Chapter 13
BREXIT and India: Challenges and Opportunities

Pradeep S. Chauhan

Abstract  BREXIT provides opportunities and also poses challenges to India. India–UK relations are both wide ranging and robust, encompassing a broad vision for the future supported by a concrete and comprehensive road map for bilateral and global engagement. High-level visits on both sides in recent times have provided an opportunity to further cement the partnership.

While the EU is among India’s largest trading partners, accounting for around 13% of India’s global trade in goods, the UK is ranked 17th in the list of India’s top 25 trading partners with India’s merchandise trade with the UK in 2017–18 estimated at US$14.5 billion with an additional US$7 billion trade in services. India enjoys a favourable balance of trade with UK. When it comes to investments, UK is ranked as the fourth largest inward investor in India, after Mauritius, Singapore and Japan, with a cumulative equity investment of US$26 billion since April 2000, accounting for around 6% of all foreign direct investment into India. India also is a major investor in the UK (4th largest). Around 800 Indian companies, with a total consolidated revenue of GBP 47.5 billion, have created over 105,000 jobs in the UK. The technology and telecom sector account for 31% of these revenues, with the pharmaceuticals and chemical sector accounting for 24%.

This study found that the Brexit would have not only impacted UK’s trade and investments with the EU but also its other trading and investment partners. Indian companies, many of which have invested heavily in the UK are likely to be quite severely impacted by a no-deal Brexit, particularly those companies that use the UK as a gateway to the European Union and Europe. Even companies that did not have a significant exposure to the EU felt the impact as a no-deal Brexit lead to a perceptible economic downturn in the UK. Major investors like the TATA group was already hedging their bets and exploring alternatives.

The study revealed that irrespective of a hard or a soft Brexit, UK has clearly identified India as a major partner, particularly in the post-Brexit era. The focus on
India by successive regimes and UK different ministries was a testimony to the value attached to India as a major trading and investment partner.

The present study reviewed and found that the UK and India share much in common and long and sometimes painful history has brought the two countries together through language, culture, and legal systems. How these factors, along with close ties in investment and education, and the presence of 1.45 million people of Indian heritage in the UK, revealed that the countries have a deep connection. The post-BREXIT era had opened many gates of opportunities. This era has created an atmosphere where both the countries have come closer and working closely in the area of trade, investment and movement of people, global governance, and security and defence.

The UK ceased to be a member of the EU from February 1, 2020 and is no longer part of the bloc’s institutions. Its departure took effect under the terms of the revised divorce agreement struck by London and Brussels in October 2019. The deal consists of a Withdrawal Agreement on the terms of departure, accompanied by a Political Declaration on future ties. The divorce terms in the Withdrawal Agreement cover matters such as the UK’s financial settlement, provisions for Northern Ireland, and safeguards for the rights of EU citizens living in the UK, and Britons living on the continent. Under the divorce deal, a transition period came into effect upon the UK’s departure and will run until December 31, 2020. During this period, many existing arrangements will remain in place.

The UK left the European Union now an economic and political partnership of 27 countries on January 31, 2020, ‘bringing to an end 47 years of British membership of the EU and the institutions that preceded it’. Attention has since turned to negotiating the future EU–UK relationship beyond a stand-still transition period that ends on December 31, 2020 heralding abrupt and major changes unless there is an agreement. Meeting this tight deadline was a huge challenge, even before the onslaught of the coronavirus pandemic which has overwhelmed both sides. But the British government has rejected calls to extend the transition.

‘Brexit’—‘the term used to describe Britain’s EU departure represents the most important constitutional shake-up the UK has known since it joined the six-nation European Economic Community in 1973. It is also the first time the European institution has lost a member first time’.

1 Review of Literatures

In the context of consequences of Brexit, ‘very few studies have been performed. Oehler et al. (2017) conduct event analysis study analysis to determine short-term abnormal stock returns following the Brexit referendum. They also examined whether firm-level internationalization helps in explaining abnormal returns. The study found that stock with higher proportions of domestic sales realized more negative abnormal returns than stocks of firms with more sales abroad’. Irwin (2015) ‘seeks to assess the evidence on the impact of Brexit on both UK and the rest of Europe. He analysed
the different channels such as Trade with Europe, FDI, liberalization and regulation, Industrial policy, Immigration, Financial services, Trade policy, International influence, Budget and Uncertainty. This report concluded that the biggest impact would be on the UK as compared to EU’. Dhingra et al. (n.d.) concluded that ‘economic consequences of leaving EU will depend on what policies the UK adopts following Brexit. They also revealed that Brexit will lower trade with EU and this cost to UK economy will far more than gain from lower contributions to the EU budget’. Reenen (2016a, b) predicted that ‘leaving the EU would reduce FDI inflows by around twenty two per cent and Brexit is likely to have the effect of significantly lowering FDI coming to UK’. In another study of Reenen (2016a, b), he evaluated ‘the long rung economic effects of the UK’s decision to leave the EU. He concluded that trade cost will arise with the rest of Europe resulted from some combination of tariff and non-tariff barriers. This study used standard multi country, multi sector, computable general equilibrium model which shows the welfare losses of 1.3–2.6% where dynamic models revealed the incorporate productivity effects suggests that these could rise to 6.3–9.5%’. Miller (2016) ‘discussed in his briefing paper various consequences in the different areas of Brexit such as Trade relations, economic impact, employment, agriculture, environment, Fisheries policy, energy and climate change, transport, Immigration, Human right and social security. He concluded that Brexit is favourable from the point of view of social security, freedom in policy-making, employment but there will be negative consequences of Brexit in the form of Trade, inflows of foreign direct investment, communication and mutual international development’.

2 The Scope of This Study

From the earlier studies, ‘it was found that so many studies have been done to evaluate the consequences of Brexit on UK and EU but very few studies are carried out to evaluate the impact of Indian economy especially in the context of trade, investment, defence and security sector. This study tries to fill the gap in the existing literature’.

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3 Background

While there has been a surfeit of reporting and analyses, on the reasons behind BREXIT, it may be useful to briefly touch upon the European project itself and the traditional British ambivalence towards it. With its genesis in the aftermath of the World War II, the European project was born out of a widely held belief that a more united Europe would not again fall prey to the large scale destruction and devastation that visited the continent in the wake of the two calamitous world wars of the twentieth century. However, the UK has always portrayed itself, at least domestically, as a reluctant member of the EU. You may recall that it declined to accept an invitation to join the European Coal and Steel Community, founded in 1951 by the Treaty of Paris. Subsequently with the formation in 1957 of ‘the European Atomic Energy Community (Euratom) and European Economic Community (EEC) set up under the Treaty of Rome the potential benefits of cooperation became apparent’. This coupled with the post-war recovery in Germany and France led to a rethink across the channel.

Notwithstanding two failed attempts in 1963 and 1967, UK did succeed in its third attempt in 1973 to join the EEC. By that time European cooperation had progressed to a customs union, eliminating all custom duties amongst member states. Within a year of EEC membership, UK started asking for major changes to agricultural and farm policies of the EEC that were more beneficial for countries like France. At this point, it may be useful to recall that the Norwegians had through a referendum in September 1972 scuttled Norway’s application for membership of the EEC. Hence the precedent of a referendum already existed. This influenced Prime Minister Harold Wilson to hold UK’s first referendum on EU membership on June 5, 1975 and even though the British public supported continued membership of the EU with 67% voting to stay and 33% voting for exiting the EU, within 2 years of entering the EEC, Britain was already exploring exit options. During the course of its membership of the EU, it often sought opt outs over issues like single currency, charter of human rights, justice and home affairs legislation, etc.
4 Impact of Brexit

The extent of impact of Brexit on the UK and indeed the EU will depend on whether UK exits with or without a deal. A no deal Brexit would mean that there would be no transition period after the UK leaves, and EU laws would stop applying to the UK immediately. Unless countervailing measures are taken, this could have disastrous consequences for the UK, while EU would not remain entirely unscathed.

There have been various doomsday scenarios envisaged, including in official documents in the UK, about such an eventuality. It was predicted that Dover port would close down in a few days and there would be disruption in freight traffic links; pharmacies in Scotland would run out of essential life-saving drugs in 3 days; food prices, especially of fresh vegetables and fruits would increase and there could be empty shelves and higher prices in supermarkets; air travel between the island nation and the continent would be disrupted in the absence of an enabling agreement; ‘UK students studying in the EU and EU students studying in the UK would face a period of uncertainty’; immigration controls at entry points into the UK would need to be strengthened immediately, with the current long queues at immigration counters in airports like Heathrow increasing manifold and so on. This is not an exhaustive listing of the severe impact that a no deal Brexit would entail but, just an indication of the disruption and chaos that could ensue. No business can plan ahead when there is so much uncertainty surrounding a nation. Brexit without a deal could plunge the UK into chaos and even a recession. The voices of concern of the Bank of England and others cannot be ignored. World leaders also have been cautioning against a hard Brexit.

Hundreds of multi-national companies, especially from India, Korea, Japan and China have invested in UK because of free access to Europe. They are looking at relocating in order to secure their future business and growth in Europe. Some already have ‘According to a Bloomberg report earlier this year, 350 British companies were in advanced talks with the Dutch Government to move their businesses to Holland in the event of a no-deal Brexit. Some Japanese, German, French and even British Banks were planning to move to Frankfurt. Sony and Panasonic have moved their headquarters to Netherlands’. All the rhetoric of business with Europe under WTO rules does not take into account the additional duties that would accrue on British exports.

5 Impact on India: Challenges and Opportunities

BREXIT provides opportunities and also poses challenges to India. India–UK relations are both wide ranging and robust, encompassing a broad vision for the future supported by a concrete and comprehensive road map for bilateral and global engagement. High-level visits on both sides in recent times have provided an opportunity to further cement our partnership.
6 Trade, Investment and Movement of People

While the EU is among India’s largest trading partners, accounting for around 13% of India’s global trade in goods, the UK is ranked 17th in the list of India’s top 25 trading partners with India’s merchandise trade with the UK in 2018–19 estimated at US$14.5 billion with an additional US$7 billion trade in services. India enjoys a favourable balance of trade with UK. When it comes to investments, UK is ranked as the fourth largest inward investor in India, after Mauritius, Singapore and Japan, with a cumulative equity investment of US$26 billion since April 2000, accounting for around 6% of all foreign direct investment into India. India also is a major investor in the UK (fourth largest). Around 800 Indian companies, with a total consolidated revenue of GBP 47.5 billion, have created over 105,000 jobs in the UK. The technology and telecom sector account for 31% of these revenues, with the pharmaceuticals and chemical sector accounting for 24%. The trade ties can be resumed to the extent when India was one of the three highest trade partners in 2000, now it is at 17th rank (Table 1).

Brexit will not only impact UK’s trade and investments with the EU but also its other trading and investment partners. Indian companies, many of which have invested heavily in the UK are likely to be quite severely impacted by a no-deal Brexit, particularly those companies that use the UK as a gateway to the European Union and Europe. Even companies that do not have a significant exposure to the EU will feel the impact as a no-deal Brexit will lead to a perceptible economic downturn in the UK. Major investors like the TATA group are already hedging their bets and exploring alternatives.

Both economies rely substantially on their service sectors and while both countries will focus on enhanced market access for their products and services, for India the importance of greater and easier access for skilled professionals, as well as students,

Table 1 UK rank as trading partner to India, and India’s total trade

Source House of Common, UK Parliament Report
would be important. The recent decision by the UK to revert to a 2-year post-study work visa for international students is a welcome development. However, much more needs to be done particularly with respect to easier access for Indian professionals such as doctors, engineers, those in the ICT sector, etc. India will continue to insist on Mode IV access in negotiating an FTA with the UK. This would not be easy given UK’s priorities.

Key opportunities for Indian companies post-Brexit could arise in the food and agro products sector since the UK is a net importer of food and food products from the EU. It produces about 25% of fruits and vegetables for domestic consumption. While 30% of its fruit consumption comes from Europe, around 80% of vegetables consumed in the UK is imported from Europe. Indian exporters would need to comply with the regulatory framework and accompanying phytosanitary requirements, depending naturally on what framework the UK adopts.

While London is undoubtedly one of the leading global financial centres and Brexit is unlikely to change that, it will face a huge challenge in case there is a flight of capital after Brexit. A number of Indian companies, particularly PSUs, have raised rupee-denominated bonds, popularly called masala bonds, in the London Stock Exchange. UK’s credit rating has been cut and given that most buyers of the bonds are from the EU, there is nervousness around these bond issuances.

India businesses have ‘presence in a wide array of sectors in the UK which include automobiles, auto components, pharmaceuticals, gems and jewellery, education and IT enabled services. Most of these sectors will be vulnerable to changes in demand and currency values’.

Britain’s exit from EU in 2019 could destabilize the steel industry which has enjoyed the protection of EU labour law and safety standards, as well as barriers to unfair completion from other countries. If a hard Brexit comes to fruition, those protections will no longer apply.

The trend of Gross Domestic Product (GDP) showed that the Indian economy will supersede UK GDP very soon (Table 2).

While there are numerous challenges there are also huge opportunities for Indian companies. A study carried out by the Commonwealth Secretariat after the Brexit vote has identified 13 new products which India can export to the UK. It has estimated market access of around $2 billion for these products. A well-negotiated bilateral trade arrangement between the UK and India has the potential to increase bilateral trade by 26%. In fact, the report says that ‘the UK and India can secure a far-reaching deal which will see the value of British exports to India rise from GBP 4.2 billion to GBP 6.3 billion, an increase of GBP 2.1 billion, or 33%. Imports from India by the UK will rise by around GBP 1 billion’. UK’s balance of trade could improve even though it may still be in favour of India.
7 Movement of People

Limits on the movement of people are a major constraint on UK–India ties. ‘Many Indian nationals come to the UK, and nine in every 10 Indian visa applications to the UK are granted. However, skilled workers, students, and tourists find the system unwelcoming, expensive, and difficult to navigate. This has hit key UK export sectors such as education and tourism, and Indian export sectors such as IT services’. The trend of students’ movement needed attention and there is a lot of potential to increase it (Table 3).

8 Security and Defence

The Indian Ocean: Despite these shared interests, the UK and India have sometimes diverged in their position towards China’s role in the Indian Ocean. ‘India is concerned about China’s growing influence in the region, including its investments in ports through the Belt and Road infrastructure initiative (BRI). New Delhi has called for connectivity initiatives to maintain standards of transparency, good governance, and respect for sovereignty’.

It is developing alternative initiatives ‘to meet the region’s infrastructure needs, including a joint proposal with Japan for an Asia-Africa Growth Corridor, and forging a deeper-relationship with neighbours’. India has joined Japan, Australia, and the USA in a revival of the Quadrilateral Security Dialogue, or ‘Quad, an informal
grouping that aims to defend a free and open Indo-Pacific—widely seen as a response to growing Chinese influence’.

In conclusion, it can be emphasized that Brexit does provide an opportunity to expand India’s trade and economic relations with the UK. Much will depend on the fine print of Brexit and the ensuing negotiations. The challenges that Brexit throws up have to be squarely addressed before an India-UK FTA becomes a reality. Even though the Indian economy may be in better shape than a post-Brexit UK, we will need to leverage our strengths so that the complementarities in our economies are harnessed. We need to work towards a win–win situation for both countries so that we are able to translate adversity into an opportunity for mutual prosperity.

The unfolding saga of Brexit will determine not only the contours of future economic engagement of both the nations but also its pace and content.

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**Pradeep S. Chauhan** is a well-known political economist. He has been visiting Professor to many world-renowned intuitions and University including University of Oxford, Paris School of Economics, University of California, Berkeley, USA, Aoyama Gakuin University, Tokyo etc. He is M.Phil. (Gold Medalist) and Doctorate in Economics. His illustrious academic career also includes a prestigious French Government Fellowship from the Government of France for which he pursued his research and teaching at Paris School of Economics, Paris. He has been Agatha Harrison Memorial Fellow at St. Antony’s College, University of Oxford for some years (2007–2010). Dr. Chauhan has already published 15 books. He is an expert in the development economics and Economics of Climate Change and the world economy. Dr. Chauhan has completed many research projects and has authored many quality research publications. He is a member of many national and international academic bodies. He has presented papers in many national and international conferences. He is currently Director Associated Research for France and South Asia Fellow at FMSH. He has completed many major and sponsored research projects. He has been honored with many national and international awards for excellence in academic research. He has been a Visitor (President of India) nominee to (Highest Governing Body) Executive Council of Central University of Haryana and member of Executive Council of Kurukshetra University, Kurukshetra. He is the Chancellor’s Nominee to many Universities for selection committees and academic bodies. He has been visiting Professor at University of California, Berkeley, California, USA. Recently, there is an Indo-Japan joint research collaboration, he is the Lead collaborator of this joint project. He has been appeared on national and international TV channels for debates and panel discussions. He wrote many articles in national newspaper and magazines. He has organized many national and international conferences.