

Britain & India: Old and Future Friends



Patricia Hewitt
Senior Adviser
Strategic Communications
FTI Consulting

Amrit Singh Deo
Senior Director
Strategic Communications
FTI Consulting

Rishi Patel
Consultant
Strategic Communications
FTI Consulting

Following his landslide victory in May 2014, newly elected Indian Prime Minister Narendra Modi visited the United States the following September. He packed New York City's Madison Square Garden.

Among the 19,000 attending, largely from the Indian diaspora, *The New York Times* reported there were “**several senators, 30-odd representatives and one governor**” all cheering Modi's slogan that flashed on the Garden's big screen — “Minimum government, Maximum governance” — and applauding his vow to promote Indian economic growth.

Modi was elected on a promise to meet the aspirations of young Indians, hungry, above all else, for jobs. He launched his campaign, “Make in India,” to generate the hundreds of millions of jobs the country desperately needed. The new government pledged to cut the bureaucratic red tape that was hampering businesses by encouraging the e-filing of initiatives and the elimination of foreign direct investment (“FDI”) restrictions. Already, progress has been made in achieving those goals. There also have been moves to liberalize legal services to create a more congenial legal climate for international firms. The prime minister's “competitive federalist” strategy signifies that individual Indian

states now are vying to provide the most attractive destinations for foreign investment.

Since Modi's election, global business has been bullish on India, and nowhere is that truer than in the UK. There have been numerous demonstrations of diplomatic warmth between the two nations, including the recent honoring of India's Diaspora Champion Priti Patel, the Minister of State for Employment. She has made strides in enhancing the economic partnership between the UK and Gujarat State, one of India's most open and dynamic economies. Now, in November 2015, Modi will visit Wembley Stadium in the UK and likely will be welcomed with the same outpouring of enthusiasm he met in the Garden a year ago. The Wembley event will be as much about promoting India's readiness to do business with Britain on a macroeconomic scale as it will be about filling the 1.5 million British Indians — who are a key source of remittances and investment in India — with patriotic enthusiasm.

Indeed, Prime Minister Modi's visit presents real opportunities for British businesses to forge relationships with high-level Indian decision makers and to showcase their brand to the people who matter.

The UK and the Indian Boom

Britain has invested greatly in India's success to date, across a wide range of industries. The UK ranks first in the G-20 economies in terms of investment in India. Indeed, in regard to foreign direct investment, the UK most certainly is

India's #1 investor globally, with almost \$5 billion invested in India in fiscal year 2013-2014. And this figure only will grow as India moves to encourage businesses of all sizes. A report published in September 2015 by the Confederation of British Industry, in association with the UK India Business Council, revealed that UK firms account for one in 20 of India's formal private sector jobs. The report found that the two key British industries investing in India are chemicals (\$5.78 billion) and drugs and pharmaceuticals (\$3.76 billion). The report said the attraction to India was overwhelmingly driven by its large and growing home consumer market and by the availability of talent.

Additionally, the Indian boom has provided new opportunities for inward investment into the UK, with Indian companies keen to take advantage of the possibilities available in the UK's knowledge economy. Mumbai-based pharmaceutical giant Cipla last year announced a \$186 million investment in scientific research and development in the UK. Mahindra & Mahindra, India's leading automobile manufacturer, has pledged more than \$31 million for funding British electric vehicle technology. And in moves for further integration in financial services, increasing capital flows are being issued on the London Stock Exchange. In August 2015, the International Finance Corporation launched the first “green” Indian rupee bond on the London Stock Exchange, the 12th rupee-denominated bond of its kind. The bond's aim is to encourage private sector investment in Indian green energy and infrastructure.

As well, high-profile international deals have demonstrated a continued



commitment to invest in the UK. In August 2015, Airbus announced a deal with Indian budget airline IndiGo to sell 250 of its A320neo jets at a listed worth of more than \$26 billion. This order also assures jobs and investment in Airbus' North Wales manufacturing plant.

Indeed, India invests more in the UK than it does in the rest of the European Union combined.

All this is a testament to the close historic, linguistic and human ties between the UK and India. British investments are so deeply integrated into Indian business culture and branding that they hardly are seen as FDIs — but are viewed as indicators of the Indian economy's continued strength. Unilever, the British-Dutch consumer goods multinational, pledged to spend as much as \$5.5 billion to bolster its Mumbai-based Hindustan Unilever offerings in 2013. And India's construction boom, coupled with increasing efforts by the Modi government to build up the nation's infrastructure, has provided a host of new opportunities for British construction firms, including JCB, which opened its largest overseas factory in Jaipur in 2014. Many British household brands, from Vodafone to Marks & Spencer, continue to expand their Indian reach, creating jobs and strengthening the economy.



The Trials of Making It in India

While the news in India has been largely positive, there remain significant challenges, not least due to Prime Minister Modi's own domestic legislative quandaries. The opposition

Congress party still controls India's Upper House, the Rajya Sabha, and has been flexing its muscles to slow the government's momentum. A key Modi initiative — simplifying India's notoriously complicated tax system and replacing it with a single, nationwide Goods and Services Tax — was soundly defeated in August 2015 by opposition Congress politicians.

Consequently, the pace of reform in India will be slower than expected. And after Modi's UK visit, he most likely will concentrate on domestic politics and the 2016 state elections. His goal will be to secure a majority in the Rajya Sabha in order to pass key pieces of his legislation. Moreover, global economic uncertainty will continue to mean that business relationships may fail to realize their true potential. As China's economy continues to slow and to suffer growing market turmoil, it will create headwinds affecting the global economy, which, in turn, may lower India's growth projections. Analysts, who earlier this year were predicting 8 percent growth, have reduced their forecast to 7 percent and holding.

FTI Consulting's View

There certainly is immense goodwill among business and political leaders in the UK and India for an ever enhanced relationship between these former and future economic powers. With new regimes and legislative agendas in place in both countries, the next five years look set to bring further rounds of diplomatic and trade negotiations, and there is room for more to be built on an already strong foundation of understanding.

Yet there remains concern that certain factors will make increased cooperation difficult to achieve. Prime Minister Modi needs to be able to carry forward his program of domestic change to make the Indian landscape as fertile for investment as his rhetoric suggests he wishes it to be. Indeed, he likely is going to experience criticism from domestic business and political audiences should he be unable to bring about the reforms he has promised.

For the UK, there also are headwinds. The whole world is courting India, and the UK faces fierce competition, particularly from the United States, Germany, France, Australia, and, of course, China and Japan.

Senior British business and political leaders need to be sure to expend every effort to capitalize upon the opportunities created by the current warmth of diplomatic relations between the UK and India. These leaders must demonstrate in word and deed that both nations are ready to buoy and to be buoyed by the second stage of an Indian economic miracle, one that will be mutually beneficial and long lasting and that will be inclusive across industries. ■

Patricia Hewitt

Senior Adviser
Strategic Communications
FTI Consulting
Patricia.Hewitt@fticonsulting.com

Amrit Singh Deo

Senior Director
Strategic Communications
FTI Consulting
Amrit.SinghDeo@fticonsulting.com

Rishi Patel

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FTI Consulting
Rishi.Patel@fticonsulting.com

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