

BREXIT & INDIA-UK BILATERAL TIES

Dr. Afeefa Fatima

Assistant Professor, Department of Commerce,
Lal Bahadur Shastri Girls College of Management (University of Lucknow),
Bajrang Vihar, Kursi Road Lucknow-226026
Email: afeefatima@gmail.com

Shaza Mahar

Azman Hashim International Business School, Universiti Teknologi Malaysia.

ABSTRACT

The word BREXIT has created stir across the globe since June 23, 2016 when UK announced its exclusion from European Union through a referendum in which all British citizens voted in favour of Britain's exit from European Union (EU). This historic decision created an atmosphere of uncertainty and anticipation across the globe. The economies around the world became worried about the implications of Brexit on trade, business, employment and immigration laws and India was no way different in the reaction. Owing to its long existing historic and cultural ties with the UK, India became more conscious about the repercussions of Brexit on its economy as well as its bilateral relations with the UK. In this paper an effort has been made to understand Brexit and its probable impact on India-UK bilateral relations. The data and information for the study has been retrieved from the secondary sources. Any historic event has both positive and negative implications but it is expected that Brexit may bring more opportunities than adversities for India.

KEYWORDS: Brexit, EU, UK, Trade, Bilateral Relations

1. INTRODUCTION

The European Union is a form of economic integration whereby two or more economies by signing a treaty agrees to reduce or remove tariff and other non-tariff barriers for free movement of goods and services, labour, capital or other mobile factors of production. There are 28 member countries in the unified European Union. After experiencing the aftermath of Second World War these countries have decided to form a unified entity so that harmony and peace may prevail and economic prosperity could be achieved. Since its inception EU has transformed itself into a single market with its own currency i.e euro which is used by 19 of its member states. It has its own parliament and commercial and economic policies governing trade and commerce. UK joined the union in 1973 with the same intention. But the relationship between EU and UK has not been much congenial. In the past, UK had made various efforts to withdraw its membership from the union. Eventually, the intention of Britishers to get separated from the EU has translated into reality on June 23, 2016 when UK announced to hold a referendum to withdraw its membership from the EU.

The term Brexit is made by merging two words Britain and exit. It is way of saying that UK is leaving the EU. Brexit is an outcome of a referendum i.e a vote in which British citizens of voting age took part to decide whether the UK should leave or remain in European Union. The newly elected PM of UK Teresa May has activated this process on 29 March 2017 and accordingly UK is scheduled to leave on 29 March 2019. However, the governments have agreed to a transition period after 29 March 2019 to 31 December 2020 (21 month) to devise post Brexit economic and political regime. Brexit has created an atmosphere of uncertainty across the globe and India was no way different in the reaction because of its strong economic relations with both EU and UK. However, nothing can be predicted with certainty before the finalization of this historic deal as such a treaty takes much time but many experts are in a view that after its exit from

EU, UK will try develop trade relations with emerging markets of commonwealth countries. In such a scenario, owing to its long existing trade and economic ties with UK, India may strengthen its bilateral relation with its oldest partner. Although the share of UK in India's total trade is stagnant from past several years but other than trade in goods & services, investments, cross border supply chains, education and skill sector, innovation and technology sector are the name of a few promising areas where both the countries have complementary capacities. The uncertainty associated with Brexit may have severe repercussions on all the economies worldwide as both EU and UK have strong relations with almost all of them. India too maintains deep bilateral ties with EU and UK both, but the share of EU in India's total trade is far more than that of UK. Although when it comes to investments, India invests more in the UK than in the rest of the EU combined. It is expected that Brexit would create a profound impact on India's bilateral relations with EU and UK both.

So far a number of studies have been performed to assess the impact of Brexit on global economy. Irwin G. (2015) devoted his study to assess the impact of Brexit on UK and rest of the Europe and analysed factors like trade, FDI, industrial policy, financial services, immigration, trade policy, international influence, budget and uncertainty and their impact on EU- UK economic relations. He concluded that the impact of Brexit would be more on UK as compared to EU. Banga R.(2016) performed her study on impact of potential FTA between India and UK and concluded that trade between India and UK might increase by 26% if an FTA could be finalized between these two countries. Most of studies have been done to analyse the impact of Brexit on EU-UK economic relations but very few studies have been done so far to analyse the impact of Brexit on India and its relations with UK, therefore this study has been performed to assess the likely impact of Brexit on India-UK bilateral relations. The data for the analysis has been retrieved from the secondary sources, official websites and various reports published by the institutions like Ficci, KPMG and EPG.

1.1 Objective

The purpose of this paper is to provide an understanding about the Brexit and to assess the probable impact of Brexit on India-UK bilateral relations.

2. METHODOLOGY

The paper is descriptive in nature and throughout the discussion a narrative approach has been adopted. Data and information for the study has been retrieved from the published sources. It includes web articles, research papers, official dialogues and speeches of government officials, reports of various government as well as private sector institutions.

3. DISCUSSION AND RESULT

Brexit is an abbreviated term that is used for Britain's proposed exit from the European Union. This phenomenon is similar to the Grexit i.e Greece's possible withdrawal from the euro zone, which made frequent news headlines from 2012 to 2015 and occasionally thereafter. On 23 June 2016, UK held a national referendum in which British citizens voted to leave the European Union. Around 3.35 crore people took part and casted their votes in this brave campaign. Out of this 51.9 per cent voted in favour of UK to exit from the EU. The country has exercised its right of withdrawal as per the Article 50 of the Lisbon treaty. According to which, any country that intends to leave EU must formally notify the European council. It takes two years of negotiation period between the EU and the leaving country to agree on the terms of split. During these two years, the EU laws will continue to apply for the leaving country as in the past. In case no agreement is reached at the end of two years (transition period) and the remaining EU members didn't decide to extend the negotiation period, EU rules and rights will stop applying on the leaving country. Before this referendum UK had many attempts to withdraw its economic membership with the European Union. The earlier governments of UK had announced many times their intention to hold a referendum campaign. On 29 March 2016, UK finally announced to hold a referendum to decide on leave or remain in the EU. This referendum on Brexit has been announced considering the following factors:

3.1 Membership fee

Britain has to pay millions of pounds as membership fees for being the member of EU. The propagators of the leave campaign were in a view that Britain is losing out of this deal as a hefty amount in the name of contribution is being paid by the UK for EU budget.

3.2 Sovereignty

British citizens were in opinion that European parliament is extremely beurocreatic in nature and being a member of EU, UK is bound to follow up the legislation formed by the union which does not serve the interest of Britishers.

3.3 Migration

Another reason behind Britain's proposed exit from the EU was the migration of EU residents into the UK. Being a member of EU and due to the free movement policy, a huge number of immigrants (3.3 lakh) comes to Britain as students or job seekers. British citizens felt that the immigrants from the European countries create an imbalance in welfare schemes of the UK government. The newly elected PM of UK Teresa May has activated this process on 29 March 2017 and accordingly UK is scheduled to leave on 29 March 2019. However, the governments have agreed to a transition period after 29 March 2019 to 31 December 2020 (21 months) to devise post Brexit economic and political regime. After Brexit UK may opt for any of the following exit scenarios.

NORWAY Model (EEA member)	SWISS Model (EFTA member)	TURKISH Model (Customs Union)	Free Trade Agreement	Independent WTO member
*Participation in the EU internal market but no access to EU FTAs * Member of EFTA *Free movement of goods ,services, people & capital *Not part of EU VAT area *Certain principles of EU laws apply(i.e regulation & employment) *9% reduction in UK contribution to EU budget	*Participate in EFTA free trade agreement s *Not part of EU VAT area *Negotiate a bilateral agreement with EU * 55% reduction in UK contribution to EU budget *EU concerns about cherry picking	*No tariff barriers with EU as UK adopts EU product market regulations *UK required to implement EU external tariffs. * Not part of EU VAT area. *No contribution to EU budget.	*Negotiate bilateral trade agreements with EU and other major trading partners. * Not part of any customs free trade area ir trade association. *Not part of EU VAT area. *UK to be excluded from FTAs agreed by the EU and the EFTA *No contribution to EU budget.	*Not part of any customs trade area or trade association. *Not part of EU VAT area. * Negotiate bilateral trade agreements trading partners. *UK to be excluded from all FTAs agreed by the EU and the EFTA. *No contribution to EU budget.

Source: Adopted from the KPMG report 2016.

4. BREXIT AND INDIA

Brexit is one of the biggest global macroeconomic event that its implications can be observed across the globe. Regardless of the outcome of Brexit that is scheduled to occur on 29 March 2019, India needs to foresee the opportunities arising out of such an uncertain environment. Therefore the government and the private business sector of India should weigh the potential benefits emerging out from the current uncertain environment. Various media campaigns and reports have suggested that the impact of Brexit on Indian economy would be minimal at least in the short run. So here an effort has been made to analyze India-UK bilateral relations in order to understand the current and potential impact of Brexit on India-UK bilateral relations.

4.1 Impact on Trade

As far as the trade between these two countries are concerned, the pattern of trade between India and UK has not been so encouraging from the past several years. The share of UK in India's total trade is still dwindling around 2% to 3%. However, in value terms, India's trade with UK is increasing from past several years and India is enjoying a positive balance of trade with UK (since 2004).As per the database of Office of National Statistics (ONS), UK's total exports to India amounted to be £5741 million in 2016 that accounts for 1.1 % of total Indian imports from UK. Top items imported from UK to India are Nuclear reactor boilers, machinery etc, pearls and precious stones, metals coins etc., electrical & electronic equipments, iron & steel, pharmaceutical products etc . India imports mainly machinery from UK as the share of machinery was 28% of all the goods imported from UK into India in 2016. When it comes to service exports from UK to India, services valued £ 2038 million had been imported by India in 2016. Travel, Transport and Telecommunication services were among the top three services imported from the UK. The value of India's total exports to UK was around £6369 million (6.4 billion) in 2016 while the share of UK in India's total exports was around 1.4% during the same period. The top most items of exports from India to UK were readymade garments including articles of apparels, accessories, knit or crochet etc. Among the service exports business services occupied the top position among the major

services exported from India to UK. Business services alone accounted for around 65% of India's total exports of services to the UK. In post Brexit scenario, it is expected that business firms producing these goods may face some challenges in short run. However, industry experts and analysts are in a view that the impact of Brexit would not be much substantial at least in the short run with exceptions to some industries. A sizable number of Indian business firms are operating in UK and rest of the Europe. UK has also been considered as a gateway to enter into Europe as many Indian firms export and import from UK to other EU member countries. An exit of UK from the unified economic union will create a lot of uncertainty within Europe but it might open up many opportunities for Indian investment sector. Following industries might face some challenges due to Brexit.

- **Textile and Apparel industry:** Readymade garments are one of the chief export item to UK from India. UK accounts for nearly one fifth of India's exports of readymade garments and other articles of apparel. It is expected that this sector may experience a pinch due to moderation in demand following the uncertainty caused by Brexit
- **Automobile and Auto component Industry:** India is a major exporter of auto components to EU comprising about 36% of India's total exports of auto component. The giant auto component manufacturers like Motherson, Sumi Mahindra CIE, Bharat forge etc. are likely to get impacted more as experts are in view that the slowdown in EU's economy after Brexit will decrease the sales of automobiles and therefore a negative/adverse impact of Brexit on auto component manufacturing industries of India.
- **Pharmaceuticals:** The share of UK in India's total exports of pharmaceutical products account for 3-4% hence the impact of Brexit on this sector is expected to be minimal. Moreover, the rules, regulations and registration process for pharma products are completely different for UK and EU. Therefore, a negligible impact could be observed on exports of pharmaceutical products to UK.
- **IT industry:** India is one of the largest exporter of IT enabled services to European market. UK accounts for about 11% of market share of Indian IT services. The IT sector of India is expected to suffer a lot as a substantial share of this market goes to European market especially to UK. Many Indian companies have their headquarters in UK and perform their business across the EU. These companies might feel pressure due to weakening of currency i.e Euro and Pound against USD. The shares of such companies fell badly as a result of referendum.

Considering the current economic situation of UK economy and its economic relations with India it is also predicted that if a free trade pact between them could be finalized it might bring many potential benefits to both of them. India's exports to UK are subject to economic and commercial laws of EU that adversely affect India's trade performance with UK. The European union has always been extremely protectionist while forming its trade and commercial policies towards non-EU countries. It has an important bearing on UK's trade relations with other countries. Moreover India is negotiating its FTA with EU since 2009 but still it is not finalised. In post Brexit scenario it is expected that a free trade pact between India and UK could be finalized that will surely match the interest of both the countries and definitely would help to boost their bilateral partnership. Till now India has signed a number FTAs with its neighbouring countries but no such a deep pact has been signed with western world. It would be easier for India to enter into a free trade agreement with UK as it already has deeper collaborations in the areas of trade, technology and science. So far a number of initiatives like the joint Economic and Trade committee (JETCO), The Joint Trade Review, UK India Education and Research Initiative (UKIERI), Newton Bhabha Fund, UK-India Tech Partnership etc have been taken up by both the countries. In this context it is expected that if an FTA between India and UK could be finalized it might give a boost to bilateral trade and investment partnership between them. According to Rashmi Banga (2017), if a free trade agreement between India and UK could be finalized trade between India and UK might get increase by 26% per annum. Potential increase in India's export to UK is estimated to be 12% while that of import is 33% per annum.

4.2 Impact on Investment

Bilateral investment linkages play an extremely important role to form the economic relations among the partner countries and as such FDI has been an integral part of the economic relationship between India and UK. India is one of the most lucrative markets attracting FDI from UK and UK is the third largest FDI source for India after Mauritius and Singapore. Not only FDI but also a number of joint ventures and technology transfer agreements have been finalized between these two partners so far. As many as 800 Indian firms are operating in UK employing more than 11000 people of UK. Top sectors attracting FDI from India to UK are chemicals excluding fertilizer, pharmaceutical and drugs and food processing sectors. Following table shows the total FDI inflows to India from all countries and from UK between period 2004-05 and 2015-16.

Table 1: FDI Inflow between India and UK

Years (April to March)	FDI equity inflow from all the countries to India	FDI equity inflows from UK to Indian	FDI equity inflows from UK as a percentage of total FDI inflows (%)
2004-05	3219	101	3
2005-06	5540	266	5
2006-07	17577	1878	11
2007-08	24579	1176	5
2008-09	27330	864	3
2009-10	25889	657	3
2010-11	19430	2711	14
2011-12	28266	7874	28
2012-13	22423	1080	5
2013-14	24299	3251	13
2014-15	31984	1447	5
2015-16	40001	898	2
2016-17	35884*	1266*	4
Cumulative Total	306381	23469	8

Source: DIPP, Ministry of Commerce and Industry, Government of India.

* Due to unavailability of data on FDI equity inflow of UK (from 2000 to 2003) in DIPP data base, data from 2004 onwards.

*(Data for the year 2016-17 is from April 2016 to December 2017)

The table shows that the investment ties between India and UK has flourished during the period as UK accounts for 8% of all the foreign direct investment into India. An exit of UK from the EU may create a lot of uncertainty within Europe but it may open up many opportunities for Indian investment sector. After Brexit it is expected that economically shattered EU and UK being major trade partners of India would definitely try to strengthen their ties with their old trade partners. Considering its flourishing investment relations with India, UK would not want to lose out on capital coming from India into UK. Post Brexit, Britain would try to establish new trade pacts with other emerging economies of commonwealth for labour and capital requirements. India being a commonwealth country may fetch much benefit from the deregulated and liberalised UK economy in terms of incentives like tax breaks and other financial incentives. It is expected that post Brexit UK firms might look towards its old investment partners till a clear economic policy has not been devised by the UK about its future relations with EU member countries.

4.3 Impact on Immigration

Another significant impact could be observed with regard to immigration and movement of natural persons from EU and other non-EU countries to UK. The higher education sector of UK is considered as an attractive and highly valued destination for higher education, research and innovation by both EU and non-EU members alike. Not only world class institutions of higher education and research but post education working conditions are also extremely conducive for students coming to UK. Migration has always been a key discussion in the Brexit debate because of its diverse working population. Indians are the largest overseas population among the non-EU citizens who are either studying in UK universities or providing their services in UK's business sector. Post Brexit, UK will be desperate to develop its relations with other emerging economies for its capital and labour requirement to rebuild its economy. Experts are in the opinion that commonwealth countries could be benefited if UK establishes new alliances with these countries. India being a pool of talented English speaking population could reap benefits of this opportunity. Moreover, Indian workers are known for their hard work, intelligence and diligence that could help them to acquire better positions in UK enterprises.

As per the figures released by the Office of National Statistics (during the year September 2018), around 55% of all Tier 2 (skilled) visas were granted to Indian professionals depicting a growing demand of Indian professionals into UK. Similar trend was also observed in the number of Indian student's enrolment (33%) in UK universities during the same period. Indians were the second largest international student population in UK after China but between 2013 and 2017, the number of Indian students fell down to 26% because of the post study visa norms. But still, India sends the fourth higher number of students to UK. The UK's Home Minister Sajid Javid has said in a white paper published on December 19, 2018 that UK will not give preferential treatment to EU students rather it would follow a "skilled based" immigration system. This would surely pave the way for many non-EU foreign students especially from India and China to get enrolled with UK institutions and universities. It is expected that not only Indian students but Indian professionals too

will be benefited with the current visa norms. As per the new visa rules, Indian students studying in British universities will be given a six months post study leave to find placement in UK. For PhD scholars, post study leave will be granted for one year. Earlier the number of work visas available for skilled immigrants was limited to 20700 but under the new rule this cap will be removed to provide more access to skilled immigrants into UK. The professionals (IT professionals and Doctors) from India can expect better opportunities to work in UK considering the current visa norms.

5. CONCLUSION

Brexit is a global economic phenomenon and therefore its impact on global economic growth is inevitable. India being a strong trade & investment partner for UK, may face repercussions of Brexit on its economy. However, it will be too early to assess the impact of Brexit on global economy and India as well. Unless a clear policy response from UK is spelled out, nothing can be predicted with certainty. Considering India's bilateral engagements and its thrust for technology, innovation, entrepreneurship and flourishing investment ties with UK, it can be predicted that its trade relations with UK would be enhanced in post Brexit era. After leaving EU and gaining sovereignty, UK would try to strengthen its relations with the existing trade partners of commonwealth countries. Moreover, it is also expected that if a Free Trade Agreement between India and UK could be finalized the bilateral trade and economic relations between these two economies would surely be enhanced.

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