International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

Trade Relations Between India and The United Kingdom: From Colonial Legacies To The 2025 Free Trade Agreement

Aadya Sharma and Udbhav Sachan

Birla Vidya Niketan, New Delhi

DOI: 10.46609/IJSSER.2026.v11i07.014 URL: https://doi.org/10.46609/IJSSER.2026.v11i07.014

Received: 14 March 2026 / Accepted: 20 June 2026 / Published: 18 July 2026

ABSTRACT

This research paper delves into the transformative evolution of the economic and strategic relationship between India and the United Kingdom. It spans from the 17th-century colonial encounter to the contemporary era of the 2025 Free Trade Agreement (FTA). The study traces India's historical shift from a dominant global industrial power to a colonial supplier of raw materials. Its share of global industrial output plummeted from 25% in 1750 to just 2% by 1900.

The paper further analyses India's post-independence *phase of* import-substitution *industrialisation and the subsequent 1991 liberalisation. These events led to a reversal of economic hierarchies, exemplified by major Indian acquisitions of British industrial icons. Finally, the research examines the impact of Brexit as a structural rupture that compelled the UK to prioritise India as a strategic partner.*

Through cooperation in defence, technology security, and healthcare, the research argues that the bilateral tie has matured into an interdependent alliance. This alliance is shaped by the Roadmap 2030 and a vibrant 1.86 million-strong diaspora.

Keywords: India-UK Free Trade Agreement (FTA), Post-Brexit Trade Strategy, Roadmap 2030, Comprehensive Strategic Partnership, Economic Liberalisation, World Trade Organisation (WTO)

I. INTRODUCTION

The commercial relationship between India and the United Kingdom has been one of the longest and most transformative bilateral economic interactions in the modern world. Beyond facilitating the exchange of goods and services, trade has played a structural role in shaping political, social, and cultural realities.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

II. HISTORICAL CONTEXT

A. COLONIAL-ERA TRADE

The colonial encounter was primarily economic. The establishment of the British East India Company in 1600 marked the beginning of a phase of mercantile exploitation. During this period, Indian textiles, spices, and indigo were traded to fuel the prosperity of British industry and commerce. By the eighteenth century, India had transitioned from being a global exporter of manufactured goods, particularly cotton textiles, to becoming a supplier of raw materials and a captive market for British industrial output. This reversal was not accidental but a deliberate policy of deindustrialization, where indigenous industries were systematically dismantled to ensure Britain's ascendancy in the industrial world.

From the 17th century onwards, India was a relatively urbanised and commercialised nation. It engaged in extensive trade, particularly in cotton textiles, silk, spices, and rice. India was the world's main producer of cotton textiles and exported it extensively to Britain and other European countries through the East India Company. However, after the British victory over the Mughal Empire, India experienced deindustrialization. The East India Company and later the British restricted Indian textile exports while importing raw cotton to Britain for manufacturing.

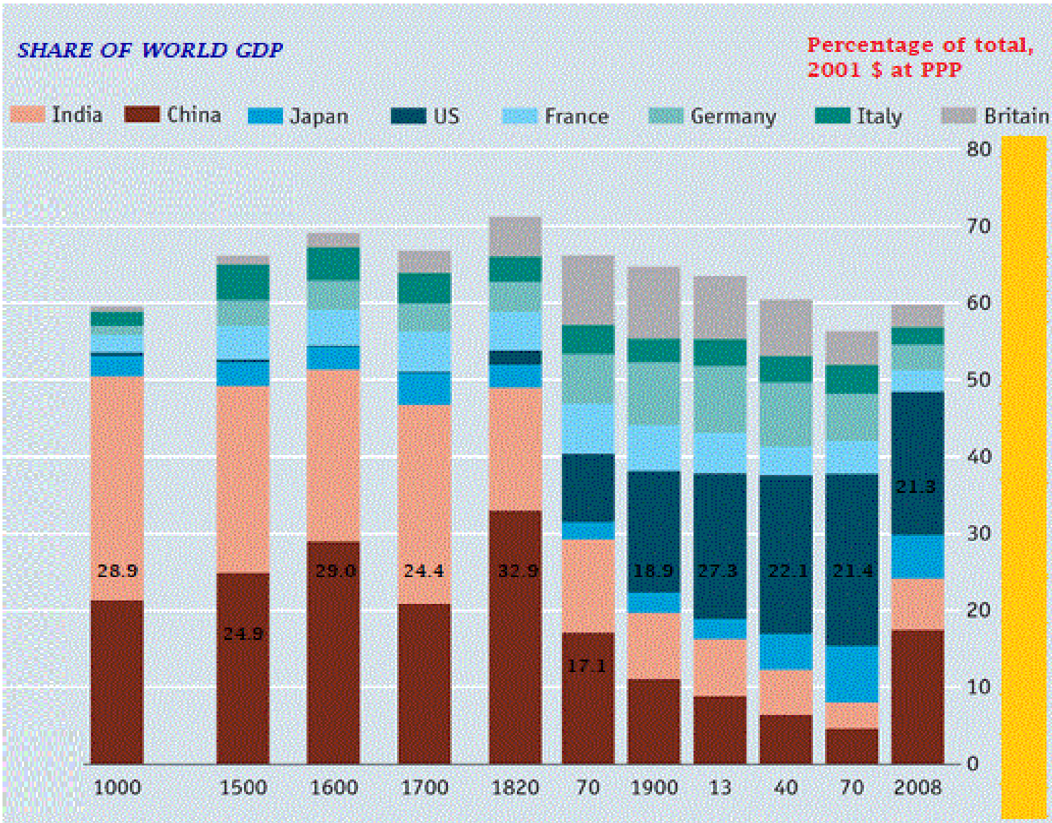
India's share of global industrial output plummeted from a whopping 25% in 1750 to a mere 2% by 1900. Concurrently, British exports to India surged due to duty-free access, leading to a monopoly over India's market. This decline in Indian industry forced many workers into agriculture, resulting in lower rural wages and heightened poverty. British taxation, which sometimes reached an alarming 50% of income, further burdened farmers under the zamindari system.

Despite some infrastructure investments, India's GDP as a proportion of the global economy declined sharply. From 16% in 1820, it plummeted to 4% by 1947, while per-capita income remained largely stagnant. Annual per-capita GDP growth from 1850 to 1900 averaged between 0.75% and 1.25%, insufficient to compensate for the relative decline in India's global economic share. Exports from India plummeted, while British imports dominated the Indian market, leading to a substantial transfer of wealth from India to Britain. Between 1870 and 1900, this transfer amounted to a staggering £900 million.

The handloom industry, a key sector, experienced a significant decline in yarn output, falling from 419 million pounds in 1850 to 240 million pounds in 1900. This decline underscored the profound impact of deindustrialization. Overall, British rule not only reduced India's share of global GDP and industrial output but also contributed to the expansion of Britain's economic power simultaneously.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"



According to Angus Maddison's estimates, the global contribution to world GDP by major economies from 1 CE to 2003 CE reveals a shift in economic dominance. Until the early 18th century, China and India held the distinction of being the two largest economies in terms of GDP output.

GDP (PPP) in 1990 international dollars

Year	GDP (Millions of 1990 dollars)	GDP per capita (1990 dollars)	Average% GDP Growth
1850	125,681	533	-
1870	134,882	533	0.354
1890	163,341	584	0.962

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

1900	170,466	599	0.428
1910	210,439	697	2.129
1920	194,051	635	-0.807
1930	244,097	726	2.321
1940	265,455	686	0.842
1947	213,680	618	-3.052

B. POST-INDEPENDENCE TRADE (1947-1990)

Following independence in 1947, India consciously distanced itself from the patterns of dependency that had characterised its colonial economy. The newly independent state embraced an economic philosophy of self-reliance, articulated through a mixed economy model and import-substitution industrialization. While trade with the United Kingdom, historically significant, remained relatively limited, India's overarching protectionist stance hindered deeper integration.

This period was also marked by the political influence of the Cold War. India's non-aligned stance limited its reliance on Western partners. Consequently, India-UK trade during these decades was predominantly symbolic, driven by Commonwealth connections rather than substantial economic value. The bilateral relationship was cordial but not transformative.

After independence, India adopted Import Substitution Industrialization (ISI), prioritising domestic industrial growth over foreign trade. ISI aimed to replace imported goods with domestic production by restricting imports and supporting local industries. The government employed high tariffs, import quotas, and subsidies to foster local manufacturing growth. While these policies helped some indigenous industries develop, they also hindered India's participation in global trade by reducing export competitiveness, particularly with partners like the United Kingdom.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

India's Foreign Trade 1950-1991 (in crores)

YEAR	EXPORTS	IMPORTS
1950-51	606	608
1960-61	642	1,122
1970-71	1,535	1,634
1980-81	6,711	12,549
1990-91	32,553	43,198

C. LIBERALISATION AND TRADE EXPANSION (1991-2010)

The watershed moment came in 1991 when a balance-of-payments crisis compelled India to embrace structural reforms and liberalisation. This shift towards a globally integrated economy significantly transformed India-UK trade relations. Britain emerged as a major investor in India, channeling foreign direct investment into banking, insurance, telecommunications, and energy. The City of London positioned itself as a financial hub for Indian companies seeking capital abroad. Simultaneously, Indian enterprises began to assert a strong presence in the United Kingdom. The Tata Group's acquisition of Tetley Tea in 2000, Corus Steel in 2007, and Jaguar Land Rover in 2008 symbolised the reversal of earlier colonial hierarchies. For the first time, Indian firms were not merely participants but drivers of economic exchange, employing thousands in the UK and integrating supply chains across both nations.

During this era, services began to overshadow goods in bilateral trade. Information technology, professional services, and pharmaceuticals became defining features, reflecting India's comparative advantage in knowledge-intensive sectors and the UK's openness to outsourcing and skilled labour mobility.

For instance, Tata Steel's acquisition of Corus Group in 2007 for £6.2 billion was a landmark moment in Tata's history. This acquisition, one of the largest overseas takeovers by an Indian company, not only provided Tata Steel with a foothold in the European market but also marked a significant step in its global expansion. In 2010, Corus was renamed as Tata Steel Europe.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

By integrating Corus into its operations, Tata Steel boosted its production capacity and gained access to cutting-edge technologies. However, the venture faced challenges due to the declining demand for European steel in the face of intense competition from China.

D. BREXIT AND REORIENTATION OF UK TRADE POLICY

The 2016 Brexit referendum marked a structural rupture in Britain's external trade policy. Severed from the European Union's single market, the UK was compelled to renegotiate its trade relationships globally. India, as one of the world's fastest-growing large economies with a young consumer base, emerged as a natural priority.

From India's perspective, Brexit presented both opportunities and leverage. For decades, trade negotiations with the EU had been slow and contentious; dealing directly with the UK offered a more focused and direct approach. Post-2016, bilateral negotiations were marked by increasing convergence in various sectors, including digital services, green energy, pharmaceuticals, education, and financial technology.

Skilled migration and the mobility of professionals became bargaining chips, reflecting India's demographic advantage and the UK's labour market needs.

In conclusion, Brexit redefined India-UK trade as not merely a continuation of historic ties but as a strategic necessity for both nations.

The Brexit referendum had immediate and long-term economic effects on the United Kingdom. In the short term, inflation rose by 1.7 percentage points in 2017, costing the average household about £404 annually. Studies estimated that the referendum reduced GDP by 2-2.5%. Business investment fell by around 6 percentage points, and employment dropped by 1.5%. International trade also declined due to uncertainty.

Long-term forecasts indicate a persistent negative impact. Surveys of economists estimated UK GDP losses of 1.2-4.5%, depending on the Brexit scenario, with per-capita income reduced by 1-10%. The Office for Budget Responsibility projected a 4% GDP loss per year, equivalent to approximately £32 billion annually. By 2035, Cambridge Econometrics predicts that the UK will have 3 million fewer jobs, 32% lower investment, 5% lower exports, and 16% lower imports. This will result in a total economic loss of around £311 billion. Certain regions, including London and the Midlands, were disproportionately affected. In 2023, an average Londoner was nearly £3,400 worse off due to Brexit.

The Brexit "divorce bill," representing the UK's financial obligations to the EU, added further fiscal costs, estimated at £39 billion. Annual payments started at around £14 billion in 2018-2019

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

and decreased to £7 billion by 2022-2023. Overall, Brexit has significantly reduced the UK's openness, competitiveness, and growth potential.

III. GENESIS OF THE INDIA-UK FREE TRADE AGREEMENT

A. POLITICAL CONTEXT

Politically, the deal is closely linked to the UK's departure from the European Union. Brexit created a significant need for the UK to secure new trade partners and compensate for reduced access to EU markets. Strengthening ties with India, a rapidly growing economy with global influence, became a strategic priority. For India, the trade deal represented an opportunity to consolidate its position as a major economic power and deepen bilateral ties with a long-standing partner. Successive Indian governments have emphasised expanding exports, attracting foreign investment, and improving international market access.

High-level diplomatic engagements played a crucial role in setting the stage for negotiations. Visits by the Prime Ministers of both countries, along with trade delegations and ministerial meetings, helped establish political trust and clarify each side's priorities. These interactions reinforced the mutual commitment to a comprehensive trade arrangement.

Between 2021 and 2025, the UK and India engaged in several high-level meetings to strengthen their bilateral relations. These meetings culminated in the landmark UK-India Free Trade Agreement (FTA) in 2025. Prime Ministers Narendra Modi and Keir Starmer emphasised the FTA as the UK's largest post-Brexit trade deal and India's most ambitious agreement. It was expected to add billions to the UK economy, boost wages, and deepen strategic ties.

Key engagements included:

- **G20 and G7 Summits:** Modi and Starmer met in Brazil (G20, 2024) and at the G7 Summit in Italy (2024). They emphasised cooperation in various areas such as trade, investment, security, defence, technology, climate, health, and education. India also opened two new consulates in Belfast and Manchester.

- **Bilateral Meetings:** Modi met UK Prime Ministers Sunak (2023) and Johnson (2021-2022) to discuss trade, the Roadmap 2030, and infrastructure partnerships. As part of these cooperation initiatives, the Young Professionals Scheme, OSOWOG (One Sun, One World, One Grid), and IRIS programmes were launched.

- **Phone Calls and Strategic Coordination:** In 2024-2025, Starmer and Modi held multiple phone calls to discuss the FTA, bilateral security issues, and future visits.

Starmer also expressed condolences over terrorist attacks in Jammu and Kashmir, highlighting the ongoing collaboration on security.

- **VIP Visits and Ceremonial Engagements:** Indian Presidents and Vice Presidents participated in UK events like state funerals and coronations (2022-2023). These interactions, alongside formal trade discussions, strengthened people-to-people and diplomatic ties.

Diplomatic and Strategic Foundation: These high-level interactions provided the groundwork for finalising the FTA, enhancing cooperation across economic, security, and technological domains.

B. ECONOMIC CONTEXT

Prior to the agreement, India-UK trade was substantial but heavily concentrated in specific sectors. India exported services, pharmaceuticals, textiles, and software solutions, while the UK exported financial services, machinery, and specialised goods. Despite strong trade flows, both countries recognised untapped potential.

Global economic trends, including the post-COVID recovery, regional trade agreements, and growing protectionism in some markets, prompted both nations to secure a robust bilateral framework. For India, gaining easier access to the UK services sector and investment opportunities was crucial. For the UK, India's expanding consumer market and strategic location offered long-term growth prospects.

C. NEGOTIATION TIMELINE AND CHALLENGES

The negotiation process formally began in 2021 with preliminary discussions between trade officials. Memorandums of Understanding (MoUs) were signed to set the framework for talks and outline areas of interest. Key negotiation rounds were conducted in London and New Delhi over 2022 and 2023, involving trade ministers, senior bureaucrats, and industry advisors. Each round focused on specific sectors like IT services, pharmaceuticals, agriculture, and digital trade. Public statements by officials highlighted progress, maintaining momentum, while media coverage kept stakeholders informed of developments.

By mid-2023, most major provisions of the trade deal were finalised, paving the way for its official announcement and eventual ratification. The careful sequencing of these negotiations ensured that political, economic, and public interests were balanced.

The World Trade Organisation (WTO) and the International Monetary Fund (IMF) play crucial roles in shaping the global trade environment that influences bilateral deals like the India-UK Free Trade Agreement. As a multilateral institution with almost all major trading nations as

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

members, the WTO provides a rules-based framework for trade, including trade liberalisation, dispute settlement, and transparency in national trade policies. This helps reduce uncertainty and promotes cooperation among countries. The WTO also offers a forum for negotiation and technical assistance, encouraging the gradual reduction of tariffs and non-tariff barriers across borders.

By ensuring that trade agreements are consistent with WTO rules, countries like India and the UK are expected to align their bilateral deals with broader multilateral commitments. This prevents trade fragmentation and maintains predictability in global trade flows.

Meanwhile, the IMF contributes indirectly to trade agreements by promoting macroeconomic stability, exchange rate stability, and balanced external accounts. Through its economic surveillance and policy advice, the IMF helps member countries manage balance-of-payments pressures, exchange rate volatility, and structural reforms. These reforms can affect trade competitiveness and the capacity to implement deeper trade integration. The IMF's work on trade policy also emphasises the importance of open and stable trade systems for sustainable growth. However, it cautions against protectionist measures that may hinder global economic expansion.

Together, the World Trade Organisation (WTO) and the International Monetary Fund (IMF) contribute to creating a predictable, stable, and rules-based global trading environment. This environment supports bilateral agreements like the India-UK Free Trade Agreement (FTA), ensuring they complement rather than conflict with multilateral norms and economic stability goals.

IV. COMPREHENSIVE INDIA-UK ECONOMIC AND STRATEGIC COOPERATION

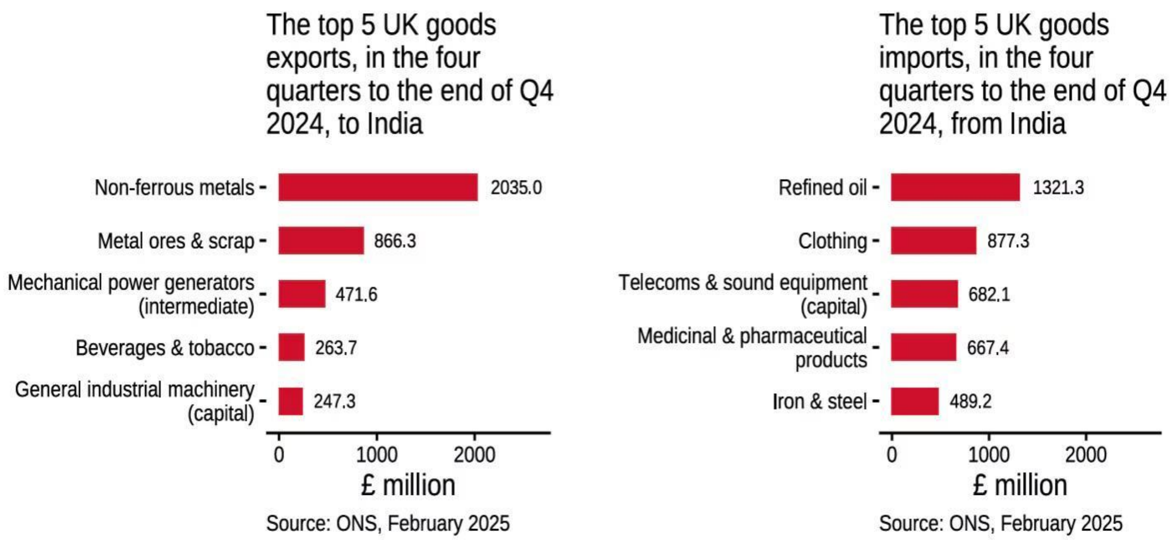
A. ECONOMIC COOPERATION AND INSTITUTIONAL MECHANISMS

India and the United Kingdom share strong economic relations, marked by steady growth in trade and investment. The Indian diaspora and the presence of major Indian corporations in the UK have significantly contributed to strengthening bilateral economic ties. To institutionalise cooperation, both countries established the India-UK Joint Economic and Trade Committee (JETCO) and the India-UK Economic and Financial Dialogue (EFD). These formal mechanisms serve as guides for cooperation in trade, investment, and finance.

B. TRADE AND INVESTMENT RELATIONS

India-UK bilateral trade reached a remarkable £39.7 billion in the financial year (FY) 2023-24. UK imports from India amounted to £16.6 billion, while exports stood at £23.1 billion. Indian companies have a substantial presence in the UK, with 971 firms generating revenues of nearly £68 billion and employing over 170,000 people. In return, the UK has emerged as the 6th largest investor in India, contributing US$35.28 billion in Foreign Direct Investment (FDI) since 2000. Similarly, Indian outward FDI to the UK stood at US$19 billion by March 2024. These figures underscore the deep economic interdependence between the two nations, with British companies in India employing over 500,000 people.

Composition of UK-India bilateral trade in goods



C. DEFENCE COOPERATION

Defence cooperation between India and the UK encompasses joint military exercises, defence technology collaboration, subject-matter expert exchanges, and support for India's Make in India initiative. Regular bilateral and multilateral exercises such as Exercise Konkan, Cobra Warrior, and Ajeya Warrior foster interoperability and strategic trust between the armed forces of both nations.

D. SCIENCE, TECHNOLOGY, RESEARCH AND INNOVATION

Science and technology cooperation is institutionalised through the India-UK Science and Innovation Council (SIC). The UK stands as India's second-largest international research partner, with joint programmes valued at £300-400 million. Recent agreements centre on quantum technology, AI, clean energy, biotechnology, and semiconductors, reinforced by the launch of the Technology Security Initiative (TSI) under the Roadmap 2030.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

E. HEALTH COOPERATION

Health cooperation gained prominence during the COVID-19 pandemic through the collaborative development of vaccines by AstraZeneca and the Serum Institute of India. India also plays a significant role in the UK's healthcare system, with over 60,000 Indian-origin NHS staff, including a substantial portion of doctors and nurses, highlighting the strategic importance of health-sector mobility.

F. EDUCATION COOPERATION

Education cooperation between India and the UK is thriving.

Education is a cornerstone of India-UK relations under the Roadmap 2030. In 2022-23, Indian student enrolment in UK universities surged to approximately 185,000, with a significant increase in student visas post-2021. The Mutual Recognition of Academic Qualifications Agreement (2022) and the establishment of UK university campuses in India further solidify educational cooperation.

G. PEOPLE-TO-PEOPLE EXCHANGES AND MIGRATION

The Migration and Mobility Partnership (2021) and the Young Professionals Scheme, which facilitates the annual relocation of 3,000 young graduates to each other's countries, support people-to-people exchanges. These initiatives enhance skill mobility and contribute to economic integration.

H. INDIAN DIASPORA AND ECONOMIC CONTRIBUTION

The Indian diaspora, comprising 1.864 million individuals, plays a pivotal role in strengthening India-UK relations. As per a Grant Thornton-FICCI report, Indian diaspora-owned companies generate £36.84 billion in revenue, contribute over £1 billion in corporate taxes, and support 174,000 jobs. This underscores their economic and social significance.

V. DIPLOMATIC AND STRATEGIC OUTLOOK AND ROADMAP 2030

A. INDIA-UK ROADMAP 2030

Launched in May 2021 during a virtual summit between Prime Minister Narendra Modi and UK Prime Minister Boris Johnson, the India-UK Roadmap 2030 serves as a long-term framework to strengthen the Comprehensive Strategic Partnership between the two nations. The roadmap emphasises cooperation in various sectors, including trade and investment, defence and security, climate and sustainability, technology and innovation, and people-to-people ties, with the aim of deepening bilateral engagement over the decade.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

B. STRATEGIC AND SECURITY COOPERATION

Defence and security cooperation are pivotal aspects of the roadmap, as India and the UK have expanded joint military exercises, collaborated on defence technology, engaged in maritime security, and actively participated in counter-terrorism efforts. These initiatives reflect their shared strategic interests in the Indo-Pacific region, contributing to regional stability and global security coordination.

Beyond these core areas, the roadmap also provides a glimpse into the economic, climate, and technological outlook for the future.

C. ECONOMIC, CLIMATE AND TECHNOLOGICAL OUTLOOK

Roadmap 2030 aims to align economic cooperation with climate action and technological innovation. Both countries have committed to expanding trade and investment, advancing clean-energy initiatives like OSOWOG (One Sun, One World, One Grid) and IRIS (Infrastructure for Resilient Island States), and deepening collaboration in critical and emerging technologies. The launch of the Technology Security Initiative (TSI) reflects shared priorities in areas like artificial intelligence, quantum technologies, semiconductors, and clean energy, supporting long-term economic competitiveness.

D. PEOPLE-TO-PEOPLE TIES AND LONG-TERM OUTLOOK

People-to-people connections remain a cornerstone of the India-UK partnership. With an Indian diaspora of 1.864 million, initiatives like the Migration and Mobility Partnership and the Young Professionals Scheme enhance labour mobility, skill exchange, and cultural ties. These linkages reinforce the diplomatic and economic foundation of the partnership and support sustainable long-term cooperation.

VI. CONCLUSION

In conclusion, the bilateral relationship between India and the United Kingdom has undergone a remarkable transformation. Initially, it was characterised by mercantile exploitation, but it has evolved into a comprehensive strategic partnership. The historical deindustrialisation of India, which led to a significant decline in its global GDP share from 16% in 1820 to 4% by 1947, has been replaced by a modern era of mutual economic interdependence. Today, Indian firms have become integral drivers of the UK economy, employing over 170,000 people. Conversely, the UK remains a top-tier investor in India's rapidly growing markets.

The 2025 Free Trade Agreement and the Roadmap 2030 reflect a shared commitment to navigating the complexities of a post-Brexit and post-pandemic global landscape. This

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

cooperation extends far beyond traditional trade, encompassing cutting-edge sectors such as artificial intelligence, quantum technology, and green energy initiatives like One Sun, One World, One Grid. Moreover, the strategic alignment in the Indo-Pacific and the deep-seated people-to-people links facilitated by the Migration and Mobility Partnership ensure that the relationship is anchored in both political necessity and cultural affinity. Ultimately, the India-UK bond has transcended the "patterns of dependency" that defined the colonial era, transforming into a dynamic and forward-looking alliance capable of shaping the global economic and security architecture.

To grasp this shift, it is helpful to consider the relationship as a bridge that once operated unidirectionally, primarily for resource transfer. However, it has been rebuilt into a multi-lane superhighway, where capital, talent, and technology flow seamlessly in both directions, supporting the growth and prosperity of both nations.

Bibliography

1. Wikipedia contributors. (2025). Economy of India under the British Raj.

2. Wikipedia contributors. (2025). Import substitution industrialization.

3. Maddison, A. (2003). The World Economy: Historical Statistics. OECD Publishing.

4. Office for National Statistics. (2025). UK trade in goods with India: Q4 2024.

5. Trading Economics. (2024). India exports to the United Kingdom.

6. Financial Times. (2017). Analysis of Brexit's economic effects.

7. Stanford University & University of Nottingham. (2018). Brexit uncertainty and business investment.

8. Office for Budget Responsibility. (2021). Fiscal Impact of Brexit.

9. Cambridge Econometrics. (2024). Long-term projections of Brexit effects.

10. Resolution Foundation. (2022). Impact of Brexit on the UK economy.

11. May, T. (2018). Brexit divorce bill estimates.

12. World Trade Organization. (n.d.). Dispute settlement in the WTO.

13. International Monetary Fund. (n.d.). Trade.

ISSN: 2455-8834

Volume:11, Issue:07 "July 2026"

14. International Monetary Fund. (n.d.). International Monetary Fund Overview.

15. High Commission of India, London. (2025). India-UK relations & Roadmap 2030.

16. Grant Thornton & FICCI. (2022). India in the UK: The diaspora effect.

17. Government of India (Ministry of Defence / Science & Technology releases-2023)

18. YourStory. (2024, June). Tata Group’s acquisition of British brands and companies.

19. World Economic Forum. (2025, May). UK-India free trade deal: What it means and what’s next.

20. High Commission of India, London. (2025). India-UK relations. Government of India.