How will Brexit affect India?

- A snap analysis by CUTS International

1. On 23 June, 2016, the people of the United Kingdom voted on the referendum to decide if Britain should continue to remain part of the European Union (EU) or not. The majority wants Britain to leave the EU. The British Pound was the first casualty and suffered the biggest intra-day fall ever since 1985, of close to 10 percent.

2. Trade: India currently enjoys a positive trade surplus of around US$ 3.64 billion with the UK. The depreciation of the British Pound will differently affect exporters and importers. However, that will be very short-term phenomenon. In the immediate future, there will not be any impact on India's trade with the UK. In the medium to long-term, India's export to the UK is expected to increase as there may be trade diversion in favour of India from other (remaining) EU countries. Similarly, India's import from the UK is expected to increase as there may be more incentive to British exporters to further explore the Indian market. Overall, there will be trade creation for India.

3. India will need to negotiate agreements with EU and Britain separately. At present, India's trade with Britain stands at around US$ 14 billion, which is more than the rest of Europe put together. Britain's exit could also mean Britain and EU could compete for trading with India and enter into long term relationships, by resolving pending issues. It is expected that the EU will take a more favourable look to complete its negotiations with India to conclude the EU-India Bilateral Trade and Investment Agreement. However, India would like to first initiate and conclude a trade and investment agreement with the UK and then will consider concluding its BTIA with the EU.

4. Investment and Capital Flows: Indian Foreign Minister Sushma Swaraj noted that UK was India's gateway to the EU as around 800 Indian firms operate from Britain, for easy access to the EU. EU leaders have already suggested that with Brexit, India will be treated as a third party and will need to engage with EU to gain access. This could adversely affect Indian companies as local office in London might no more mean being present in/having access to EU. Consequently, they will have to revisit their business strategies and consider relocation. On the other hand, with Brexit and expected depreciation of the British Pound, in future, Indian investors in the UK may get a more favourable treatment. Similarly, British investors may like to divert their investment to India and other such countries where they expect to get better returns. The UK may look at India's investment regime more favourably than the EU. Overall, there will be investment creation for India and strengthening of the capital markets between India and the UK.

5. Migration: With Brexit, the UK will no longer be obliged to offer quota-based jobs to the citizens of the EU countries. This will open up the market for skilled and semi-skilled labour. Overall, there will be employment creation for Indian and Commonwealth country migrants, including temporary workers, in the UK.

6. Overseas Development Assistance: The UK will no longer be required to tie-up its ODA to the EU's rules, regulations and directives. It is expected that the UK will divert its ODA to Commonwealth countries as a strategic measure. Overall, it is expected that there will be more direct assistance to Indian organisations for their research and development work in India and other Commonwealth countries. Bilateral funding to GOI has stopped already.

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