



**BREXIT - Views and
suggestions from India Inc.**

July 2016



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Section 1: Survey Findings

The Brexit referendum on June 23, 2016 was an unprecedented global development. The United Kingdom (UK) voting for the 'Leave' from the European Union (EU) is expected to have considerable socio economic and political ramifications in the years ahead. The decision assumes greater significance in context of the changing global order which is moving towards greater multilateralism and where countries are striving to lower their boundaries.

According to preliminary estimates by Standard & Poor, Brexit is expected to shave off 100 bps from UK's growth and about 50 bps from EU's growth in 2017. Also, investment flows to the UK are likely to be affected over the near term as the decision is expected to cause skepticism among investors. Further, elections in France and Germany are due next year and the October constitutional referendum in Italy adds to existing uncertainty in the region. It is being anticipated that the real negotiations between the UK and EU might start by next year when there is greater clarity on the political front in the region.

While the impact of this historic move will take some time to unfold, FICCI conducted a quick survey 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.

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.

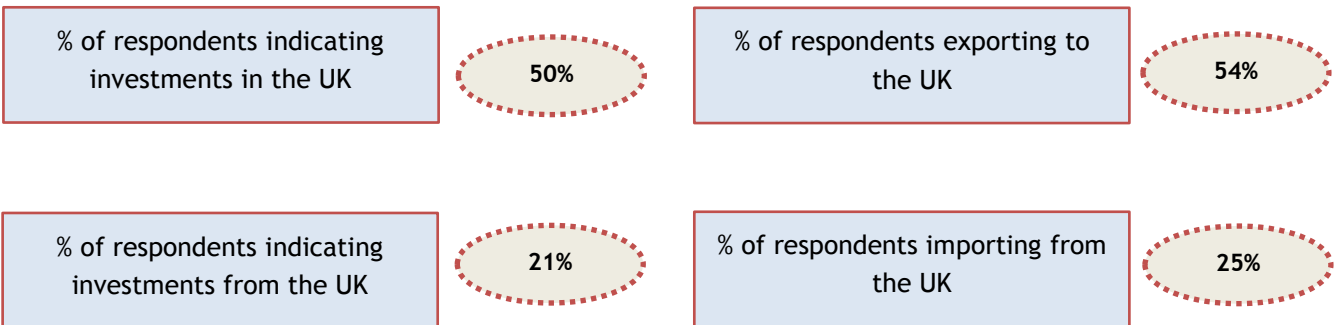
✚ **Immigration:** The respondents expect more restrictions on immigration in the United Kingdom post Brexit. However, it was felt that the restrictions on the other EU citizens will be limited due to political reasons; Indian immigrants may have to feel the actual heat. The respondents indicated that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

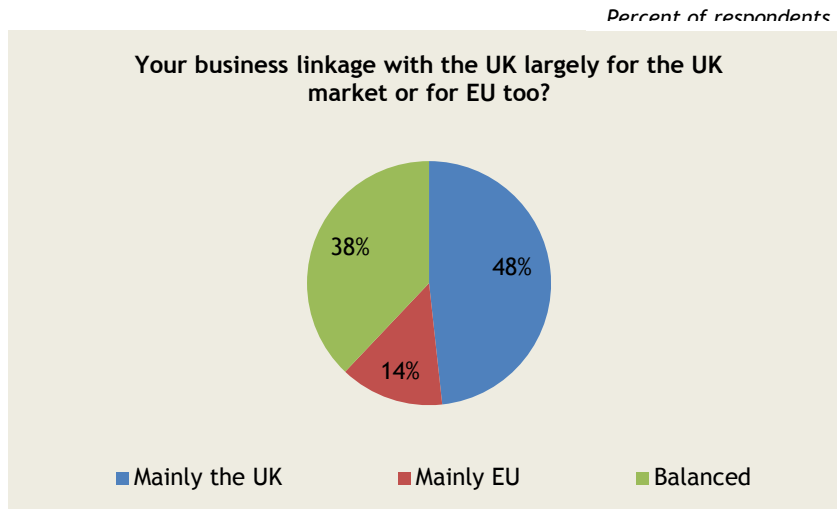
However on a positive note, the respondents also felt that the Brexit could offer a chance for India to explore new opportunities.

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 come to the fore.
- ✚ 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.
- ✚ 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.

Business Interest of the Respondents

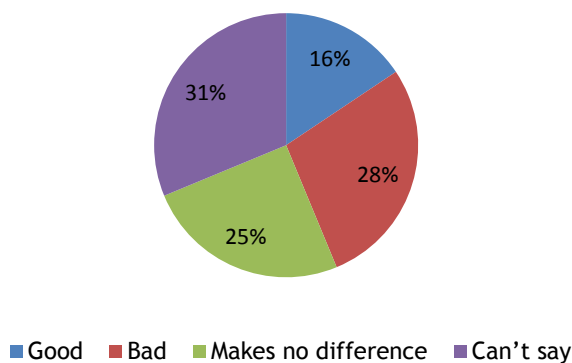




Respondents divided about the likely impact of Brexit on their business interest

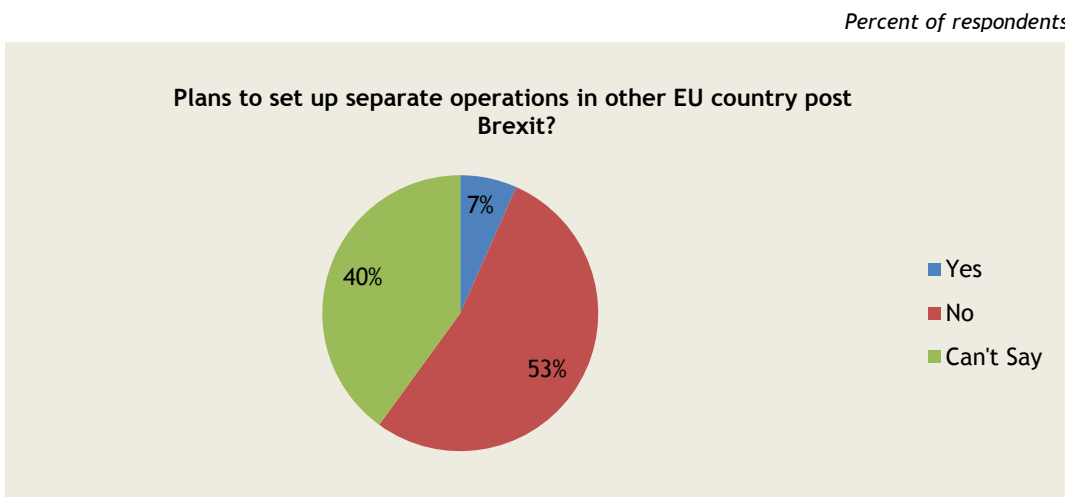
Percent of respondents

Impact of Brexit on your organisation's business interests with the UK?



About 28% of companies participating in the survey indicated that Brexit is not good for their organization's business interest in the UK. Further, while a quarter of the respondents said it makes no difference to them, only 16% considered Brexit to be good for their business. Those citing Brexit to be a positive development belonged to the education and hospitality sectors. Respondents from the auto components, apparel and IT sectors indicated skepticism about the impact of Brexit on their businesses.

About 50% of the participants do not intend to set up separate operations in any other country of the European Union because of Brexit

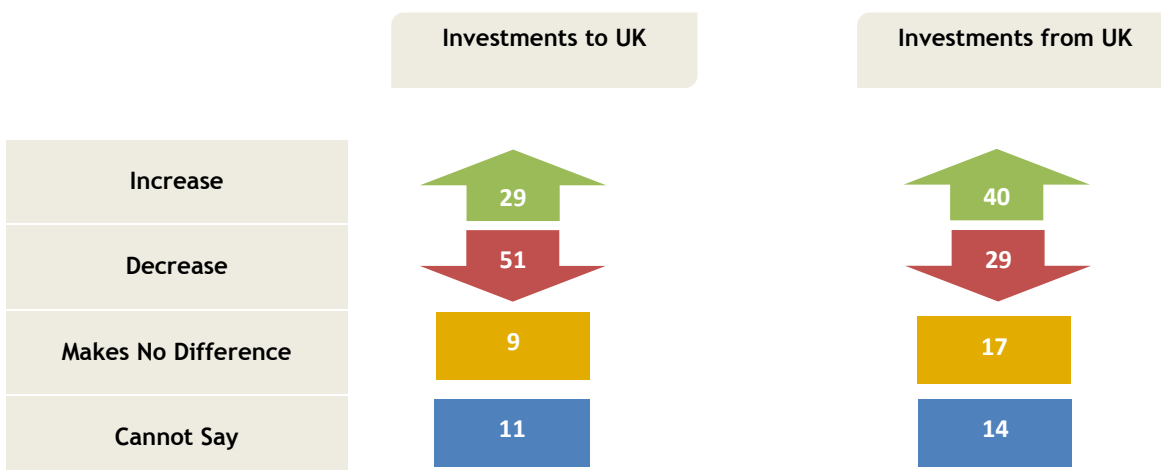


Impact on Bilateral Trade & Investments with UK over the Medium Term (next 3-5 years)

Percent of respondents



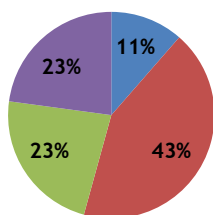
Percent of respondents



Impact on Migration & Intra Company Transfers with respect to UK over the Medium Term (next 3-5 years)

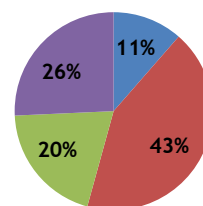
Percent of respondents

Impact on Indian Migration



■ Will Increase ■ Will Decrease
 ■ Makes No Difference ■ Can't say

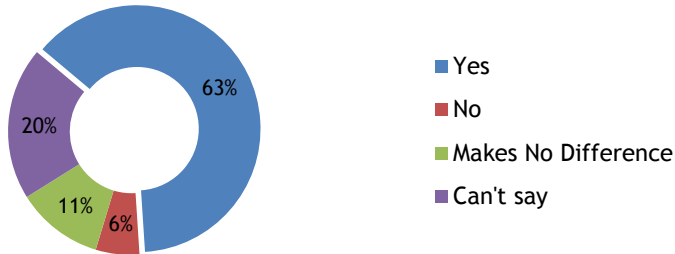
Impact on Intra company transfers/ Movement of Professionals



■ Will Increase ■ Will Decrease
 ■ Makes No Difference ■ Can't say

Majority of the respondents were of the view that signing a comprehensive FTA with the UK on goods, services & investments may help mitigate any negative impact of BREXIT on India

Will signing of FTA will help mitigate negative impact of Brexit?



About 63% of the companies participating in the survey opined that signing a comprehensive FTA with the UK on goods, services & investments may help mitigate any negative impact of Brexit on India

Section 2: Impact on India's Economy and Indian Businesses

Impact on India's Economy

While UK has put across its decision to exit from the EU, the actual process of leaving the European Union will be long drawn. The announcement has spelled out more uncertainty for now which is expected to continue with the invoking of the Article 50 and as and when the real negotiations take place. This would at least take a couple of years to shape up. Therefore, the actual ramifications will become clearer in the long run when a tangible working model of the UK-EU relationship is drawn out and established.

Given that, the announcement of the Brexit referendum drew an immediate reaction from the stock markets and currencies world over. India was no exception from this contagion effect. The Sensex tanked by 450 points (from the opening value) on June 24, 2016 falling below the 26000 mark and the Rupee value crossed 68 for a US Dollar. Nonetheless, both the stock market and the Rupee were quick to recover and find a stable ground. Both the Government and Reserve Bank of India have been on a tight vigil.

India is positioned fairly well at present vis-à-vis its peers. The macro-economic fundamentals have improved and the strong orientation displayed towards reforms over the past two years has given us an edge. The persisting ambiguity in the global economic environment reaffirms the need to remain focused on further strengthening the domestic economy and continuing the reform process.

Gross Domestic Product

Most of the estimates indicate India holding on to its growth path even in the post Brexit scenario. This will be backed by a host of favourable conditions on the domestic front. The performance of the agriculture sector is expected to improve in the current fiscal year. The prediction for monsoons is favourable this year and rains are expected to pick up over the next two months (July-August 2016).

Further, the Government has awarded the Seventh Pay Commission Award and this will give impetus to the domestic demand. The consumer durables goods segment, the auto-sector especially the passenger two wheeler segment and housing & allied sectors are likely to benefit from this Pay Commission decision.

According to FICCI's latest Economic Outlook Survey, the median GDP growth forecast for 2016-17 has been put at 7.7%.

Exports

India's exports to the UK have been around 3% of our total exports and exports to the European Union are around 17% of total exports. Our exports to both UK and Europe have been on a downtrend in the past two years on account of subdued demand led by a frail and scattered recovery in the region. Post Brexit there is a heightened chance of this trend being amplified over the near term given the possibility of disturbances in currencies and UK facing a further slowdown in growth. However, some safeguards are expected to be put in place to deal with the volatility in currency in the UK. Also measures to boost growth might be rolled out. The situation is expected to even out over the medium term.

Also, much would depend on the currency movement (extent of appreciation vis-à-vis Pound) for countries that are competing with India to export to UK.

Foreign Direct Investments (FDI)

UK's decision to leave EU is expected to impact the confidence level of the business and the investor community and there might be a temporary arrest in outbound investments from India to the UK until more clarity is obtained on the working framework between the EU and UK.

However, 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. With the slew of measures announced in June 2016, India has opened up almost all sectors for foreign investors barring a very small negative list. India has once again strengthened its position on the investment radar and the growth prospects in the country remain strong. 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.

Rupee can remain precarious

The Rupee can witness some volatility in the coming weeks as there is still anxiety in the global markets. However, RBI has been quick to intervene to manage liquidity through open market operations and use the foreign exchange reserves to tackle currency volatility and capital outflows in case of any skewed movements. Respondents expect this to continue.

Inflation to remain range bound

Oil and commodity prices have been subdued and there is no intermittent risks at present that will make the prices shoot. Global growth remains muted and an upward pressure on that account is suppressed for now. On the domestic front, good monsoons have been as predicted. Prices of food articles are likely to remain manageable.

Impact on Indian businesses

UK has been a valued economic partner for India and the decision to leave the European Union has created some amount of ambiguity for the Indian businesses. The same has been reflected in the survey conducted by FICCI as well. Even though over half of the respondents have reported that they don't intend to set up separate operations in any other EU country because of Brexit, they seemed concerned about the impact on intra company transfers/movement of professionals and Indian migration over the medium term. Also, the participants indicated that they expect investments to the UK to take a beating over the course of next three to five years.

Furthermore, it is anticipated that the companies that have operations in the UK and the EU will have to face significant translation losses with the probability of volatility in currencies remaining high. The exposure on account of un-hedged borrowing abroad will also impact the company balance sheets.

Also, post Brexit some concerns have been raised by companies about facing investigation from competition authorities both in the UK and the EU. Until now, a majority of the competition law in the UK was derived from the EU. The companies have also pointed out that in event of a merger/acquisition, a notification may have to be made both at the UK and EU level leading to an increase in compliance costs.

Indian parties in cross-border contracts commonly include English jurisdiction and governing law clauses. Post-Brexit, there may be uncertainty over the recognition of English judgments in EU countries. In an extreme case, the impact might also lead the parties to invoke ‘force majeure’ and ‘material adverse change’ clauses, leading to a surge in litigation.

There will be greater clarity on these technicalities and legalities once the details of the negotiations are spelled out. However, companies are anticipating an increase in compliance and administrative costs going ahead. At present, most of the companies have their corporate offices in the UK and are able to operate in other countries of the Union through their UK office only.

Nonetheless, the companies do have a cushion period to work out the mitigation strategies as the deal between EU and UK will take some time to materialize.

Some Sectors likely to face the heat

India businesses have presence in a wide array of sectors in the UK which include automobiles, auto components, pharmaceuticals, gems and jewellery, education and IT enabled services. Most of these sectors will be vulnerable to changes in demand and currency values.

Auto components

India is a major supplier of auto components to the EU region. The region accounts for about 36% of India’s total auto component exports, while the share of UK is about 5%. The UK Passenger Vehicle market is highly export oriented and the segment has close linkages with the EU automotive market. The anticipated slowdown in the UK and the EU region will have a dampening effect on the sector. Also, the depreciating Pound will impact the revenue stream companies of over the near term. The real impact will also depend on imposition of any trade restrictions between the EU and UK, which will become clearer over the medium term.

Information Technology

India is one of the largest exporters of IT-enabled services and the sector has significant exposure to the European market especially the UK. UK accounts for about 17% of India’s total IT exports. India’s IT exports to other European countries is at about 11%. The IT companies thus are expected to face the heat in light of the Brexit. 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.

Further, the depreciation of Pound does not augur well for the sector and can negatively impact the growth in the sector. Majority of the costs by the IT companies are incurred in INR owing to the off-shoring model deployed by the Indian IT services player. So a sustained depreciation of Pound might call for a renegotiation of the contract, as the profitability of these contracts might fall below the expected levels.

Uncertainty on account of pricing of contracts spanning European Union which currently enjoys zero tariffs cannot be ruled out. Skilled labour mobility issues can arise as the mutli-location contracts will get deferred on account of lack of clarity at present. Further, the overhead expenses are likely to increase if restrictions are imposed on the mobility of professionals between UK and EU as the companies might have to open an additional office in the EU.

Besides, the Indian IT sector has had some issues with the EU data security policies, including rules on transferring personal data. So, on the positive side the UK could look at abandoning the stringent stance on data management post Brexit. Also, UK would be under no obligation to adhere to restrictive localization norms adopted by EU.

Metals

With the global recovery remaining frail and an evident moderation in China, the steel and aluminium sectors are already facing the issue of overcapacity. Demand in the EU has been subdued and this latest development is expected to further dampen demand. This might lead to a greater weakening of metal prices giving rise to earning pressures for companies.

Pharmaceutical

United States is India's biggest market for Pharmaceutical exports, while EU accounts for 10-13% of India's total pharma exports. The share of UK in India's pharma exports is about 3-4%. The pharma companies do not really expect a big hit following the Brexit and have indicated a limited impact of Pound depreciation. The pharma companies reported having hedged their exposure to the Euro. Further, the companies pointed out that the rules, regulations and product registrations are already different for UK and EU and hence any adverse impact on the sector can be ruled out.

Garment

Readymade garment is one of the key export items to the UK from India. Readymade garments account for about 20.0% of the India's total exports to the UK. The sector is expected to feel the pinch on account of moderation in demand; the spend on readymade garments is primarily discretionary. Also, the drop in the Pound is expected to impact the un-hedged export contracts with British counterparts. Nonetheless, some of the garment exporters have also opined that they might be insulated if a Free Trade Agreement is negotiated with the UK post Brexit.

Financial Services

There are currently bond issuances planned of range USD100-150m in USD and INR. Brexit is making it very hard for UK and other markets (like Singapore, Paris and Frankfurt as green bond investors are mainly EU) are being looked. 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.

Section 3: Impact on Education Sector

Britain's exit from the EU is expected to open up significant business and economic opportunities for the Indian Education Sector. Education in UK will likely 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.

Impact on Outbound Education seekers

Pre-Admissions - FAVOURABLE

- Possibly better admit rates for Indian students, as number of EU applications may fall.
- Possible decrease in international student fee - as low fee for EU candidates could go, which is cross subsidised by higher international student fee. This could also lead to more scholarships for Indian students.
- Depreciation of Pound may lead to lower total cost of education for Indian students in the short term.

EU students have been contributing to UK economy as they tend to stay back after finishing education. This will create more job opportunities for non-EU students in UK.

Post Completion - NEUTRAL

- Possible points based system may be more favourable for Indian students completing education in UK - leading to arrest in decrease in Indian student recruitments in UK (with Visa rules similar to Canada/Australia).
- Higher levels of intolerance towards immigration of foreign nationals (as observed during Brexit Debates and subsequent to the result) may however negate the attractiveness for Indian students.

Impact on Indian Higher Education institutes and Inbound Education

Research and Innovation- FAVOURABLE

- 23% of the ERC (European Research Council) funding goes to UK Universities. With Brexit ,UK Universities need to look for alternate corporate/multilateral donor sources of research funding.
- At the same time - with reduced research grants at UK Universities - possibility of joint research/collaborations with Indian Universities may rise so as to lower total cost of research.

- Under Horizon 2020, most universities and research institutes in UK had been receiving multi-year research grants. They may not qualify for the same now. This may open up research funding from UK for stronger partnerships with other non-European countries.

Collaboration and Exchanges - FAVOURABLE

- UK had strong collaborations in science related fields with EU institutions. With these collaborations considered non-local now and needing Visa and regulatory compliances - top Indian research institutions (which are mostly in the areas of science and technology) stand to gain.
- Programs like UKIERI may expand as UK students have lower mobility across EU and they look for other locations for internships and exchanges.
- Loss of Erasmus program may lead to UK universities look for exchange opportunities elsewhere which would be favourable for Indian institutions.
- As a substantial chunk of EU international students were at under graduate levels, tier-2 UK universities may have to look at joint degrees and credit transfers to get more students to bolster non EU enrolments at under graduate levels. This again may be favourable for Indian institutions in the current regulatory environment. In case the entry for Foreign education providers is permitted, this may also lead to more satellite campuses of UK universities to gain from lower costs in India.
- British universities may also be 'released' from curriculum alignment requirements of EU, and hence more open to innovations in partnership with other countries.

Effect on international student enrolment in India - NEUTRAL/FAVOURABLE

- Good Indian institutions could offer themselves as a potential low cost yet top quality institution for students from Eastern Europe (These students have access to GBP 9000 annual fee and preferential student loan in UK as home students). While this may require very concerted marketing and branding effort for "Brand Indian Education", this does open a small window of opportunity for Indian institutions. This is further substantiated by the Hobsons survey in May 2016 which indicated that 82% EU students would not prefer UK universities if they did not get "Home" fee and loan terms.

At the moment, there are no foreseen direct/indirect implications on the Indian school education sector.

Section 4: Impact on Immigration

Opposition to free movement of labour from the EU along with, “taking back control” and “sovereignty” have been widely stated as main reasons for a 51.9 per cent vote to leave the EU. As indicated in the survey results, a majority of respondents (43 per cent) believe that there will be a decrease in migration of professionals and movement of Intra-Corporate transferees (ICTs) from India to the UK due to Brexit. However, chronic skill gaps and labour shortages remain a reality and have been widely [reported](#).

On April 5th, 2016, with the support of the UKIERI and the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India, [transnational standards](#) for 82 job roles were launched. However, if this partnership and many such others are to be considered meaningful and if India is to consider Brexit as an opportunity especially in increasing the mobility of people between the two countries, it is essential that if the UK and India are to negotiate an FTA, it should include a clause on the movement of people.

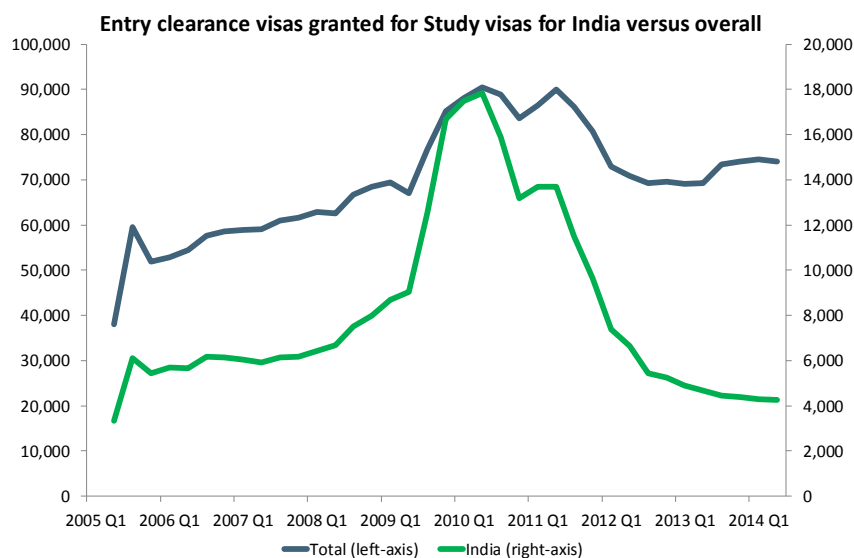
While a majority of Indian companies with operations overseas believe that signing an FTA will mitigate the negative impact of Brexit (63 per cent), it is important that such an instrument is a hybrid agreement that incorporates the movement of people as a natural corollary to the movement of goods, capital and services so that the impact on mobility of professionals and ICTs is not as negatively impacted as anticipated.

So far, India ranks number one in the top 10 nationalities granted work-related visas in 2013, and in the top 10 nationalities granted extensions to stay for work. The following graphs show that the incidence of successful visa applications is the highest for Indians:



(Source: Home Office Immigration Statistics, Entry clearance visa tables - vi_01 to vi_05_q; <https://www.gov.uk/government/statistics/immigration-statistics-april-to-june-2015-data-tables>; Home Office, Immigration Statistics April to June 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/345771/entry-visas3-q2-2014-tabs.ods)

Student mobility: Student mobility to the UK reduced significantly post 2010-11 due to the stringent laws and policies put in place for students in line with the approach to reducing immigration. Students aspiring for tertiary education overseas do make a cost-benefit analysis that determines their decision on whether, where, and where to go. For the UK, the availability of the Post-Study Work (PSW) Visas were a major attraction for students as these were granted automatically on the completion of education. However, post 2010-11, a precipitous decline is observed as these automatic visas were no longer guaranteed. On the other hand, mobility to the United States remained consistent in the years 2010-11, 2011-12 (the years on decline in the UK) at 24,000-25,000 (US State Department, Annual Reports of Non-Immigrant Visas Issued by Classification and Nationality).



Source: Home Office Immigration Statistics, Entry clearance visa tables - vi_01 to vi_05_q; <https://www.gov.uk/government/statistics/immigration-statistics-april-to-june-2015-data-tables>; Home Office, Immigration Statistics April to June 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/345771/entry-visas3-q2-2014-tabs.ods

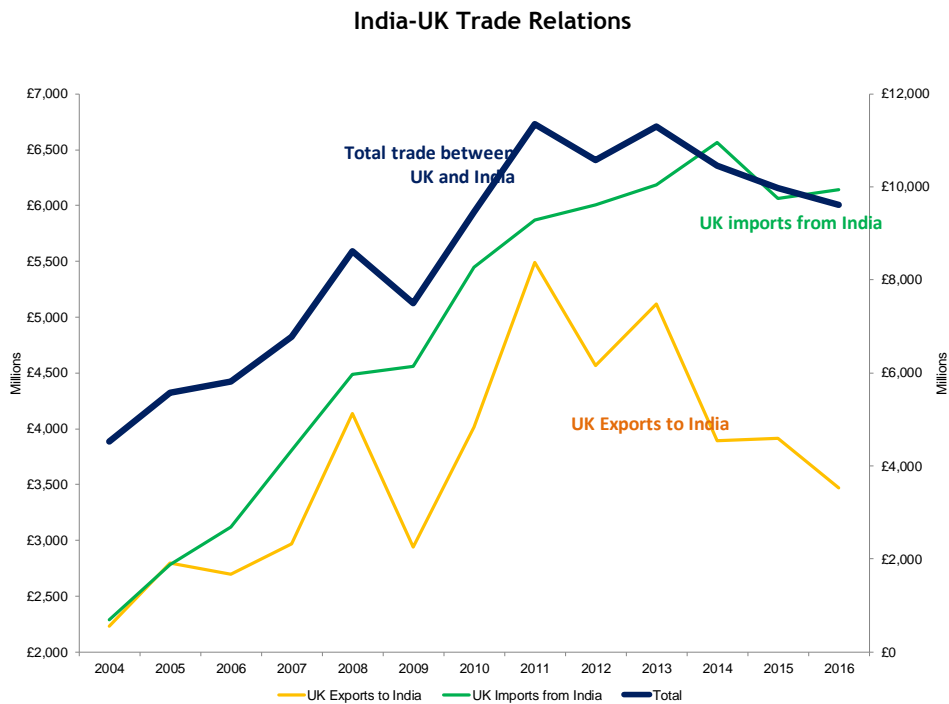
It must be noted that student mobility represents an important migration pathway for high-skilled workers from India. The UK itself is recognizing the need to link universities with labour markets to address its chronic shortages through initiatives such as the [‘Birmingham Skills Engine’](#). It is imperative that any negotiations on mobility should include making the UK a more attractive place for the best and the brightest of Indian students.

Final thoughts

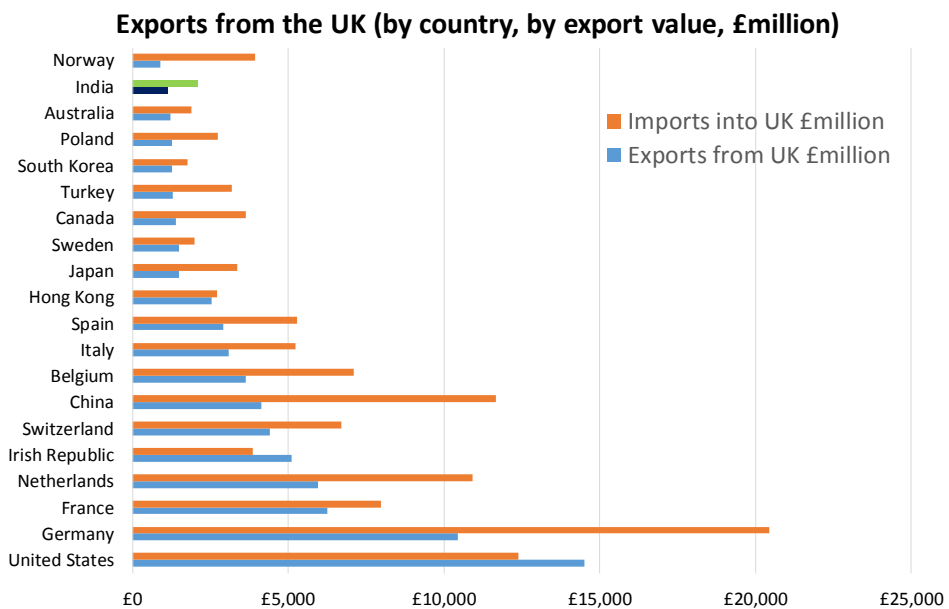
While uncertainty looms large on the future of Brexit, it is important to remember that if a ‘Brexit light’ option is negotiated, it would necessarily entail accepting free labour movement from the EU. In such a scenario, it remains to be seen whether there will be a significant difference in immigration from what is now considered ‘business as usual’.

In the scenario that the UK does actually negotiate an FTA without labour movement weaved in as one of its essential pillars, the stocks of EU immigrants in the UK or Britons in the EU are unlikely to [reduce significantly](#) as, “under a principle enshrined by the Vienna Convention on the Law of Treaties 1969, withdrawal from a treaty releases the parties from any future obligations to each other but does not affect any rights or obligations acquired under it before withdrawal” [Migration Watch, UK]. Therefore, any implications on immigration in such a scenario would have to bear this in mind.

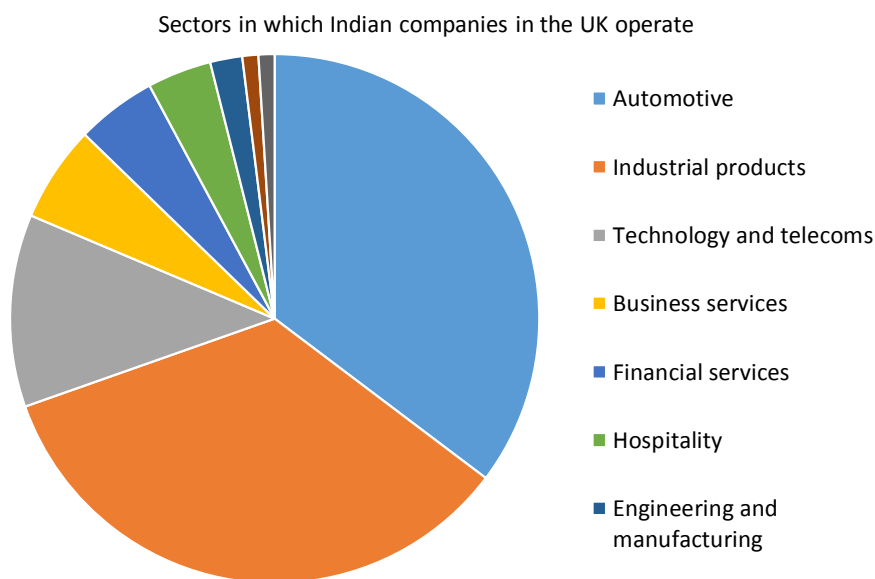
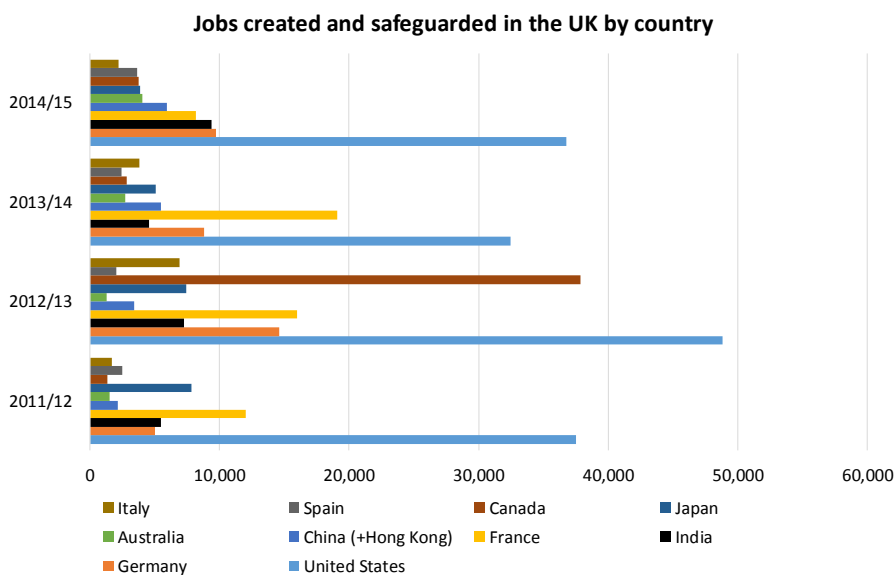
Annexure: India-UK Trade and Investment relations



Source: Office of National Statistics



Source: <https://www.uktradeinfo.com/Statistics/Pages/Monthly-Tables.aspx>



Source: Grant Thornton India Tracker, 2014 and 2015

Largest Indian employers in the UK

Company	2015	2014
Tata Motors Limited	32,969	25,640
Tata Steel Limited	30,623	32,611
The Bombay Burmah Trading Corporation Limited	5,022	4,619
Essar Global Fund Limited	4,376	3,951
Cox & Kings Limited	3,574	3,081
Cesc Limited	3,371	3,090
HCL Technologies Limited	3,149	2,971

Company	2015	2014
Tata Consultancy Services Limited	3,031	3,143
Tata Chemicals Limited	1,528	1,254
Tata Global Beverages Limited	1,067	1,280
Hinduja Global Solutions Limited	1,045	-
TVS Logistics Services Limited	1,043	-
India Hospitality Corporation	-	2,726
Tops Security Ltd	-	1,913

Source: Grant Thornton India Tracker, 2014 and 2015