HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

02nd January, 2012

Economic & Commercial Report on the United Kingdom for the week ending 30th December 2011

Economy

GDP Growth: No change since last week

Inflation: No change since last week

Bilateral Merchandise Trade

Year	UK Exports to India	% change	UK Imports from India	% change	Total	% change	India's Balance of Trade
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
Jan-Oct 2011	4818		5078		9896		

(In £ million)

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade/Investment Enquiries

During the week ending 30th December, 2011 the following enquiries from India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India:

From India

Broad Items	Number of Queries
Fruits and vegetable	1

Imitation Jewellery	1
Raw Cotton	1
Fertilizers	1
Metals	1

MEDIA REPORTS

Jobs gloom forecast to worsen in 2012
FT: 28th December 2011

The jobs market faces its toughest year for a generation, with unemployment in a near-stagnant economy likely to rise to 2.85m by the end of 2012, according to a leading labour economist. Mounting job insecurity coupled with falling real earnings could create a "tetchy" mood in many workplaces, said John Philpott, chief economist at the Chartered Institute of Personnel and Development. Although there is no sign of a surge in private sector redundancies, he expects the number of people in work to drop by 120,000 as the private sector fails to create jobs to replace those lost in public services. "As long as there is a relatively benign outcome to the eurozone crisis we expect the 2012 jobs recession to be milder than that suffered in 2008-09," Mr Philpott said. "But unemployment in the coming year will be rising from a much higher starting point, so the UK jobs market in 2012 will be weaker than at any time since the recession of the early 1900s." Mr Philpott expects unemployment, currently 2.64m or 8.3 per cent, to rise to 8.8 per cent by the end of next year, peaking at 2.9m in the first half of 2013. But he thinks government measures will bring headline youth unemployment down below 1m and curb the growth of long term unemployment. The CIPD is slightly more pessimistic than the Office for Budget Responsibility, which expects unemployment to peak at 8.7 per cent by the end of next year. Vicky Redwood, an economist at Capital Economics, has warned it could rise above 3m - about 9.4 per cent - in 2013. Mr Philpott said: "The combination of worsening job shortages for people without work, mounting job insecurity and a further fall in real earnings for those in work may test the resilience and resolve of the UK workforce far more than it did in the recession of 2008-09, and foster a tetchy 'passive-aggressive' mood in many workplaces that could prove very hard to manage." CIPD surveys had as yet detected no sign of an imminent widespread surge in private sector redundancies, though that remained serious risk amid fragile business confidence. At some point businesses would need to raise labour productivity back to more normal levels, Mr Philpott laid. That meant employers would be slow to recruit staff when the economy eventually picks up. "The flipside of a mild jobs recession in 2012 is a mild jobs recovery in subsequent years and a correspondingly longer wait until unemployment starts to fall.

Banks faced with scramble to comply with Vickers
FT: 28th December 2011

As Britain's banks draw up their priorities for 2012, one topic - getting to grips with the Vickers reforms - will figure prominently for all. The timetable for implementing the rules in full extends until 2019, but George Osborne pledged shortly before Christmas to have the enabling legislation passed by the end of the current parliament in 2015, and banks will now be scrambling to be ready well ahead of time. In the first few months of 2012, they will have another chance to lobby against some of the elements. However they will also need to draw up detailed plans for how and where to erect the "ringfence" around their core businesses - the central recommendation of the Independent Commission on Banking, chaired by Sir John Vickers. In tandem, the banks must finalise detailed "recovery and resolution" plans to submit to regulators, as part of an international exercise with which the ICB's work is designed to dovetail. That resolution agenda, it turns out, will be one of the most crucial tasks for at least some of the banks, thanks to an important concession made by the chancellor.

Teams of staff at both HSBC and StanChart will be focused over the coming weeks on the task of coming up with convincing proof that, in the event of a failure of one part of their business in, for example, Asia, the UK taxpayer would not be on the hook. By the middle of the year, convincing "resolution plans" - outlining how a group or a part of it could be credibly and methodically wound up in the event of disaster - must be filed with regulators. As Jon Pain, UK head of financial services risk consulting at KPMG, says: "Major banks will need to make some serious decisions before June to submit their recovery and resolution plans to the relevant authorities, which could have major implications for their ICB thinking." Both HSBC and StanChart already have the geographic structures in place that should form the basis of the kind of compartmentalised group organisation required for resolution planning. One person familiar with the thinking of the Vickers commission says: "They must come up with a robust resolution plan. No bank has that today. But our assumption is that for [these banks] they will be able to come up with a plan, with separate legal entities, and separate debt structures, that proves they can hive off [a troubled subsidiary] credibly if trouble strikes." Most observers believe it will be far more difficult for other banks such as Barclays and RBS to convince regulators that their international operations should be exempted from the capital rules, mainly because they do not currently manage their international operations within segregated subsidiaries.

UK to meet aid targets through debt relief for poor countries
FT: 29th December 2011

The UK government will meet its much-heralded international aid target by cancelling the debts of some of the world's poorest countries, triggering accusations that ministers are fiddling the books to reach their stated goals. Officials at the Department for International Development told the Financial Times that cancelling the debt of countries such as Sudan, Somalia and Zimbabwe will' be counted as part of the UK's target to spend 0.7 per cent of national income on foreign aid by 2014. Anti-poverty campaigners say ministers are undermining that target by including debt relief on money which the government never expected to be repaid. Although governments have previously counted such cancellations as aid spending, they have not used that spending to help hit internationally set targets. Campaigners accused the department of using "non-existent money" to plug the gap left by reductions in public spending. "Any debt cancellation for Sudan is not aid," said Tim Jones, policy officer at the Jubilee Debt Campaign. "Most of the debt is made-up money based on ridiculously high interest rates. The debt should be cancelled because it is unjust and unpayable, not used to meet targets and massage figures." The UK is expected to wipe as much as £740m off Sudan's debts in the next few years. The country defaulted on its £173m debt to the UK in 1984. Since then it has not made a single repayment. But the British government has charged nominal interest rates of 10-12 per cent a year since, leaving Sudan with a current bill of £678m and rising. A department spokesman confirmed that the target would be met with help from debt cancellation, but argued: "By cancelling debts, we are freeing up money that can then be spent tackling poverty and providing essential services such as schools and hospitals to their people." If Sudan's debt is formally cancelled in 2013-2014, it would account for about 7 per cent of the UK's aid budget. The UK gives more of its national income to overseas development than most other developed countries, but trails several northern European countries, which have already hit their 0.7 per cent target. The US spends 0.2 per cent of its income on international aid.

MoD struggles to scrap defence deals
FT: 29th December 2011

The Ministry of Defence is facing costs of hundreds of millions of pounds as a result of cancelling complex equipment deals, threatening to undermine efforts to slash defence expenditure. Analysis by Jane's, the defence journal and consultancy, suggests ministers have underestimated how difficult it will be to scrap 500 equipment contracts as specified in last year's strategic defence and security review. The news adds to pressure on the MoD, which has recently faced sustained criticism for the way in which it signs arms deals. Bernard Gray, the department's head of procurement, is to recommend in the New Year that the MoD loses its power to sign con-tracts and call for the setting up of a separate quasigovernment body to do so instead, with a large dose of private sector expertise. Guy Anderson, chief analyst at Jane's, said only a handful of the contracts identified in the defence review had been

cancelled. All 500 are supposed to be ended by 2015. Only 30 of the contracts attached to two of the biggest defence programmes, the Harrier and Nimrod aircraft, have been terminated, but the MoD refuses to say how many contracts of the full 500 have been brought to an end. The MoD said: "Already hundreds of millions of pounds have been saved through contract renegotiation and this complex work is ongoing." But Mr Anderson argued: "By any measure, progress has been slow. The main problem is that the MoD needed to find out exactly what it was committed to, what the terms were, and what stages the contracts had reached. They have spent the last year going through the paperwork." The process is likely to cost the MoD hundreds of millions of pounds - possibly even billions - because of rules governing equipment contracts handed to British companies. According to the terms of the "Yellow Book" regulations on procurement, the government has to pay up to 80 per cent of the redundancy fees for any company that has to layoff workers due to the cancellation of contracts.

Ministers are already braced for a £100m bill from the decision by BAE Systems, the defence company, to make 3,000 people redundant because of government cuts. MoD officials have set aside a pot of money to deal with such costs, but refuse to say how much. Mr Anderson's calculations show it will be in the hundreds of millions of pounds, "at a very conservative estimate". Part of the problem is that many companies are fighting for every penny they are due under the terms of their initial contracts. Whereas most used to settle early and on favourable terms for the taxpayer to stay on side with their main customer, they now had less incentive to do so as they knew the coalition's austerity drive meant there were few new contracts in the pipeline, according to Mr Anderson. Negotiations with BAE have already dragged on for months. David Davis, the Conservative MP and a former chairman of the Commons public accounts committee, said: "The government is acting insurer for BAE and the defence industry. Our job is to maintain a defence industry, not to insure the rundown of one." Jim Murphy, Labour's shadow defence secretary, attacked the department for refusing to release precise figures on how many contracts had been cancelled and how much money had been set aside to settle disputes. He said: "We can only conclude the MoD's silence means bad news."

One-day rule set to speed up interbank payments
FT: 29th December 2011

Widespread inconsistency in the time it takes to transfer money from one UK bank account to another will end next week, with the introduction of a one-day payment rule. Although the UK's banking industry has had the means to move money between accounts in a matter of hours since 2008, restrictions have left many customers waiting for up to three days for payments to arrive. The ceiling for sums transferred by retail customers via the free, electronic "faster payments" system

varies from £100,000 for Santander account holders, to £10,000 in Barclays. Sums above these limits are either transferred within three working days using the long-established BACS system, or can be cleared in one day using the high-value payment system known as Chaps. From January 1 more than 15m payments per month are expected to be rerouted through faster payments, reaching the recipient's account in one working day. This timescale, known as D+1, is part of European legislation introduced more than two years ago to harmonise payment services across the region, making cross-border payments easier. Banks were given until 2012 to implement the changes.

The UK's payment system has been the subject of criticism since 2000, when the Treasury commissioned Cruickshank Report found that privately controlled payment arrangements between banks were slow, expensive and harmful to competition. The Payments Council, an industry led body set up in the years following the report, was tasked with speeding up the system. It launched the faster payments service to provide near real-time processing of phone, online and standing order money transfers for customers. But banks have been criticised for failing to take up the initiative. Blue rock Consulting, the financial services management consultancy, said the service had stretched retail banking systems developed over 30 years to support branch working days, rather than 24/7 electronic payments. The Faster Payments Scheme emerged from beneath the auspices of Chaps to become a separate legal entity in 2011, chaired by Kevin Brown of Royal Bank of Scotland. The scheme has 10 members, but the service can be used by non-member institutions. Mr Brown said he remained keen to attract new members in 2012 to drive greater usage and indicated that the speed with which payments were made under the scheme served as a base upon which new services such as mobile payments might be built. Not all payments will fall under the new regulation. Cheques will be left unaffected, and will continue to be processed under the current timescale of up to six working days. The Payments Administration industry body was criticised this year when it announced the system used to clear cheques would be closed by 2018.

Lancashire’s mills spin back into life
FT: 29th December 2011

The textile industry in north-west England is staging a revival based on advanced engineering and "on-demand" manufacturing, 200 years after it became a global production pioneer. The region where much of the modem textile business started has become a centre for small to medium sized businesses focusing on niches in sectors linked to specialised engineering fabrics. Another expanding area is in high-quality fabric for up market furnishings and clothing, specifically where a quick turn round between orders and delivery is needed to fit in customer requirements, and

where UK factories are starting to regain a competitive edge compared with rivals in China and other low-cost nations.

At its high point in about 1910 the north-west England textile industry employed more than 600,000 people, mainly in cotton spinning and weaving. Today the industry employs only about 15,000 in roughly 1,000 companies - in fields that are far more varied. Most of the businesses are privately owned, with few employing more than 100 people. Many of them specialise in fields built around selling hightech materials on an international basis to sectors such as automotive, construction and aerospace Asia as well as home furnishings. Lancashire and the surrounding area is where the production of high-volume textiles began, thanks to a series of innovations by pioneers such as Richard Arkwright. He was a Preston barber and wigmaker whose development of the "water frame" for cotton spinning in 1770 helped to stimulate the UK's Industrial Revolution. For much of its history, textiles production in the region featured companies making cloth for garments and home furnishings based on natural fibre such as cotton - an industry that has now almost exclusively migrated to Asia. A more typical example of the prevailing businesses today is James Dewhurst, based in Accrington. It is a world leader in making specialised laminated or woven mats made from polyester or glass fibre and used to reinforce structures in construction and engineering industries. The 300-employee company is likely to end 2011 with sales of about £50m, 80 per cent of which have been made outside Britain, with production split between the UK plant and another in the US. "I feel demand for the kind of products we sell is growing around the world and we have a good chance in the next few years to double the size of the company in turnover on the back of stronger sales in regions such as China and India," said Malcolm Blackwell, managing director. Another leading niche company is Panaz, based near Burnley, which concentrates on making fabrics containing fire-retardants or "microbial shields" used in products such as curtains and upholstered furniture either to resist the spread of fire, or reduce risks of infection, in hospitals for instance.

"Because we focus on specialised areas we feel we have a better chance to expand over the next few years than if we were making and supplying commodity fabric," says Tony Attard, managing director. With 90 employees, the company expects 2011 revenues of £15m, of which 30 per cent is likely to come from outside the UK, with large markets in the US and the Middle East. Other companies in the region have used established skills in industries such as spinning and weaving to move into the high-tech field of making products based on plastic epoxy material reinforced with light and strong carbon fibre. Examples of such businesses - which sell to sectors such as aerospace and defence - include Fothergill Engineered Fabrics of Little borough and Runcorn-based Sigmatex. Another enterprise that made the switch away from traditional production is Lantor, based in Bolton, which was once a

specialist in making textiles for electric blankets but now focuses on making high tech wound dressings, used to treat burns victims for instance. Some businesses have chosen to focus on specialist types of textiles for domestic use which sell for high prices, so compensating for relatively high UK labour costs compared with Asian rivals. Peter Reed, a 150-year-old company in Nelson that makes high-quality sheets and pillow cases, has just been bought by Standard Fiber, a US-based textile business. Sandy Gray, Standard Fiber's managing director, says that in the next five years he wants to expand annual sales of the 16-person Peter Reed from £lm in 2011 to about £10m, with the help of a £1.5m investment programme, and with virtually all the extra production likely to be exported. "The company's products are all about English elegance - I think they have a very good chance of selling well in all kinds of markets around the world where consumers are interested in quality," Mr Gray says.

CBI urges economic shift from debt
FT: 30th December 2011

The coming year will be a tough one for the UK, but the country needs to “get on” with rebalancing the economy away from government and household debt, John Cridland, CBI director-general, says in his new year message. There are no quick fixes, Mr Cridland says. But he argues that a concerted effort to tackle imbalances that created a legacy of debt and faltering growth will secure a better future. The employers’ group says the UK can succeed in this rebalancing within five years to become less dependent on consumer-fuelled demand, but at the price of sub-trend growth. By acting now, it says Britain can move away from dependence on debt-driven household and government spending and increase business investment and net trade. Out of four potential outcomes, it forecasts a likely “base case” over the next five years, based on a private sector recovery. This foresees contributions of net trade (0.8 per cent) and investment (0.5 per cent) exceeding household consumption (0.4 per cent) to produce annual growth of 1.6 per cent – below the 2.2 per cent long-term trend. The task is to generate stronger business investment, better-targeted exports and stabilise government and household debt, it says.

Mr Cridland said: “2012 is going to be a hard road but if we are canny and act now to put in place solid economic foundations, we will be stronger and secure a better future for ourselves and our families. “We need to identify how the UK will earn its living and pay its way in the years ahead and that means adjusting to change.” The faltering recovery, with family and business budgets under pressure, and the eurozone crisis were “stark reminders” of the need for rebalancing, he added. “There are no easy answers when it comes to securing future long-term growth. The hard graft of rebalancing is the only way it can be achieved, so it’s time to stop

talking about it and get on with it. “If we fail, the UK’s debts will continue to grow and our trend growth-rate will remain low. Only through rebalancing can we return growth to long-term sustainable levels.”

The CBI report says the UK economy has become dominated by debt-driven household and government consumption, which together accounted for 89 per cent of gross domestic product in 2009 – more than in France, Germany or the US. It acknowledges that eurozone weakness presents a significant threat, but it believes “rebalanced growth” can be achieved by taking advantage of long-term changes. These include the rise of middle-class consumers in emerging markets, spurring a greater demand for services such as healthcare, education, finance, transport and the digital sector. Within the UK, demand for significant investment to update infrastructure, digital growth and the diversification towards renewable energy will provide significant business investment opportunities, it argues. Mr Cridland said that to make up for the loss of public sector spending, the private sector needed to deliver £170bn of new investment over the next five years. The UK has the largest e-commerce market and second largest online advertising market in the world, and is well-placed to capitalise on expanding digital and mobile activity, the CBI says.

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