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Adverse Impacts of Brexit on the Trade between UK and India

Eera Bahety

Anil Surendra Modi School of Commerce, NMIMS, Mumbai, Maharashtra, India

Abstract
It has been 5 years since the results of the Brexit referendum on June 23rd, 2016 and the world waits with bated breath to see the deal penned down by the negotiations between representatives of the European Union and the United Kingdom. FDI flow into Britain has slowed down to a trickle. Countries like India and Bangladesh, which used Britain as a launching pad for the larger European market, had increased trade with their former coloniser; India now stands as the UK's 17th largest trade partner (Office for National Statistics Pink Book for 2019 Goods and Services). An important aspect of trade between these economic giants is the high demand for premium goods by affluent Indians, and the ability of English luxury brands to satisfy that need. However, Brexit threatens to derail this trade. The large influx of Indian workers into the UK, along with the more than 800 Indian companies which have set up operations there, ensure that signing a Free Trade Agreement with India is a priority for smooth trade to continue. This research paper attempts to highlight the adverse effects of Brexit on the trade between India and the United Kingdom, and attempts to suggest solutions for the same.

Introduction
The process of Britain’s exit from the European Union (dubbed ‘Brexit’) started when a referendum was held on June 23 2016, to decide whether Britain should exit or remain in the European Union. With 51.9% of voters voting for the exit of Britain from the EU, the country formally notified the Union on 29th March 2017, invoking Article 50 of the Treaty of the European Union. It is the first time since the EU was founded in 1957 that a member country is leaving, even though the UK had certain reservations even prior to this move. Spurred on by the wave of nationalism and fueled by issues of unrestricted migration, high budget contributions, restrictive trade policies and the bureaucratic nature of the European Parliament, the UK withdrew its membership from the European Union on 31st January, 2020. This decision shall have a strong impact on the Indian Economy, as India is one among the highest investors within the UK. India invests more within the UK than within the remainder of Europe combined, emerging as the UK’s third-largest FDI investor.
For India, the United Kingdom was the entry point to the European Union. Uncertainty within the financial and investment market has led to a free-fall within the value of the GBP, because the threat of excessive tariffs and trade barriers looms large in light of a no-deal situation. However, statements from the Indian Finance Ministry have said that the country has sufficient exchange reserves to handle any impact. When the residue settles, India could emerge as a net gainer.
By highlighting the trade details between UK-India, along with a survey of consumers importing British goods, this paper will attempt to offer a critical view on the trade-related impacts of Brexit, especially with regard to India. The survey would act as a sample for gauging changing consumer preferences towards

British goods. With a preliminary understanding of the research problem, it is understood that Brexit has led to large-scale upheavals in the trade terms that the UK has with many countries, which needs to be resolved soon in order to reduce disruptions in global trade.

Review Literature

Brexit and its Impact on India's Export Business by VVLN Sastry presents a thorough study of the short-term impact of Brexit on Indian businesses, using a case-study method. It highlights the need for Britain to cater to the interests of Indian businesses and investors, by providing lucrative tax breaks and incentives.
Walpole, the official sector body for UK luxury brands, published a comprehensive policy recommendation, Thriving after Brexit, for bureaucrats negotiating the Brexit deal. It correctly spells out the immediate impacts of the move on its members, while also suggesting plans for helping international trade and investment, trade with the EU, talent and skills, legislative framework to protect the sector, and tourism. It also highlights possible inroads that British luxury brands can make into the international market, and how they can thus secure their future.
Dirk Kohnert, through his work, suggests that Britain needs to view the interests of India, Pakistan, and Sri Lanka as an important factor while formulating its international trade policies, as its trade with these important South Asian countries has been hampered by Brexit and Covid-19, and it is the moral obligation of the former coloniser to support them. On an economic and political front, these countries hold a lot of power, and the literature states that the British government can make an economic union with these countries, as the CANZUK bloc with Canada, New Zealand and Australia.
Another literature on the impact of Brexit on India by Alka Singh et. al. posits that since the exit of the UK from the EU has taken place due to peoples' feelings of nationalism, it would lead to a more restricted economy. The absence of new free trade agreements with most nations of the world corroborates this hypothesis, as do the new migration and visa policies of the UK. Hence, it suggests that Indian importers will largely suffer from this move, as it will make the regulations of buying goods from the UK more rigid and cumbersome.
A literature by Rashmi Banga states that since India has been negotiating a broad-based trade and investment agreement with the EU since 2007 which is still inconclusive, an India-UK FTA might pre-date the one with the EU as it would be easier to negotiate with one country, rather than accommodating the demands of 27 countries at the same time. However, it states that for an FTA to be concluded successfully, high flexibility on both sides is needed.

Research Methodology and Design

1. Research Objectives-

The main objective of this paper is to study the impact of Brexit on the trade relations between the United Kingdom and India, and-

1. To find out the changes in the trade terms of UK with various countries
2. To study the changes in the volume of trade between UK and India
3. To find out the impact on luxury imports from UK by Indian customers
4. To investigate the impact on leather exports from India to the UK
5. To suggest policy recommendations for a new UK-India trade deal

2. Hypotheses-

H1: UK's trade terms with countries have been affected by Brexit

H2: Trade of luxury goods has been affected by Brexit
H3: Average bill amount per import has reduced post-Brexit
H4: Import regulations have increased post-Brexit
H5: Amount of customs duty has increased post-Brexit
H6: GDP of other countries has been affected by Brexit
H7: Leather exports from India have been affected by Brexit

3. Research Design-

The descriptive research design was used, as the paper attempts to study the magnitude of changes in UK-India trade due to Brexit, with a longitudinal study of trade volumes and customer bill amounts using quantitative analysis.

4. Sample Selection-

The population under consideration consists of all the Indian customers importing goods from UK-based companies. For this research, convenience sampling was used. The questionnaire was administered to 63 respondents, through WhatsApp medium.

5. Data Collection-

To accomplish the research objectives of the study and to address the research question, this study uses both primary and secondary data collection techniques-

1. Primary Data-

In order to understand consumer import behaviour and their purchasing decision, I used surveys as the method to collect data from the viewpoint of the customers. Since the research is quantitative in nature, I chose a questionnaire survey as the instrument for data collection. A self-designed structured questionnaire consisting of 12 questions was used, with a 5-point Likert Scale (where 1 indicated more restrictive changes and 5 indicated more relaxed changes), a few questions using the nominal scale and a few questions that measure import bill amounts in the ratio scale.

2. Secondary Data-

For further understanding of the background of the problem, along with a better analysis of the impact of Brexit, secondary data sources such as published research papers, journal articles, news articles, and TED talks were used. Moreover, trade data from government and UN websites was analysed to ascertain changes in UK-India trade.

Findings and Discussion

1. Demographic Details of Customers-

Table 1. No of respondents in percentage in age category

Age (years)	Percentage (%)
11-20	17.5
21-30	25.4
31-40	25.4
41-50	12.7

51-60	12.7
60+	6.3

Table 2. No of respondents in percentage in area category

Area	Percentage (%)
Rural	14.3
Semi-urban	36.5
Urban	49.2

Tables 1 and 2 explain various percentage figures explaining demographics details of customers that include age and the area they belong to. While there is a diverse group of customers by age, it can be clearly seen that most customers are from urban areas, with a small percentage importing goods from rural areas.

2. Preferences of Customers-

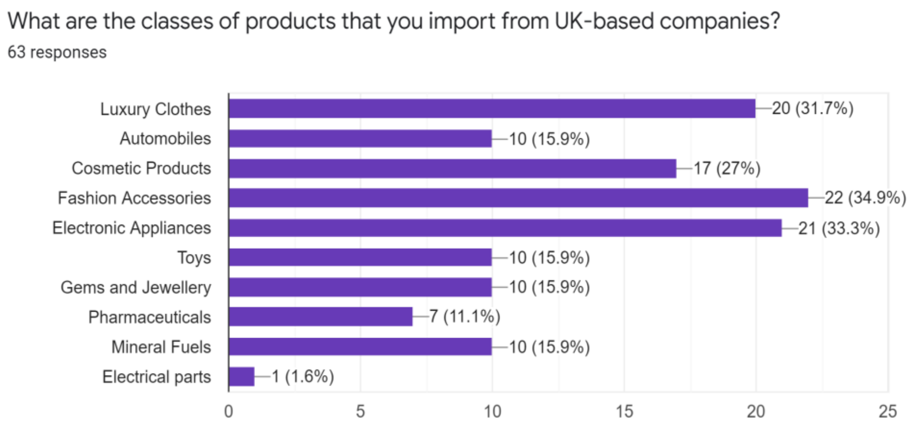

Figure 1. Product preferences of customers

The above figure shows consumers prefer to import fashion accessories, cosmetics products, clothes and electronic appliances the most, which signals towards a young consumer base, who can be assumed to be highly sensitive to price changes due to Brexit. Moreover, these products have a lot of domestic competition in India, which means that even a slight change in prices or custom duties can make customers switch their demand to a cheaper, domestic product.

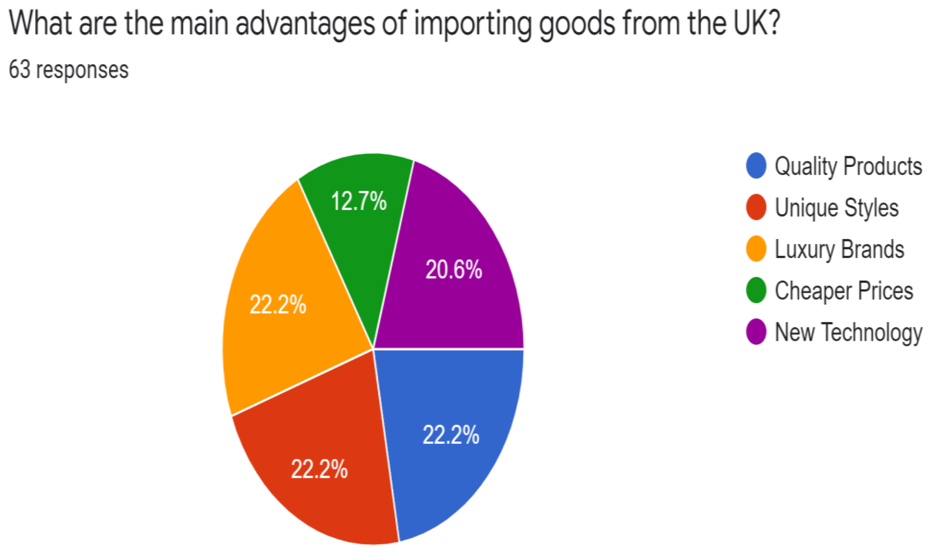

Figure 2. Benefits of importing goods from UK-based companies

With almost all the potential benefits getting equal responses, it is important to note that cheaper prices are not a big benefit offered by British goods. This goes on to highlight the huge impact that increased product prices due to custom duty and an unfavourable exchange rate can have on an already costly good.

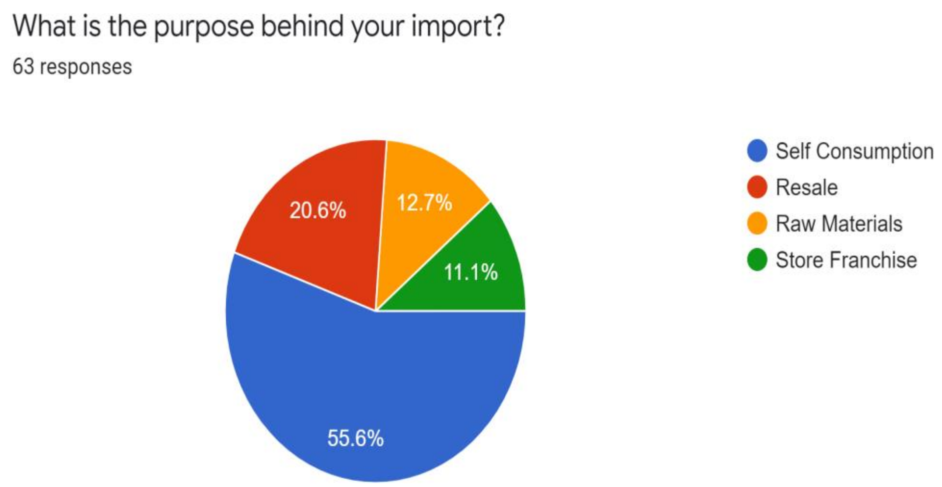

Figure 3. Customers' purpose for importing goods

The primary purpose of customers behind importing goods from the UK appears to be self-consumption, which contributes to the assumption that the average importer would be highly susceptible to the harmful effects of Brexit on the import procedure.

3. Import Frequency and Bill Amounts of Customers-

Figure 4. Import frequency of customers

Since a large number of customers import goods more than once a year (with most of them being franchise stores and production houses buying raw materials), a pre-Brexit FTA is necessary for providing ease of business to them.

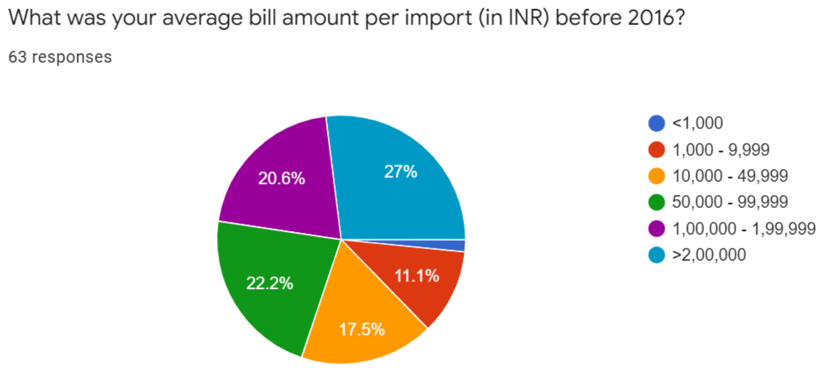

Figure 5. Average bill amount pre-Brexit

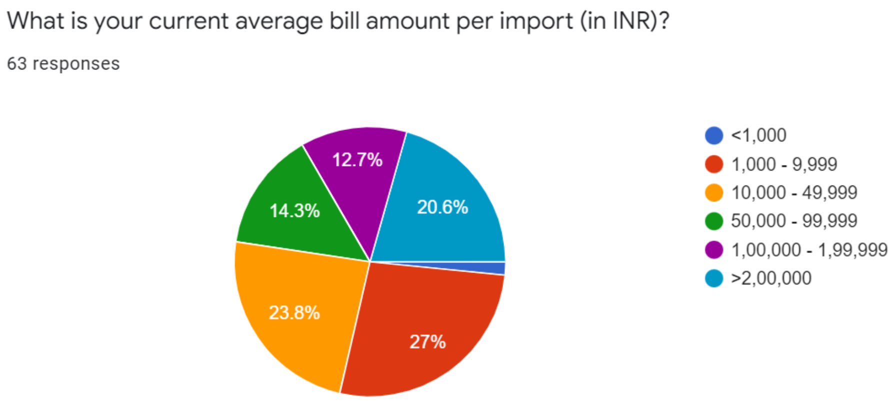

Figure 6. Average bill amount post-Brexit

Through Figures 5 and 6, we can see that the average bill amount of customers before and after Brexit shows that there has been a general reduction in the amount due to the move. Before Brexit, around 47%

of the customers had bill amounts of more than ₹1,00,000, which got reduced to 32% after Brexit. This proves that purchases of large amounts of goods have reduced due to the restrictions faced by importers post-Brexit.

4. Challenges while importing goods from the UK-

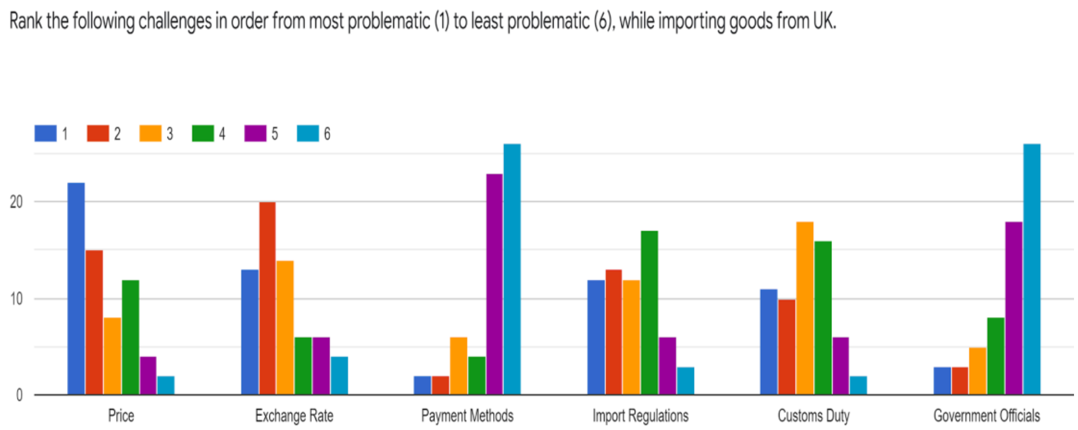

Figure 7. Main challenges faced by customers importing goods

Through this question, it is clear that price and exchange rates were the most problematic factors while importing goods from the United Kingdom before Brexit. These factors are important for both household and corporate customers. With regards to payment methods and government officials, we can see that these are not important challenges faced by them, which can largely be attributed to the shift of these practices to an online mode, which makes them more accessible and less bureaucratic.

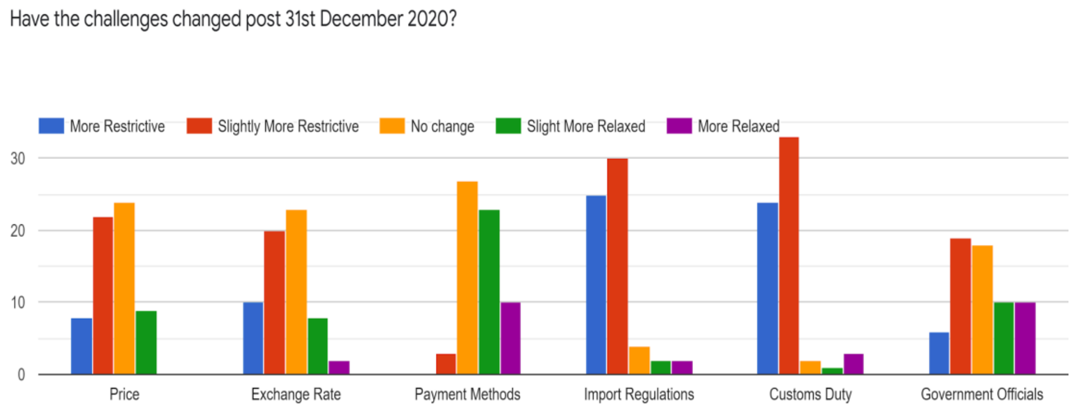

Figure 8. Change in problems post-Brexit

Post-Brexit, there is a huge difference in the challenges faced by importers, with import regulations and customs duty emerging as more restrictive problems. This can be attributed to quota restrictions, high import tariffs, and rigid compliance mechanisms between the two countries due to the absence of a Free Trade Agreement. The prices and exchange rates also seem to have changed for the worse, which contributes towards a lesser bill amount due to reduction in purchases by customers.

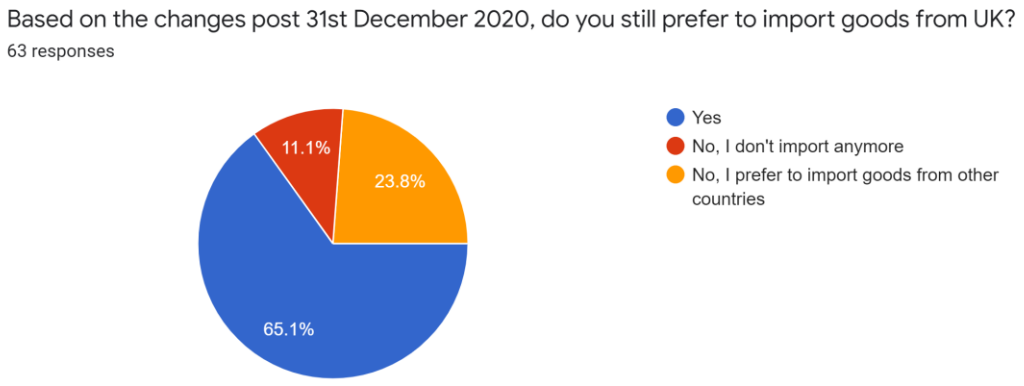

Figure 9. Willingness of customers to import goods from UK post-Brexit

Through the responses, we can see that despite the changes, a large population still prefers to import goods from the United Kingdom, which could be due to the various benefits offered by these goods, as depicted in Figure 2. However, it is important to note that around 35% of the respondents stated that they would rather not import goods anymore, or import from other countries, which paints a worrisome picture for the volume of trade between UK and India in the absence of a FTA.

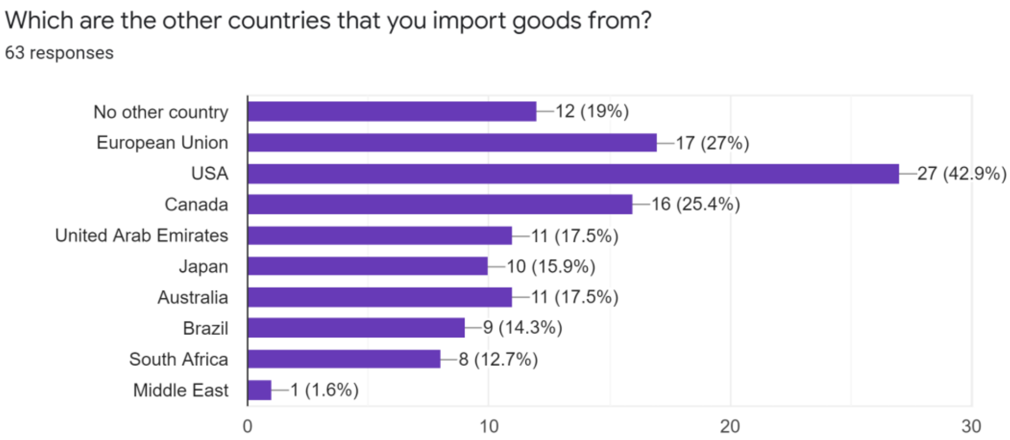

Figure 10. Country preferences of customers who import goods

The last question acts as a measure of alternatives available to Indian customers in the absence of a FTA in the near future with the UK, with the United States of America emerging as the most preferred. This could be due to favourable trade relations between the two countries, along with a diverse market of goods available for Indian customers. The United Kingdom needs to be wary of the trade deals signed by India with any of these countries, as a lot of demand for British goods might shift in the light of those deals.

5. Impact of Brexit on UK-India trade-

Table 3. Summary of UK's trade with India from 2016-2021

Year	Trade Flow	Trade Value (US$)
2016	Import	8,596,120,937
2016	Export	4,425,198,231
2017	Import	9,179,510,043

2017	Export	5,250,483,221
2018	Import	9,668,982,957
2018	Export	6,613,178,745
2019	Import	9,846,127,727
2019	Export	5,878,702,713
2020	Import	7,464,527,133
2020	Export	3,926,449,696
2021	Import	11,326,323,781
2021	Export	6,077,147,083

Looking at the summary of trade between the two countries over the years, it can be clearly seen that British exports to India, i.e., imports by Indian customers, have marginally increased from $4.5 billion to $6 billion dollars, with a large dip in the value for 2020 ($4 billion). This increase, in the backdrop of rising inflation, high expected Compounded Annual Growth Rate (CAGR) of the market, and more globalised shopping habits of customers, is too small, which is mostly due to the unfavourable changes in the pound-rupee exchange rate, increase in custom duty, and higher import quotas imposed post-Brexit. Taking a look at the imports to India, i.e., exports by Indian firms, there has been a steady increase from $8.5 billion in 2016 to $11.3 billion in 2021. This can be attributed to a stronger pound, in comparison to the rupee, and also to lesser restrictions placed on trade by the Indian government. It sends a signal to the British government to give more importance to Indian interests in its trade policies.

6. Changes in Leather Exports from India

Table 4. Leather exports from India to UK from 2016-21

Year	Amount (in million US$)
2016-17	608.29
2017-18	616.41
2018-19	597.3
2019-20	234.72
2020-21	235.34

There is a clear trend of reduction of leather exports from India to the United Kingdom, which can be attributed to high import tariffs put by the British government on these goods, along with the lesser value of rupees as compared to the pound sterling.

7. Impact of Brexit on Rest of the World

Table 5. GDP impacts of Brexit by region

Region	Real GDP (% change)	
	2020	2030
EU28	-0.308	-0.649
UK	-1.349	-2.54
EU27	-0.126	-0.237
Ireland	-1.042	-2.76
Bellux	-0.42	-0.881

Region	Real GDP (% change)	
	2020	**2030**
EU28	-0.308	-0.649
UK	-1.349	-2.54
Netherlands	-0.191	-0.388
Baltics	-0.095	-0.354
Denmark	-0.159	-0.344
Mediterranean	-0.129	-0.319
Iberia	-0.11	-0.251
Germany	-0.097	-0.253
Poland	-0.094	-0.236
CEECs	-0.084	-0.23
Sweden	-0.121	-0.245
France	-0.106	-0.21
Italy	-0.051	-0.146
Finland	-0.077	-0.157
Austria	-0.041	-0.118
Adriatic	-0.054	-0.121
Canada	0.01	0.035
Japan	0.009	0.036
Russia	0.014	0.033
USA	0.006	0.023
China	0.011	0.027
World Total	**-0.059**	**-0.091**

The impact of Brexit on the real GDP of multiple countries across the world can be seen as largely negative, which highlights the fact that the move has brought about a slump in global trade. With the UK, EU27 (the group of countries in the European Union post-Brexit) and other individual European countries being the worst sufferers, it is important to note that competitors such as Canada, Japan, Russia, USA and China have emerged as net gainers from the move. This could be attributed to the shift in consumer preferences towards these countries, as highlighted in Figure 10, as trade with the United Kingdom becomes more cumbersome.

Hypothesis Testing

With the data obtained through the primary and secondary sources analysed and interpreted, it is time to revisit the hypotheses and see how they have fared.

H1: UK's trade terms with countries have been affected by Brexit

It is clear that the trade relations of countries with the United Kingdom have drastically changed since Brexit, given that all previous agreements that these countries had with the European Union no longer apply to the UK. This is corroborated by the abundance of literature available on the same, which acted as secondary data for this paper. Hence, this hypothesis is accepted.

H2: Trade of luxury goods has been affected by Brexit

Within the survey, most respondents who answered that they import luxury clothes and automobiles from the UK also said that their average bill amount has reduced post-Brexit. It is clear that an increase in the manufacturing costs to these companies due to a lack of experienced workers and raw materials is being translated to higher costs for the customers, which has made a large percentage of them not wanting to import luxury goods from the UK. This hypothesis thus stands in the light of the decrease in trade of luxury goods post-Brexit.

H3: Average bill amount per import has reduced post-Brexit

Through Figures 5 and 6 and the analysis of the same, we can see that the average bill amount for every category of importers has reduced post-Brexit. This could be attributed to price-sensitive customers changing their consumption patterns, or businesses and industries changing the source of their raw materials in the light of higher import regulations and tariffs. The hypothesis is accepted with the backing of the data from the questionnaire.

H4: Import regulations have increased post-Brexit

H5: Amount of customs duty has increased post-Brexit

These two hypotheses are proved with the overwhelming response of the Indian importers stating that import restrictions and customs duty had become more restrictive challenges while importing goods from the UK post-Brexit. This was a predicted circumstance, as the borders of the United Kingdom were closed after leaving the European Union, followed by the strict lockdown imposed due to the Covid-19 pandemic.

H6: GDP of other countries has been affected by Brexit

Through Table 4, we can see that the real GDP of countries across the EU bloc have been negatively affected by the move, while competing countries stand to gain from increased imports by customers switching over from the UK. Hence, this hypothesis stands accepted.

H7: Leather exports from India have been affected by Brexit

Table 5 proves this hypothesis, as the amount of leather exports from India to the United Kingdom has declined from $608 million in 2016-17 to $235 in 2020-21.

It is clear from the above statements that Brexit has affected the capacity of the United Kingdom to trade with countries across the world, with a huge adverse impact on the trade with India.

Policy Recommendations

Next, I'll attempt to highlight the possible scenarios in which Brexit could play out in the future and suggest certain policy recommendations and mitigatory actions that the United Kingdom could take, in order to prevent the large-scale harms associated with the move.

Table 6. GDP impacts of Brexit in 4 possible scenarios

Countries	Real GDP of 2030 (% change)			
Scenario	**BREXIT**	**BREFTA**	**BREXIT with Single Market Effect**	**BREXIT with UK-US FTA**
UK	-2.54	-0.97	-2.5	-2.39
EU27	-0.3	-0.11	-0.4	-0.4
Canada	0.03	0.02	0.05	0.04
Japan	0.04	0.01	0.05	0.05
Russia	0.03	0.01	0.06	0.06
USA	0.02	0.01	0.04	0.06

China	0.03	0.01	0.04	0.04
World Total	**-0.09**	**-0.03**	**-0.09**	**-0.09**

As it can be seen through this table, there could have been 4 possible scenarios in which Brexit could have played out. With the absence of a trade deal between the UK and the EU, the second scenario of Brexit with an FTA (BREFTA) is no longer possible, and neither is the third scenario as Britain has left the European Union Single Market. While the BREFTA scenario would have been most advantageous for the world, and for the individual countries involved, it was not the case. The next best option would come through an FTA being signed between the UK and the USA, which would ease restrictions on trade between the two economic superpowers, with similar FTAs between India and the United Kingdom making the scenario even more favourable. Finally, the scenario of a hard Brexit without a clear trade deal with any country (i.e, status quo) presents a bleak image of the future of global trade in the near future.
There is a strong likelihood that the UK might join the European Economic Area, for access to a single market for movement of goods, capital and labour; while this move is beneficial for Indian companies as they retain access to the European market, British companies will continue to be subjected to conservative policies of the Union. The country might also accede to the World Trade Organisation, in hopes of setting its import-export policies. Key companies, especially in the luxury automobile segment, are looking to secure favourable bilateral treaties with major importing countries, especially South Asian countries where there is a huge demand for their products. More liberal policies (eg. relaxed competition laws, no import quotas) would entice countries like India to contribute higher amounts as FDI, with Indian companies carrying out mergers and acquisitions with UK-based companies. The need for a Free Trade Agreement with major trade partners is very high, as it would rejuvenate the trade between the two countries. Finally, the surplus amount tied up in EU budgetary payments can be invested in the enhancement of vocational training institutes, to train skilled designers and workers for manufacturing premium fashion goods, which would reduce the cost of such products.

Conclusion

For the United Kingdom, the implications of hostile relations with the EU are worrisome, as restrictions to the free movement of manpower and materials across the continent severely hamper the ability of companies to enjoy profitable margins. Once the dust settles, the UK is likely to overcome the short-term recession and emerge as a liberal independent economy. Brexit can therefore, in the long run, pave the way for India's integration with the rest of Europe and strengthen its trade relations with the UK. Negotiators need to expedite the process of coming to a mutually agreeable decision, and keep in mind the economic, political, and cultural interlinkages of the two countries while formulating a deal. Till that happens, the ramifications of Brexit will continue to adversely affect the trade relations between the two countries.

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