Amid Brexit shocks, Indian elite seeks “new opportunities”

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Despite the British decision on June 23 to quit the European Union sending shock waves through the global financial markets, the Indian government is downplaying the immediate impact and seeking to exploit the crisis politically and economically.

Before the referendum, ministers, commentators and officials in South Asian countries—including Indian Prime Minister Narendra Modi—expressed anxiety over the possible fallout from a “Leave” vote and generally backed the “Remain” campaign.

The day after the Brexit vote, the Indian rupee sank by 1.1 percent and hit 68.22 to the US dollar, not far from the record low value of 68.85 set in August 2013 when India was in the midst of its worst currency crisis in more than two decades. The Sensex and the Nifty share indexes fell by 2.5 percent each.

India was 10th largest trade partner of the EU in 2013 and the value of EU-India trade was €72.5 billion in 2014. In the UK, which Indian business regards as its “entry point” to the EU, India emerged as the third largest source of Foreign Direct Investment (FDI) in 2015, after the US and France, in terms of the number of projects. There are about 800 Indian-owned companies in the UK, employing roughly 110,000 people. Many of these firms have invested in Britain with the wider European market in mind.

Indian companies like the Tata Group, which operates Jaguar Land Rover (JLR), Tetley Tea and Tata Steel UK, were among those immediately affected by the Brexit vote. Shares in JLR, which contributes almost 90 percent of Tata Motors’ profits and gets a quarter of its sales from Europe, plunged 7.9 percent. Tata Steel shares tumbled 6.4 percent, the largest decline since 2012.

Tata Steel shares fell further by 4.8 percent in Mumbai last Thursday. The company announced in March plans to sell its UK assets after years of losses. Following the Brexit decision, however, Tata had to temporally halt the sale as many shortlisted bidders withdrew due to the uncertainty.

Before the referendum, Reuters, quoting company sources, reported that JLR estimated its annual profit would be cut by £1 billion by the end of the decade if Britain left the EU.

All these companies will respond to the crisis by launching attacks on the wages, jobs and conditions of workers, many of whom are immigrants.

Another badly hit sector is India’s $US100 billion software services export industry. The EU is the second largest market for the Indian IT and business process outsourcing (BPO) industry, contributing almost 30 percent of the industry’s export revenue, with the UK contributing 17 percent.

The *Economics Times* on June 25 noted: “Indian IT companies may also need to establish separate headquarters/operations for EU, which may lead to some disinvestment from the UK. Another concern is around mobility of skilled labour across the EU and UK which could be impacted.”

The article, titled “Indian IT firms face spending cuts, disruptions,” quoted Wipro Ltd., one of India’s largest software exporters, which employs over 4,000 people, as saying it watches “with deep interest the unfolding developments in the UK and its potential impact on a host of factors, including mobility of labour, changes in financial system, and the currency.”

The EU is India’s largest apparel market, with 37 percent of all exports, of which the UK has the biggest share—around 30 percent. “Its [Britain’s] exit would significantly dilute the relevance of the EU FTA [Free Trade Agreement] for us,” Apparel Export Promotion Council chairman Ashok G. Rajani said. Millions of workers in this sector, which is notorious for cheap labour exploitation, will face even worse conditions.

India's Bharatiya Janatha Party (BJP)-led government attempted to downplay the Brexit implications. According to the Modi government, the Reserve Bank of India's holdings of $US363.8 billion will be an "immediate and medium term firewall." Finance Minister Arun Jaitley told CNBC on June 26 that "strong fundamentals," such as "a high growth rate" and "fiscal discipline" would ensure the impact was not "significant."

Jaitley added: "There is no reason to believe that the reform process in India will be slowed down or there will be a change in direction." This "reform process" consists of dismantling any remaining regulatory and legal barriers to the unimpeded exploitation of the country's cheap labour and natural resources, as demanded by international investors. Last month, the BJP government announced it would open up several previously restricted sectors of the economy to 100 percent foreign direct investment and ownership.

Some analysts argue that India can gain from the Brexit crisis by exploiting the weakening of Britain's position as a financial centre. Mark Mobius, executive chairman of Franklin Templeton Investment, told the *Economic Times*: "If you take India, there is no reason why it cannot become an important global financial market, if the government allows free exchange of currency and general liberalisation."

The Modi government's recent unsuccessful bid to enter the Nuclear Suppliers Group (NSG), the world body regulating the nuclear trade, was a part of New Delhi's attempts to boost its status among global powers. Indian geo-political analyst Raja Mohan said the NSG bid was about making India a "shaper of the global order." Despite its failure to enter the NSG, India was granted the membership of the Missile Technology Control Regime (MTCR), one of four components of the UN non-proliferation regime.

An opinion article in *Live Mint* on July 4, titled "Brexit, missile control and India," by W.P.S. Sidhu, a senior fellow at the New York University's Center on International Cooperation and the Brookings Institution, said: "Both Brexit and the MTCR membership provide opportunities and challenges for New Delhi to shape the rules of the emerging world order, particularly on issues of vital interest." He added: "The challenge of course, is whether New Delhi will seize the opportunity to step into this role before countries like China occupy it."

India has been already working to boost its military, political and economic position in the Asia-Pacific region, and also in Africa, to counter China's growing influence. India's moves are in line with Washington's strategic agenda against China, while motivated by its own interests. New Delhi's attempts to exploit Brexit for its own strategic interests will further intensify geo-political tensions between India and China, escalating the danger of war.