Brexit may lead to dip in investment flows from India to UK in near term
Time ripe for pursuing broad-based FTA with UK, say respondents to FICCI Survey

NEW DELHI, 5 July 2016: A FICCI Survey brings to the fore the concerns of India Inc. over the possible near term impact of 'Brexit' on Indian business and the economy. Yet, it remains sanguine that the UK will make renewed efforts to strengthen ties with countries of the Commonwealth group and India stands to gain given its own growth performance and a much better regulatory and business environment. ***The respondents were hopeful that this can be an opportunity for India and UK to make renewed efforts to strengthen ties***.

While the full impact of the UK move to 'Leave' from the European Union will take some time to unfold, the FICCI survey sought to gauge the sentiment among the Indian companies having operations in or doing business with the UK. ***Some of the companies surveyed share deep trade and investment linkages with the UK. Responses were received from about 45 companies covering sectors such as education, information technology, tyres, pharmaceuticals, steel and steel products, automotive, textiles, apparel, financial services etc.***

Respondents feel that the 'Brexit' transition may lead to moderation in investments flows to the UK from India. However, India is expected to get continued attention from the investors including investments from the UK. UK is third largest investor in India and accounts for about 8.0% of the total FDI inflows in the country. In fact, several British companies have exhibited interests in India post launch of the Make in India campaign. The Government has considerably liberalised the FDI regime in the country and there has been an increase in FDI inflows over the last two years. This trend is expected to continue.

The respondents stated that given the strengths of the economy it may be worthwhile to look at a bilateral FTA with the UK and this should focus on goods, services as well as investments. It is felt that UK may now take a less rigid stand (compared to the EU) and it may be worth pursuing a broad based bilateral agreement. ***Further, it is important that such an instrument is a hybrid agreement that incorporates the movement of people as a natural corollary to the movement of goods, capital and services so that the impact on mobility of professionals and on ICT sector is not as negatively impacted as anticipated***.

About 63% of the participants indicated that signing a comprehensive FTA with the UK (on goods, services and investments) may help to mitigate any negative impact of Brexit on India. For example, if India enters into an agreement with the UK that leads to the legal services market opening up, then this could lessen the negative impact of Brexit on India-UK bilateral relations.

Nonetheless, the companies participating in the survey did indicate some concern regarding a dip in export realisations, additional compliance to competition regulations, rise in operating costs of doing business and possible curbs on immigration leading to brain drain from the UK over the near term.

The FICCI Survey also captures views from some of the leading higher education institutions on what can be expected in terms of relationship with UK universities in the coming days.

Members of the education fraternity felt that education in UK is expected to become more affordable and we might see UK wooing candidates with more incentives. For Indian students studying in the UK, Brexit might result in a more level playing field compared with other EU students who hitherto had an informal edge over the rest of the world in the job market. India being one of the largest skilled labor markets, with a population well versed in the English Language could have a distinct advantage.

Further, the IT companies expected to face the heat in light of the Brexit. ***It was pointed out that given the risk of further moderation in growth in the UK and EU, there is an increased probability that the companies lower their IT budgets*** (a discretionary spend). This would have an impact on the domestic software companies. India is one of the largest exporters of IT-enabled services and the sector has significant exposure to the European market especially the UK.

In addition some concern has been expressed regarding bond issuance planned in USD and INR. UK's credit rating has been cut, and given most buyers of the bonds are from the EU there is nervousness around these bond issuances. This is important for India as it would be difficult to imagine financing India's huge infrastructure appetite through debt finance in London as aggressively as currently planned. Again, this would depend on what Brexit scenario that plays out. But in the meantime, greater uncertainty will impact the bond pricing.

Highlights of the Survey

- The respondents were of the view that it is too soon to assess the impact of Brexit on the global economy and India. There will be more clarity once the actual policy response from United Kingdom and the European Union is spelled out. Things can be positive if the situation is managed well by both the European Union and the United Kingdom. Nonetheless, some frictional issues that would come with the transition cannot be ruled out.

- **Global Economic Situation**: The respondents felt that the overall economic situation would remain difficult for the next two to three years. The global recovery remains frail and the Brexit move is detrimental to the overall health of the global economy. The exit from the European Union has increased the risk of United Kingdom falling into a recession.

- **Impact on Investments in the UK**: United Kingdom has been the gateway to Europe and the survey participants felt that UK's position as a major investment hub will get impacted over the near term. The increase in uncertainty post Brexit will impact the confidence level of potential investors wanting to invest in the UK.

- **Impact on British Pound**: The investors have been pulling money out of the UK and this may exert a further downward pressure on the Pound. The survey respondents based out of the UK anticipated an increase in operational costs over the near term due to this pressure on the Pound Sterling.

- **Immigration**: The respondents expect more restrictions on immigration in the United Kingdom post Brexit. However, it was felt that the restrictions on the other EU citizens will be limited due to political reasons; Indian immigrants may have to feel the actual heat. The respondents indicated that the move might lead to brain drain from the United Kingdom.

Survey Findings in Numbers

- While 48% of the survey participants indicated that their business linkage with the UK is largely for the UK market, 14% indicated that it is mainly for EU and the rest had a balanced interest in both the markets.

- About half of the respondents reported that they don't intend to set up separate operations in any other EU country over the near term following Brexit. It was said that it will take a couple of years for the actual picture to become clear.

- 43% of the survey participants anticipated a decrease in intra company transfers/movement of professionals to the UK from India over the medium term (next 3-5 years).

- 43% respondents cited a decrease in Indian migration to the UK over the medium term (next 3-5 years).

- 51% of the participants anticipated a decline in investments to the UK over the next three to five years.

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