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THE EU, BREXIT AND INDIA

ADAPTING TO CHANGING LANDSCAPES

REPORT



This event took place as part of the Trade and Investment Partnership Summit
“India and the EU: Leveraging Economic Opportunities in Trade and Investment”,
organised by the Europe India Chamber of Commerce (EICC).



BREXIT CAN BOTH DISRUPT AND STRENGTHEN RELATIONS BETWEEN INDIA, BRITAIN AND EU

Britain's vote to leave the EU sent shockwaves around the world, and nowhere more so than in the UK's external trade relations. "Economics do not like these uncertainties" said **Shishir Bajoria**, Chairman of the Bajoria Group. But if and when it happens, Brexit could create as many opportunities as challenges for UK-India and EU-India relations, participants heard at a Friends of Europe debate, organised as part of the Europe India Chamber of Commerce's Trade and Investment Partnership Summit.

With €72.5bn worth of EU-India trade and €19.4bn of UK-India trade at stake, all three partners need to think carefully about the future of their relations after Brexit. "The UK has to be a great partner for India; culturally, we understand each other", said **Madi Sharma**, UK Member of the European Economic and Social Committee (EESC). The EU has also grown to see India as one of its key partners: "India is one of the EU's four strategic partners in the Asia-Pacific", said **Veronica Cody**, Head of Division for Regional Affairs, India, Bangladesh, Nepal and Bhutan at the European External Action Service (EEAS). "Whatever the ups and downs in the relationship, there is a comfort in the permanence and long-standing nature of the relationship."

A NEW GOLDEN AGE FOR UK-INDIA RELATIONS?

During the British referendum debate, some Vote Leave supporters saw the revival of UK-India relations as a key aim to pursue post-Brexit, as part of a wider strategy to (re)gain Britain's role as a 'global leader in free trade'. "The logic was that UK trade with India was held back by the EU", said **Gareth Price**, Senior Research Fellow at Chatham House. By leaving the EU, Britain would be able to give a new breath to historical ties with India and other Commonwealth countries.

This strategy was adopted by new British Prime Minister Theresa May, as shown by her recent visit to India on November 6-8, her first outside the EU since she took charge. During this visit, "she presented a vision of post-Brexit Britain as nimble, agile, able to quickly strike trade deals, in contrast to the European Union, a plodding elephant that can't get things done", said moderator **Shada Islam**, Director of Europe and Geopolitics at Friends of Europe. "But she didn't get the glowing headlines and reception that she was expecting."

The appetite to step up trade relations with India is not only a result of the Brexit referendum: "when David Cameron made his first visit to India as Prime Minister in 2010, he wanted to double UK-India trade within the next five years", said **Pratik Dattani**, UK Country Director for the Federation of Indian Chambers of Commerce and Industry (FICCI). This goal has however not been achieved: "trade has probably gone up about 10-15% over that period of time, and has disproportionately been India selling more to the UK", he said. "In fact, over the past 2-3 years, UK selling to India has fallen."

Theresa May didn't get the glowing headlines she was expecting during her first visit to India as Prime Minister.

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Madi Sharma, UK Member of the European Economic and Social Committee (EESC)

This is partly due to the fact that the areas on which the UK economy is based, namely financial, legal and other high value-added services, are markets that are closed in India. On the contrary, “Germany’s trade with India has gone up three times over the last few years because it is a major manufacturing exporter, and that’s what India is looking for”, said Price. Dattani agreed: “we have to look at what India wants to buy and what the UK wants to sell”. Without a change in the economic and trade priorities of the two countries, it is unlikely post-Brexit Britain will be able to massively increase its trade relations with India.

Although the UK cannot formally start trade negotiations with India until it has legally left the EU, Theresa May’s visit to India also aimed at laying the grounds for trade and other links that would be put in place after Brexit. In this, she was certainly not as successful as expected, following the controversy over the tightening of visa restrictions for Indian students and skilled workers, which has caused the number of Indians studying in the UK to go down by almost 50 percent in the last year or so.

As Prime Minister Narendra Modi hinted that any deal would have to include looser migration controls on Indians, Theresa May’s firm position on mobility issues might threaten negotiations for a future trade deal. “If you want trade deals with countries like India, they’re going to want some greater access for IT experts and so on” said Price.

The UK government tried to answer Indian demands by unveiling two new schemes during the trip to make it easier for business travellers to get visas and enter Britain through e-passport channels. However, this was widely interpreted as little more than window-dressing. “Today, as an Indian businessman, I get a 10-year multiple-entry visa”, said Bajoria. “How much more special can it get?”

“Trade is not just about goods but about people, be they businessmen, consumers and workers”, said Islam, underlying that people-to-people relations are a central component of UK-India ties. Sharma agreed: “the UK and India have to be about empowering human capital”. To achieve this, she wondered “if we can create some sort of system where we can give some types of visa so that people can come work or study in the UK, are trained and go back to port those skills back into the Indian economy.”

Despite these disagreements over migration, Theresa May’s focus on small and medium-sized enterprises (SMEs), with the inclusion of around 120 SME entrepreneurs in her trade delegation, was widely seen as a positive sign for future UK-India trade relations. “SMEs are the backbone of the economy”, said Sharma. “It’s the small companies that are building and investing in the communities, and they are the ones driving the changes. For me, that is much more valuable than trade agreements. If you add together the amount of money that Europe has spent on TTIP, CETA and the EU-India FTA, how many businesses could we have supported, how many jobs could we have created.”

FURTHERING EU-INDIA RELATIONS

Whilst UK-India trade relations have somewhat dwindled over the last few years, EU-India ones have been booming. “Only a few years ago, 75% of Indian investments in the EU went to the UK, and 75% of that went to London”, said Price. “Now, only half of Indian investments in the EU go to the UK”.

Despite these expanding trade ties, the EU and India have in recent years faced many difficulties, in particular over the negotiations of a Bilateral Trade and Investment Agreement (BTIA). Started in 2007, talks have been brought to a grinding halt in 2013 by disagreements over such issues as India’s tariffs on cars, wines and spirits and EU restrictions on temporary movement of skilled professionals.

The long-delayed EU-India Summit that took place on March 30 brought new optimism for a relaunch of BTIA negotiations, which has however abated following the British referendum. Traditionally seen as one of the strongest anti-protectionist and pro-free trade voice in Brussels, Britain’s exit from the EU could negatively affect a number of trade and investment relations, including negotiations over the BTIA. But even without Britain, the EU is committed to strike a trade deal with India, said Cody. “We are certainly not abandoning this prospect”, she stressed. “India remains a vital partner for us, and the EU is also a vital market for India. The EU is the second largest economic single market and the largest export market in the world for countries like India, even after Brexit”.

Some have even argued that the EU might find it easier to negotiate the BTIA without the UK. “One of the things blocking the negotiations for the EU-India FTA is actually mobility of Indians, and one of the countries opposed to it is the UK”, said Price. “Logic suggests that if the UK left, one of the impediments to the EU-India FTA would be removed.”

The EU and India have been expanding their relations ‘beyond trade’, to include areas such as sustainable urbanisation, renewable energy, security, terrorism and migration. The Summit on March 30 reconfirmed both sides’ commitment to give new momentum to the relationship by adopting the EU-India Agenda for Action 2020 as a common roadmap to strengthen the strategic partnership. Brexit is unlikely to change this: “I see many more areas of cooperation which may open up beyond trade, including in the security domain”, said Cody.

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Veronica Cody, Head of Division for Regional Affairs, India, Bangladesh, Nepal and Bhutan at the European External Action Service (EEAS)

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Shishir Bajoria,
Chairman of the Bajoria Group

CONCLUSION

“Doing a book review is very difficult without having read the book first; and we’re still a couple years away from writing the first chapter”, said Dattani, emphasising that predictions cannot be made before we have a clearer idea of what Brexit will mean. Cody agreed: “It’s a long road, and we should be cautious in approaching this and take it step by step.”

The future of India’s relations with the UK and the EU will largely depend on the kind of post-Brexit relationship between Britain and the EU, but also on what the UK and EU are ready to negotiate on with India. “Modi can go: ‘Ok, what’s the UK offering and what’s the EU offering, and let me take what’s best for India’”, said Sharma.

Despite this, there is likely going to be more continuity than change in UK-India and EU-India relations. Bajoria summed up India’s position: “we have 800m young Indians, who need jobs. We will trade with the UK, Brexit or no Brexit. And we will trade with the EU, Brexit or no Brexit.” Dattani agreed: “India really needs areas of collaboration, not just with the UK but also other partners, where jobs are created, especially for the 70-80% of India that is not involved in the high-growth service sector”.



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**“Brexit may be a blip
or it may be
an opportunity.”**

Pratik Dattani, UK Country Director for the
Federation of Indian Chambers of Commerce and
Industry (FICCI)



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