

TRADE INTENSITY BETWEEN INDIA AND UK

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Abstract

Trade dynamic between India and the UK epitomizes a North-South relationship, reflecting the intricate interplay between an economically advanced nation and a developing nation. The UK, as an economically advanced global North, possesses a significant capacity for high-value manufacturing, technology, and innovation. In contrast, India, representing the global South, offers a rich reservoir of raw materials, labor-intensive goods, and emerging markets. To advance trade and investment relations, both countries formally launched negotiations for a Free Trade Agreement (FTA) on January 13, 2022. The India-UK bilateral trade relationship is already significant, and both countries have agreed to double bilateral trade by 2030 as part of the Roadmap 2030 announced in May 2021. The proposed India-UK FTA provides a great opportunity to remove trade barriers and realize the full potential of bilateral relations between the two countries. This study has attempted to analyze the trade intensity between India and the UK for the period 1995-2022. It has been found that the trade intensity between India and the UK has been declining from 1995 to 2022, with the exception of some initial years. During this period, India's trade intensity with the UK was recorded at 85 per cent, while the UK's trade intensity with India was 105 per cent. Several factors have contributed to this decline, including the formation of regional blocs like SAARC and BIMSTEC for India, the EU for the UK, and the impact of the global financial crisis. The UK's withdrawal from the EU has had a favorable impact on its trade intensity with India. It is crucial for India to focus on strengthening its trade ties with the UK due to the UK's growing significance.

Keyword: Bilateral Trade, Free Trade Agreement, Trade Intensity Index, Export Intensity Index, Import Intensity Index

1. INTRODUCTION

India and the United Kingdom (UK) share a modern partnership bound by strong historical and cultural ties. The UK is one of the most developed economies in the world and has deep economic linkages with India. However, bilateral trade relations between the two nations deteriorated after India's independence in 1947. Economic reforms in the early 1990s put the Indian economy on a high growth path, and as a result, the two nations have taken a number of steps to improve their bilateral relationship (Bhatia, 2018). Since 2004, the two countries have upgraded their bilateral relationship to a strategic partnership, paving the way for multi-faceted bilateral engagement that encompasses various aspects such as trade and economy, science and technology, health, people-to-people ties, climate change, and cooperation on multilateral issues (Kaur, 2016). There also exist several institutional mechanisms to facilitate their relations. The India-UK Joint Economic and Trade Committee (JETCO) and India-UK Economic and Financial Dialogue (EFD) are the two important bilateral institutional mechanisms between the two nations. Other institutional mechanisms in place to support India-UK bilateral economic relations include Joint Working Groups (JWGs), India-UK Financial Partnership (IUKFP), Green Growth Equity Fund (GGEF), India-UK CEOs Forum, UK-India Fast Track Mechanism, UK-India FinTech Dialogue, and UK-India Tech Alliance (Kiran and Madaan, 2022).

Bilateral trade between India and the UK has grown rapidly over the period. India's total trade with the UK stood at US\$ 20.8 billion (bn), of which India's export to the UK was US\$ 11.2 bn and India's import from the UK was US\$ 9.6 bn in 2022. In the same year, the UK was ranked the 7th largest export and 21st leading import

partner of India. The shares of India and the UK in each other's trade were 1.8 per cent and 1.7 per cent respectively, in 2022. India's major exports to the UK were Medium oils and preparations, Medicaments consisting of mixed or unmixed products, Articles of jewellery and parts except silver, Turbojets of a thrust > 25 kN, Diamonds, Footwear with outer soles of rubber, Parts of Machinery, Baby Garments, Semi-milled Rice, etc. Similarly, India's major imports from the UK are Silver, Waste and scrap of iron or steel, Crude petroleum oils, Waste and scrap of aluminium, Whiskies, Turbojets of a thrust >25 kN, and Recovered waste and scrap of paper, etc. (Uncomtrade, 2023).

2. OBJECTIVE:

The present paper aims to analyze trade intensity between India and UK during 1995-2022.

3. METHODOLOGY:

The proposed study is based on secondary data. Both published and unpublished sources of data are used. The data is mainly collected through various online and offline data sources viz., Uncomtrade, Trade Map, World Integrated Trade Solution (WITS), UN Publications, Economic survey of India and through various Books, Periodicals and Journals. In this study, trade intensity index is calculated to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade.

3.1. Trade Intensity Index (TII)

The Trade Intensity Index was first developed and applied by Brown (1947), and further utilized by Kojima (1964). It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the same partner. It is calculated as:

$$TII_{ij} = [(t_{ij}/T_{iw}) / (t_{wj}/T_{ww})] \times 100$$

where t_{ij} is the dollar value of total trade of country i with country j , T_{iw} is the dollar value of the total trade of country i with the world, t_{wj} is the dollar value of world trade with country j , and T_{ww} is the dollar value of world trade. An index of more (less) than 100

indicates the trade flow between countries is larger (smaller) than expected given their importance in the world trade.

3.2. Export intensity of j 's trade with i is:

$$x_{ji} = [(X_{ji} / X_j) / (M_i / (M_g - M_j))] \times 100$$

Where X_{ji} = Exports of country j to country i

X_j = Global exports of country j

M_i = Global imports of country i

M_g = Total global imports

M_j = Global imports of country j .

3.3. Import intensity of j 's trade with i is

$$m_{ji} = [(M_{ji} / M_j) / (X_i / (X_g - X_j))] \times 100$$

Where M_{ji} = Imports of country j to country i

M_j = Global imports of country j

X_i = Global exports of country i

X_g = Total global exports

X_j = Global exports of country j .

4. ANALYSIS:

To measure the trade relationship between India and UK, trade intensity indices on both exports and imports sides have been calculated for India with UK, and vice-versa for period 1995-2022. The export intensity indices have been computed as the intensity of India (j)'s trade with UK (i)'s which is equal to the ratio of UK (i)'s share in India (j)'s global exports to their share in total global imports, less India's global imports. Similarly, the import intensity indices have been computed as the intensity of India (j)'s import trade with UK (i)'s global imports to India (j)'s share in total global exports less India (j)'s global exports (Kaur, 2019).

4.1 Trade Intensity between India and UK:

Table 4.1 depicts India's trade intensity with UK and vice-versa during 1995-2022. It is clear from the table that India's export intensities with UK were not very encouraging and was measured at 86 per cent during 1995-2022. It was higher during the initial years of study i.e. from 1995 to 1997. During that period, the value of India's Export Intensity Index with UK (EIIU) is more than 100 and implies that India exports to UK is greater than

that of UK's share in world market. Similarly, India's Import Intensity with the UK (IIIU) was also not very encouraging, and it was measured at 74 per cent during 1995- 2022. Overall, India's Trade Intensity Index with the UK (TIIU) was not very promising, and demonstrated

a downward trend during 1995-2022. It was recorded at 85 per cent during 1995–2022. It was reduced from 97 per cent in 2003 to 67 per cent in 2022.

Table 4.1 Trade Intensity Index of India and UK during 1995-2022

Year	India's export intensity with UK	India's import intensity with UK	India's trade intensity with UK	UK's export intensity with India	UK's import intensity with India	UK's trade intensity with India
1995	124	113	125	136	130	163
1996	116	114	122	129	133	154
1997	110	116	124	118	132	146
1998	98	124	118	95	121	124
1999	100	115	111	90	108	116
2000	90	128	118	149	110	145
2001	87	118	109	124	110	134
2002	84	102	101	107	102	119
2003	83	98	97	124	106	125
2004	82	84	90	108	108	117
2005	98	80	97	98	107	122
2006	87	58	82	71	98	98
2007	88	66	80	80	111	101
2008	82	65	74	79	105	102
2009	82	52	69	57	94	89
2010	69	52	65	61	100	89
2011	72	55	71	64	88	92
2012	72	51	63	54	83	82
2013	87	46	69	56	79	90
2014	80	38	62	49	89	87
2015	86	47	70	52	89	81
2016	80	41	64	46	80	73
2017	81	38	61	45	82	73
2018	85	53	71	50	83	78
2019	72	56	68	48	80	76
2020	75	55	69	45	72	70
2021	82	54	72	48	89	80
2022	63	49	67	54	76	99

Average (1995- 2022)	86	74	85	80	99	105
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Source: UN Comtrade Database (2023). <https://comtradeplus.un.org/TradeFlow>

Further, table 4.1 shows that the UK's export intensities with India were high during the initial years of study, i.e., from 1995 to 2004 except for 1998 and 1999, indicating that the UK's exports to India were very optimistic. Afterwards, the UK's export intensities with India (EIIUI) were not very encouraging and remained below 100. The UK's export intensity index was measured at 80 per cent during 1995–2022. Similarly, the UK's import intensity (IIUI) with India was not very inspiring, and it was measured at 99 per cent during 1995–2022. However, the UK's trade intensity with India (TIIUI) was not very promising, and it has been falling during the given period. It was recorded at 105 per cent during 1995-2022. It was 163 per cent in 1995 which reduced to 99 per cent in 2022. The maximum value of the UK's trade intensity index with India was 163 per cent during 1995, and the value of this index remains above 100 till 2008.

Several factors have contributed to the shifting trade patterns, including the emergence of regional blocs such as the South Asian Association for Regional Cooperation (SAARC) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) for India. Neighboring countries have also offered more favorable terms of trade, particularly benefiting India. Further, the declining trade trend can be attributed to global financial crises and the COVID-19 pandemic, which significantly affected merchandise exports and imports for both India and the UK. These are the primary causes of concern and necessitate the implementation of effective and appropriate measures to control the declining trade trend.

5. CONCLUSION:

The UK is one of the significant trade partners of India. The era of liberation and formation of Indo-British Partnership gave new impetus to trade relations between India and UK. Trade intensity for India with UK and vice versa has been declining during 1995-2022,

except for some initial years. India's trade intensity with the UK was recorded at 85 per cent during 1995-2022. Further, India's export and import intensity Index with the UK was 86 per cent and 74 per cent respectively, during 1995-2022. Similarly, UK's trade intensity with India was recorded at 105 per cent during 1995- 2022. The UK's export and import intensity index with India was 80 per cent and 99 per cent respectively, during 1995-2022. Factors contributing to this trade decline include the formation of regional blocs like SAARC and BIMSTEC for India and the EU for the UK, and the impact of the global financial crisis. The UK's withdrawal from the EU had favorable impact on its trade intensity with India. Overall, it is important for India to focus on strengthening its trade ties with the UK due to the UK's increasing significance. Both countries need to keep nurturing these relations. The proposed India-UK FTA offers a new opportunity to eliminate trade barriers and unlock the full potential of bilateral trade between the world's fifth and sixth largest economies.

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