Deloitte.

BREXIT – Trigger for larger things to come?

Discussion on consequential scenarios: Focus on India

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Background

June 2016 will be remembered in posterity for one of the major global event risks materializing – a British referendum to exit the European Union (EU). This result was unexpected by most quarters of the market and there was an immediate negative reaction seemingly driven by sentiments. Since then, developments have been more in line with broader market consensus as policy makers have expressed their willingness to extend full support to the economy. In fact, the Bank of England has already loosened its monetary policy and is probably going to do more in the coming days to avoid any unnecessary collateral damage. The UK government could also go in for a more pragmatic fiscal policy given that the growth of the economy will likely take a hit.

Markets have remained broadly stable and have reacted on expected lines with adequate capital making its way towards safe haven assets. The initial reaction in the markets was of shock and resulted in steep declines in the equity markets and strengthening of the USD. However, since then levels of risk aversion have reduced and equity markets across the globe have done well along with a rise in price of most sovereign bonds. The biggest negative effect has been felt on the currency markets as the GBP has fallen by around 11% versus the USD. While not completely unanticipated, this does show the investors' concern over the future of the UK markets.

Still, the true ramifications of BREXIT will take months, if not years to become apparent. While there are a number of possibilities that can play out in the coming months, it is important to take a step back and gauge the impact on the Indian economy through its linkages with UK and the broader EU economy.

A look at trade

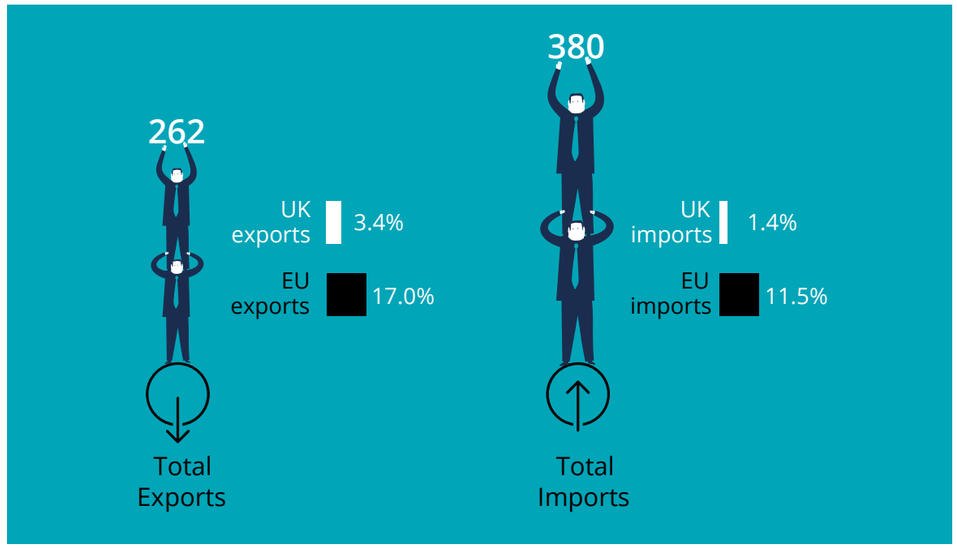
The UK and the EU are both important trading partners for India, and both are committed to enhance their trade flows in the near future. According to data released by the Ministry of Commerce, UK-India bilateral trade was valued at USD 14.02 billion in FY16, and EU-India trade (including UK) was valued at USD 88.56 billion in FY16. Further, exports to the UK and the EU were worth USD 8.83 billion and USD 44.62 billion, whilst imports were worth USD 5.19 billion and USD 43.94 billion, respectively.

Trade between UK-India and EU-India is an area of focus as all parties are striving to increase trade. Infact, trade deals and negotiations were being discussed even before the referendum took place.

The UK used to be India's third biggest trading partner 15 years ago; today it is its 12th[1]. Also, the UK is one of seven countries with which India has a trade surplus. Negotiations with the EU are currently being held regarding Free Trade Agreements (FTAs)[2], which will likely provide a boost to bilateral trade between nations.

India's imports from the UK are largely dominated by precious metals and stones, boilers, machinery, and mechanical appliances, iron and steel, and electrical equipment while exports to the UK are led by apparel and clothing accessories, boilers, machinery, and mechanical appliances, precious metals and vehicles.

Indian Merchandise Trade in FY16 (in USD billion)



Source: Ministry of Commerce and Industry, India.

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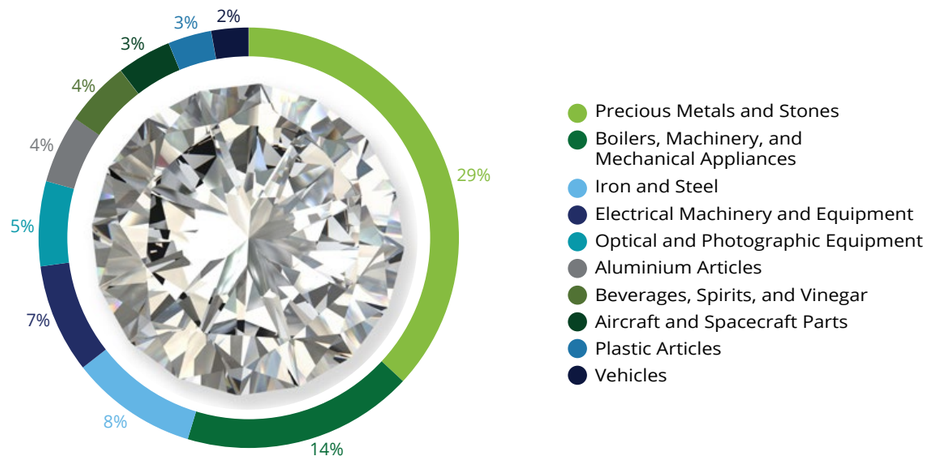
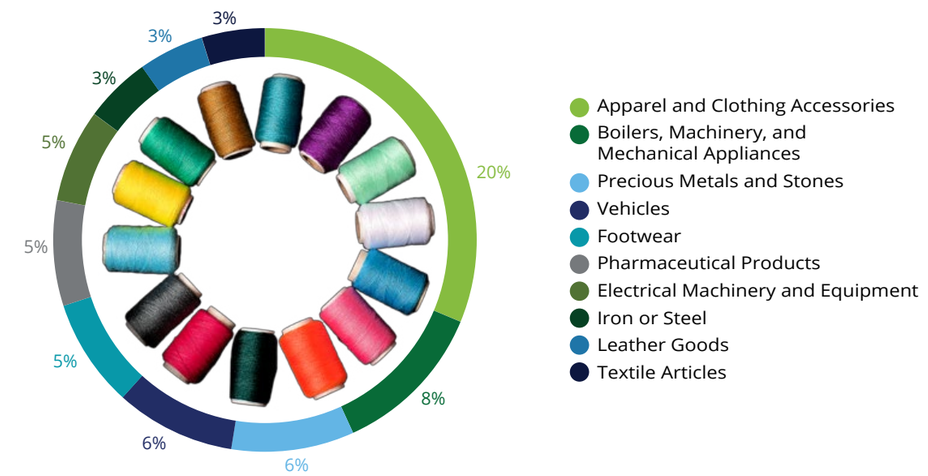
Top Indian Merchandise Imports from the UK in FY16 (as % of total Indian merchandise imports from the UK)



Source: Ministry of Commerce and Industry, India.

Top Indian Merchandise Exports to the UK in FY16 (as % of total Indian merchandise exports to the UK)

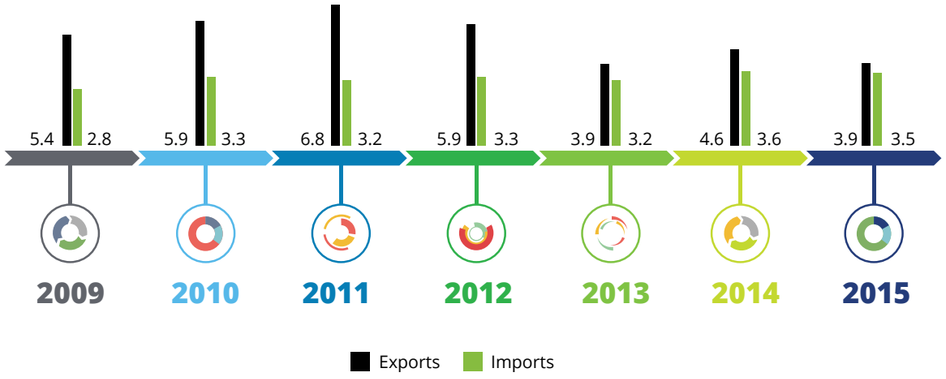


Source: Ministry of Commerce and Industry, India.

Trade in services

While the bilateral trade relationship between UK and India is dominated by goods, services also form an important part of the equation. As such, the trade in services has declined over the last five years as India exported around USD 6.8 billion and imported around USD 3.16 billion in the calendar year 2011. However, since then imports have increased to USD 3.5 billion while exports have declined and stand at approximately USD 3.9 billion for calendar year 2015.

India-UK Services Trade (in USD billion)



Source: Office for National Statistics, UK.

According to the latest available data on the break-up of trade in services, Indian exports are dominated by travel followed by other business services. Telecommunications, computer, and information services form around 22.8%, possibly because of the fact that UK companies are using contracted telecom services from India, and financial services account for 2.3% of our total exports of services. A closer look at the imports of services shows that again travel forms a major part of the pie accounting for 36.9%, while transportation and telecommunications, computer and information services account for 14.7% and 14.5% of the total imports, respectively.

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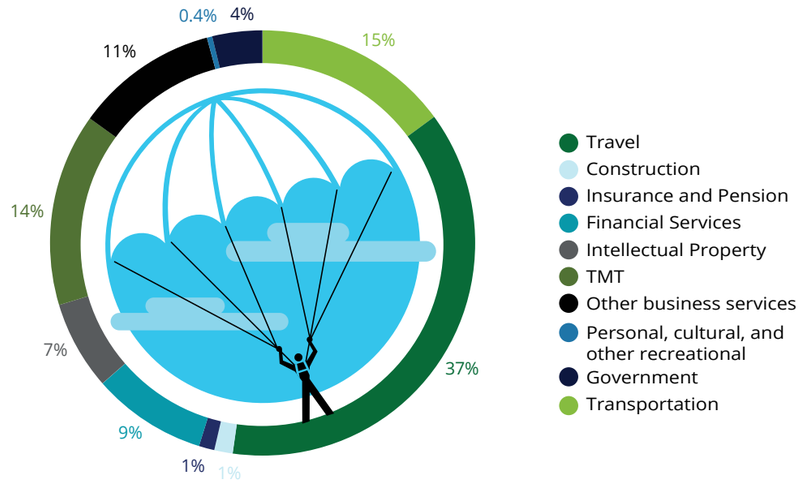
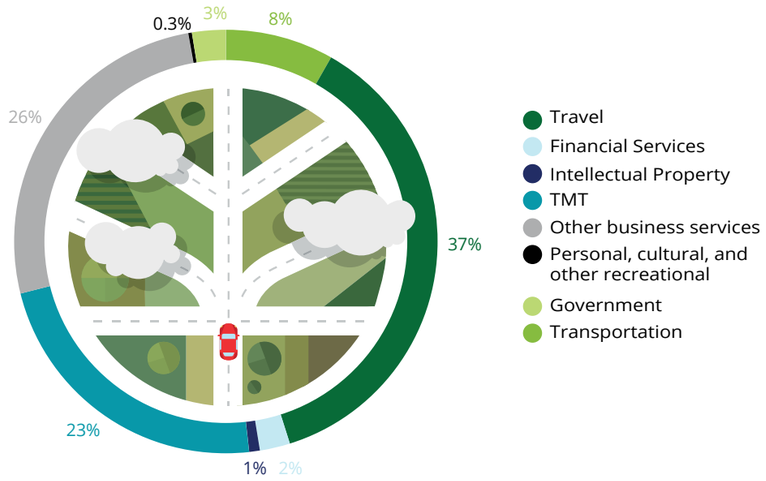
Top Indian Services Imports from the UK in CY14 (as % of total Indian Services Imports from the UK)



Source: Office for National Statistics, UK.

Top Indian Services Exports to the UK in CY14 (as % of total Indian Services Exports to the UK)



Source: Office for National Statistics, UK.

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A closer look: Significance of the UK for Indian businesses and industries

Before looking at the industrial interconnectedness, it is important to note that businesses will be affected in two possible ways.

01. Currency weakening: The GBP is likely to remain weak and may depreciate versus the USD as the UK is a current account deficit economy. As such, it needs investment flows to fill the gap. This weakening is likely to affect companies that earn in GBP.

02. Growth impact: The impact of the BREXIT vote will be felt over the coming years, and there is likely to be a slowdown in growth of the UK economy. This slowdown may not only be limited to the UK but also to the EU region as uncertainty on future prospects is likely to hold back investments for businesses and consumption for households. In essence, firms that have exposure to the UK, and the EU economy at large are likely to get negatively affected by this development over the next few years.

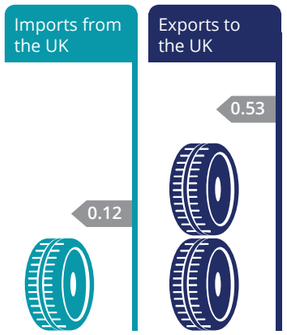
Moving on to the specific industries, we note that a number of businesses have established offices in the UK, but we limit ourselves to the data available and look at how different sectors are connected via trade.

Consumer & Industrial Products: Manufacturing, Consumer Products, Retail & Distribution, Travel, Hospitality, and Leisure: The consumer and industrial products sector is vast and has significant amount of exposure to the UK economy. Negative shocks to growth could have repurcussions for the sector. For example, following the BREXIT vote, Indian auto stocks lost almost 10% of their value as a number of the companies get a major share of their revenue from the UK and EU[3]. The UK accounts for almost 4% of all auto exports and the EU accounts for almost 16% of auto exports. In fact, for companies in this sector that have manufacturing units in the UK, the access to the single market is important as their products can get artificially uncompetitive if they had to pay import duties. That said, these units´ profitability may get affected due to the lower value of the GBP. While in the near term their products become cheaper, repatriation of funds may fetch lower amounts.

The travel and tourism sector will also likely be largely affected by the BREXIT developments as it is directly affected by currency fluctuations. As such, it could get a boost as the UK economy gains competitiveness via a weaker currency. Further, the garments sector has a large exposure to the UK and is the top export to the UK. Indian garment exporters have witnessed some slowdown in demand[4] and could see lower levels of sales due to a slowdown in growth.

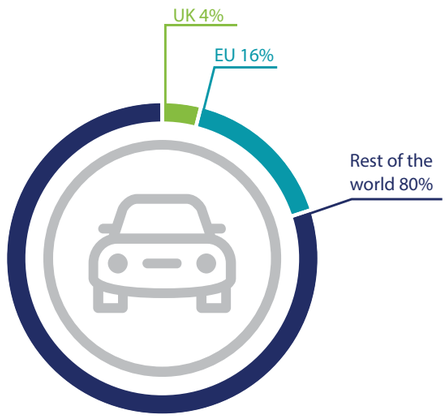
Overall, the event is likely to have negative repercussions for the mentioned industry as growth in the UK and the EU may both get hit. The problem of slowing sales could get compounded by issues of a weaker currency.

Indian Automotive Trade with the UK in FY16 (in USD billion)



Source: Ministry of Commerce and Industry, India.

Indian Automotive Exports in FY16 (as % of India's total automotive exports)



Source: Ministry of Commerce and Industry, India.

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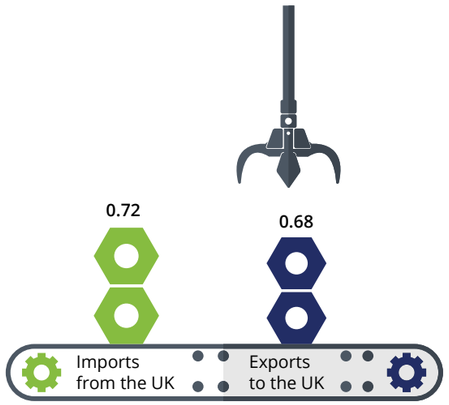
Energy & Resources: Oil & Gas, Power & Utilities: UK-India bilateral trade of boilers, machinery, and mechanical appliances was worth USD 1.4 billion in FY16 and is both the second largest import, and export of India with the UK. Given the shock to the UK economy, we do not expect any major uptick in global demand and further expect only a gradual increase in crude oil prices dependent on demand-supply dynamics. Every USD 1 drop in crude prices is estimated to amount to savings of around USD 1 billion in India's oil import bill and could help the downstream companies[5].

A slowdown in global demand means lower commodity prices for a longer duration and given the fact that the domestic economy will remain a net importer in the foreseeable future, it augurs well for manufacturers and energy companies.

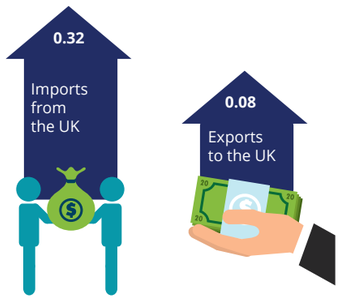
Financial Services: Banking & Securities, Insurance, Investment Management & Real Estate: Financial services, banking, and real estate are among the largest service sectors in the UK, which are directly affected by the currency fluctuations. These sectors could endure some negative effects as businesses could hold up decisions to invest further on account of ambiguity in trading rules between the UK and the EU. Further, depending on which way the negotiations go between the UK and the EU, London's status as one of the world's largest and most prominent financial hubs may be affected. This can cause Indian firms to reassess their operations in the UK and move investment and ties someplace else, which in turn could also affect the flow of Indian personnel to the UK.

Boilers, machinery, and mechanical appliances Trade with the UK in FY16 (in USD billion)



Source: Ministry of Commerce and Industry, India.

Indian Financial Services Trade with the UK in CY14 (in USD billion)



Source: Office for National Statistics, UK.

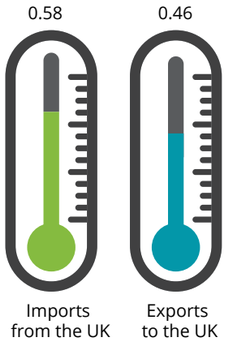
Life Sciences & Health Care: Health Plans, Health Care Providers, Life Sciences: India's pharmaceutical sector has significant exposure to the UK, as it exported USD 0.46 billion to the UK and a total of USD 1.51 billion to the EU.

Indian Pharmaceutical Exports to the UK and the EU in FY16 (in USD billion)

Source: Ministry of Commerce and Industry, India.

Mid-to-large tier pharmaceutical companies have exposure to the UK economy and a hit to demand in the UK and the EU is likely to have negative effects on profits and sales.

Indian Pharmaceutical Trade with the UK in FY16 (in USD billion)

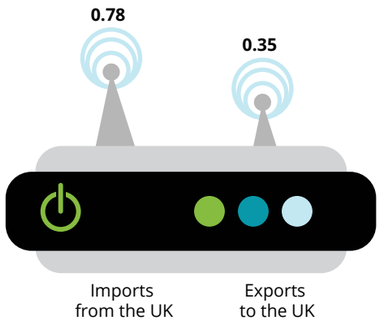


Source: Ministry of Commerce and Industry, India.

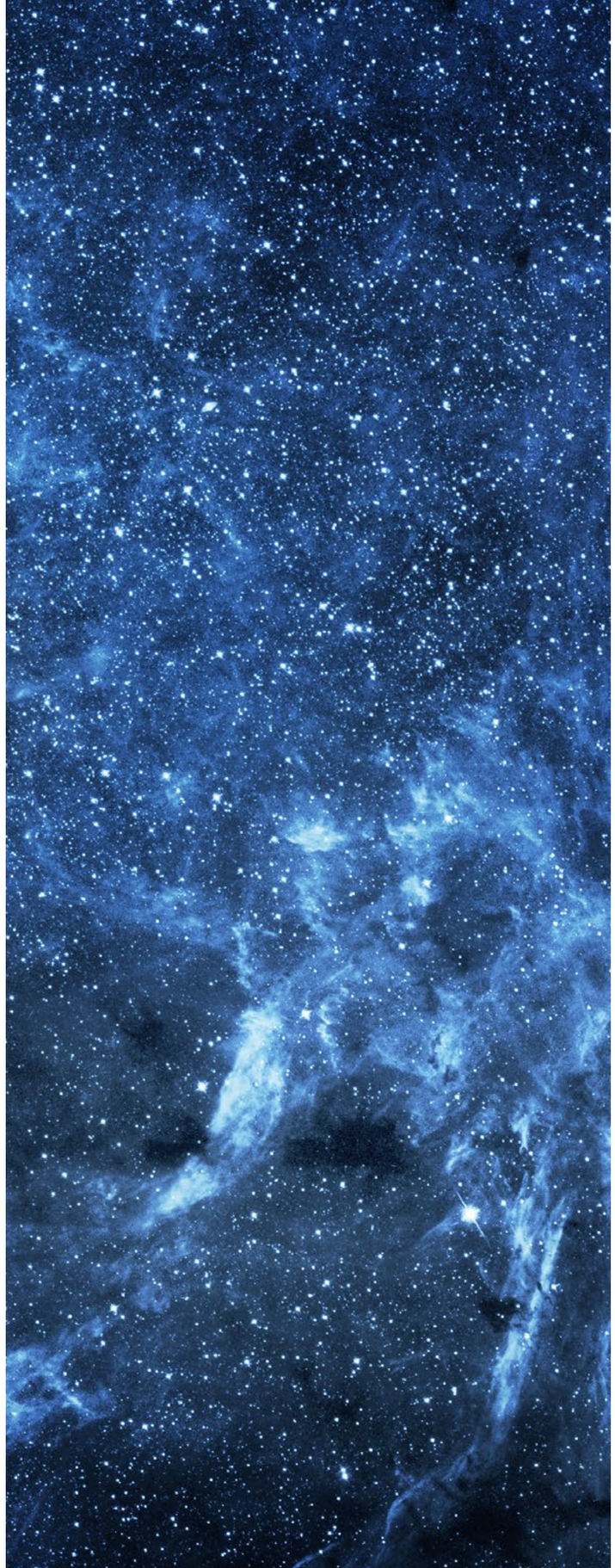
Technology, Media and Telecommunications: Technology, Media & Entertainment, Telecommunications: India's IT sector has a huge presence in the UK, and therefore is one of the most vulnerable sectors in terms of how BREXIT plays out. Many IT companies have their EU headquarters in the UK and use the country as a gateway for business across the EU[6]. Indian IT firms operating in the UK have between 7%-13% exposure to GBP-denominated revenues (20%-30% each to EUR), and will likely witness some operating-profit margin pressure as the EUR and GBP weaken against the USD[7]. Shares of numerous key Indian IT players fell following the result of the referendum[8].

As we look at the impact on various sectors, it is important to understand that these effects will vary with the kind of negotiations the UK government has with the rest of the EU. So, while Britain has decided to exit the EU, the question of how that plays out both politically and economically assumes significance.

Indian Telecommunications, computer, and other information services Trade with UK in CY14 (in USD billion)



Source: Office for National Statistics, UK.



Article 50 – The Lisbon Treaty[9]

The formal and legal process for any country to withdraw from the EU comes under Article 50 of the Lisbon Treaty. The government of the country wishing to withdraw from the EU must formally notify the European Council of its intention to leave the EU, which triggers a two-year process for the remaining EU members to negotiate an alternate arrangement between the leaving country and the EU. During these two years, EU laws continue to apply for the leaving country as in the past. In case an agreement is not reached at the end of the two years, EU rules and rights stops applying to the leaving country, unless the remaining EU members unanimously decide to extend the negotiation period. Essentially, the remaining EU members take a unanimous decision on the alternate arrangement between the leaving country and the EU, and the leaving country does not take part in the negotiations and discussions. After the two-year negotiation process the unanimously decided arrangement is presented to the leaving country, approved by the European Parliament, who may choose to take it or leave it. The arrangement can be approved by a majority vote, unless it is a 'mixed agreement' wherein the desired arrangement between the remaining member countries is balanced,
in which case it would need to be approved by all member states.

However, as of now, Article 50 has not yet been triggered, and it is unclear as to when exactly it will be triggered. Governments are not legally obligated to trigger Article 50 immediately, and in the case of the UK, it is likely that Article 50 will be invoked by the new Prime Minister after due course of internal discussions. The UK may need some time to create a strategy and deduce which aspects of the EU are the most important to it from an economy perspective and from a more populist point of view. Informal discussions regarding alternative arrangements will likely begin before the article is triggered. However, official negotiations do not need to take place until Article 50 has been formally invoked, which gives the UK some more time to analyse the situation. It has been indicated by the newly appointed Prime Minister that Article 50 is likely to be triggered in 2017 at the earliest[10].

The exit process is tricky and involves negotiating a transitional arrangement with the EU involving retention of existing trade agreements with other countries and potentially sign new ones. The entire process of deciding on the alternatives and finally exiting could be time-consuming and may take longer than two years. According to the European Commission, past FTAs negotiated between the EU and other countries have taken four years on an average, and even 10 years in some cases. In this case, the desired changes in the UK and the EU and their relationship will need to be drawn out, and then a comprehensive agreement covering how the two nations will interact in the future will need to be decided.

In light of this, we have considered four broad scenarios on how the future can play out.

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Scenario 1: The Norwegian model – joining the European Economic Area (EEA)

The EEA was formed in 1994 and serves as a bloc that gives non-members of the EU access to the single market, providing free movement of goods, services, people, and capital among the EEA. The EEA currently consists of all EU members along with Iceland, Liechtenstein, and Norway. EEA members are subject to rules and regulations concerning the single market including legislation regarding employment, consumer protection, environmental as well as competition policy. However they have no say in setting the rules within the single market. Further, EEA members are not obliged to participate in the monetary union of the Euro, the EU's common foreign and security policy, the EU's justice and home affairs policies, and the common agricultural policy (CAP). EEA membership allows for free trade within the area, however since they are not necessarily members of the monetary union, they are free to set their own external tariff and independently negotiate their own trade deals with countries outside of the EU.

Implications for the UK[11]

Being a member of the EEA essentially requires a fee to be paid to be a member of the single market, in the form of contribution to the EU's regional development funds and to costs of EU programs in which they participate in. Non-EU member and EEA member Norway's contribution to the EU budget was GBP 106 per capita in 2011 which was only marginally lower than the UK's net contribution of GBP 128 per capita. Therefore, in terms of fiscal contributions; a vote to leave the EU and take up EEA membership would not generate substantial fiscal savings for the UK government.

If the UK were to join the EEA it would still have access to the single market. The EU is Britain's largest trading partner accounting for 45% of exports and 50% of imports, and EEA membership would allow the UK to retain these trade and economic benefits, maintain the free movement of people within the single market, and at the same time provide freedom in terms of international trade and other, mostly international, policies which could arguably give the UK more control in global actions. However, the membership fee in terms of contribution to the EU budget will remain a significant economic cost which the UK will have to churn out. In addition, compliance with trade regulations for trade within the EU will have to be adhered to, further reducing the UK's control in economic actions.

Further to these drawbacks, EEA members are not part of the 'deeper integration' that occurs within the EU. Since EEA members do not belong to the EU's customs union, exports must meet various 'rules of origin' requirements to enter the EU duty free. Authenticating the origin of a product is becoming an increasing economic burden due to the growing complexity of global supply chains. A significant portion of this cost would be borne by the EEA member firms and businesses themselves, since the EU's rules of origin only allow for a certain portion of inputs from outside the EU to be used for trade within the EEA. Further, the EU has the right to exercise anti-dumping measures to limit or restrict imports from EEA members. For instance, in 2006 the EU implemented a 16% tariff on imports of salmon from Norway. Non-EU members of the EEA are subject to EU legislation governing the single market and do not get any say in deciding it. This could arguably reduce productivity and increase the regulatory and bureaucratic burden for the UK, which was a key factor contributing to the vote to leave in the first place. While leaving the EU to join the EEA will allow for the UK to maintain access to the single market and its largest trading partner, the UK would effectively lose its influence on all EU decision-making, including governance of the single market which it would be a member of, and aspects harming the UK's national interests or driving forward policies it generally supports, such as further liberalization of trade in services.

Implications for India

In the scenario that the UK decides to become a member of the EEA, this could possibly be advantageous for India in terms of trade. In particular, the UK would have the liberty to set its own external tariff and independently negotiate trade deals with countries outside of the EU. As such, trade deals negotiated between the UK and India could provide for huge potential for improvement and closer collaboration in terms of trade. This scenario would allow the UK to independently negotiate trade deals and realign trade priorities towards India, something which the UK has shown great interest in over the past months, and India-UK trade would likely see a boost. A number of Indian businesses currently enjoy exporting to the EU through the UK without paying any tariffs. Since the UK will have access to the single market, India would still be able to use the UK as a gateway to the EU in terms of trade, i.e., it would be able to export to all members of the EU through the UK. However, since EEA members are required to meet 'rules of origin' requirements wherein they must have only a certain level of inputs from international sources in their merchandise, the ease of doing business between the UK and other European countries would be affected.

Broadly, if at the end of the two-year process, this scenario occurs and the UK becomes a member of the EEA, India and Indian businesses are expected to largely remain unaffected. Some key factors such as immigration, tariff structure, and using the UK as a gateway to the EU will remain broadly unchanged from an Indian business perspective.

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Scenario 2: The Swiss Model – bilateral treaties

Switzerland does not come under the European Union or the EEA, instead it has a sequence of bilateral treaties that have been negotiated with the EU governing their relationship. Most treaties allow participation in a certain EU policy or program, for example there are treaties covering insurance, fraud prevention, pensions, and air traffic. Switzerland is also a member of the European Free Trade Association (EFTA) which allows free trade with the EU in all non-agricultural goods. The bilateral treaties model provides flexibility in which EU initiatives it wants to take part in. The model provides a similar level of goods market integration with the EU as is in EEA membership, through EFTA membership and an agreement covering technical barriers to trade. Switzerland also currently permits free movement of people between itself and the EU. A comprehensive agreement has not yet been concluded between Switzerland and the EU, and Switzerland is not part of the single market for services. It presently caters to the EU market largely through subsidiaries based in London. Similar to EEA countries, Switzerland does not have any influence over the EU programs in which it participates and their legislation, however it has the choice of whether it would like to participate in them or not. Like EEA members Switzerland also contributes to EU funding to cover regional finance and the costs of the programs it participates in. Switzerland's contribution in recent years is at an average of around GBP 53 per capita, 60% lower than the UK's net contribution of GBP 128 per capita.

Implications for the UK[12]

Adopting this model could work for the UK if it is in favor of adopting an 'a la carte' approach to European integration. However, in this scenario the UK will not have any influence over the EU programs in which it participates and their legislation, and will again lead to some loss of sovereignty particularly within immigration regulation. However, unlike the EEA model, the UK would have the choice of which programs it would like to participate in. The mandatory contribution to EU funding in the programs it participates in also represents a significant fiscal cost. Further, under this model the EU is not obligated to provide the UK with complete market access, therefore the guaranteed market access is less than EU and EEA members enjoy. For instance the EU is not obligated to form an agreement with the UK for access to the single market, and without access to the single market, a substantial amount of UK's trade with the EU may become more difficult. Further, the level of market access to the single market in terms of services is not certain, which poses a great risk to the financial and business services that the UK provides, which represent some of the UK's key industries. Overall, it is likely that this model will provide less economic integration with the EU than EEA members, and may therefore lead to higher economic costs.

Implications for India

The Swiss model of bilateral treaties is in some way similar to the Norwegian EEA model as they both have access to the single market. However, there are differences as the EU may not offer all the advantages that are there in the Norwegian model. As such Swiss access to the single market in services is restricted, which in the UK's case could complicate matters. Further, given the fact that the UK can choose where it wants to have an agreement on trade, there would be higher uncertainty. Overall, while access to the single market remains, it has more restrictions that could have some repercussions for Indian businesses.

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Scenario 3: WTO

The World Trade Organization (WTO) is the primary body that administers international trade between its 161 member nations. If the UK fails to remain economically integrated (via the EEA or EFTA), its trade between the EU and the rest of the world will be governed by the laws of the WTO. Under the WTO rules, countries cannot discriminate between their trading partners. If the UK ever decides to give preferential market access to a developing economy, it will have to provide similar market access (charging the same import tariffs) to all other WTO members. Consequently, the UK's exports to the EU and other WTO members will thereby become subject to the importer's most favored nation (MFN) tariffs, making exports from the UK to the EU more expensive for UK firms. The only exception to this law applies to free trade agreements (FTAs) such as the EU, NAFTA, and SAARC.

Implications for the UK[13]

Due to the independent tariffs set by each importing country, the costs of exporting goods and services may rise for UK firms. If the UK decides to adopt this strategy, it will also have to keep in mind that the WTO is not a leading entity in liberalizing trade as compared to the EU, which may lead to reduced access to European markets for UK businesses. As far as immigration and the free movement of labor is concerned, the free mobility of labor between the UK and EU will end under WTO's governance. However, capital mobility would likely continue as the EU prohibits capital mobility limitations within the EU as well as with countries outside the EU. On a positive note, the UK will no longer be restricted by the EU's common external tariff and will be free to set its own MFN tariffs on imports, allowing UK firms and consumers to possibly enjoy lower costs and increase the level of competition faced by UK firms, subject to any WTO regulations on MFN tariffs and non-tariff barriers. However, there is little scope to decrease tariffs since the average import tariff levied in the EU is 1%. To offset the lack of economic integration in this scenario, the UK will no longer be subject to the bureaucratic regulations of the EU and would not have to contribute to the EU budget. Further, it will be free to set its own economic policies without any intervention from other EU members. However, the UK would no longer have access to the single market and the cost of doing business with the EU is likely to increase. This could significantly affect the UK's trade strategies, since the EU is currently the UK's largest trading partner. Products exported to the EU must also be compliant with the EU product standards. According to the OECD, the labor and product markets in the UK have less regulation and greater flexibility as compared to other EU countries.

Implications for India

In the scenario that the UK decides not to put in place any of the alternative arrangements, their trade with the EU and the rest of the world would be governed by the WTO. The UK would have the liberty to set its own MFN tariffs on imports, and would not be bound to the EU's regulation and gain the freedom to choose its own economic policy and regulations, which could potentially be beneficial for India. The last few years have seen India emerge as an integral foreign investor into the UK economy and authorities in the UK can be expected to keep Indian investors confident and committed. And since UK no longer has to abide by the somewhat bureaucratic nature of the EU, the British government can change existing trade policies with India and further liberalize trade by reducing tariffs under the WTO. Further, if the UK and India manage to finalize an FTA, this would give UK-India trade a boost.

A number of Indian businesses currently enjoy exporting to the EU through the UK without paying any tariffs. In this case since the UK would have no longer have access to the single market, India would not be able to use the UK as a gateway to the EU in terms of trade as easily as before. Trade between the UK and the EU would now be subject to MFN tariffs and any non-tariff barriers in compliance with WTO agreements, therefore exporting to the EU through the UK would likely prove to be troublesome. Further, goods exported through the UK to the EU are obligated to meet various EU standards, which is another factor that may make it difficult to trade with the EU through the UK. Consequently, trade between India and the EU through the UK may be hampered, and existing trade channels and supply chains involving the UK and the EU may be disturbed.

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Scenario 4: The Canadian Model: Comprehensive Economic and Trade Agreement (CETA)

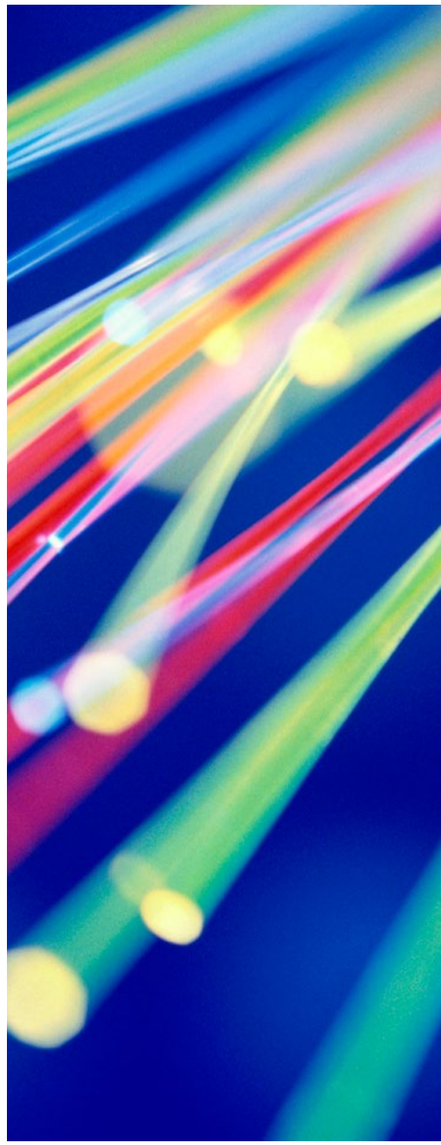
The CETA scenario also involves leaving the single market, wherein the UK would negotiate a preferential trade agreement with the EU. The CETA agreement between Canada and the EU has not yet been approved, but negotiations have been in progress for the past seven years. In the CETA model, Canada is given preferential access to the single market and most trade tariffs are eliminated. On the downside, Canada will have to undergo 'rules of origin requirements' wherein they will need to prove that the goods are made in Canada, which proves to be very costly for firms and businesses. In addition, firms that export to the EU are required to be compliant with EU technical and product requirements, and they do not have the liberty to set them. Further, in a scenario wherein the CETA model is applied, services are only partially covered which may pose a challenge for the UK's financial services industry to receive the substantial market access that they are presently receiving. Flow of people and capital between Canada and the EU would also not be permitted. Lastly, the FTA between the EU and Canada was expected to be put on a fast track route. However, the European commission has decided against it and now the deal will require approval from all nations of the EU. This implies that it will become more difficult for this deal to come to fruition and raises new questions on the deal between US and EU (the Trans-Atlantic Trade and Investment Partnership). This highlights the pitfalls and uncertainties regarding the future of UK and EU relations.

Implications for the UK[14]

The UK would gain preferential access to the single market without having to witness any of the obligations faced in the EEA and the Swiss bilateral treaties model. The UK would not have any say in setting the rules of the single market. Further, most trade tariffs would be eliminated with the exception of a few 'sensitive' food items. However, UK firms will have to comply with 'rules of origin requirements' which acts as a significant additional cost for firms and businesses. An additional cost is the requirement to comply with EU technical and product standards and requirements when exporting to the EU. Further, services, which account for about 80% of the UK economy, are only partially covered which poses as an obstacle for the UK's established financial services industry to receive the substantial market access that they are presently receiving. Flow of people and capital between the UK and the EU would also be lost, and the UK would gain independence in terms of setting policies and maintaining its borders. Arguably the largest shortcoming of the CETA model is that after seven years of Canada negotiating the deal with the EU, it has still not been ratified. Furthermore, the UK has a lot more ties with the EU as opposed to Canada, going beyond trade too, which would make the negotiation all the more troublesome and time-consuming. Given the UK's presence and financial, economical, and political status, prolonged uncertainty regarding its relationship with the EU would likely have prominent effects.

Implications for India

In the scenario that the UK decides to proceed with the CETA model, it will gain preferential access to the single market and most trade tariffs would be eliminated with the exception of some "sensitive" food items including eggs and chicken. The UK would be free to negotiate deals with India without intervention from the EU. A number of Indian businesses currently enjoy exporting to the EU through UK without paying any tariffs. In this scenario, since UK would have preferential access to the single market, India would still be able to use it as a gateway to the EU.



The EU after BREXIT

The most relevant concern of the UK's vote is that it may lead to similar referendums across the EU economies. There have been adverse reactions to BREXIT particularly from some Southern European countries and the pressure is on the EUR as a currency holding the union together. It needs to be recognized that the EU has been in existence for a while now and this existence itself has created mutual interdependencies between the economies from a geopolitical, regulatory and investment perspectives which far outweigh purely the monetary union aspects.

The EU as a body has had success stories. It has been largely relevant in removing barriers to the movement of people, capital and trade which has in turn made the powerful EU economies more powerful. However, global headwinds in the form of increased competition from emerging economies particularly China and India makes one rethink the strategy. The EU has a choice of looking inwards or outwards in embracing these forces of globalization. An expansion of the EU to more eastern European economies or creating a political union may not be viable options at this stage. Several trends go against a more federal view of the union, some of which are supported by the view that the EU is more bureaucratic than it perhaps needs to be. A rethink of EU strategy in looking at lesser centralized regulation and leaving more to the member economies may help. Embracing globalization and bringing in newer ideas of research, education, training, technology, cross-border infrastructure, etc. from India and other similar emerging economies may help support the union's weaker members. This will benefit India positively offering greater opportunities to penetrate newer EU markets with lesser regulations, reduced barriers and greater vigor.

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Conclusive remarks

At this juncture, it is almost futile to say that BREXIT implies uncertainty, but that is an aspect most economies and corporates would have to deal with. The way forward will be volatile and can possibly be subject to changing political equations in the EU and UK itself. While it will be beneficial for both the parties to resolve the situation as fast as possible, the reality may be different.

Given these circumstances, Indian companies can expect some hit to their UK businesses as overall growth in the country slows in the immediate short run. A weaker currency will also mean that any repatriation of profits from the UK region may result in losses as compared to the pre-BREXIT era. However, in the mid to long run, if the forces of globalization play themselves out well, an event such as BREXIT may turn out to be positive for India, bringing it closer both to the EU and the UK.

Abbreviations

EU – European Union

UK – United Kingdom

USD – US Dollar

GBP – Great Britain Pound

EUR – Euro

FTA – Free Trade Agreement

TMT – Telecommunications, computer, and information services

CY – Calendar Year

FY – Financial Year

EEA – European Economic Area

CAP - Common Agricultural Policy

EFTA – European Free Trade Association

WTO – World Trade Organization

MFN – Most Favored Nation

NAFTA – North American Free Trade Agreement

SAARC – South Asian Association for Regional Cooperation

OECD – Organization for Economic Co-operation and Development

CETA – Comprehensive Economic and Trade Agreement

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*All merchandise trade data has been taken from Ministry of Commerce.
*All services trade data has been taken from Office for National Statistics, UK.

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