

# **BREXIT: OPPORTUNITIES FOR INDIA**

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**Emerging Issues Briefing Paper (7)  
September 2016**



**The Commonwealth**



# BREXIT: *opportunities for India*

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## Summary

- India has always had much less trade and investment with the United Kingdom (UK) than with the European Union (EU). Nevertheless, trade and investments between India and UK have been rising steadily since 2005. This paper estimates that a free trade agreement (FTA) between India and the UK will increase India-UK trade by 26% per annum. The UK's exports to India will increase by 33% p.a. while the UK's imports from India will increase by 12% p.a. A plausible reason for there being a higher increase in the number of exports from the UK to India than the number of imports to the UK from India is that India imposes higher tariffs than the UK does.
- This paper identifies new products that India can export to the UK, which will increase its share in UK's market.
- India has been negotiating a broad-based trade and investment agreement with the EU since 2007, which is still inconclusive. An India-UK FTA may have some sensitivities that are similar to the India-EU FTA, but for an FTA to be concluded successfully, high flexibility both sides is needed.

## Context

In June 2016, the UK supported the non-binding Brexit referendum to leave the EU, with a majority vote of 52%. Although the UK prime minister has suggested that this decision may take at least three years to implement, the result of the referendum has already led countries to re-think their trade and investment engagements with the UK outside the EU as well as with the EU without the UK. Unlike the EU, the UK has always been a small trading and investing partner to India, having a share of around 2% in India's merchandise trade, around 3% in India's services trade, and around 2% in India's foreign direct investment (FDI) inflows in 2015. However, there has been an almost threefold rise in India's trade with the UK since 2000, from US\$5.3 billion in 2000 to US\$14.2 billion in 2015 with exports rising from US\$2.2 billion in 2000 to US\$8.8 billion in 2015 and imports rising from US\$3.1 billion in 2000 to US\$5.3 billion in 2015. Trends in trade in services and investments have also been encouraging with India's exports of services and outward FDI into the UK rising steadily since 2000.

India's economic engagement with the UK post Brexit needs to be seen in the context of India's trade relations with the EU. India has been negotiating the EU-India broad-based trade and investment agreement (BTIA) since 2007 but the agreement is still not concluded. India's concerns about the BTIA includes having limited market access to EU agricultural products like dairy products and services with respect to Mode 1, which covers information-technology-enabled services, business process outsourcing and knowledge process outsourcing, and Mode 4, which covers movement of skilled professionals. The EU, on the other hand, has been seeking higher market access in India to services sectors like insurance and retail. Further, the EU has been keen WTO plus commitments from India with respect to its intellectual property regime. The EU has also been concerned about the relatively high tariffs India imposes in the automobile and wines and spirits sectors. Given the slow pace of negotiations over the BTIA with the EU, Brexit provides a fresh opportunity to India to strengthen its economic relationship with the UK through an India-UK trade and investment agreement.

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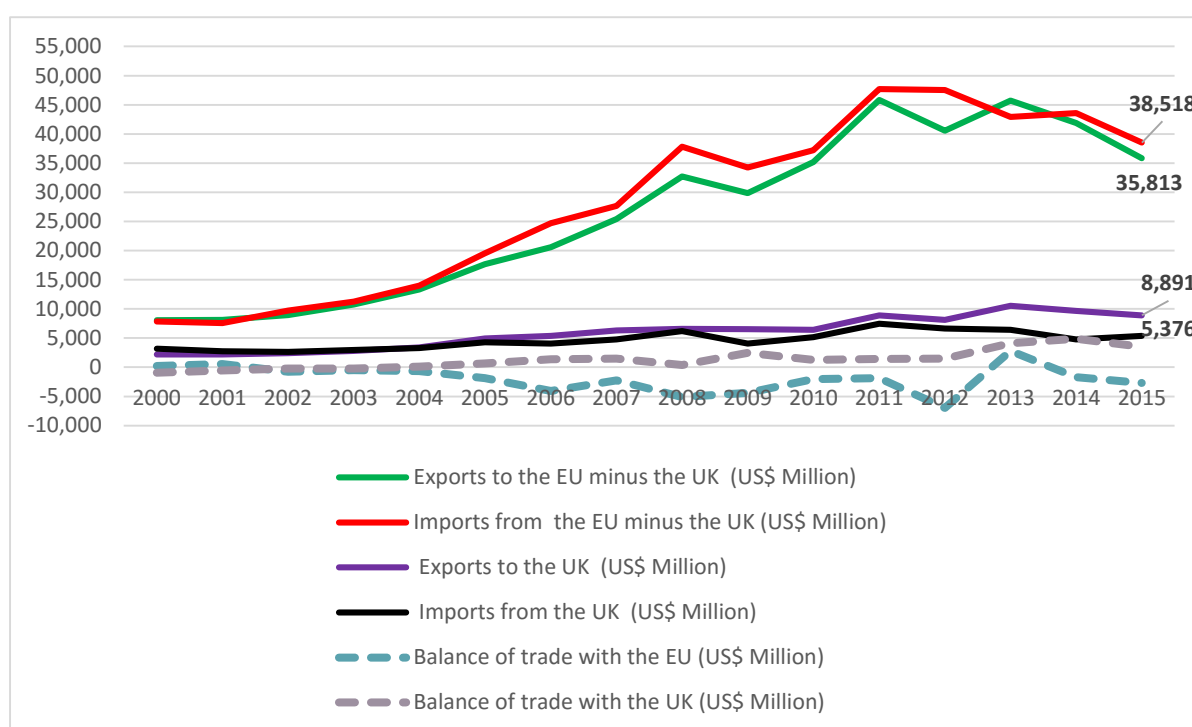
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This paper estimates the impact of an FTA between India and the UK on merchandise trade, at a disaggregated product level. Further, the paper identifies new products that India could export to the UK to diversify its export basket. It examines bilateral trade in services and the potential to increase this trade. The paper concludes by suggesting a way to strengthen India’s economic relationship with the UK.

## India-UK: emerging trade patterns

Interestingly, a close look at India’s trade with the UK and the remaining 27 countries of the EU between 2000 and 2015 reveals that India’s balance of trade has been positive with the UK since 2004 but largely negative with the other 27 countries of the EU in the same period. India’s exports to EU countries minus the UK increased from US\$8 billion in 2000 to US\$35.8 billion in 2015, while its imports increased from US\$7.8 billion in 2000 to US\$38.5 billion in 2015, leaving a deficit of US\$2.7 billion. On the other hand, India’s trade deficit with the UK turned into a trade surplus in 2004 and since then India has maintained a positive balance of trade with the UK, which reached US\$3.5 billion in 2015 (Figure 1).

Figure 1 India’s trade with EU countries minus the UK and the UK (€), 2000-2015



Source: COMTRADE, World Integrated Solutions (WITS), World Bank

India’s export basket to the UK comprises traditional exports like textiles and clothing, gems and jewellery, and footwear; non-traditional exports like pharmaceuticals, machinery and mechanical appliances, vehicles and electrical machinery have also gained importance. In 2015, India’s top ten exports to the UK comprised 63% of India’s total exports to UK. The UK’s top ten exports to India comprise 83% of its total exports to India. Interestingly, most of India’s imports from the UK are of intermediate products, which are manufactured and become India’s finished products, especially in India’s traditional exports. While India exports finished products like articles of jewellery and parts thereof to the UK, under HS chapter 71, it imports platinum, unwrought, semi-manufactured or in powder form.

In the machinery and mechanical appliances category, India mainly imports turbo jets, turbo propellers and other gas turbines, while exporting spark-ignition reciprocating or rotary internal combustion piston engines, compression-ignition internal combustion piston engines (diesel or semi-diesel) and hydraulic turbines, water wheels and regulators. In the electrical machinery category, India exports majorly insulated wire, cable and other insulated electric conductors, and diodes, transistors and similar semiconductor devices, while importing electrical transformers, static converters and inductors, and electrical apparatus for switching or protecting electrical circuits. Table 1 lists India's exports and imports from the UK by their Harmonized System (HS) code in 2015. In 2015, India's top five imports from the UK were unwrought silver, machinery and mechanical appliances like turbo jets, iron and steel, electrical transformers and optical appliances.

**Table 1 India's top ten exports and imports from the UK**

India's exports to the UK in 2015			India's imports from the UK in 2015		
HS code	Description	Value (US\$ 1,000)	HS code	Description	Value (US\$ 1,000)
62	Articles of apparel and clothing accessories, not knitted or crocheted	909,339	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, etc	1,581,196
61	Articles of apparel and clothing accessories, knitted or crocheted	897,695	84	Machinery and mechanical appliances; parts thereof	693,776
84	Machinery and mechanical appliances; parts thereof	678,888	72	Iron and steel	420,534
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, etc.	522,723	85	Electrical machinery and equipment and parts thereof; etc.	318,859
87	Vehicles other than railway or tramway, etc.	491,600	90	Optical, photographic, cinematographic, measuring, etc.	268,385
64	Footwear, gaiters and the like; parts of such articles	483,730	76	Aluminium and articles thereof	220,963
30	Pharmaceutical products	457,815	22	Beverages, spirits and vinegar	204,430
85	Electrical machinery and equipment and parts thereof	399,089	88	Aircraft, spacecraft, and parts thereof	173,528
73	Articles of iron or steel	307,013	39	Plastics and articles thereof	132,992
42	Articles of leather; saddlery	292,514	87	Vehicles other than railway or tramway etc.	105,215

Source: COMTRADE, WITS, World Bank

## Likely changes in India-UK trade patterns following an India-UK FTA

India and the EU have been negotiating an FTA since 2007, without conclusion. The talks have continued since the Brexit referendum, however India has made it clear that these negotiations will have to be re-visited once the UK leaves the EU. As there is no India-EU FTA, the tariffs facing India and the UK in each other's markets have been high. Tariffs on UK exports into India are estimated to be around 14.8% on average, while Indian exports into the UK face tariffs of around 8.4% on

average. The highest tariffs faced by the UK's exports into India are in beverages and spirits (around 113%), followed by coffee and tea (around 82.5%) and vehicles (31%); the highest tariff on India's goods exported into the UK is for dairy products (36.6%), followed by tobacco and its products (around 36%).

## Methodology used

If India and the UK decide to enter an FTA and bring down their tariffs to zero, it is likely to have a greater impact on India than the UK. To estimate the likely changes for products in India-UK trade, we use simulations that are specific, measurable, assignable, realistic and time-related (SMART) in WITS.

Using a WITS simulation model, SMART estimations are made to assess the impact of tariff cuts on exports and imports of the two countries as well as excluded countries. It is assumed that tariffs in the two member countries are brought down to zero on all products. One of the advantages of this approach is that it is possible to estimate tariff reduction at a much product disaggregated level. Such disaggregated product level estimations of tariff liberalisation are not possible in any other model. The model not only estimates the extent of imports that may come from the tariff cuts of members but is also able to provide results at the product level on the trade diversion, recognising from which country the imports would be diverted.

Although it is not yet known what the relationship between the UK and the EU post Brexit will be, and much will depend on the negotiations, given the already low tariffs in the UK and EU countries, the most likely scenario is that the UK and EU countries will continue to charge zero tariffs on each other's products.

## The estimated rise in India's imports from the UK following an India-UK FTA

We use SMART simulations to estimate the impact of an FTA between India and the UK where tariffs reduce to zero. The results show that **India's imports from the UK are estimated to increase from US\$5.2 billion to US\$7.8 billion, i.e., almost 50% rise per annum if there was an India-UK FTA post Brexit.** The total increase is of around US\$2.1 billion, of which 80% is trade creation - new imports from the UK - while the remaining 20% would come from trade diversion - imports would be diverted from other countries and imported from the UK. Of the total trade diversion of around US\$500 million, around US\$365 million would be from Germany (mainly in vehicles and machinery and mechanical appliances) and around US\$125 million from France (mainly in beverages and spirits).

Table 2 lists the estimated changes in India's imports from the UK at two-digit product disaggregation for the top ten imports of India from the UK after an India-UK FTA. The top import of India from the UK in 2015 was natural or cultured pearls, precious or semi-precious; within this category, using further disaggregation, we find that the imports are of unwrought silver. With existing tariffs going down to zero, the imports would rise further by around US\$451 million, which is around 30%. There would be a maximum increase in imports in motor vehicles (especially those in HS codes 870324 and 870333), where the value of imports would increase by around US\$976 million. In 2015, UK exports of goods in HS codes 870324 and 870333 were worth around US\$9.5 billion and US\$4.1 billion, respectively, but the UK exported a negligible number of these goods to India. Most of the imports would be new imports with little trade diversion. If tariffs in beverages and spirit are brought to zero, there would be a tremendous increase in the value of imports of beverages and spirit, reaching US\$584 million from the existing US\$204 million.

Appendix 1 lists the estimated increase in India's imports from the UK following an India-UK FTA at a two-digit level for all products. Imports of beverages and spirits would rise by more than 100%. Within this category, the import of whiskies (HS code 220830) would rise the most, followed by imports of alcoholic drinks (HS code 220710) and gin (HS code 220850).

**Table 2 Estimated changes in India's top ten imports from the UK following an India-UK FTA**

Rank	HS code	Description	India's imports from the UK in 2015 (US\$ 1000)	Trade creation effect (US\$ 1,000)	Trade diversion effect (US\$ 1,000)	Trade total effect (US\$ 1,000)	Estimated imports to India after India-UK FTA (US\$ 1000)	Change in India's imports (%)
1	71	Natural or cultured pearls, precious or semi-precious stones, etc.	1,581,196	296,923	154,137	451,061	2,032,256	29
2	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	105,215	945,849	30,871	976,720	1,081,935	928
3	84	Machinery and mechanical appliances; parts thereof	693,776	114,086	66,038	180,124	873,900	26
4	22	Beverages, spirits and vinegar	204,430	349,785	30,317	380,103	584,532	186
5	72	Iron and steel	420,534	28,639	26,260	54,900	475,434	13
6	85	Electrical machinery and equipment and parts thereof	318,859	69,578	27,695	97,273	416,132	31
7	90	Optical, photographic, cinematographic, etc.	268,385	18,220	20,946	39,166	307,551	15
8	76	Aluminium and articles thereof	220,963	22,891	4,157	27,048	248,011	12
9	88	Aircraft, spacecraft, and parts thereof	173,528	7,801	17,704	25,506	199,033	15
10	39	Plastics and articles thereof	132,992	21,985	15,319	37,304	170,296	28
		Total	5,243,719	2,102,561	500,842	2,603,403	7,847,122	33

Source: Author's estimates

## Trade diversion from the EU

A zero tariff regime between India and the UK would lead to some trade diversion from EU countries, when India would prefer importing from the cheaper source. This trade diversion will not be substantial (Table 3).

**Table 3 Estimated trade diversion for India following an India-UK FTA**

Partner name	Imports before India-UK FTA (US\$ 1,000)	Change in imports (US\$ 1,000)	Imports after India-UK FTA (US\$ 1,000)
Austria	784,163	-445	783,718
Belgium	8,337,646	-5,157	8,332,489
Bulgaria	88,595	0	88,595
Cyprus	50,087	-71	50,016
Czech Republic	524,379	-2,369	522,010
Germany	11,829,031	-56,861	11,772,171
Denmark	411,173	-948	410,225
Spain	1,923,557	-3,006	1,920,551
Estonia	157,444	-30	157,413
EU27 members	43,867,122	-21,877	43,845,246

Finland	987,857	-1,207	986,649
France	3,195,306	-19,207	3,176,098
The UK	5,375,634	-7,350	5,368,285
Greece	114,536	-252	114,283
Hungary	250,159	-1,279	248,880
Ireland	555,441	-1	555,441
Italy	4,108,326	-15,546	4,092,780
Lithuania	186,709	-8	186,700
Luxembourg	178,024	-379	177,646
Latvia	62,087	0	62,087
Malta	25,544	0	25,543
Netherlands	1,935,724	-1,649	1,934,075
Poland	571,453	-1,109	570,344
Portugal	105,760	-358	105,403
Romania	291,240	-5	291,235
Slovak Republic	144,256	-223	144,033
Slovenia	90,880	-324	90,556
Sweden	1,582,112	-2,072	1,580,040
	87,734,245	-141,733	87,592,511

Source: Author's estimates

## Estimated rise in the UK's imports from India following an India-UK FTA

After an India-UK FTA, while India's imports from the UK are estimated to increase by around 33% of its imports in 2015, **the UK's imports from India would rise by only 12% from 2015**. One of the reasons for this is because many products from India are already subject to low UK tariffs. The value of the UK's imports from India are estimated to increase from US\$9.1 billion to US\$10.2 billion (around 12% per annum). The maximum increase would occur for articles of apparel and clothing (HS chapter 61 and 62), which have an applied duty of around 12%. The value of imports of apparels and clothing to UK from India are estimated to increase from US\$1.8 billion to US\$2.3 billion. In HS chapter 61, maximum estimated imports are reported for T shirts, singlets and other vests, and knitted or crocheted cotton (HS code 610910); it is estimated that the import value of these goods would increase by 22%, from US\$179 million to US\$218 million. This is followed by babies' garments and clothing accessories, knitted or crocheted of cotton (HS code 611120), whose import value is estimated to increase by 20%. In chapter 62, it is estimated that the the import value of women's or girls' blouses, shirts and shirt blouses of manmade fibres (HS code 620640) would rise by 24% and that of men's or boys' shirts of cotton (HS code 620520) would rise by 27%.

Imports of mechanical appliances like turbojets and transmission shafts are also estimated to increase following an India-UK FTA, by 4% . It is estimated that the greatest number of imports would be of turbojets, turbo propellers and other gas turbines (HS code 8411), followed by compression-ignition internal combustion piston engines (HS code 8408) and taps, cocks, valves and similar appliances (HS code 8481). It is not estimated that the number of pharmaceutical products imported into the UK from India would increase as current tariffs are already near zero. It is estimated that imports of footwear would rise by around 16% while imports of vehicles would increase by 14% (Table 4).



**Table 4 Estimated increase in the UK's top ten imports from India following an India-UK FTA**

Rank	HS code	Description	The UK's imports from India in 2015 (US\$ 1000)	Trade creation effect (US\$ 1,000)	Trade diversion effect (US\$ 1,000)	Trade total effect (US\$ 1,000)	Estimated imports to the UK after India-UK FTA (US\$1 000)	Change in the UK's imports (%)
1	61	Articles of apparel and clothing accessories, knitted or crocheted	936,560	112,605	132,978	245,583	1,182,143	26
2	62	Articles of apparel and clothing accessories, not knitted or crocheted	916,097	95,229	124,681	219,911	1,136,007	24
3	84	Machinery and mechanical appliances; parts thereof	847,905	13,255	17,763	31,019	878,924	4
4	71	Natural or cultured pearls, precious or semi-precious stones, etc.	590,202	22,572	13,461	36,033	626,235	6
5	64	Footwear, gaiters and the like; parts of such articles	505,051	34,311	45,624	79,935	584,987	16
6	30	Pharmaceutical products	484,676	0	0	0	484,676	0
7	85	Electrical machinery and equipment and parts thereof	368,089	10,823	10,903	21,726	389,815	6
8	27	Mineral fuels, mineral oils and products, etc.	348,474	7,992	8,705	16,698	365,172	5
9	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	315,325	17,595	25,421	43,016	358,342	14
10	29	Organic chemicals	320,954	15,915	19,716	35,631	356,585	11
		<b>Total</b>	<b>9,170,376</b>	<b>532,001</b>	<b>580,250</b>	<b>1,112,251</b>	<b>10,282,628</b>	<b>12</b>

Source: Author's estimates

## New products that India could export to the UK following an India-UK FTA

In order to find new competitive products that India could export to the UK after an India-UK FTA, three competitiveness indices have been estimated at six-digit level (HS codes), identifying products that India exports to the world, but India is not among top five exporters of that product to the UK

### Methodology adopted

The literature generally uses bilateral revealed comparative advantage (RCA) to compare the comparative advantage of a country with that of other countries. However, RCA calculations use only export data and ignore the import content into exports, i.e., the extent of imported inputs that have been used to produce the exported product. To overcome this limitation, we use bilateral RCA in conjunction with contribution to trade balance (CTB) and market position (POS) to compare competitive advantage between countries. The CTB index is based on imports of the product as well as the exports. If a product adds to the trade balance positively, it is identified. This index helps to exclude those products which are mainly traded - imported and then exported with little value addition.

The CEPII (Centre d'Etudes Prospectives et d'Informations Internationales) has developed an analytical indicator of comparative advantage based on the trade balance instead of relative export structures. A country  $j$  would have comparative advantage in product  $i$  if the CTB is positive; this means that product  $i$  is a strong point of country  $j$ , as it contributes positively to the overall balance.

The contribution of product  $k$  to the trade balance, in relation to total trade flows ( $X$  = exports and  $M$  = imports), is defined by:

Where, 
$$CTB = f_{ik} = y_{ik} - g_{ik} \times y_i$$

$$y_i = 1000 \times \frac{X_i - M_i}{X_i + M_i} \qquad g_{ik} = \frac{X_{ik} + M_{ik}}{X_i + M_i}$$

### Market position

The POS of each country  $i$  on product  $k$  measures its international competitiveness. If the POS > 0 the product is competitive in the international market and vice-versa. POS is calculated as follows:

$$POS = 1000 \times \frac{X_{ik} - M_{ik}}{X_{iw} + M_{iw}}$$

## New products identified for India to export to the UK

Using the above methodology, India is found to be more competitive than some of the top five exporters to the UK for 13 products (listed in Table 5). The value of India's exports of these products to the UK is currently around US\$404 million, which could be increased to US\$2.1 billion, an increase of US\$1.7 billion. The proposed India-UK FTA would further increase India's competitiveness in these products.

**Table 5 Potential new exports to the UK from India**

Serial no.	HS no.	HS description	Additional potential market share from competitors (US\$ 1,000)	Value of India's current exports to the UK (US\$ 1,000)	Total potential market share (US\$ 1,000)
1	710239	Diamonds, non-industrial other than unworked, simply sawn, cleaved, bruted	865,220	98,897	964,117
2	850423	Liquid dielectric transformers having a power handling capacity >1,000kVA	102,017	1,020	103,037
3	620630	Women's or girls' blouses, shirts and shirt blouses (excl. knitted or crocheted), of cotton	78,183	83,211	161,394

4	620442	Women's or girls' dresses (excl. knitted or crocheted), of cotton	90,291	93,716	184,007
5	420222	Handbags, whether or not with shoulder strap, incl. those without handle, with outer surface of plastic sheeting or textile materials	444,671	93,716	538,387
6	850421	Liquid dielectric transformers having a power handling capacity not >650kVA	56,409	3,769	60,179
7	850422	Liquid dielectric transformers having a power handling capacity >650kVA but not >1,000kVA	61,577	8,234	69,811
8	320411	Disperse dyes and preparations based thereon	14,092	909	15,001
9	320412	Acid dyes, whether or not pre-metallised, and preparations based thereon; mordant dyes and preparations based thereon	14,188	3,870	18,057
10	320414	Direct dyes and preparations based thereon	7,277	2,436	9,713
11	320413	Basic dyes and preparations based thereon	6,707	2,217	8,924
12	320415	Vat dyes (incl. those usable in that state as pigments) and preparations based thereon	3,013	2,071	5,084
13	840681	Steam turbines and other vapour turbines (excl. for marine propulsion), of an output >40MW	12,948	10,461	23,409
		<b>Total</b>	<b>1,756,593</b>	<b>404,527</b>	<b>2,161,120</b>

Source: Author's estimates

## UK-India trade in services

Although the UK became the second largest exporter of services globally in 2015, after the USA, with exports worth US\$349 billion, and the fifth largest importer of services, with total imports of US\$212 billion, the share of the UK's exports and imports of services from and to India has remained on an average 1.1 % and 1.8% respectively between 2005 and 2014. The UK's imports of services from India in 2014 was worth some US\$3.69 billion; its exports of goods to India were worth some US\$3.71 billion in 2014, making India a net importer of services from the UK in 2014. However, India was a net exporter of services to the UK in the period 2007-2013 (Figure 2).

Figure 2 The UK and India's trade in services, 2005-2014



Source: TRADE MAP, International Trade Centre (ITC)

Looking closely at the services trade in the national statistics of the UK, we find that India enjoys a positive balance of trade in services with the UK if we exclude travel, transport and banking services. In professional management consulting and R&D services, India exported around £456 million worth of goods to the UK, and imported around £190 million worth of goods from the UK in 2014. India's exports to the UK in trade-related and services between related enterprises has also grown steadily since 2010 (Table 6 and Table 7).

**Table 6 The value of the UK's exports to India, 2010-2014 (£ million)**

	Total international exports (excluding travel, transport and banking)	Technical, trade-related, operational leasing and other business services	Professional, management consulting and R&D services	Merchandising, other trade-related and services between related enterprises
2010	767	203	108	252
2011	1,087	123	116	598
2012	717	109	117	189
2013	863	116	168	175
2014	975	114	190	70

Source: Office for National Statistics, UK

**Table 7 The value of the UK's imports from India, 2010-2014 (£ million)**

	Total international imports (excluding travel, transport and banking)	Technical, trade-related, operational leasing and other business services	Professional, management consulting and R&D services	Merchandising, other trade-related and services between related enterprises
2010	1,151	59	327	118
2011	1,355	46	315	444
2012	1,241	44	381	317
2013	1,355	55	496	242
2014	1,519	40	456	324

Source: Office for National Statistics, UK

The quantity of bilateral trade between the UK and India in services is currently minuscule, and there is huge potential to increase this trade.

India exports many services for which there is a demand in the UK, and which the UK imports from elsewhere. The value of India's exports of commercial services globally increased from US\$16 billion in 2000 to US\$155 billion in 2015, while the UK's imports of commercial services increased from US\$96 billion to US\$207 billion in this period. In 2014, the UK imported 60% of its commercial services from the EU, but only US\$3.5 billion worth of these services from India. Brazil, China, Indonesia, Malaysia, the Philippines and Thailand together had a considerable share in exporting these services to the UK. The UK's global imports of transport services have also been rising, as have India's exports of these products, however the UK has imported only US\$304 million worth of transport services from India. India's growing export capacity of construction and financial services is again matched by an increasing demand for these services in the UK (Table 8).

**Table 8 The value of the UK and India's global exports and imports of disaggregated services, 2000-2015 (US\$ million)**

	India's exports of commercial services	The UK's imports of commercial services	India's exports of computer services	The UK's imports of computer services	India's export of transport services	The UK's import of transport services	India's exports of construction services	The UK's imports of construction services	India's exports of financial services	The UK's imports of financial services

2000	16,031	96,523	3,953		1,979	24,166	502	83	276	4,165
2001	16,799	97,005	5,919		2,050	23,443	65	154	306	4,383
2002	19,125	106,413	6,553	1,682	2,473	25,470	231	156	598	4,829
2003	23,633	122,920	8,468	2,413	3,022	28,436	276	196	367	6,650
2004	37,931	145,199	11,993	2,646	4,373	33,597	516	260	341	7,291
2005	52,199	158,431	15,915	3,331	5,754	36,176	346	1,036	1,143	9,251
2006	69,456	170,256	21,061	4,158	7,561	35,153	619	1,150	2,357	10,784
2007	86,612	195,069	27,017	4,736	9,037	37,623	753	1,611	3,379	14,062
2008	106,745	195,257	35,037	5,394	11,565	35,342	841	2,013	4,291	13,984
2009	92,484	163,240	31,879	5,239	11,233	27,977	809	2,097	3,617	10,017
2010	116,583	164,542	38,404	5,723	13,275	28,779	526	2,004	5,834	9,725
2011	137,935	174,690	45,299	5,564	17,702	33,069	838	1,889	6,249	12,263
2012	145,030	175,224	46,995	5,932	17,507	33,247	922	2,305	5,352	10,604
2013	148,188	202,225	50,520		16,916	30,842	1,219	3,045	6,376	18,225
2014	155,670	210,230	53,261		18,627	32,211	1,613	3,634	5,645	16,637
2015	155,288	207,704	55,360		14,343	35,288	1,486	2,425	5,331	15,323

Source: TRADE MAP ITC

These trends highlight India's potential to export commercial services, including computer services, transport services, construction and financial services, to the UK.

## UK-India investment relations

The UK and India's FDI relations have been largely erratic although the UK is India's third largest investor, with an FDI stock of around US\$23 billion (8% of total FDI stock) invested in India between April 2000 and March 2016. The sectors attracting FDI from the UK include chemicals, fertilisers, pharmaceuticals, food processing industries, telecom services, and petroleum and natural gas.

Indian FDI into the UK has on the other hand steadily increased. According to the Office for National Statistics, Indian FDI increased from £164 million in 2004 to £1.9 billion in 2013, with the most FDI going into information and communication. In 2015, India became the third largest investor into the UK, after the USA and France. According to Grant Thornton (2016) India's investments into the UK increased by around 65% in 2015 with number of Indian firms in the UK growing from 36 to 62<sup>2</sup> UK Trade and Investment has estimated that India undertook 122 FDI projects in 2014/15 in the UK.

## Conclusions

India has been negotiating a BTIA with the EU since 2007, which is not yet concluded. The impending Brexit may further delay the conclusion of this India-UK FTA as India will now have to re-consider and re-negotiate the FTAs it holds with the remaining 27 countries of the EU. This provides India and the UK with an opportunity to strengthen their trade and investment relationship. One way to progress in this direction would be to draw up an FTA between the two countries. This

<sup>2</sup> Grant Thornton. 2016. 'India Meets Britain: Tracking the UK's Top Indian Companies'. <http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/india-meets-britain-2016-report.pdf>.

proposed India-UK FTA may be easier to negotiate than the India-EU FTA, as some of the sticking points in an India-EU FTA may be easier to resolve.

India has sought improved market access for services in the EU in Mode 1 (information-technology-enabled services, business process outsourcing and knowledge process outsourcing) and Mode 4 (the movement of skilled professionals such as software engineers). India has also sought data secure status from the EU, which would enable high end business from the EU to flow into India. The EU on the other hand has sought more commitments from India for opening up sectors like insurance and retail, and lowering tariffs in the automobile and wine and spirit sectors.

While the EU's concerns and interests - which have stalled the India-EU FTA since 2013 - may not be completely shared by the UK, India may still have some reservations about opening up its automobile sector to the UK. It has been estimated that lowering tariffs on India's automobile sector will greatly increase the number of products in this sector that India imports from the UK (especially motor cars and other motor vehicles principally designed for the transport of persons, of a cylinder capacity exceeding 3,000 cc-(HS numbers 870324 and 870333). However, as Indian investment in the automobile sector in the UK is substantial, a rise in the number of products in this sector exported to India may not become a sticking point in negotiations. On the other hand, the UK may have reservations on further liberalising under Mode 4, especially post Brexit.

Another contentious issue in an EU-India BTIA has been India's intellectual property regime. India is reluctant to give any commitment on intellectual property over and above the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which may hinder India's capacity to produce and quickly supply generic medicines. India may also want to retain its patents law, which does not allow companies to renew patents on old drugs by making incremental changes. The UK may be able to show more flexibility in this area.

Agricultural trade has remained highly protective and subsidised in the EU, with the UK being a beneficiary of EU agricultural subsidies. Under the EU's Common Agricultural Policy (CAP), in 2015, UK farmers received almost €3.1 billion in direct payments, according to the National Farmers Union,<sup>3</sup> and farmers have access to the €5.2 billion funding which has been allocated to the UK for rural development projects over the period 2014-2020, including €2.3 billion that has been transferred from the Basic Payment Scheme (BPS) to the UK rural development programmes. Some 55% of UK total income from farming comes from CAP support. Nonetheless, the UK is a net importer of food and food products from the EU. It exports around US\$13 billion worth of food products, while importing US\$36 billion of vegetables and food products. Post Brexit, EU subsidies may no longer be available for the UK and the extent to which the UK will be able to support its farmers on subsidies is debatable. The UK may find it necessary to reduce tariffs in order to import cheaper food products.

If an FTA is agreed between the UK and India, the UK may be amenable to lowering tariffs on goods in some agro-products of interest to India that it currently imports from other EU countries, like fish, vegetables, fruit, nuts and other edible parts of plants, where the existing tariffs are high. It will also be easier to negotiate the non-tariff barriers faced by Indian exporters as well as make Indian exports comply to UK standards.

Brexit referendum results have posed some serious challenges to the UK's economy but have also provided some opportunities for Commonwealth member states to think about how they might increase their trade and investment engagements with the UK. After Brexit, countries will be able to progress much faster in negotiating FTAs with the UK than with the remaining 27 countries of the EU. The UK will also have an interest in deepening its engagement with the world, especially Commonwealth countries with whom the UK shares a common language and has similar legal institutions. Although, no trade deals can be done until the UK formally leaves the EU, and much

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<sup>3</sup> NFU. n.d. 'What We're Doing For Our Members'. National Farmers Union. <http://www.nfuonline.com/home/>. <http://www.nfuonline.com/news/eu-referendum/eu-referendum-news/qas-the-eu/>

will depend on the negotiated deal between the EU and the UK, as one of the biggest developing countries in the Commonwealth, India needs to take this opportunity and initiate preparations for an FTA with the UK, to be concretised once the UK is no longer a member of the EU.

# Appendix 1 Estimated increase in India's imports from the UK post an India-UK FTA

## Estimated increase in India's imports from the UK following an India-UK FTA

HS two digit codes	Description	India's imports from the UK in 2015 (US\$1000)	Trade creation effect (US\$ 1,000)	Trade diversion effect (US\$ 1,000)	Trade total effect (US\$ 1,000)	Estimated imports of India in 2015 (US\$1000)	Change in India's imports (%)
71	Natural or cultured pearls, precious or semi-precious stones, etc.	1,581,196	296,923	154,137	451,061	2,032,256	29
84	Machinery and mechanical appliances; parts thereof	693,776	114,086	66,038	180,124	873,900	26
72	Iron and steel	420,534	28,639	26,260	54,900	475,434	13
85	Electrical machinery and equipment and parts thereof	318,859	69,578	27,695	97,273	416,132	31
90	Optical, photographic, cinematographic, etc.	268,385	18,220	20,946	39,166	307,551	15
76	Aluminium and articles thereof	220,963	22,891	4,157	27,048	248,011	12
22	Beverages, spirits and vinegar	204,430	349,785	30,317	380,103	584,532	186
88	Aircraft, spacecraft, and parts thereof	173,528	7,801	17,704	25,506	199,033	15
39	Plastics and articles thereof	132,992	21,985	15,319	37,304	170,296	28
49	Printed books, newspapers, pictures, etc.	105,548	285	243	529	106,076	1
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	105,215	945,849	30,871	976,720	1,081,935	928
74	Copper and articles thereof	99,211	7,717	6,724	14,440	113,651	15
40	Rubber and articles thereof	87,074	6,893	9,574	16,467	103,541	19
38	Miscellaneous chemical products	85,118	8,654	9,804	18,458	103,576	22
73	Articles of iron or steel	71,955	15,590	9,342	24,932	96,887	35
29	Organic chemicals	64,034	6,748	6,245	12,993	77,026	20
47	Pulp of wood or of other fibrous cellulosic material, etc.	58,124	5,167	7,399	12,566	70,691	22
30	Pharmaceutical products	50,913	6,591	6,249	12,840	63,753	25
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	43,080	19,340	3,213	22,553	65,633	52
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	39,348	8,367	5,030	13,397	52,745	34
75	Nickel and articles thereof	33,603	1,199	1,067	2,266	35,869	7
27	Mineral fuels, mineral oils and products, etc.	32,396	941	1,031	1,972	34,368	6
78	Lead and articles thereof	31,047	567	1,720	2,287	33,334	7
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	30,390	14,044	4,103	18,147	48,538	60
32	Tanning or dyeing extracts; tannins and their derivatives, etc.	28,860	5,009	3,539	8,549	37,409	30
89	Ships, boats and floating structures	26,620	3,560	1,933	5,493	32,113	21
97	Works of art, collectors' pieces and antiques	22,660	2,109	2,279	4,387	27,047	19
94	Furniture; bedding, mattresses, mattress supports, etc., illuminated nameplates and the like; prefabricated buildings	22,219	3,884	2,879	6,762	28,981	30



34	Soap, organic surface active agents, washing preparations, etc.	13,371	1,684	1,592	3,276	16,648	25
82	Tools, implements, cutlery, spoons and forks, etc.	13,081	1,565	1,733	3,298	16,379	25
70	Glass and glassware	12,513	2,188	1,356	3,544	16,057	28
51	Wool, fine or coarse animal hair, etc.	11,318	310	569	879	12,197	8
81	Other base metals; cermets; articles thereof	11,240	970	1,049	2,019	13,260	18
41	Raw hides and skins (other than furskins) and leather	10,859	3,752	1,338	5,090	15,949	47
83	Miscellaneous articles of base metal	10,761	10,420	1,437	11,857	22,618	110
44	Wood and articles of wood; wood charcoal	10,071	12,331	906	13,237	23,308	131
35	Albuminoidal substances, etc.	7,657	16,005	1,202	17,207	24,864	225
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	7,587	850	949	1,800	9,387	24
25	Salt; sulphur; earths and stone, etc.	6,995	1,724	443	2,168	9,162	31
37	Photographic or cinematographic goods	6,681	361	599	961	7,642	14
63	Other madeup textile articles; sets, etc.	6,507	874	503	1,377	7,884	21
59	Impregnated, coated, covered or laminated textile fabrics, etc.	5,912	923	769	1,692	7,604	29
86	railway or tramway locomotives, rolling stock, etc.	4,022	14,350	531	14,881	18,903	370
54	Manmade filaments; strip and the like of manmade textile materials	3,891	475	507	982	4,873	25
79	Zinc and articles thereof	3,236	121	230	351	3,587	11
96	Miscellaneous manufactured articles	3,149	842	419	1,261	4,409	40
23	Residues and waste from the food industries; prepared animal fodder	2,922	856	985	1,841	4,763	63
21	Miscellaneous edible preparations	2,919	7,910	1,080	8,990	11,909	308
55	Manmade staple fibres	2,833	2,342	306	2,647	5,480	93
64	Footwear, gaiters and the like; parts of such articles	2,715	2,421	365	2,786	5,500	103
95	Toys, games and sports requisites; parts and accessories thereof	2,625	328	351	679	3,304	26
4	Dairy produce; birds' eggs; natural honey, etc.	2,483	1,899	808	2,706	5,189	109
69	Ceramic products	2,419	2,588	242	2,830	5,249	117
42	Articles of leather; saddlery and harness, etc.	2,060	12,573	277	12,851	14,910	624
56	Wadding, felt and nonwovens; special yarnsetc	2,027	746	256	1,002	3,029	49
3	Fish and crustaceans, etc.	1,817	585	211	797	2,614	44
19	Preparations of cereals, flour, etc.	1,812	635	522	1,158	2,970	64
61	Articles of apparel and clothing accessories, knitted or crocheted	1,544	1,058	192	1,249	2,793	81
11	Products of the milling industry; malt; starches; inulin; wheat gluten	1,536	2,631	605	3,236	4,772	211
31	Fertilisers	1,461	69	103	172	1,633	12
18	Cocoa and cocoa preparations	1,456	717	489	1,206	2,662	83
26	Ores, slag and ash	1,301	57	54	111	1,412	9
1	Live animals	1,081	300	273	573	1,653	53
17	Sugars and sugar confectionery	1,062	300	521	821	1,883	77
62	Articles of apparel and clothing accessories, not knitted or crocheted	888	236	109	346	1,234	39
57	Carpets and other textile floor coverings	842	230	108	338	1,180	40
20	Preparations of vegetables, fruit, nuts or other parts of plants	703	481	226	706	1,409	100

15	Animal or vegetable fats and oils and their cleavage productetc	617	67	101	167	784	27
60	Knitted or crocheted fabrics	593	324	81	405	998	68
58	Special woven fabrics; tufted textile fabrics, etc.	519	46	71	116	635	22
93	Arms and ammunition; parts and accessories thereof	418	172	40	211	629	51
13	Lac; gums, resins and other vegetable saps and extracts	299	66	97	163	462	55
52	Cotton	282	63	35	98	380	35
24	Tobacco and manufactured tobacco substitutes	256	258	79	336	593	131
50	Silk	230	11	31	43	273	19
92	Musical instruments; parts and accessories of such articles	217	61	29	90	307	42
91	Clocks and watches and parts thereof	160	26	22	48	208	30
5	Products of animal origin, not elsewhere specified or included	152	13	57	70	223	46
9	Coffee, tea, maté and spices	147	218	104	322	469	219
65	Headgear and parts thereof	128	21	17	38	166	29
45	Cork and articles of cork	81	10	10	20	101	25
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	36	3	5	8	44	23
12	Oil seeds and oleaginous fruits, etc.	32	25	6	31	63	97
80	Tin and articles thereof	30	21	4	25	55	82
7	Edible vegetables and certain roots and tubers	22	3	8	11	33	49
8	Edible fruit and nuts; peel of citrus fruit or melons	17	3	6	9	26	51
43	Furskins and artificial fur; manufactures thereof	14	0	0	1	15	5
46	Manufactures of straw, etc.	13	2	2	3	16	26
67	Prepared feathers and down and articles made of feathers or of down, etc.	10	3	1	4	14	42
36	Explosives; pyrotechnic products, etc.	5	4	1	5	9	97
66	Umbrellas, sun umbrellas, walking sticks, etc.	3	2	0	3	6	82
16	Preparations of meat, of fish oretc	1	2	0	2	3	166
6	Live trees and other plants, etc.	1	6	0	6	7	632
	<b>Total</b>	<b>5,243,719</b>	<b>2,102,561</b>	<b>500,842</b>	<b>2,603,403</b>	<b>7,847,122</b>	<b>33%</b>

## Appendix 2 Estimated increase in the UK's imports from India following an India-UK FTA

### Estimated increase in the UK's imports from India following an India-UK FTA

HS code	Description	The UK imports from India 2015 (US\$1000)	Trade creation effect (US\$ 1,000)	Trade diversion effect (US\$ 1,000)	Trade total effect (US\$ 1,000)	Estimated UK imports from India (US\$1000)	Change in the UK's imports (%)
61	Articles of apparel and clothing accessories, knitted or crocheted	936,560	112,605	132,978	245,583	1,182,143	26
62	Articles of apparel and clothing accessories, not knitted or crocheted	916,097	95,229	124,681	219,911	1,136,007	24
84	Machinery and mechanical appliances; parts thereof	847,905	13,255	17,763	31,019	878,924	4
71	Natural or cultured pearls, precious or semi-precious stones, etc.	590,202	22,572	13,461	36,033	626,235	6
64	Footwear, gaiters and the like; parts of such articles	505,051	34,311	45,624	79,935	584,987	16
30	Pharmaceutical products	484,676	0	0	0	484,676	0
85	Electrical machinery and equipment and parts thereof;	368,089	10,823	10,903	21,726	389,815	6
27	Mineral fuels, mineral oils and products, etc.	348,474	7,992	8,705	16,698	365,172	5
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	315,325	17,595	25,421	43,016	358,342	14
29	Organic chemicals	320,954	15,915	19,716	35,631	356,585	11
42	Articles of leather; saddlery and harness, etc.	315,320	14,745	14,001	28,746	344,067	9
63	Other madeup textile articles; sets, etc.	262,544	30,048	30,034	60,082	322,626	23
73	Articles of iron or steel	285,825	9,416	8,939	18,355	304,180	6
39	Plastics and articles thereof	166,146	8,239	14,052	22,292	188,438	13
10	Cereals	159,329	52	5	57	159,385	0
3	Fish and crustaceans, etc.	115,974	17,610	17,706	35,316	151,291	30
9	Coffee, tea, maté and spices	145,100	2,154	1,776	3,930	149,031	3
90	Optical, photographic, cinematographic, etc.	138,507	3,422	3,510	6,933	145,440	5
25	Salt; sulphur; earths and stone, etc.	142,136	15	12	26	142,163	0
94	Furniture; bedding, mattresses, mattress supports, etc., illuminated nameplates and the like; prefabricated buildings	133,605	2,085	3,405	5,491	139,096	4
83	Miscellaneous articles of base metal	123,145	5,108	3,643	8,750	131,895	7
57	Carpets and other textile floor coverings	101,514	9,628	5,815	15,443	116,956	15
40	Rubber and articles thereof	105,673	1,992	3,869	5,861	111,534	6
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	93,829	13,260	794	14,054	107,883	15
20	Preparations of vegetables, fruit, nuts or other parts of plants	74,534	8,095	13,777	21,872	96,406	29
88	Aircraft, spacecraft, and parts thereof	71,170	1,046	1,670	2,717	73,887	4
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	68,110	0	0	0	68,110	0
38	Miscellaneous chemical products	60,299	3,185	4,416	7,601	67,900	13

32	Tanning or dyeing extracts; tannins and their derivatives, etc.	59,233	3,180	3,475	6,655	65,887	11
8	Edible fruit and nuts; peel of citrus fruit or melons	57,958	2,630	4,069	6,700	64,658	12
95	Toys, games and sports requisites; parts and accessories thereof	56,079	1,049	1,516	2,566	58,645	5
82	Tools, implements, cutlery, spoons and forks, etc.	54,874	1,509	2,004	3,513	58,387	6
7	Edible vegetables and certain roots and tubers	45,540	7,289	4,800	12,090	57,629	27
54	Manmade filaments; strip and the like of manmade textile materials	46,444	6,331	4,705	11,036	57,481	24
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	49,112	2,769	1,552	4,321	53,433	9
49	Printed books, newspapers, pictures, etc.	51,520	0	0	0	51,520	0
76	Aluminium and articles thereof	33,343	1,658	2,929	4,587	37,929	14
72	Iron and steel	36,421	40	66	105	36,526	0
52	Cotton	28,890	4,929	2,452	7,380	36,270	26
56	Wadding, felt and nonwovens; special yarnsetc	27,905	3,460	1,938	5,398	33,302	19
74	Copper and articles thereof	27,477	1,842	1,144	2,986	30,463	11
15	Animal or vegetable fats and oils and their cleavage product, etc.	25,035	3,581	1,031	4,612	29,646	18
58	Special woven fabrics; tufted textile fabrics, etc.	25,955	1,621	1,632	3,253	29,207	13
21	Miscellaneous edible preparations	23,820	1,949	3,056	5,004	28,824	21
51	Wool, fine or coarse animal hair, etc.	25,819	1,145	1,187	2,333	28,151	9
12	Oil seeds and oleaginous fruits, etc.	26,554	865	105	971	27,524	4
69	Ceramic products	22,065	2,515	1,816	4,331	26,396	20
70	Glass and glassware	21,844	1,057	1,698	2,756	24,600	13
96	Miscellaneous manufactured articles	22,444	485	1,014	1,499	23,943	7
55	Manmade staple fibres	17,535	4,547	1,328	5,875	23,410	34
34	Soap, organic surface active agents, washing preparations, etc.	22,507	160	261	421	22,928	2
16	Preparations of meat, of fish, etc.	14,652	3,713	3,593	7,305	21,957	50
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	17,147	2,123	900	3,023	20,170	18
44	Wood and articles of wood; wood charcoal	18,421	310	432	742	19,162	4
13	Lac; gums, resins and other vegetable saps and extracts	18,656	30	35	64	18,720	0
50	Silk	14,256	1,549	910	2,459	16,715	17
28	Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	12,076	688	674	1,362	13,439	11
97	Works of art, collectors' pieces and antiques	12,799	0	0	0	12,799	0
59	Impregnated, coated, covered or laminated textile fabrics, etc.	7,207	454	624	1,079	8,285	15
41	Raw hides and skins (other than furskins) and leather	4,057	2,885	150	3,035	7,092	75
6	Live trees and other plants, etc.	5,643	391	580	972	6,614	17
23	Residues and waste from the food industries; prepared animal fodder	5,602	78	116	194	5,796	3
65	Headgear and parts thereof	5,032	228	228	456	5,488	9
67	Prepared feathers and down and articles made of feathers or of down, etc.	1,987	2,691	62	2,753	4,740	139

11	Products of the milling industry; malt; starches; inulin; wheat gluten	3,139	439	295	734	3,874	23
60	Knitted or crocheted fabrics	2,586	611	268	879	3,465	34
26	Ores, slag and ash	3,438	0	0	0	3,438	0
86	Railway or tramway locomotives, rolling stock, etc.	2,981	106	79	185	3,166	6
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	2,242	0	0	0	2,242	0
91	Clocks and watches and parts thereof	1,548	120	89	209	1,757	14
19	Preparations of cereals, flour, etc.	1,308	68	224	292	1,600	22
5	Products of animal origin, not elsewhere specified or included	1,424	1	2	4	1,427	0
35	Albuminoidal substances, etc.	1,172	88	108	196	1,368	17
22	Beverages, spirits and vinegar	1,103	56	95	151	1,254	14
81	Other base metals; cermets; articles thereof	1,024	40	29	69	1,093	7
17	Sugars and sugar confectionery	828	62	147	209	1,037	25
46	Manufactures of straw, etc.	917	34	42	76	993	8
78	Lead and articles thereof	978	1	2	2	980	0
75	Nickel and articles thereof	918	9	11	20	938	2
80	Tin and articles thereof	829	0	0	0	829	0
93	Arms and ammunition; parts and accessories thereof	498	158	14	173	670	35
92	Musical instruments; parts and accessories of such articles	475	19	21	41	515	9
66	Umbrellas, sun umbrellas, walking sticks, etc.	275	8	14	22	297	8
36	Explosives; pyrotechnic products, etc.	222	10	14	24	247	11
79	Zinc and articles thereof	123	5	9	14	137	12
43	Furskins and artificial fur; manufactures thereof	73	2	4	6	79	8
37	Photographic or cinematographic goods	67	4	6	9	76	14
89	Ships, boats and floating structures	71	1	3	4	74	5
45	Cork and articles of cork	63	3	4	7	70	11
31	Fertilisers	30	0	0	0	30	1
18	Cocoa and cocoa preparations	22	3	2	6	27	26
4	Dairy produce; birds' eggs; natural honey, etc.	17	2	4	6	23	37
24	Tobacco and manufactured tobacco substitutes	7	1	2	3	10	47
47	Pulp of wood or of other fibrous cellulosic material, etc.	2	0	0	0	2	0
	<b>Total</b>	<b>9,170,376</b>	<b>532,001</b>	<b>580,250</b>	<b>1,112,251</b>	<b>10,282,628</b>	<b>12</b>

## The Trade Competitiveness Section

The Trade Competitiveness Section provides technical assistance to Commonwealth member countries in four areas, namely market access; export development; export of services; and trade facilitation, in order to exploit opportunities offered by international trade. The Section works with government ministries, agencies, regulators and their stakeholders to provide assistance to develop their trade competitiveness. Areas of recent intervention include national trade policy formulation, export strategies, aid for trade strategies, competitiveness implications of trade agreements, trade facilitation and gendering trade policy.

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