Europe. In the BRIC economies (Brazil, Russia, India and China), the trend was more pronounced. The number of UK acquisitions in these countries fell from eight percent to two percent of the UK total, while US acquisitions rose from one percent to four percent, and European acquisitions from seven to 10 percent.<sup>76</sup>

54. By value, KPMG's results suggested a different story. UK acquisitions by value were equivalent to those of mainland European companies. However, the total was accounted for by a small number of large companies with the ability to make high bids. The example given was BP, which had accounted for seven of the top 32 BRIC deals since 2000.<sup>77</sup>

55. We asked our witnesses if they believed UK companies were risk-averse when it came to investing in India. The British Chambers of Commerce (BCC) told us that firms were more likely to focus on markets: "closer to home (i.e. the Eurozone), or which are easier to access because of language, etc (e.g. the USA), rather than the 'newer markets'".<sup>78</sup> The CBC told us that the majority of the FDI made by UK companies was in the EU, North America and also in the Far East; but there was some evidence that UK companies were risk-averse. In India, for example, UK mobile operators had not entered the Indian market when licences were first made available to international operators.<sup>79</sup>

56. Dr Shailendra Vyakarnam, Director of Centre for Entrepreneurial Learning and Board Member of the IBPN, agreed that British business has been focused on the European Union, but also suggested: "British business currently is trapped a little bit in its own problems: pensions problems, companies running out of cash and it just seems more risky

73 For example see Qq 152, 244 and 391

74 Companies wary of adventures overseas, *Financial Times*, 25 January 2006

75 *Ibid.*

76 *Ibid.*

77 Barclays and HSBC have accounted for two each: *Ibid.*

78 Appendix 3

79 Appendix 11, paras 2.5 and 3.4

to fly further afield to look for new businesses, so there are other structural issues of Britain's own making which prevent the sense of adventure".<sup>80</sup>

57. Mr Ahmed of UKTI told us that UK companies were not averse to investing in all developing economies: "it is quite natural that the UK businesses would look to the EU and North America as lucrative places to invest. However, if you look at the investments the UK has made in Korea, in China, it is not a lack of adventure; it is a question of good business sense, where they can see returns".<sup>81</sup> The lack of interest in India, he concluded, was due to barriers to investment caused by Indian Government restrictions on FDI: "I think the appetite for Indian investment would rise if there were fewer restrictions on certain sectors in terms of foreign ownership and the regulatory environment".<sup>82</sup>

58. The Minister told us that: "when it comes down to it, UK companies are operating in some very risky markets right across the globe" and then "I think more UK companies need to get out [to India] more and I get a sense that there is a lot more that we can do as far as the UK is concerned".<sup>83</sup> When asked what the Government was doing to reduce UK companies' risk aversion, the Minister told us that: "you can lead a horse to water, can you not? That is what we are trying to do at the moment. The Doing Business in India<sup>84</sup> road shows are trying to make more UK companies aware of the opportunities that exist in India at the moment" and later: "it is up to individual companies to make a rational business decision on what is right for them in their particular circumstances".<sup>85</sup>

**59. We agree with the Minister that it is up to individual companies to make a business decision on whether is right for them in their particular circumstances to trade with or invest in India. However, it is the responsibility of Governments to help companies to make rational decisions based on all available information—something which the UK Government could do more effectively.**

**60. 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.**

### ***Government regulation of foreign direct investment (FDI) in India***

61. There are practical obstacles to investing in India, as it still possesses many of the characteristics of a closed, self-reliant economy, including being highly regulated.<sup>86</sup> By far

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80 Q 244

81 Q 152 (Mr Ahmed)

82 *Ibid.*

83 Q 391

84 See Appendix 31, para 3

85 Q 392

86 Appendix 31, para 4

the largest barrier to increased investment highlighted by our witnesses was Indian Government restrictions on FDI.<sup>87</sup> Although the Indian Government is gradually reducing these barriers through legislation (for example, the recent relaxation in relation to retail and mining)<sup>88</sup> some sectors still remain completely closed to FDI, such as legal services and the defence sector<sup>89,90</sup> Many of our witnesses identified the sectors which were currently being opened up as those within which the main opportunities for UK companies lay in India, for example telecommunications and financial services.<sup>91</sup>

62. UK companies wishing to invest in India follow one of two possible routes, depending on the sector. The **Automatic Approval Route (AAR)** requires no prior approval for FDI. The **Foreign Investment Promotion Board (FIPB) Approval Route** is required for investment in sectors where a proposed investment is above a prescribed sector cap, or the activity belongs to a list of sectors where FDI is either not allowed or where it is mandatory that proposals be routed through the FIPB (sectors that require industrial licensing, for example).<sup>92</sup>

### *Manufacturing*

63. Manufacturing companies in the UK have long outsourced<sup>93</sup> part, or all, of their activities overseas (offshored<sup>94</sup>) to take advantage of the reduced cost of production offered by lower-cost economies. Firms investing overseas to reduce their labour costs have generally found India to have fulfilled these expectations.<sup>95</sup> FDI in most of the manufacturing sectors—including the manufacture of textiles, paper, basic chemicals, rubber, plastic, metal products and ship building—is allowed on the 100 percent AAR. However, FDI is limited in industries such as defence equipment (26%) and an Industrial License (IL) is mandatory for the distillation and brewing of alcoholic drinks, hazardous chemicals and pharmaceuticals.<sup>96</sup> FDI is also limited to 24 percent in a protected category reserved for ‘small scale industries’ (SSI). The SSI reservation applies to 550 goods or services and enterprises with a capital investment of less than approximately £120,000. A higher percentage of FDI may be approved if the company obtains an IL and undertakes to export 50 percent or more of production.<sup>97</sup>

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87 For example see Q 246,

88 Appendix 31, para 4

89 Defence and strategic industries: FDI is limited to 26 percent, subject to a licence from the Indian Defence Ministry. There are no automatic approvals. Source: IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

90 A breakdown of the current rules on foreign ownership by sector can be found on the IBPN website (14 June 2006): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

91 For example see Q 8,

92 Appendix 11, para 2.1

93 The procurement of goods or services, which could be performed within an organisation, from an outside provider.

94 The procurement of goods or services by a UK, or UK based, business from an outside source overseas or a UK, or UK based business that performs in-house functions at an overseas facility which it owns.

95 Appendix 14, para 16

96 Appendix 11, para 2.1

97 IBPN website (14 June): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

## Infrastructure

64. 100 percent FDI under the AAR is allowed for construction and maintenance in most infrastructure sectors: roads and highways; ports, harbours and inland waterways; Mass Rapid Transport Systems (MRTS); and urban infrastructure.<sup>98</sup> FDI in railways is not allowed,<sup>99</sup> but select infrastructure sectors have defined caps. FDI is allowed up to 74 percent for airport infrastructure<sup>100</sup> but this limit has been reduced to 49 percent for the privatization of the Delhi and Mumbai airports.<sup>101</sup> To participate in ground handling facilities at airports, foreign companies can form joint ventures but only with the three state-owned companies. Foreign holdings are limited to a 49 percent minority share and are subject to government approval.<sup>102</sup> In civil aviation, FDI is allowed in domestic airlines up to 49 percent subject to government guidelines. However, FDI by foreign airlines is prohibited.<sup>103</sup>

65. While in India, we were told that the prospect of the continued rapid expansion of the Indian economy was undermined due to poor infrastructure. India has begun to address this issue. New roads, ports and airports are being planned and built. The 2010 Commonwealth Games also provide a chance for overseas companies to compete for infrastructure projects. However, it was suggested to us that opportunities for UK companies were limited, given the geographical proximity of Malaysia and its economy's oversupply in the construction sector, and the relatively low rate of return available for such projects. We were also led to believe that Australian construction companies had 'tied up' the contracts for the 2010 Commonwealth Games, something which UKTI strongly denied had taken place.<sup>104</sup> We also learned of concerns about the non-payment of fees for infrastructure projects undertaken by UK companies in the past, which had led to a lack of confidence amongst UK infrastructure companies.<sup>105</sup>

66. More promising are the opportunities that will arise from the expansion of India's 'middle classes' and their requirements for air travel in India.<sup>106</sup> The increased demand for air travel has led to more airports, with improved facilities,<sup>107</sup> and substantial increases in domestic airlines' aircraft requirements, so that: "the Indian aerospace sector has undergone spectacular levels of growth in recent years, with a vast increase in the numbers of internal flights. This is supported by new and innovative airline companies, willing to

98 *Ibid.*

99 Appendix 11, para 2.1

100 *Ibid.*

101 The state-owned Airport Authority of India will hold 26 percent equity, while the remaining 25 percent equity is reserved for Indian private investors.

102 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

103 Appendix 31, para 4

104 Qq 129-135 and Appendix 31, section 1

105 See Appendix 23

106 Appendix 22, page 2

107 Appendix 24, para 7

invest in up to date hardware”.<sup>108</sup> Rolls-Royce told us that this had already brought them “a flood of new business”.<sup>109</sup>

## Agriculture

67. Agriculture contributes around 23 percent of India’s GDP but employs almost two-thirds of its total workforce, demonstrating huge productivity and efficiency problems in this sector. No FDI is permitted in farming, nor may foreigners or an overseas corporate body (OCB) own farmland.<sup>110</sup> While we were in India, we were made aware that the liberalisation of this sector is a politically sensitive issue for the Government of India as most food production is subsistence farming. Ministers were worried that opening up the sector would lead to farmers being displaced from their land, with resulting food shortages amongst those who would not be able to afford the prices charged by foreign-owned producers.

68. There are, however, opportunities for UK companies in non-crop agro-allied sectors: “agri-processing offers tremendous opportunities for all major stakeholders”.<sup>111</sup> We were told that in many instances more than half of India’s agricultural produce went to waste as there were not enough cold-storage or distribution facilities available.<sup>112</sup> Food processing, contract farming, floriculture, horticulture, animal husbandry, pisciculture and crop agriculture under controlled conditions (for example hot houses)<sup>113</sup> are all areas where FDI is permitted. FDI up to 100 percent is also permitted in tea plantations, but any proposal requires prior government approval. There is also the requirement that 26 percent of the equity must be divested to an Indian partner or the Indian public within five years.<sup>114</sup>

## Pharmaceuticals and biotechnology

69. Overseas investors are permitted to own pharmaceutical manufacturing companies outright in India, provided the activity does not attract compulsory licensing, or use recombinant DNA technology, in which case government approval is required.<sup>115</sup> Mr Singh, Head of Wockhardt UK Ltd, and the India Group, identified biotechnology as an area of opportunity for UK universities and companies:

“there is a good amount of biotechnology research being carried out in the United Kingdom, in Scottish universities and various other places. What we need to do is to think of the fusion of future, the fusion of future is going to be innovation of the UK to be combined with cost-effective commercialisation of India. Those are the areas and I definitely see that some of us as companies are doing very well in biotechnology where there can be sound collaboration between the

108 Appendix 4, para 8

109 Appendix 22, page 1

110 Appendix 11, para 3.7

111 *Ibid.*

112 *Ibid.*

113 IBPN website (26 April 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

114 *Ibid.*

115 *Ibid.*

enterprises/universities of the United Kingdom and the companies in India. The biotechnology products are really going to be the products of the future”.<sup>116</sup>

70. India has been forecast to become “the global vaccine hub of the future” and: “the global hub of clinical trials”.<sup>117</sup> For this to happen, and for UK companies to benefit from this, the Federation of Indian Chambers of Commerce and Industry (FICCI) told us that: “there has got to be a legal and regulatory structure for biological material transfer (Bacteria, Viruses etc.) between the UK and India”<sup>118</sup> and later: “the Drug Controller General of India [DCGI] & UK MHRA [Medicines and Healthcare products Regulatory Agency] must work together to formulate the guidelines for conducting clinical trials such that when DCGI approves, UK MHRA’s approval is automatically granted”.<sup>119</sup>

**71. 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. We noted that India is attracting back a number of its highly qualified and experienced expats in this sector from the US. 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.**

## Services

72. The service sector is important to both India and the UK. The service sector represents over 70 percent of UK GDP and is currently the major source of economic growth in India as the country capitalises on its large number of well educated people, skilled in the English language.<sup>120</sup> 100 percent FDI is allowed by the Indian Government in service sectors such as ICT and ICT-enabled services.<sup>121</sup> Other service sectors are being opened up in a phased manner to allow domestic companies to prepare for global competition. For example, FDI is limited to 51 percent in most consulting and professional services, with automatic AAR. However, some areas, such as legal services, still remain closed to FDI.<sup>122</sup>

## ICT enabled services

73. Customer contact centres (CCCs) and business process outsourcing (BPO) operations continue to be a large part of the growth in the Indian service sector. There are no restrictions on FDI in BPO and CCCs and the Indian Government has been actively

116 Q 311

117 Appendix 15

118 *Ibid*, para 1

119 *Ibid*.

120 Appendix 2, para 15

121 Appendix 11, para 2.1

122 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

encouraging investment in these sectors.<sup>123</sup> The rapid growth and development of this sector in India has already led many UK companies to offshore their BPO and CCC operations. Trading with, and investing in, India will bring further opportunities for these companies. As India's economy 'migrates' further up the value chain,<sup>124</sup> these UK companies will be able to take advantage of their presence 'in country' to provide similar products and services to indigenous companies and consumers.<sup>125</sup>

**74. 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.**

### *Telecommunications*

75. There are significant opportunities for UK companies in the Indian telecoms market. India is set to overtake China as a country with the fastest growing mobile phone handset market. A similar growth rate is also expected in the internet user take-up rate.<sup>126</sup> The CBC told us that UK mobile operators had already missed an opportunity in this sector as most did not enter the Indian market a few years ago when licences were available for international operators.<sup>127</sup> Amongst the reasons they gave to us for UK companies not investing at the time were burdensome regulation and a difficult regime in the industry.<sup>128</sup>

76. The FDI limit in telecommunications has recently been increased to 75 percent, but regulation remains a constraint: for example, directors must be Indian residents.<sup>129</sup> Despite this, some UK companies have started to invest in telecommunications in India. Recently, Vodafone took a 10 percent stake in Bharti Telecom, India's largest mobile phone operator,<sup>130</sup> and a stake in Airtel.<sup>131</sup> The CBC told us: "other companies may [now] find it difficult to enter the market with the existing conditions" but that: "acquisitions still remain a viable option".<sup>132</sup>

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123 Appendix 31, para 4

124 Appendix 2, para 20

125 *Ibid*, para 16

126 Appendix 11, para 3.4

127 *Ibid*.

128 *Ibid*.

129 Appendix 31, para 4

130 Appendix 11, para 3.4

131 Q 252

132 Appendix 11, para 3.4

## Healthcare

77. FDI in healthcare is limited to 51 percent with AAR. Higher equity proposals require government approval.<sup>133</sup> In 2004, the UK exported around £15 billion of healthcare-related goods and services. The CBC said that of this, very little went to India.<sup>134</sup> UK healthcare providers can offer world-class standards and other quality procedures to their Indian counterparts.<sup>135</sup> The CBC told us that Indian healthcare providers are actively seeking ‘tie-ups’ with international providers and major university hospitals. However, competition with Europe and the US in this sector is strong: “most Indian healthcare providers continue to conform to the American JIC [Joint Industrial Council] Standards”.<sup>136</sup> Many European and US providers have already found joint-venture partners in India.

## Media

78. The CBC identified several media sectors which offer significant opportunities for UK companies.<sup>137</sup> There is no limit on the foreign ownership of equity in advertising and films, but certain conditions apply to the film industry.<sup>138</sup> In broadcasting, foreigners may own no more than 20 percent in FM terrestrial broadcasting, with prior government approval. For ‘direct-to-home’ cable and satellite broadcasting, FDI is limited to a maximum of 49 percent, again with prior government approval. FDI is restricted to 26 percent in news channels but entertainment channels face no limit. For print media, there is a cap on FDI of 26 percent for news publications and 74 percent for non-news publications.<sup>139</sup>

## Retailing

79. Retailing is the largest employer in India after agriculture. UKTI told us that as 97% of this sector consists of small retailers, liberalisation of the sector is a politically sensitive issue for the Government of India.<sup>140</sup> 100 percent FDI in retail franchising and wholesale ‘cash and carry’ is already permitted in India.<sup>141</sup> In e-commerce, FDI of 100 percent is allowed in ‘business-to-business’ e-commerce but this is conditional on foreign investors divesting at least 26 percent to the Indian public within five years. No FDI is allowed in retail e-commerce.<sup>142</sup>

80. At the beginning of 2006, the Indian Government approved measures to liberalise India’s retail regime. This included allowing joint ventures, with FDI up to 51 percent, for single brand retailers.<sup>143</sup> UKTI told us that companies such as Ikea and Adidas were

133 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

134 Appendix 11, para 3.5

135 Q 309

136 Appendix 11, para 3.5

137 *Ibid*, para 3.10

138 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

139 Appendix 11, para 3.10

140 Appendix 31, para 4

141 Appendix 11, para 2.1

142 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

143 Appendix 31, para 4

currently able to set up retail shops; however, stores like Tesco and Sainsburys, which sell branded products of other companies, were still prohibited from operating in India.<sup>144</sup>

81. The retail sector in India provides one of the best opportunities for UK companies to increase trade and investment. AT Kearney, in its Global Retail Development Index found that in 2005: “India represents the most compelling international investment opportunity for mass merchant and food retailers looking to expand overseas. Driving India’s move was a greatly improved investment climate due to the recent relaxation of direct ownership restrictions on foreign retailers. The country’s retail market totals \$330 billion, is vastly underserved and has grown by 10 percent on average over the past five years”.<sup>145</sup> While we were in India we found that no UK company has yet taken advantage of this route into retailing, although Tesco’s had outsourced some back office operations to India and Marks & Spencer operated a franchised model.

### *Legal services*

82. The Indian legal services sector is closed to FDI and overseas lawyers are prohibited from practising, or offering, their professional services in India. The *Indian Advocates Act (1961)* provides for “only one class of persons entitled to practice the profession of law, namely advocates”.<sup>146</sup> A provisional ruling of the Mumbai High Court in 1995 interpreted this to mean that only advocates had exclusive rights of audience in India’s courts. As the ruling also took the view that there was no distinction between solicitors and advocates, this also gave Indian Citizens a monopoly on giving any legal advice—whether on any Indian or overseas law—in India. The decision was appealed to the Indian Supreme Court, which subsequently referred it back to the Mumbai High Court to re-consider its ruling. The case has recently been reinstated and although a decision is expected, no action has yet been taken.

83. The CBC told us that there was opposition in Indian legal circles to opening up the sector to FDI: “the Indian legal community feels that foreign lawyers will take almost all of the work and render them jobless”.<sup>147</sup> However, it believed that overseas law firms would only be interested in parts of the sector: “they [overseas law firms] are only interested in corporate work and not litigation matters”.<sup>148</sup> Clifford Chance and the IBPN confirmed this view to us: “Indian lawyers fear that foreign law firms will take work away from them—advocacy is a particular concern. We believe that their concerns about the impact that foreign law firms would have on their practice are misplaced”<sup>149</sup> and the: “liberalisation of the Indian legal sector to allow foreign firms into the Indian market for advisory work, not advocacy. UK law firms stress that they want access to business and not courts”.<sup>150</sup>

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144 Appendix 11, para 3.8

145 AT Kearney website (14 June 2006): [www.atkearney.com/main.taf?p=1,5,1,165](http://www.atkearney.com/main.taf?p=1,5,1,165)

146 Section 29

147 Appendix 11, para 3.3

148 *Ibid.*

149 Appendix 10, paras 15-16

150 Appendix 17, page 5

84. While we were in India we were also told that current Government restrictions on domestic Indian lawyers were also causing problems for domestic Indian legal firms. Partnerships were the only model for practising law firms allowed in India, and the number of partners was limited to a maximum of twenty. Modes of practice such as Limited Liability Partnerships (LLP) or Limited Liability Corporations (LLC), were also not permitted. There were also restrictions on Indian law firms advertising their services, including maintaining their own websites.

**85. 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.**

### *Financial services*

86. The banking sector in India is relatively open to FDI. The Indian Government increased the FDI limit for private banks to 74 percent in March 2004, but the Reserve Bank of India has yet to issue implementing guidelines.<sup>151</sup> Foreign banks have the option to operate as branches of their parent banks or as subsidiaries.<sup>152</sup> For India's state-owned banks, which account for 75 percent of the total assets,<sup>153</sup> the FDI limit remains at 20 percent. Overseas banks are not permitted to own more than a five percent stake in any profitable public sector bank, only poorly performing banks (up to a 75 percent equity share<sup>154</sup>) are available for acquisition.<sup>155</sup> For non-banking financial companies in sectors such as merchant banking, underwriting, stock-brokerage, asset management, and credit card business, FDI is allowed up to 100 percent with AAR.<sup>156</sup>

87. In insurance, and the insurance brokering sector, FDI is limited to 26 percent through joint ventures.<sup>157</sup> While FDI approval is automatic, a licence must first be obtained from the Insurance Regulatory and Development Authority (IRDA). A number of UK companies are already well-established and flourishing in India: an example is the joint venture between Royal & Sun Alliance plc and Sundaram Finance Ltd, Royal Sundaram Alliance. The Indian Government has announced its intention to increase the FDI cap to 49 percent, but this change will require parliamentary approval.<sup>158</sup> UKTI anticipated that

151 Appendix 11, para 3.2

152 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

153 Appendix 11, para 3.2

154 Appendix 31, para 4

155 Appendix 11, para 3.2

156 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

157 Appendix 31, para 4

158 IBPN website (14 June 2005): [www.ibpn.co.uk/fdi.asp](http://www.ibpn.co.uk/fdi.asp)

this would happen “this year”.<sup>159</sup> The CBC told us that the overseas insurance industry was “extremely interested but frustrated with the state of affairs in the reforms in the Indian insurance sector”.<sup>160</sup> Astaire and Partners told us that recently: “there is much political resistance to increasing the limit from 26% in insurance” and later: “the Pensions industry is facing political resistance due to the threat of job losses”.<sup>161</sup> Further, UK companies such as Lloyds of London are not permitted to operate in India under the current FDI regulations as Lloyds is not considered a company under Indian Law but as a syndicate/market.<sup>162</sup>

88. The Indian Government has recently set up a commission to investigate FDI into India. Mr Hasan of Tata UK told us that:

“my group chairman, Mr Tata, is heading that. This panel has suggested to the Government to remove all foreign investment caps and quite a lot have got 100% investments. Whether they take the automatic route or whether they go through a process of procedures and approval it is something that needs to be done. Insurance is 26%, that is the one that is the lowest, but I think you will now see a regime of more and more liberalisation of foreign direct investment because you cannot on the one hand say that India needs so many hundreds of billions of dollars to come in and then you put down these kinds of restrictions, unless there is some strategic importance to the country. I definitely think that everyone in business is waiting with bated breath to see what the Government does on this kind of recommendation.”<sup>163</sup>

**89. The UK has a competitive advantage in the provision of services, and in financial services in particular. Many UK financial sector companies, which have offshored some or all their operations to India or formed joint ventures there, will be well-placed to leverage their existing market position in the country as the rules on selling financial products change. Having support personnel or joint venture partners in the relevant regions will give them a major advantage in terms of understanding customers’ needs, regulatory compliances and regional preferences in India, and these companies will be best placed to succeed with new products or services.**

**90. 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. As Aviva told us: “this aspect is not to be underestimated. India has only recently re-opened its financial markets and these offer very promising growth opportunities for UK companies”.**<sup>164</sup>

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159 Appendix 31, para 4

160 Appendix 11, para 3.1

161 Appendix 1

162 Appendix 11, para 3.1

163 Q 333

164 Appendix 2, para 16

## Barriers of perception

91. During our inquiry we were struck by the lack of importance too many UK companies afforded to India as a prospective trade and investment opportunity.<sup>165</sup> While we were in India, we were told by many of the people we met that India was changing so fast that things companies had looked at and realised they were not able to do two years ago were possible now. Whereas some UK companies had simply given up on India, many of the UK's competitors had leapt on new opportunities which had arisen since. Many UK companies also saw India only as a low cost, low quality place which manufactured products. Up-to-date knowledge of the Indian market was lacking amongst some UK companies: "awareness-raising needs to be done, there are barriers of perception as well as barriers of opportunity and we ought to make the opportunities look more exciting than the sense of threat posed by the barriers".<sup>166</sup> While quantifiable barriers to trade and investment provide some examples of issues which may deter potential exporters, factors such as a lack of familiarity with the Indian market and its opportunities and a focus in recent years on China may have contributed more to this situation.<sup>167</sup>

92. We were interested to know if our witnesses believed such 'barriers to perception' existed. The IBPN told us: "the Indo British Partnership is the voice of the private sector, it is the private sector lead for British business with India, and what we see is that there are huge, huge, huge opportunities and we are only scratching the surface at the moment".<sup>168</sup> Later it told us that UK companies' perceptions of India were not changing as fast as India was changing but that it was "working hard to address this and engage the wider UK press and public".<sup>169</sup> Mr Chatterjee of the India Group told us that: "where I have been jointly engaged with British businesses, for instance, a platform with the CBI, I have found that businesses here are not so up to date on what is really happening in India. In the first instance I would say that this is one big communication that needs to take place and there are some platforms that have been created like Doing Business with India of UKTI where these kinds of things have come up, but people are still not very sure as to what is really happening".<sup>170</sup>

93. The James E Lynch India and South Asia Business Centre (isabc) told us that the lack of knowledge amongst the UK business community about the market conditions in India, was not surprising. It was worried that the: "international business academia has followed international business practice, and has devoted much more attention to China than to India. Large analyst firms do not devote much attention to India either. When analysts do look at India, data are at best inaccurate or suspect. There is therefore a clear need to repair this glaring inadequacy in the attention structure of business and management academia and policy-makers".<sup>171</sup>

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<sup>165</sup> See Q 242

<sup>166</sup> Q 244

<sup>167</sup> Appendix 14, para 13

<sup>168</sup> Q 242 (Mr Bilimoria)

<sup>169</sup> Appendix 17, page 5

<sup>170</sup> Q 309 (Mr Chatterjee)

<sup>171</sup> Appendix 19, para 5

94. While we were in India we were also told by Indian companies that too often when they met UK companies to discuss possible joint venture projects in India they were struck by the lack of seniority of the delegations they met. Too many UK companies did not send to India senior executives who had the final say in whether a project would go ahead, and so deals could not be concluded there and then. Our Indian witnesses also saw this as a sign of disrespect and told us that it had led to ignorance of the opportunities in India amongst UK companies' top decision makers. **We agree.**

95. One way of address gaps in knowledge of the Indian market is accessing local knowledge. Aviva told us that it had found employing local knowledge essential for establishing itself in India: “there is bureaucracy to get through, yes, there are complicated regulations but they have been simplified, they do not really seem that much more difficult than if I tried to build a shed where I live really. It is just familiarity, so local know-how tends to be the most important thing”;<sup>172</sup> and later: “what helps, unquestionably, is bringing in the right local know-how. There are British companies, there are other companies that I have met, where they have not brought in that know-how and it has slowed them up and brought them into difficulties later on. I know it sounds crass and obvious, but people do not do it”.<sup>173</sup>

96. UKTI agreed with Aviva and told us that it was important to find local knowledge about the Indian market UK companies were entering: “getting a good, local sign-poster is certainly important, and we play a role in that ourselves”.<sup>174</sup> When we asked officials what that role was, they told us:

“it is two-fold. Where a service is required—let us say, a local lawyer or accountant, or any kind of expertise in any particular sector—then, simply because of the track record that we have there—particularly our locally engaged colleagues who have sometimes ten to 15 years' experience in that particular sector and they simply know who the leading players are—at the risk, if you like, of the buyer, such introductions can be made and the website will direct people to those. In terms of finding joint venture partners, I think we probably do this more effectively by having the sort of exchange that we have vis-à-vis the CBI and the CII in India or with FICCI and the Chambers movement, where, as businesses interact, in fora in which we are present and support, there is a natural way of that evolving”.<sup>175</sup>

97. A particular difficulty of the market in India is the issue of caste. This is an age-old system built on discrimination based on work or descent. It persists widely in India today, and is a trap for the unwary. Historically, there have been four main castes in India, plus the Harijans (formerly known as ‘untouchables’). Pursuant to the constitution of India, they are formally referred to as ‘Scheduled Castes’. They are about 17 percent of the population of India. In addition, there are ‘Adivasi’: that is, individuals who are racially distinct, as indigenous peoples, in contradistinction to the majority Caucasian people who invaded and settled India centuries ago. Pursuant to the constitution of India, they are

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172 Q 65 (Mr Egan)

173 Q 80 (Mr Egan)

174 Q 168 (Mr Ahmed)

175 Q 171 (Mr Ahmed)

formally referred to as ‘Scheduled Tribes’. They are about eight percent of the population of India. Together, these two groups are often today called either ‘SCs and STs’, or ‘Dalits’ (literally, the oppressed). Despite legislation, and provisions in the constitution of India, outlawing caste discrimination, both groups still face tremendous discrimination.<sup>176</sup>

**98. We recommend that UK companies operating in India should be careful not to break the letter or spirit of these laws and 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.<sup>177</sup>**

**99. 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.**

**100. 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. For example, UKTI could offer ‘insight tours’ for senior executives to learn about the realities of doing business in India, such as that there are lots of different regional markets, in a country of 1.1 billion people. This would overcome the perceptions that too frequently hold back investment, highlight the very significant business opportunities in India, and so result in more commitment from the top.**

### **A ‘plethora’ of organisations**

101. Many of our witnesses told us that they were confused by the “plethora”<sup>178</sup> of competing ‘official’ UK organisations in the Indian economy. This left many potential exporters and investors confused about who was and who was not representing the UK or whom they should contact: “there are numerous trade bodies, chamber of commerce, interest groups, industry networks and business groups in UK and India resulting in a highly fragmented ecosystem. Frequently, the groups deal with the same issues with the same speakers and much of the debate has been based on case studies of existing large companies active in the two countries or projections of market potential across various sectors”;<sup>179</sup> and later: “in India UKTI is joined by the business support bodies of the Welsh and Scottish. This can lead to duplication and confusion when UK Gov should be offering a single brand to attract Indian companies and help UK exporters”.<sup>180</sup>

102. A frequent complaint amongst our Indian witnesses was that one of the reasons why they did not trade with the UK or collaborate with UK companies in India more was that there was no single body—such as the Confederation of British Industry (CBI), chambers of commerce (CoC), or similar—which was visible to them in India. They considered there

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<sup>176</sup> Appendix 13

<sup>177</sup> *Ibid.*

<sup>178</sup> For example see Qq 117 and 230

<sup>179</sup> Appendix 2, para 2

<sup>180</sup> *Ibid*, para 4

were no UK organisations within India equivalent to Indian bodies such as FICCI, the Confederation of Indian Industries (CII) and local and state CoCs in India, which they relied on to find out about the opportunities which were available to them: “that is what Indian agencies—which no doubt you have met like CII and FICCI—have done in this country [the UK] in terms of setting up offices and very actively trying to engage with British businesses, but on the other side should the CBI not have an office, let us say, in a place like Mumbai?”<sup>181</sup> **Our Indian witnesses, used to dealing with two national bodies and a local CoC, in a country the size of India, could not understand why so many representative bodies were required in the UK, a country the size of an Indian State. We agree.**

103. The number of organisations facing prospective Indian collaborators, investors and traders is indeed large. For example, UKTI’s written evidence stated that: “the development agencies which have offices in India are Scottish Development International (New Delhi), Welsh Development Agency (Bangalore) and British Midlands (a collaborative operation between Advantage West Midlands and the East Midlands Development Agency in Mumbai)”<sup>182</sup> On international trade, but not inward investment, UKTI delivers to its ‘customers’ in the English regions through a network of almost 40 International Trade Teams, usually provided by Chambers or Business Link operators with a UKTI International Trade Director co-located with the RDA. Each regional team has also an appointed ‘India Champion’ located in the British High Commission/British Trade Offices in India.<sup>183</sup>

104. Other official or semi-official bodies promoting UK business in India include: the London Chamber of Commerce and Industry (LCCI), the British Chambers of Commerce (BCC), the India Business Group (IBG),<sup>184</sup> the Greater London Authority (GLA) and most recently the City of London.<sup>185</sup> UK-India relations are also promoted by the IBPN, the India Group, the Commonwealth Business Council (the CBC), the South-East Asia Group and most recently the Joint Economic and Trade Committee (JETCO).

105. While we commend these groups for the work they have done to promote the UK in India, we were worried that the UK’s effort in India was too disparate, that the UK had too many separate initiatives, too many separate bodies and there was insufficient focus.<sup>186</sup> We asked our witnesses if this was their view. The India Group agreed with us: “I would completely agree with that and I saw a recent example in the context of London First where in respect of two of the acquisitions we supported, when I arranged for the CEOs of those companies to meet the agency in London and when it was told, ‘Their manufacturing presence is not in London, therefore, it does not fit in’. So I would completely agree with

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181 Q 318 (Mr Chatterjee)

182 Appendix 29, page 14

183 *Ibid*, pages 14-15

184 Appendix 2, para 11

185 Appendix 9

186 See Q 319 (Mr Chatterjee)

that, that they should not have such disparate situations where people are pushing their own little areas forward and their own agendas”<sup>187</sup>.

106. There is 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, which could be based on existing arrangements, and works to consolidate the efforts of all the current stakeholders towards achieving 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, we see no reason why bodies should not 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. The Joint Economic and Trade Committee (JETCO) should operate at a strategic level, but it is, understandably, operating at too high a level to have a direct influence on agencies on the ground.

107. 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.

108. 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. The wasteful duplication and competition that is undoubtedly taking place is in no-one's interests. Their work should be co-ordinated exclusively through UKTI. We make further recommendations on this issue later.

## 4 Education and training

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109. During the course of our inquiry, the element of trade and investment with India which attracted the most interest amongst our witnesses was the perceived decline in the India-UK higher education relationship.<sup>188</sup>

110. The higher education system in India is vast, comprising as it does around 350 universities, 17,000 colleges, 460,000 teachers and ten million students.<sup>189</sup> We were told that increasingly wealthy ‘rising middle class’ Indians,<sup>190</sup> a group which will grow to around 200 million,<sup>191</sup> were more likely to spend a greater proportion of their disposable income on education than on anything else: “Indian parents have always spent the maximum amount of their disposable income on education”.<sup>192</sup> The majority of the Indian population is: “young (51% under 25), ‘impatient aspirers’ hungry for self-development and access to educational opportunity”.<sup>193</sup>

111. With scarce academic infrastructure in India, and fierce competition for the few seats available in elite institutions, the number of Indian students going abroad is growing annually. These factors combined illustrate the huge opportunities for UK higher education institutions (HEIs), and private sector education and training providers, which an emerging India provides.<sup>194</sup> As Mr Chatterjee of the India Group told us: “education, if I can term it this way, is largely a virgin area, there is so much that can be done in education”.<sup>195</sup>

### Attracting Indian students to the UK

112. International students contribute around £5 billion per annum to the UK economy.<sup>196</sup> Attracting Indian students to study in the UK also starts a ‘circle of virtue’ in motion which can provide longer term sustainable benefits for the UK economy. The IBPN told us that: “once you get students over here you are building a lifelong link with that person and they become ambassadors for Britain in India and you never lose that link. It is not just them, their children then are encouraged to come to the UK to study as well, so it is very, very important from a number of different angles”.<sup>197</sup> **We agree, particularly as regards foreign students on undergraduate courses, who tend to be younger and to spend longer in the UK, and are thereby more likely to gain a deeper impression of our country, which in turn is likely to pay dividends in years to come.** TCS told us that capturing Indian students also had implications for UK Business: “when students then leave, set up small

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188 For example see Qq 298, 309 and 444

189 IBPN website (14 June 2006): [www.ibpn.co.uk/education.asp](http://www.ibpn.co.uk/education.asp)

190 Appendix 6, page 1

191 Appendix 1

192 Q 324

193 Appendix 6, page 1

194 For example see Qq 221 and 322 and Appendix 8

195 Q 322 (Mr Chatterjee)

196 British Council, *Prime Minister Launches Strategy to make UK Leader in International Education*, 18 April 2006

197 Q 299 (Mr Bilimoria)

companies, increase trade, which I think the USA has capitalised enormously using that process, I would think that would be a definite way of improving trade between the two countries”.<sup>198</sup>

113. The UK higher education system, although relatively small, has some of the finest HEIs in the World.<sup>199</sup> The IBPN told us that: “the United States is perceived to be ahead of us, but I think British universities—given our endowments, even at Cambridge, I think are a quarter of Harvard University’s, if I am not mistaken” then: “we punch above our weight, as British universities, and have got respect around the world and have several world-class universities, particularly in the area of science and technology. To this day British universities are considered some of the best in the world, so I think we do have a lot to offer”.<sup>200</sup>

114. Traditionally many of India’s most prominent business and political figures have been educated in the UK, including the current Indian Prime Minister, Manmohan Singh.<sup>201</sup> More recently, such figures are as likely to have been educated in the US or Australia as they are to have been educated in the UK.<sup>202</sup> The CBC told us: “UK universities are facing stiff challenge from other countries in attracting top Indian talent despite increase in the number of Indian students coming to the UK. The major competitor to UK continues to be US closely followed by Australia, Canada and Singapore”,<sup>203</sup> as well as France, Germany and New Zealand.<sup>204</sup>

115. We asked our witnesses if they thought the UK had lost its position as a leading destination for Indian students to study and why that was. The IBPN argued: “the UK should be in the forefront in terms of the choice that is available to them, and it is not”;<sup>205</sup> and later that the US was now a far more attractive place for Indian students: “it is a very important issue. It is one of Britain’s great strengths and we could attract far more students, with the United States. There is not only the perception about the opportunities as a student in the United States, which is why so many Indian students go there, but also the reality of getting scholarships and funding in the United States, far more than over here.”<sup>206</sup>

116. Lord Patten of Barnes told us:

“there is our relative decline in comparison with the United States, both as an economic power and as a cultural power; 40 per cent of the world’s students who follow degrees in other countries do so in the United States. One reason why they do that is because the United States spends so much higher a proportion of its GDP on higher education than we do. We spend 1.1 per cent, which is the European average,

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198 Q 10 (Mr Lakshminarayanan)

199 Q 423

200 Q 289 (Mr Bilimoria)

201 Q 422

202 Q 322

203 Appendix 11, para 3.6

204 Q 19 (Mr Lakshminarayanan)

205 *Ibid.*

206 Q 298 (Mr Bilimoria)

and the United States spends 2.6 per cent. The American public sector spends more as a proportion of GDP on higher education than we do, 1.2 per cent, with 1.4 per cent coming from the private sector. There are other factors as well: there has been a lack of enthusiasm and attention paid to India and one way in which that has been reflected has been the decline in the focus on Indian studies in this country, and I happen to think that one of the things we need to do in order to increase the enthusiasm with which Indians look at the British higher education scene is to make sure that we are doing more in Indian studies than is at present the case. The Indian Diaspora in America has been incredibly successful; it is suggested that a third of the NASA engineers are Indians and there are 5000 Indo-American professors at American colleges”.<sup>207</sup>

117. We asked our witnesses how this translated into actual numbers of students studying in the UK and in our main competitor’s HEIs. They told us that the number of Indian students in the UK was currently around 18,000: “the total of Indian students in the UK has grown—and I would like to have this confirmed at some stage—to about 18,000 from about 3,000 a few years ago”.<sup>208</sup> Lord Patten of Barnes confirmed this figure and explained that the number of Indian students studying in the UK was: “down at the 4,000/5,000 level at the turn of the century” but that they had increased substantially, “250 per cent or so”, since then.<sup>209</sup> According to the British Council, there were approximately 17,000 Indian students studying in the UK in comparison to 20,000 in Australia and 80,000 in the US,<sup>210</sup> and the UK actually recruited 16,277 new students in 2005/06 in comparison to 80,653 for the US and 10,000 for Australia: “the difference is that students tend to follow two to four-year degrees in the USA and Australia, whereas the majority of the UK-bound students are on a one year’s Masters course and so, as you have just said, the actual number of students present at any one time does not reflect, in a sense, the demand, the turnover”.<sup>211</sup> UKTI told us that student visa figures were rising: “Posts in India are issuing visas to record numbers of students every year. In 2003–4 14,641 visas were issued to students, a 20% increase on the previous year and in 2004–5, they issued 16,457 student visas, a 12% increase on the previous year”.<sup>212</sup>

118. The Minister accepted that there was a gap between the UK and the US but argued that this gap was closing: “in terms of students coming into the UK and how we fare internationally, yes, the United States is first. The UK is second and Australia is third. The most recent statistics I have seen say that there are 250 per cent more Indian students applying to study in the UK academic year 2005/6 than there were in 2000/1 which is a huge figure. In terms of our market share, we are closing the gap with the United States. Student visa figures for the USA for 2005/6 are only 15 per cent higher than the UK figure, as compared to 74 per cent higher in 2000/1, so we are making progress in this area”.<sup>213</sup>

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207 Q 444

208 Q 286 (Dr Vyakarnam)

209 Q 444

210 Appendix 5, para 9

211 Q 495

212 Appendix 30

213 Q 426

This trend was expected to continue into the future. The British Council told us that: “we expect to see numbers continue to increase by around 30% a year”.<sup>214</sup>

119. To determine why Indian student numbers in the UK had fallen in the recent past, we asked what were the main criteria they used when choosing an overseas HEI for their course of study. Witnesses told us that the main criteria were: the marketing of courses by HEIs; course fees and the associated cost of living; and visa/work permit requirements.<sup>215</sup>

### **Marketing of courses**

120. Our witnesses said that competitor countries’ HEIs had a higher profile in India than those from the UK, because of their superior marketing initiatives.

121. Dr Vyakarnam of the IBPN told us that the numbers of Indian students at Cambridge University were relatively small, compared to those at other countries’ leading universities: “being at Cambridge, I am aware that the University is very interested. I looked up the numbers and they are tiny, there are 128 students at Cambridge whose normal country of residence is India, 40 or so undergraduates and 80 or so postgraduates. India is in fourth place behind China, Singapore and Malaysia for those numbers, far exceeding Germany and France, it has to be said, which were at eight and seven last year, at Cambridge. These numbers are tiny”.<sup>216</sup> Lord Patten of Barnes told us that the situation at Oxford University was similar: “this country has, understandably, focused a great deal on what is happening in China. I would guess that the pro rector’s [Dr Maini] figures at Imperial are similar to those at Newcastle and Oxford where we have far more Chinese students than Indians, which is counterintuitive. At both Oxford and Newcastle there are about 200 Indians, substantially more Chinese at Newcastle and at Oxford there are 540 Chinese”.<sup>217</sup> He attributed this to the UK’s having made a: “much bigger effort to put across what is happening in British universities in China than we have in India. I do not mean that as a criticism of Government or the British Council, they are now trying to catch up, but perhaps the figures today reflect what was happening in the Nineties to a considerable extent”.<sup>218</sup>

122. The India Group told us that American and Australian HEIs were especially proficient at promoting themselves to Indian students:

“if you open any newspaper in India you will see a whole host of advertisements where US institutions, whether business schools or otherwise, are inviting students to come and have one-day sessions, two-day sessions, trying to talk a lot more about what is happening in their country. So there is a pillar which is linked to marketing and communication, which has been missing from the British context and which, surprisingly, Australia has also picked up and managed: I would imagine that the

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214 Appendix 6, page 2

215 For example see Q 19

216 Q 286

217 Q 447

218 Q 448

number of students in Australia must be four or five times the number that comes to Britain”.<sup>219</sup>

The IBPN also suggested that the UK needed to regain its reputation in India as the place to go for study, noting that: “I heard recently, I think through you, Karan [Mr Bilimoria], that Harvard Business School are opening a research office in Mumbai, for instance. I am not aware that any British university is doing anything similar”.<sup>220</sup> The India Group commented on the marketing activity of New Zealand and Australia’s HEIs.<sup>221</sup>

123. Many US universities have also used their alumni as an advert for their HEIs. The India Group told us that, seeing the success of former students who had gone to the US, Indian students naturally aspired to copy them by going there also.<sup>222</sup> TCS also told us the US was the preferred destination of top rank Indian students because their: “predecessors have been there, they know how to apply and how to get grants, and so on and so forth, and so the system is very established for students to go there, and I guess the same kind of encouragement and the visibility is not there with the UK-based universities”.<sup>223</sup>

124. We asked our HEI witnesses what the UK could do to improve the perception of UK HEIs. Dr Maini of Imperial College London (ICL) told us that the UK: “sells our universities as a homogenous unit”, which confuses the potential student who does not know what the strengths and weaknesses of each institution are. He felt that, if the differences between HEIs were made clearer, “we would do extremely well”,<sup>224</sup> and later:

“within the UK we are more and more shy about expressing our appreciation of excellence and we also are very shy of segmenting universities carefully. There are universities that are good at research and they need to be in one category, there are universities that are extremely good at training and in practical aspects of what needs to be done and they need to be packaged differently. Unless we do that quite openly and clearly in this country we are unlikely to project the right brand for people to appreciate. There are plenty of instances where this can be done; there are institutions like Imperial, Cambridge and Oxford that are good at research, there are places like Cranfield and Aberdeen that have a very special talent in their own areas. We ought to project those separately”.<sup>225</sup>

125. **Dr Maini also suggested that the image of UK education should be updated:** “we are not using the new, young Indians who are educated in this country to champion our cause, we stick to the usual, rather rich businessmen who are projected as British Indians abroad”.<sup>226</sup> **We agree.**

219 Q 324 (Mr Chatterjee)

220 Q 286 (Dr Vyakarnam)

221 Q 324 (Mr Hasan)

222 Q 324 (Mr Chatterjee)

223 Q 17 (Mr Lakshminarayanan)

224 Q 457

225 Q 445

226 Q 456

126. The IBPN and UKTI believed that the situation was beginning to change: “British universities are starting to get more proactive, to the extent of opening up offices in India to recruit Indian students”<sup>227</sup> and “the numbers have increased because there has been a fair amount of marketing activity undertaken by individual universities in India. The High Commission has certainly been very active in that.”<sup>228</sup> The University of Wolverhampton also told us that HEIs that were not so well known in India had also begun to improve their profile: “for example we have just established an office in New Delhi. We have a good network of agents, which is imperative for student recruitment”.<sup>229</sup>

**127. Overall, the UK higher education sector has not been as good as some of its overseas competitors in promoting itself in India. However we believe this is changing. While we were in India, we saw excellent work being done to promote the UK’s higher education system which was being carried out by the British Council. Less familiar UK HEIs are also starting to raise their profile by exploiting the local links they have with the Indian communities in the UK and by opening offices in India. 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.**

### ***Fees and cost of living***

128. Our witnesses told us that the relatively high course fees for non-EU students had made the UK a less attractive place to study: “I was told that it was fairly easy for the students to come here, and at some point in time it became more difficult because of the fee structures ... and henceforth it was not in the top of the mind for students to come here as their first destination”.<sup>230</sup>

129. Dr Maini of Imperial College London (ICL) agreed that high fees and living expenses were a disincentive to studying in the UK: “A typical good undergraduate engineering degree in the UK is around £15,000 to £17,000 a year and you then have to live on top of that, and there are hardly any scholarships available for Indian students to come here. That is a big issue: with the pound being very strong it is cheaper to go to the US and the US universities have huge numbers of endowments they can help you with”.<sup>231</sup> Lord Patten of Barnes told us: “the most important issue is the cost of the degree course. If you are doing an undergraduate or even a graduate degree course, maybe the figure for tuition fees is £15,000 or so but I guess you are actually talking about a cost per year of somewhere between £23,000 and £24,000. If, as I said earlier, you go and do an undergraduate course in the United States the costs at an Ivy League university will be higher than that, the costs at a state university are about the same, postgraduate costs are probably about the same”.<sup>232</sup> Lord Patten of Barnes also said: “there is far more money available to support Indian postgraduate students in American universities; about 40 per cent plus of Indians doing

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227 Q 289 (Mr Bilimoria)

228 Q 214 (Mr Ahmad)

229 Appendix 34

230 Q 17 (Mr Lakshminarayanan)

231 Q 445

232 Q 462

postgraduate degrees in the United States are doing so with the benefit of scholarships or bursaries provided in the United States”.<sup>233</sup>

130. The IBPN agreed that the US had a competitive advantage over the UK because of its scholarships. They suggested: “the more we can attract Indian students here, by providing them with scholarships, by making it easier for them to work to supplement their fees, to make it easier for them to stay on and work after they have finished their studies and gain some experience”, the better.<sup>234</sup>

131. Lord Patten of Barnes cited the example of “the now outgoing president of Harvard University who, during the course of his visit, offered a dozen chairs in Indian studies to eminent Indian personalities and announced that any Indian student qualified to come to Harvard, coming from a household where the family income is below \$40,000 will be funded totally. With those sorts of resources available the £10 million with additional contribution which the Government has announced as part of the initiative, while hugely welcome, £10 million over five years, does rather fall into context”.<sup>235</sup>

**132. The cost of studying in the UK is generally comparable with other countries. Part of what attracts Indian students to higher education institutions in other countries, especially the US and Australia, is the availability of 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.**

### **Visas and work-permits**

133. The third main reason given by our witnesses for Indian students not choosing the UK was the ability of students to be able to work in the country once their studies were completed. This is important to Indian students who choose to study in the UK as they can be left with debts. If foreign students have to return immediately, as under the current visa regime, this debt becomes prohibitive since it increases relative to the lower wages they receive in India. Giving them leave to stay provides them with the opportunity to earn wages at a level commensurate to their debts, an opportunity that must be attractive.

134. The CBC told us that in the US, Australia and Canada, Indian students were offered a one year legal working period upon completion of their degree: “most students are able to secure permanent jobs through work permits during this year long period. This allows these countries to retain foreign talent. However there is no such allowance in the UK and the student must leave the country as soon as their student visa expires”.<sup>236</sup>

135. Mr Chatterjee, Managing Director and Chief Executive Officer of ICICI Bank (UK) Ltd, told us that, from an employer’s point of view, the:

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233 Q 444

234 Q 299 (Mr Bilimoria)

235 Q 447

236 Appendix 11, para 3.6

“big thing which as an employer here I feel—because I see a lot of these situations coming up—is how easy it is to work post-education in this country. To my mind, as I see it now it does not look easy because the kind of processes an employer needs to run to convert a student visa into a work visa are very, very cumbersome. I can tell you that ICICI Bank, despite the fact that there are Indian students who are approaching us for, I would say, entry level jobs in this market, has steadfastly stayed away from having a very cumbersome Home Office process to demonstrate as to why we should recruit somebody with a student visa. That, I would say, would weigh a lot on somebody’s mind, given that education in this country would cost a lot of money, particularly when you convert and look at the aggregate, and then what are the prospects beyond that when people take a loan to come and study in this country? How would they ever hope to repay that loan if they do not work in this country?”<sup>237</sup>

136. Dr Maini told us that his impression was that the current visa situation for students was improving enormously: “There have been great strides in that area, but the issue still is one where the student when he finishes can work for a sufficient number of years to pay back his debts. That is the key situation and he cannot do that. If you are a student at Harvard or MIT or Berkeley you can work for three years and pay back all your loans; that just does not happen here and unless we recognise that and allow these students to work for three or four years to pay back their loans, we are not going to get around this problem. It is, quite frankly, very expensive to study here; for a typical engineering graduate it would cost the family £100,000 to study in England”.<sup>238</sup> UKTI told us that, although education and visas fell outside their responsibilities in India, easier visa conditions in other countries was one of the reasons Indian students preferred to study elsewhere: “it is a message that we get repeatedly from our interaction with India”.<sup>239</sup>

137. The UK’s immigration rules already enable some non-European Economic Area (EEA) students, who graduate at degree level or above from a relevant UK institution, to switch into an appropriate category of immigration leave.<sup>240</sup> The British Council told us that there were schemes in place which allowed Indian students to remain in the UK to work once they had finished their studies: “the Science and Engineering Graduate Scheme [SEGS]—that is a year allowed to certain maths, science, engineering and technology graduates after they have finished to carry on working in this country”,<sup>241</sup> and the Highly Skilled Migrant Programme (HSMP), designed, for example, for students with exceptional ability or particular skills needed by the UK.<sup>242</sup> The India Group said these schemes were an improvement on the previous regime: “on the visa side there has been a lot of progress because of the HSMP programme that has happened and there are, I believe, certain business schools which automatically give you HSMP if you pass out from that school. It is

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237 Q 324 (Mr Chatterjee)

238 Q 461

239 Q 219 (Mr Ahmed)

240 Q 488

241 *Ibid.*

242 Q 490

a question of where you want to spread that tool because HSMP is a fantastic tool to offer to these students”.<sup>243</sup>

138. UKTI told us that the Government would soon be introducing a new points-based (PBS) system for ‘managed’ migration, which:

“offers an opportunity to make the student route both simpler and more robust. Integral to the new PBS is providing more objectivity and transparency to the decision-making process and a greater role for sponsors in vouching for the students they want us to allow into the UK. It will continue to support the Prime Minister’s Initiative in making the system simpler for applicants (with on-line assessment and clear entry criteria) and by putting sponsors at the heart of the system”.<sup>244</sup>

Both the HSMP and the SEGS would continue under the points based system. In addition, students applying through the new scheme would be eligible for extra points because they had chosen to study in the UK.<sup>245</sup>

139. Lord Patten of Barnes believed that criticism of the current visa system was unfair: “it is an issue which is surrounded by quite a lot of mythology: I do not think it is fair to believe that it is much easier and cheaper to get a visa for studying in the United States than it is to study here, nor that you are more likely at the end of a visa to get a green card to work in the United States than you are likely to be able to work here”.<sup>246</sup> However, he considered: “it is an issue that we need to keep looking at and one particular aspect of it which was raised with us was the question of the cost of renewal of visas where a student has to stay on to complete a DPhil, where it lasts four years rather than three years. There are doubtless one or two issues which still deter students or potential students, but my overall impression was that the system was being pretty well managed by the High Commission and those who have had the job outsourced to them”.<sup>247</sup>

140. When we asked the Minister what else the UK Government was doing to improve the international competitiveness of the UK’s student visa regime, he told us of a further scheme for students to remain in the UK:

“we [the Government] have recognised this as an issue. As you will be aware, under the Fresh Talent Initiative in Scotland Indian and other students will have a right to work for two years after graduation. In the pre-Budget report the Chancellor announced that in selective disciplines—I think that includes science and engineering and others—foreign students would have a right to work for up to one year in the United Kingdom. It is also the case that, when you look at our UK visa regime, students over the age of 16 can work for up to 20 hours a week during term time and they can work during vacations while they are here. That is not necessarily the case in other countries. Our assessment is that this is particularly attractive

243 Q 325 (Mr Chatterjee)

244 Appendix 32, page 9

245 *Ibid.*

246 Q 461

247 *Ibid.*

compared with the United States, for example, which has more restrictions on how much you can work when you are studying”.<sup>248</sup>

141. The *Fresh Talent: Working in Scotland* scheme was launched as part of the Scottish Executive’s Fresh Talent Initiative (FTI). It enables overseas students to gain work experience anywhere in the UK for up to two years after finishing their studies in Scotland. If they then wish “to switch into leave as a work permit holder following their time under this scheme, then they need to hold a valid work permit for employment in Scotland”.<sup>249</sup>

142. When we started our inquiry we were unaware of the Fresh Talent Initiative. Uncertain whether it was a UK Government initiative, we asked the Minister why it extended only to Scotland. The Minister said: “Scotland has devolved functions when it comes to its higher education system”.<sup>250</sup> When we clarified that we were talking not about student visas for studying but about immigration policy with regards to work permits for Indian students once they had completed their studies, he told us: “my understanding is that this is being closely looked at by government and that the conclusion reflected in the announcement was, certainly as far as England was concerned, we would want to change the system so that you could work for one year after graduation”.<sup>251</sup>

143. We asked the Minister to clarify the apparent discrepancy in Government policy with regard to Indian students working post-study in the UK. In a supplementary submission, UKTI told us: “this isn’t a discrepancy, but is related to the different aims and rationales of the different schemes”<sup>252</sup> and later: “these two schemes have different aims, and therefore different requirements and entitlements for the students using them. However, they are both transitional schemes between studying in the UK and pursuing a long-term career here”.<sup>253</sup>

144. The Minister explained: “on the one year work permit, I personally think there is quite a strong case for looking at two years as Scotland has done, but at the moment the decision has been for one year and there are good reasons why that decision has been taken. Again, this is something we will need to look at as a government”.<sup>254</sup>

**145. 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—by levelling up to the Scottish system.**

**146. 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**

248 Q 429

249 Appendix 32, pages 9-10

250 Q 430

251 Q 431

252 Appendix 32, page 9

253 *Ibid*, pages 9-10

254 Q 434

**UK and pursuing a full time career here, or returning to their home country. This certainty is crucial if we are to attract the brightest and the best students in the face of the financial incentives available elsewhere, especially in the US, that we cannot match at present. We recommend that the UK Government commission a study of the costs and benefits for the UK economy, and overseas students, of extending this period further in the future.**

### ***Efficient work permit regimes***

147. While we questioned our witnesses about work visas for students, another issue which came to light was that there were difficulties in posting to the UK Indian employees of UK-owned subsidiaries or joint ventures in India because of restrictions on the issuing of permits to those who have been working for an employer for less than six months. Xansa said: “this restriction has the effect of preventing recently joined skilled and qualified employees from delivering valuable services to our UK clients at their UK premises”.<sup>255</sup>

148. Indian companies also raised the issue of their inability to fill positions due to a lack of skilled labour in the UK.<sup>256</sup> Morgan Walker Solicitors explained: “to safeguard business interests, inward investors have to bring in personnel for key positions on whom they have confidence and trust. For this they may have to recruit or transfer people from India having the requisite skills and knowledge of the business and in whom they can confide to help in the growth of the business”<sup>257</sup> and later: “there has been a continuing shortage of skilled workforce in the UK, in both the IT and Hospitality sectors. Due to this reason the IT and the Hospitality sectors have been drawing upon human capital by way of skilled professionals and specialists from India through ‘intra-company transfers’ as well as direct recruitment through the ‘advertisements’ route. The Home Office’s reluctance in issuing work permits to new companies who have recently opened their branches in the UK has led to significant losses for companies and delays in realising their investments”.<sup>258</sup>

149. The example given to us by one of our witnesses was the ICT industry. Intellect told us that “a relatively free movement of ICT professionals between India and the UK is vital to ensure the effective operation of service delivery: “The success of the UK ICT industry depends on ‘on-shore’ resources that can work closely with customers on complex projects whilst carefully managing operations in India. The recent demand for IT professionals in the UK has been fuelled by major public sector projects (e.g. the NHS-IT and MOD upgrades)”.<sup>259</sup> This demand, they told us, had been partially met by an influx of experienced resources from overseas, particularly from India—of the 22,000 IT workers who entered the UK last year, approximately 85 percent were from India.<sup>260</sup>

150. Mr Lakshminarayanan of TCS told us:

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<sup>255</sup> Appendix 35

<sup>256</sup> See Appendix 11, para 4.1

<sup>257</sup> Appendix 20

<sup>258</sup> *Ibid.*

<sup>259</sup> Appendix 18 para 4

<sup>260</sup> *Ibid.*

“I find this to be cyclical [...] when I first came here, it used to take us about eight weeks to get a work permit. Now it takes less than four weeks to get a work permit for people. There are improvements, and, if you ask me, you know, “Can further work be done to enhance this?”, the answer is, “Yes” [...] In terms of do I see this as a barrier and we cannot do business, the answer is, “No”. We have to go through some of these processes that are required to be gone through; so I do not see that as a real barrier as such because there are certain processes that one has to go through in every other place that you have to do business”.<sup>261</sup>

151. Morgan Walker Solicitors argued: “India is one of the largest inward investors into the UK and despite being a Most Favoured Nation it still has to face problems relating to work permits and visas which hinder Indian investors in increasing investments. It is asserted that being most favoured nation, the clause would automatically entitle Indian citizens similar treatment to the EU citizens in respect of travel or work and the immigration regime should be exactly similar”.<sup>262</sup>

**152. 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.**

## Greenfield campuses

153. Some of our witnesses were worried about the capacity of UK HEIs to absorb any further increase in Indian student numbers.<sup>263</sup> One solution to issues of capacity in the UK, suggested by our witnesses, was the setting up of so called ‘greenfield’ campuses by UK HEIs in India.<sup>264</sup>

154. The India Group told us that in India at present there was such a large number of people seeking further education, and so many of these were not able to gain admissions into good schools or good colleges, that there would be no shortage of students willing to join “a good educational institution which is moving across to India to set up a business model”.<sup>265</sup> It also suggested: “there is a huge opportunity for British institutions to set up a joint venture or in certain instances where the brand is very strong, like Oxford or somebody, to set up their own institutions there” and: “there would be a lot of sense for an Oxford or somebody else, or even a UCL, to say I am going to set up an institution in India”.<sup>266</sup>

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261 Q 26 (Mr Lakshminarayanan)

262 Appendix 20

263 Q 492

264 Q 322 (Mr Chatterjee)

265 Q 322 (Mr Singh)

266 Q 322 (Mr Chatterjee)

155. While we were visiting India we were given conflicting evidence about the extent of legal restrictions on investment in greenfield campuses in India. When we asked our hosts from various organisations why it was that the UK’s HEIs were not setting up campuses in India, we were told that it was against the law of India. Later, while visiting UK companies in Gurgaon, we passed a new campus belonging to Western International University (WIU) of the USA. When we questioned the Indian Government about this they told us that the rules had changed a few years ago.<sup>267</sup>

156. To clarify the situation, we asked our witnesses in the UK if they were aware of WIU’s investment and the current restrictions on overseas campuses. The British Council said: “I think you cannot [invest] at the moment; it is not possible”.<sup>268</sup> It also told us that Western International University campus was the main foreign campus in India at present and was: “affiliated to WIU, Phoenix, Arizona. It is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools, USA, who last visited in 2004. It offers US degrees. When asked if it was legal, the Secretary General of the Association of Indian Universities said ‘it is probably not legal’. It is run by the Apollo-Modi private group of companies who are very influential and are running a longstanding lobbying campaign against over-regulation of foreign providers in India. At a recent conference, the CEO was verbally attacked on the subject of private education and the campus is clearly very sensitive”.<sup>269</sup>

157. We were worried that UK HEIs were being left behind their competitors in this type of investment in India. However, the British Council told us that there were UK HEIs operating campuses in India: Wigan and Leigh College run a series of franchise operations across India offering a Graduate Diploma from Wigan and Leigh College UK and a parallel Edexcel HND which allows access to UK universities for a one year top-up.

“WLC India have frequently been in the press with accusations of misleading students about the status of the UK degree. We understand that they have improved quality assurance considerably recently. Less obviously, there are many Indian colleges that offer partnerships with UK and US institutions and act as a feeder to them on a 2+2 or a 2+1 model (two years in India followed by one or two years in US/UK to complete the degree)—these tend to take a lower profile and offer both the joint programme and purely local programmes. This latter model offers a more secure and less controversial route for UK institutions and is our preferred approach”.<sup>270</sup>

Dr Maini also told us: “Yes, they [WIU] are not the only ones. The University of Arts in London is doing a fabulous job in India. They have a campus there in partnership with a local businessman, and we have had plenty of local businessmen who have approached us to set up a university in India with them. We have declined, because it is part of our policy not to do undergraduate teaching in India”.<sup>271</sup>

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267 See Q 426

268 Q 473

269 Appendix 7, para 2

270 *Ibid*

271 Q 452

158. On the Indian Government's restrictions on investment in greenfield campuses, the British Council explained: "although the Western International University is at present tolerated there is no guarantee that this will continue. The Government have recently demonstrated their resolve in dealing with such issues by sealing and closing down a very large number of businesses they considered to be improperly licensed or in inappropriate locations. The regulatory authorities very much appreciate the approach the UK has taken up to now (notwithstanding WLC India) in encouraging its institutions to seek accreditation through the regulatory bodies and work in a cooperative rather than confrontational way. This has stood us in good stead and we are the only country to get official accreditation for two jointly delivered programmes through the All India Council for Technical Education (AICTE). Our strong preference is to continue the partnership approach whereby UK institutions work closely with Indian analogues and to avoid the risks associated with setting up campuses or franchises in an uncertain regulatory environment".<sup>272</sup>

159. Lord Patten of Barnes, Dr Maini and the Government told us that they were also worried about the 'quality standards' and 'brand' dilution, should such investment be undertaken. Lord Patten of Barnes considered: "we have got it right because there is a great deal of experience that, first of all, opening campuses which were allegedly those of a western university in middle income or developing countries offers guarantees which are not kept. You do not provide the same teaching standards, you do not provide the same learning experience after a year or two as you are providing back home".<sup>273</sup> Lord Patten of Barnes went so far as to say: "I think it will be a long time before anybody is opening campuses".<sup>274</sup>

160. He thought: "it is much more sensible, for example, to do what Newcastle University is trying to do which is to combine courses with good Indian institutions so that somebody doing a particular degree in the sciences can start the degree in India and can continue it in Newcastle; that is a much more sensible way".<sup>275</sup> Dr Maini agreed with Lord Patten of Barnes and told us that those UK HEIs, which had not invested in greenfield campuses, had got it right and that the US and Australian universities had got it wrong.<sup>276</sup>

161. The Minister commented: "we have seen in places like China Nottingham University has set up a campus which the Committee are familiar with. There is an increasing trend to see that happening. Universities need to continually be aware of the dangers of brand dilution and that is why some of our universities have not wanted to set up international campuses".<sup>277</sup>

162. Lord Patten also referred to the issue of who would fund these campuses: "I can think of ten or a dozen things that we are doing and which I believe we should do more in order to tap this extraordinary Indian appetite for education, but they do not happen to include

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272 Appendix 7, para 2

273 Q 454

274 Q 450

275 Q 455

276 See Q 453

277 Q 424

establishing more UK university campuses in India because I do not think that is the principal Indian demand and I do not think that is the principal way in which we should use our resources. When you look at the degraded facilities, at the degraded laboratories and library facilities at UK universities, it is strange to think that the best way in which we should go forward is trying to put the limited money we have got into new facilities in India, China, Singapore or Malaysia. Nobody is giving us that money or offering that money”.<sup>278</sup>

163. Dr Maini agreed that there were constraints on resources that would prove prohibitive: “where would Imperial find the money to go and invest in India when we can hardly keep our own university going?”.<sup>279</sup> Dr Maini also told us that even if private sector capital was available: “when you drill down into details they are not prepared to cover the risk, they are not prepared to give you enough money to establish a university and cover all the costs. I am on the board of a university in the Middle East, the University of Qatar, which is a huge foundation that has established four overseas campuses, and I can tell you that it is a very expensive business. The engineering school is in collaboration with the University of Texas and it costs the Ruler of Qatar \$70 million a year, outside the cost of the building, to educate 50 engineers a year. That is the level of cost that is involved; I do not believe that there are Indian businesses, however much they may posture themselves, who will actually cover the entire risk”<sup>280</sup> and later: “the sheer risk involved in creating the infrastructure, the time it takes to get anything done, is huge. If the Australians are doing it they are probably being funded by the government to help them, or they have private partners; and if a university wants to try that route I am sure they are free to do it, but it is not a question of being out of touch, it is a question of who takes the risk”.<sup>281</sup>

**164. 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’. Investment at this time would be a huge burden on the tight resources of most of the UK’s HEIs, in addition to the regulatory risks. There are also questions over the possible reduction of standards within such campuses and the subsequent dilution of some of the UK’s top HEIs’ ‘brand’. 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.**

## Collaboration

165. At a higher education level there have been many collaborative partnerships between UK and Indian institutions. UKTI told us that successful links had been established in a wide range of development sectors including: administration and management, the environment (including agriculture, conservation and eco-tourism, and water resources management) life sciences (including biochemistry, and health pharmacy) and education,

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278 Q 464

279 Q 465

280 Q 465

281 Q 450

(including literacy, information technology and on-line learning).<sup>282</sup> Mr Bilimoria of the IBPN told us that: “I am Chancellor of Thames Valley University and we have opened up an office in India recently. It goes further, in the British universities also linking up with Indian educational establishments, so, for example, the London School of Tourism, Hospitality and Leisure within Thames Valley University has got a link up and an arrangement with catering colleges in India”.<sup>283</sup>

166. Dr Vyakarnam of the IBPN said “I think what we have discovered is that, while India has got a knowledge base in the laboratories, while it has got entrepreneurs, the types of entrepreneurs that you find in India do not have the experience of disruptive technology type of entrepreneurship that you find in Cambridge, Oxford, London and other places and I think there is a role for the linkages to be strengthened in those sorts of areas”.<sup>284</sup> The IBPN’s website gives the specific example of the School of Pharmacy at the University of London’s work with the Indian National Institute of Pharmaceutical Education and Research, where pharmacists are trained to provide services for rural areas of India. They suggest that: “as part of this the UK School of Pharmacy gains much through undertaking joint field research with their Indian counterparts”.<sup>285</sup>

167. The British Council considered that: “there is a relatively weak link between education and industry” and later, that in India: “scientific research tends to be conducted in research labs and institutions independent of the main centres of learning”.<sup>286</sup> There are some examples of where companies and HEIs are collaborating. TCS told us that it had forged links with Oxford University and had been collaborating with King’s College and the University of York on joint research projects into model-driven architectures (MDA) and model-driven development techniques. It also had linkages with the London Business School.<sup>287</sup> TCS also told us that in India it collaborated with HEIs in the same manner.<sup>288</sup> While in India we also came across many successful joint ventures between UK HEIs and Indian companies, particularly in the areas of life sciences and pharmaceuticals.

168. Lord Patten of Barnes told us that UK HEIs were aware of the weak links between HEIs and business: “we also need to work much more strongly with business. Both of the universities I know best do that pretty well; for example, one of the most important collaborative ventures of Newcastle is with Coal India and the hydro geochemical work that is being done by us with the support of HSBC has been terrifically important. Oxford has done a great deal of work in the area of cancer research with GlaxoSmithKline so there are business links that we need to develop as well as stronger alumni performance”.<sup>289</sup>

169. Dr Maini also told us that they were trying to forge greater links at ICL through their alumni: “we are setting up a foundation in India, with our alumni, and the idea is to create

282 Appendix 5, para 4

283 Q 289 (Mr Bilimoria)

284 Q 289 (Dr Vyakarnam)

285 IBPN website (14 June 2006): [www.ibpn.co.uk/education.asp](http://www.ibpn.co.uk/education.asp)

286 Appendix 5, para 1

287 Q 36 (Mr Lakshminarayanan)

288 Q 38 (Mr Lakshminarayanan)

289 Q 459

a foundation that will fund students to come and study in England”<sup>290</sup> and later: “we discovered in the process of our negotiations and discussions with the Indians that they would rather put money in this foundation to encourage collaborative research, so the idea now is to find programmes where we can do collaborative research together and that way bring students to England and send some of our professors to India to work in the universities as well”. He reported that two projects had already started: one in the aerospace sector and the other in the drug discovery field. However, he felt more needed to be done: “We spend a billion pounds on research in this country through the Research Councils; I do not see why we cannot have a strategic decision to invest a portion of that money on international collaboration; 20 to 30 per cent of that money could be allocated for collaborative research. That does not mean the money has to go to India: all it signifies is that a British institution develops a programme and 20 per cent of the total funding will be allocated to international programmes”.<sup>291</sup>

170. We asked the Government what it was doing to increase collaboration between the HEIs and private sector companies in the two countries. The Minister told us that: “our UK academic community has been very good at developing stronger links with a clear, commercial outlet to them. It is something that we have done quite a lot of work on in the UK, as you know, over the last ten years. Making that international is important and that is why I think this initiative is very important”.<sup>292</sup> The British Council told us that it: “encourages collaborative links between UK and Indian institutions with market briefings for UK institutions and match-making services to both UK and Indian institutions”.<sup>293</sup>

### **Higher Education Links Scheme**

171. The British Council managed the Department for International Development-funded Higher Education Links scheme aimed at increasing practical skills and to support professional development within an academic department, and to improve the curriculum, technology transfer, and promote pro-poor relevant research. The Links programme was replaced by a similar programme, the Development Partnerships in Higher Education (DELPHE), in April 2006. Funded by the British Council and HEIs in the UK and overseas (£2m per annum globally over seven years) DELPHE is aimed at supporting collaboration between HEIs in activities linked to sustainable development and poverty reduction across Africa and Asia. The British Council told us that its partner institutions would work on initiatives for skills development, knowledge sharing, problem-solving research and other activities, which would: “contribute towards achieving the Millennium Development Goals [MDG]”.<sup>294</sup> In addition to addressing core areas such as health, education, gender issues and agriculture, the British Council told us, DELPHE would also encourage projects aimed at promoting science and technology.<sup>295</sup>

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290 Q 466

291 Q 467

292 Q 424

293 Appendix 5, para 7

294 *Ibid*, para 5

295 *Ibid*.

### **UK-India Education and Research Initiative (UKIERI)**

172. At an India-EU Summit in September 2005, the Prime Minister announced a £10 million programme, over the next five years, of academic and educational exchanges between universities in India and the UK.<sup>296</sup> UKTI said that this was “part of efforts to cement a relationship with India’s flourishing higher education sector”.<sup>297</sup> UKTI told us that the British High Commission, Department for Education and Skills, Office for Science and Technology and the British Council were working together with their Indian counterparts in an attempt to form a partnership that “will act as a building block in the strategic relationship between the two countries”.<sup>298</sup> The British Council said that, over the next five years, by strengthening institution-to-institution collaboration and promoting stronger links to industry and related communities, the UKIERI would lead to the UK and India becoming each other’s partner of choice in education.<sup>299</sup>

173. To match the £10 million of public money that has been committed, there is an expectation of a further £10 million from the private sector.<sup>300</sup> 85 percent of the total investment will be in higher education and, within this, the emphasis will be on promotion of research-oriented links between centres of excellence. UKTI told us that it would: “expect high impact in areas of science, technology and social sciences that are crucial for the future of both countries and their place in the globalised and increasingly knowledge-based economy”.<sup>301</sup> The main features of the initiative, it told us, would be mutual collaboration through a wide variety of activities including: promoting the two way movement of students, staff and researchers through scholarships and short-term academic exchanges; getting young Indians to spend time in the UK and young UK researchers to go to Indian institutions, through awards for doctoral and post-doctoral research; and collaboration between centres of excellence in science and technology.<sup>302</sup> The British Council confirmed this and told us that the UKIERI would “allow us to significantly boost the development of links and policy engagement with India”.<sup>303</sup>

174. After a period of pilot activities, the UKIERI was formally launched in April 2006. The British Council told us that currently their sponsorship manager had managed to secure almost £5m in sponsorship from the UK industry, of which “£1.75m is in cash, the rest in kind from UK industry in terms of corporate partnerships from BP, BA, GSK and Shell, and the next stage, as you say, is to identify and work with Indian partnerships. The Tata Group has already said that they are interested in coming on board as a corporate partner and we are working with them at the moment”.<sup>304</sup>

296 Appendix 33

297 Appendix 31, para 5

298 *Ibid.*

299 Appendix 6

300 Appendix 31, para 5

301 *Ibid.*

302 *Ibid.*

303 Appendix 6

304 Q 500

175. 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. It is a beginning, and we believe that, should it prove a success, there should be a commensurate increase in funding from both the private and public sectors. We recommend that the Government publicly commit itself now to increase investment in UKIERI, should it prove a success, given matching investment by the private sector.

176. The involvement of both UK and Indian companies also provides an opportunity for greater collaboration between the higher education institutions (HEIs) and companies in the two countries, something we are very keen to promote. To this end, we recommend that the Government carry 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.

## 5 UKTI in India

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177. India is a “priority market” for the Inward Investment Group within UKTI.<sup>305</sup> The BCCB told us that they believed that UK Trade and Investment (UKTI) had a good spread of offices in India.<sup>306</sup> As well as covering the four main Metropolitan areas of Delhi, Mumbai, Chennai, and Kolkata, there are also Trade Offices (Ahmedabad and Bangalore, for example) and Business Information Centres (Pune, Hyderabad). These are supported from UKTI in London.<sup>307</sup> UKTI told us that in all: “2003/4 saw 30 new investment projects from India (an increase of 26% on 2002/3). 2004/5 saw 36 new investments (an increase of 20%). Up to the end of the second quarter of the current financial year (30 September 2005) UKTI had assisted 20 Indian companies invest in the UK (up 54% on the first half of last year)”.<sup>308</sup>

178. The BCCB told us that it believed that for established and experienced companies, the most valuable service offered by UKTI was “up to date, reliable and timely advice offered to us by trade & investment sections in our diplomatic posts. This is especially relevant in a vast and complex market such as India—a market which is opening to overseas business at great speed, and where constant changes to Government regulations mean that timely advice is essential to take advantage of an ever-changing investment climate. Given our historical links and backgrounds, the vast Indian Diaspora and the cultural similarities which exist between the UK and India, we believe India will continue to grow in importance for UK business for many years to come”.<sup>309</sup> However, it was concerned about a cut in the resources available to UKTI in India: “we are surprised that staffing levels in UKTI offices in India have actually been reduced in recent years. We are aware that a recent resource inspection resulted in staff cuts in the High Commission in New Delhi and other offices in India at both UK-based and locally engaged (LE) level. These cuts involved the loss of a great deal of experience”.<sup>310</sup> This, they believed, was “short sighted and damaging to the UK’s overall trade and investment effort in India”.<sup>311</sup>

179. The BCC agreed and told us that they were concerned about cuts to UKTI’s support budget for existing exporters following the 2004 spending review: “UKTI’s expenditure on trade development will fall from £231m to £166m per annum by 2008. 17 per cent of the trade promotion budget will be handed over to the promotion of inward investment. Support will also be channelled away from existing exporters towards ‘new to export’ firms—funding for new exporters will increase by 30 per cent by 2008”.<sup>312</sup>

180. The BCCB told us that the background to the reduction in funding for UKTI was that: “in 2004/5 HM Treasury ordered a shift of resources within UKTI from the trade side

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305 Appendix 29, page 14

306 Appendix 4, para 3

307 Appendix 29, page 14

308 *Ibid*, page 15, para 1

309 Appendix 4, para 4

310 *Ibid*, para 5

311 *Ibid*.

312 Appendix 3

(which helps UK companies wishing to export) to the inward investment side (which encourages foreign companies to invest in the UK). The trade side was asked to find savings of £20m to help fund enhancements to inward investment staffing and to the UK regional network.<sup>313</sup>

181. We asked UKTI if this was so. It told us that under the provisions of its settlement under Spending Review 2004, which took account of the Gershon agenda, UK Trade & Investment is reducing the number of posts in headquarters offices by 200 by April 2008: “This represents a reduction of some 25% of headquarters numbers. The organisation will also reduce the resource deployed in the overseas operation by £20 million, from a total value of £140m. At the same time the organisation has been building front-line capability in the regions”.<sup>314</sup>

182. The BCCB argued: “clearly, it is right that UKTI should be able to transfer resources from less important markets abroad to higher priority work. In our view, however, cutting staff in essential markets such as India shows a lack of strategic vision and clarity. The services they carry out are essential to the competitiveness of British companies”.<sup>315</sup> The BCC was not opposed to increased funding for inward investment either, or to increased support for new to export firms: “on the contrary, both elements are crucial to the success of the UK economy. Rather, we are opposed to increased funding in these areas at the expense of support for existing exporters. Indeed, the reduction in support comes at a time when our exporters are facing intense competitive pressure from abroad and our share of world exports is declining” and “given the recent changes to UKTI’s budget, the BCC is concerned that there is insufficient support for existing exporters, who we should be engaging in ‘new to market’ ventures in countries with rapidly developing economies such as India and China”.<sup>316</sup>

183. The BCCB felt that greater support, not less, was required to aid UK companies to explore the opportunities that exist within these newer markets and to encourage increased trade with India and others.<sup>317</sup> The CBI were also concerned about a reduction in funding: “we have been concerned at the overall reduction in UKTI budgets and the cuts that this has necessitated on staffing levels and support programmes in various markets. However, we are encouraged that the Government has maintained its overall support in key markets such as China and India. It must continue to do so”.<sup>318</sup>

184. The British Council told us: “we work very closely with UKTI; in fact, as you may know, we have UKTI staff in two of our centres in India. So we see very clearly the pressures that are on them. Also, ... I think we do get the impression from them that they do need more resource. We are working at the moment on a joint paper with them to sort out our roles and responsibilities where we are clearly on the education promotion side and wanting to very much focus on that ... and they, we feel, should be working on other

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313 Appendix 4, para 6

314 Appendix 32, para 2

315 Appendix 4, para 6

316 Appendix 3

317 *Ibid.*

318 Appendix 12, para 24

aspects of education, perhaps the kind you have talked about, with companies. But we do not think that they have the capacity to do that at the moment”.<sup>319</sup>

185. We were shocked to hear that UKTI has almost as many trade advisors in Germany (63), an EU country with a mature market and a population of 80 million, as it does in India (76), with a population of 1.1 billion.<sup>320</sup>

186. The 2006 Budget Statement announced a new focus for UKTI: “the Government will publish a new five year strategy for a stepchange in the Government’s drive to market the strengths of the UK economy internationally. This will have a number of themes, including a particular focus on high growth countries of strategic importance such as India”.<sup>321</sup> The five year strategy will form the basis of a partnership between all the Government departments and agencies, with responsibility for co-ordinating and driving the strategy lying with UKTI. In order to deliver the strategy, UKTI will undertake a programme of organisational change, under its new chief executive, Andrew Cahn, with the: “aim of a fundamental transformation in its effectiveness in marketing the UK”.<sup>322</sup> UKTI told us that “planning for this change is under way”.<sup>323</sup> Details of the programme of organisational change, and the strategy itself, are expected to be published in the summer of 2006.<sup>324</sup>

**187. 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.**

**188. 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 fear that without this ability, UK companies will be left to follow their main competitors instead of leading them.**

**189. 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**

319 Q 502 (Ms Stephens)

320 Q 388

321 HM Treasury, *Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HC 968, March 2006, para 3.96

322 *Ibid.*

323 Appendix 32, para 2

324 HM Treasury, *Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HC 968, March 2006

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.

190. 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 have a role in promoting the benefits of their region only 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.

191. 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.

192. 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 inquiry into these and other aspects of UKTI's work.

193. 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.

## Conclusions and recommendations

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### UK's poor 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)
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)
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 which 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)

### A plethora of support agencies

4. There is 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)
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)

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-ordinated exclusively through UKTI. (Paragraph 108)

### 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)
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)
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)
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)
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 inquiry into this and other aspects of UKTI's work. (Paragraph 191)

## 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)
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)
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)

### 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)
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)
19. The UK has a competitive advantage in the provision of services, and in financial services in particular. Many UK financial sector companies, which have offshored some or all their operations to India or formed joint ventures there, will be well-placed to leverage their existing market position in the country as the rules on selling financial products change. Having support personnel or joint venture partners in the relevant regions will give them a major advantage in terms of understanding customers' needs, regulatory compliances and regional preferences in India, and these companies will be best placed to succeed with new products or services. (Paragraph 89)

### The Government's role in promoting India

20. 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)
21. 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)

### Opportunities for the Higher Education Sector

22. 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)
23. 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)
24. 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)
25. 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)
26. 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)

### Visas and work permits

27. 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)

28. 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)
29. 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)

### **Corporate Social Responsibility and Caste issues**

30. 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)

## Glossary

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AAR	Automatic Approval Route
AICTE	All India Council for Technical Education
AIMS	Association of Indian Management Schools
BPO	business process outsourcing
BRIC Economies	Brazil, Russia, India and China
CAGR	compound annual growth rate
CCC	customer contact centre
CII	Confederation of Indian Industry
DCGI	Drug Controller General of India
DELPHI	Development Partnerships in Higher Education
FICCI	Federation of Indian Chambers of Commerce and Industry
FIPB	Foreign Investment Promotion Board
FTI	Fresh Talent Initiative
HAL	Hindustan Aeronautics Limited
HEI	Higher Education Institution
HSMP	Highly Skilled Migrant Programme
HUDCO	Housing and Urban Development Corporation
IBPN	Indo British Partnership Network
IRDA	Insurance Regulatory and Development Authority
LSE	London Stock Exchange
MFA	Multi-Fibre Agreement
MOSPI	Indian Ministry of Statistics and Programme Implementation
NARIC	National Recognition Information Centre
ICAO	International Civil Aviation Organization
ICT	information and communications technology
IIT	Indian Institute of Technology
IL	Industrial License
IND	Immigration & Nationality Directorate
ITES	IT-enabled services
JETCO	The Joint Economic and Trade Committee
MHRA	Medicines and Healthcare products Regulatory Agency
NASSCOM	National Association of Software and Service Companies
NRI	Non Resident Indians
NSE	National Stock Exchange of India Ltd
OCB	Overseas Corporate Body
PIB	Public Information Bureau (Government of India)
PIO	Person of Indian Origin
SEGS	Science and Engineering Graduate Scheme
SSI	Small Scale Industries
UKIERI	UK India Education and Research Initiative
UKTI	UK Trade and Industry
UNCTAD	United Nations Conference on Trade and Development

# Formal minutes

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**Tuesday 13 June 2006**

[Morning Session]

Members present:

Mr Peter Luff, in the Chair

Mr Roger Berry

Mr Peter Bone

Mrs Claire Curtis-Thomas

Mr Mark Hunter

Miss Julie Kirkbride

Judy Mallaber

Rob Marris

Anne Moffat

Mr Mike Weir

Mr Tony Wright

Draft Report (Trade and Investment Opportunities with India), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 193 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

*Ordered*, That embargoed copies of the Report be made available in accordance with the provisions of Standing order No. 134.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Today at 5.00pm]

## List of witnesses

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### Tuesday 31 January 2006

Mr A S Lakshminarayanan, **Tata Consultancy Services** and Mr Edward Gardner, **Diligenta**

Mr John Ainley, **Aviva Offshore Services** and Mr Sean Egan, **Norwich Union**

### Tuesday 14 February 2006

Mr Paul Whiteway and Mr Asif Ahmad **UK Trade and Investment**

### Tuesday 28 February 2006

Mr Karan Bilimoria CBE and Dr Shailendra Vyakarnam, **Indo British Partnership Network**

### Tuesday 14 March 2006

Mr Sonjoy Chatterjee, Mr Anwar Hasan and Mr Sirjiwan Singh, **The India Group**

### Tuesday 21 March 2006

Mr Ian Pearson MP, Minister for Trade and Mr Paul Madden, **Department of Trade and Industry**, Mr Tony Collingridge and Mr Asif Ahmad, **UK Trade & Investment**

### Tuesday 25 April 2006

**Lord Patten of Barnes** and **Dr Tidu Mani**

Ms Catherine Stephens and Ms Victoria Grant, **British Council**

## List of written evidence

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- 1 Astaire and Partners
- 2 Aviva
- 3 British Chambers of Commerce (BCC)
- 4 British Consultants and Construction Bureau (BCCB)
- 5 British Council
- 6 British Council
- 7 British Council
- 8 Cambridge Assessment
- 9 City of London
- 10 Clifford Chance
- 11 Commonwealth Business Council (CBC)
- 12 Confederation of British Industry (CBI)
- 13 Dalit Solidarity Network UK
- 14 EEF
- 15 Federation of Indian Chambers of Commerce and Industry (FICCI)
- 16 Imperial College London
- 17 Indo British Partnership Network (IBPN)
- 18 Intellect UK
- 19 James E Lynch India and South Asia Business Centre
- 20 Morgan Walker
- 21 Rio Tinto
- 22 Rolls- Royce
- 23 Scott Wilson
- 24 Society of British Aerospace Companies (SBAC)
- 25 TATA Consultancy Services (TCS)
- 26 TATA Consultancy Services (TCS)
- 27 The India Group
- 28 The Scotch Whisky Association
- 29 UK Trade & Investment (UKTI)
- 30 UK Trade & Investment (UKTI)
- 31 UK Trade & Investment (UKTI)
- 32 UK Trade & Investment (UKTI)
- 33 UK-India Education Research Initiative (UKIERI)
- 34 University of Wolverhampton
- 35 Xansa (India) Ltd

## List of unprinted written evidence

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1. (Tel 020 7219 3074) hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

CDC Group

KPMG

Mazza Confectionery

Nasscom

Trantor International Ltd