

Navigating New Trade Frontiers: The India-UK Economic Relationship Post BREXIT



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Abstract

Following Brexit, the United Kingdom has sought to redefine its global economic position through new trade partnerships and policy realignments. It has signed trade agreements with countries including the United States, India, New Zealand, and Singapore, and joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). These initiatives aim to diversify markets, enhance competitiveness, and stimulate growth. However, economic studies suggest that the UK's output is about 2.5% lower than it would have been under continued EU membership, with public finances losing around £26 billion annually. While India now has a larger overall GDP, the UK maintains higher per capita income and living standards. Trade with Europe has narrowed, though services exports have risen beyond pre-2019 levels, showing resilience. Investment inflows and productivity, however, have declined. The study employs a qualitative secondary research methodology, analyzing post-Brexit trade and investment trends using data from the Office for National Statistics (ONS), government publications, academic journals, and policy reports. A descriptive and analytical approach is used to compare pre- and post-Brexit economic indicators. The research objective is to examine how Brexit has influenced the economic relationship between the UK and India, focusing on trade patterns, FDI flows, and policy realignments, including ongoing Free Trade Agreement (FTA) negotiations.

Keywords: Trade Features, BREXIT, Economic, UK and India

Introduction

Prior to Brexit, in 2015 the total trade between the UK and India stood at about £16.4 billion, with UK exports to India at roughly £7.1 billion and imports from India around £9.3 billion, leaving the UK with a trade deficit of approximately £2.2 billion. By 2024, trade had expanded to £42.6 billion, with UK exports reaching £17.1 billion, imports £25.5 billion, and the trade deficit widening to £8.4 billion. The critical insight here is that while gross trade volumes with India have grown substantially in the post Brexit period, the UK's trade position has deteriorated structurally and exports have not kept pace with imports, and

the UK's leverage as a gateway into Europe has diminished. The UK is thus relying more heavily on bilateral growth with India, but faces a higher risk profile given its weakened market access to the EU and the growing trade imbalance. Unless the UK can convert higher trade volumes into stronger export growth and balance of trade improvements, the post Brexit India engagement may be volumedriven but structurally fragile

India-Britain trade

Britain have executed a free trade agreement with India on 24th July 2025. Indian Prime Minister Narendra Modi and British Prime minister Keir Starmer have declared the conclusion of this

agreement. As per this agreement trade between UK and India by 2030 that is in 5 years will get doubled amounting to 10 lac cr rupees. Each year the trade would get increased by 2 lac cr rupees .99 percent of exports from India to UK will be tax free with 0 percent tax. Items covered are Agricultural Products, Textiles, Gems and Jewelry, Pharmaceuticals, chemicals and service sectors, Leather, plastics and electronics. It will be relevant to mention that most of these products are labour intensive and therefore this agreement will be helpful in mitigation of employment problems being faced by these sectors in India. (Khan, 2025)

Where the labor rates are fairly low as compared to UK. In India the labor rates vary depending upon the skill from rupees 300 per day to rupees 800 per day, as compared to this the labor rates in UK varies from 10 US dollars per hour to 15 US dollars per hour. This would mean that Indian products would be far cheaper than if the same products were manufactured in UK.

From Indian angle the manufacturers and traders will have sufficient market in UK, however UK industries manufacturing these products will face intense competition in the European Market

The Brexit Referendum

The Brexit referendum on June 23rd 2016 have its embryo in the Sunderland revolt which culminated in Brexit as a national policy was, an unprecedented global development. The United Kingdom voting for the leave from European Union (EU) is expected to have considerable socio-economic and political ramifications in the years ahead. According to preliminary estimates by standard and poor (Globally respected credit rating and thought leadership company benchmarking transparency and business growth) the UK credit rating was lowered from triple A to double A, as the decision is expected to cause skepticism among investors.

The EU referendum in Britain was a barometer of public opinion which is considered a juggernaut (huge powerful force) to determine the future of nation. The question" asked was who could save

the tory party" (conservatives) from anhelation. The answer was simple, delivering Brexit. This eventually was one of the basic reasons for exit of Theresa May who demonstrated hesitation in Brexit. Boris Johnson had already proven that he had the necessary credentials to enter the dawning street and commanded instant credibility needed to achieve public support and he was willing to leave the EU on world trade organization terms if necessary -A crucial point of principle for many leave voters.

Britain Exit (Cardinal Issues)

Those in favor to leave EU decisively with 52 percent of the votes, who lost their jobs to the advances in technology and global trade supported by voting out whereas those who saw their future in growing collaborations in research and the rise of new business voted to stay. In nutshell, Britain's decision to exit from the EU was political, economic and socio-cultural.

Britain relationship with the EU was in trouble ab initio. Many in the UK felt that the European parliament ministerial governance often works against British interests. Critics argued that its bureaucratic regulations stifled the UK innovation and competitiveness. Supporters of Brexit even claimed that EU membership meant surrendering too much control over national affairs. Britain faced a significant influx of immigrants, particularly from eastern and southern Europe whose arrival placed a heavy burden on housing and public services. Many felt that Europe, as a whole, had inadequately managed the migration crises, especially as millions of Syrians fled their homes seeking refuge. In the UK, some argued that these Eastern European migrants were taking jobs and disrupting local labor markets. Traditionalists, uneasy about the increasing visibility of foreign communities, their language, food, dress, and sometimes religious practices voted in support of measures designed to restrict and reverse migration.

UK being under the EU had direct financial burden in terms of its contribution to the European budget. Whereas Britain paid 13 billion to the EU,

it could receive only 4.5 billion in 2015. In addition, Britain found itself that being dependent on Europeans led to disappearing its own industries. A growing divide among the EU member states has been disheartening two countries using the same currency have ended up leading dramatically different lives within a single monetary union. The former Governor of the bank of England noted that this union has sparked a tension between a centralized elite and the democratic forces at the national level.

Britain has increasingly come to believe that by remaining in the EU -with its requirement for open borders -it is exposing itself to a higher risk of terrorist attacks.

Overall impact of Brexit

Impact on Trade: While the UK's post-Brexit "Global Britain" strategy seeks to diversify trade beyond Europe, its economic gains from agreements with countries like India remain uncertain and modest compared to historical EU trade volumes. Negotiations with India have been slow and complicated by sensitive issues such as tariffs, immigration, and regulatory alignment, reflecting structural challenges in translating political ambition into tangible economic benefits. Critically, India represents a potentially high-growth market with a rapidly expanding middle class and significant demand for services, technology, and manufacturing partnerships. Yet, the UK's limited negotiating leverage post-Brexit, combined with competition from other major economies already entrenched in the Indian market, suggests that capturing this potential will require more than trade agreements, it demands targeted investment in bilateral supply chains, skills development, and regulatory harmonization. Moreover, while the UK aims to position itself as a gateway for Indian firms into Europe, Brexit-induced barriers with the EU may undermine this role, reducing the attractiveness of the UK as a regional hub. In this light, the Indo-UK trade relationship is less about immediate GDP gains and more about strategic positioning, where the UK must critically balance sovereign trade policy ambitions with realistic assessments of market access and re-

gional integration challenges. Hadfield, A. (2020)

Impact on Investment: Brexit has forced a strategic recalibration of the UK's global economic positioning, with direct implications for its trade and investment relationship with India. While the UK seeks to compensate for lost EU market access through the "Global Britain" agenda, including trade negotiations with India, the effectiveness of these efforts remains uncertain. India represents a high-potential market with a growing middle class, advanced technology sectors, and increasing demand for services, areas where the UK could leverage historical strengths in finance, education, and professional services. However, Brexit-induced regulatory divergence and the erosion of the UK's role as a European gateway complicate this potential. Indian firms that previously viewed the UK as a launchpad into Europe may now reconsider, seeking alternative hubs with more predictable EU access. Similarly, UK firms targeting Indian markets face strategic trade-offs: while bilateral agreements can facilitate market entry, the limited scale and delayed implementation of such deals constrain immediate gains. Critically, Brexit exposes the UK to heightened competition from other global players, such as the EU, the US, and emerging Asian economies already entrenched in India, meaning that success will depend on targeted, sector-specific strategies rather than broad-based trade optimism. In essence, Brexit has transformed the Indo-UK economic relationship from one of relatively straightforward trade facilitation into a complex negotiation of access, regulatory alignment, and strategic positioning, demanding careful coordination to convert potential into measurable economic outcomes. (Driffield, N., & Karoglou, M. (2019).

Turbulence in Financial Markets: In the wake of Brexit, the UK's economic repositioning faces a dichotomy: on one hand, the landmark UK-India Free Trade Agreement signed in May 2025 is projected to raise UK GDP by £4.8 billion annually and boost bilateral trade by £25.5 billion in the long run. On the other hand, inward foreign direct investment has plummeted, with new FDI

projects falling to 1,375 in 2024-25 the lowest since records began marking a 12% year-on-year drop. This divergence signals that while the UK is gaining promising bilateral trade frameworks (notably with India), its attractiveness as a hub for global investment is deteriorating direct legacy of reduced EU market access post Brexit. The UK's future economic success will therefore depend not solely on new trade deals but on restoring investor confidence and bridging the investment gap sparked by its diminished gateway status into Europe. (Holmes, M., & Simpson, K. (Eds.). (2021)

India Preparedness

India's Economic and Geopolitical Position in the Post-Brexit Era: Brexit generated significant shifts in global trade, finance, and diplomacy, compelling emerging economies such as India to reassess their strategic positioning. India's preparedness reflected an understanding that the United Kingdom's exit from the European Union would alter global market access, capital flows, and geopolitical alignments. Economically, India sought to leverage this disruption by repositioning itself as an attractive destination for British investment and as a stable partner in Asia's expanding markets. The pursuit of an independent Free Trade Agreement (FTA) with the UK signified a broader attempt to secure preferential access, diversify export destinations, and reduce dependency on the EU bloc. This shift underscored India's aim to benefit from the reconfiguration of supply chains and trade networks triggered by Brexit. Geopolitically, India recognized that a post-EU Britain might pursue deeper bilateral ties beyond Europe, providing opportunities for enhanced defense, technological, and educational collaboration. Moreover, the Indian diaspora and shared democratic values positioned India as a natural ally in Britain's global outreach. Thus, India's response to Brexit was not merely defensive but strategically adaptive transforming potential disruptions into opportunities for expanded influence and sustainable economic growth (Hall, 2020)

Immigration: Brexit has significantly reshaped the UK's immigration landscape, generating mixed outcomes it was felt that the restrictions on the other EU citizens will be limited due to political reasons. Brexit has significantly reshaped UK-India immigration dynamics, leading to a notable increase in Indian migration to the UK. With the end of EU free movement, the UK introduced a points-based immigration system that treats EU and non-EU nationals equally, creating new opportunities for skilled Indian workers, students, and professionals. As a result, India has become one of the top sources of migrants to the UK, particularly in sectors like healthcare, IT, and education. The number of student visas issued to Indians has surged, and Indian nationals now account for a large share of work visas. This shift has also strengthened UK-India bilateral ties, culminating in agreements like the Young Professionals Scheme, allowing youth mobility between the two countries. However, the rise in Indian immigration has also sparked domestic debates in the UK over net migration levels, putting pressure on the government to balance economic needs with political promises to reduce immigration. (Rolfe, H., Runge, J., & Hudson-Sharp, N. (2019).

UK and EU Relations Post Brexit: Post-Brexit, the UK and the EU are establishing a new relationship, marked by a recent summit and agreements aimed at pragmatic cooperation, particularly in areas like food safety, energy, defense, and security. This historic deal seeks to improve practical aspects for citizens and businesses, such as smoother food exports and potential youth mobility programs, while resolving ongoing issues like fishing rights and Northern Ireland through a new agreement and the Windsor Agreement. Though this represents a significant reset after years of difficulty, challenges remain, and many key details are still to be negotiated.

In B. Martill & U. Staiger (Eds.), *Brexit and Beyond: Rethinking the Futures of Europe* (pp. 63-71). UCL Press.

Foreign Direct Investment

Brexit has fundamentally altered the calculus of Foreign Direct Investment (FDI) in the UK, with

pronounced implications for its economic relationship with India. Historically, the UK's appeal to multinational investors including those from India was anchored in its unfettered access to the EU single market, particularly for sectors like financial services, which accounted for nearly half of the country's FDI stock. The loss of EU "passporting" rights and regulatory alignment has weakened this comparative advantage, prompting both European and non-European investors to reconsider the UK as a strategic base for continental operations. For Indian firms, which often used the UK as a gateway to Europe for trade, finance, and services, this shift raises critical questions: the UK remains attractive due to its language, legal framework, and financial ecosystem, but the diminished EU access may make alternative hubs, such as the Netherlands or Ireland, more appealing for market entry. At the same time, Brexit opens opportunities for bilateral engagement, as the UK actively seeks FDI and trade diversification with high-growth economies like India. Yet, the effectiveness of this strategy hinges on the UK's ability to mitigate regulatory divergence, offer sector-specific incentives, and position itself as a stable, innovation-driven investment destination. In essence, Brexit transforms Indo-UK FDI from a convenience-based decision access to Europe via the UK into a calculated evaluation of market access, regulatory risk, and long-term strategic alignment, highlighting both the vulnerabilities and the potential of post-Brexit economic diplomacy.

New Trade Agreements Post Brexit

Post-2023 and through 2025, the economic relationship between United Kingdom (UK) and India offers a mix of measurable progress and structural caveats, which warrants a nuanced, critical assessment.

By the end of Q4 2024, UK India trade in goods and services stood at approximately £42.6 billion, up 8.3 % (≈ £3.3 billion) from the four quarters ending Q4 2023. Within that, UK exports to India amounted to about £17.1 billion (+5.8 %), while UK imports from India reached £25.5 billion (+10.1 %). These figures confirm that trade flows

are growing but they also underscore underlying imbalances (imports from India significantly exceeding exports to India) and suggest that growth is driven more by Indian exports to the UK than the reverse.

In May 2025 the UK and India signed a landmark Free Trade Agreement (FTA). According to UK government statements the deal is expected to boost bilateral trade by £25.5 billion in the long run, add £4.8 billion to UK GDP annually, and raise UK wages by £2.2 billion per year. The deal reduces Indian tariffs on some UK exports (including whisky, medical devices, vehicles) and eliminates tariffs on 99 % of Indian export tariff lines into the UK.

Meanwhile, the UK's inward FDI project numbers show a worrying trend: in the 2023-24 financial year the UK recorded 1,555 foreign direct investment (FDI) projects landing, and in 2024-25 this declined further to 1,375, a drop of 12 % year-on-year. Apart from the sheer count, investment intensity appears to be shifting: the UK's share of European FDI projects fell from 17.3 % in 2023 to 15.8 % in 2024.

Firstly, though the UK India trade growth is encouraging, it remains modest in scale relative to the overall UK trade picture, and the persistent trade deficit (UK importing more from India than exporting) highlights competitive pressures on UK suppliers. The FTA aims to correct this over time, but the estimated benefits (£4.8 billion to UK GDP annually) are meaningful but not transformational when set against UK GDP (~£3 trillion+) and given that the implementation will be phased over many years.

Secondly, the timing and context matter: the UK signed the FTA *after* major structural shifts in its global status caused by Brexit. The reduction in UK's attractiveness as an EU gateway (and related FDI declines) means that the UK is no longer relying primarily on EU market access, but expects trade deals like the India one to compensate. That compensation is plausible but risky: it depends heavily on (a) Indian firms deciding the UK is a meaningful hub rather than simply a diversification target, (b) UK maintaining regulatory and

investment attractiveness amidst global competition, and (c) both sides overcoming non tariff barriers, service trade limitations and investment protection issues.

Thirdly, the falling FDI project numbers into the UK raise a counterpoint: while trade deals proceed, the broader framework of investor confidence is under strain. The decline in inbound projects suggests the UK's ability to attract capital is being challenged. Without a strong rebound in FDI (including from India), the trade expansion may not translate into deeper structural investment, productivity gains, or regional growth which were among the big anticipated gains from UK repositioning postBrexit.

For the Indo UK economic corridor, the FTA offers a pivot point: Indian exportdriven growth into the UK looks relatively assured (given immediate tariff elimination on many Indian goods), but UK exporters must navigate Indian tariff cuts that are gradual, and services sectors (where UK has strength) may face legacy disadvantage compared to UK access to EU markets pre Brexit. Moreover, UK's diminution as a European gateway may reduce the UK's role as a base for Indian firms wanting access to Europe thus limiting the upside of the UK being the "bridge" between India and Europe.

In short: post 2023 and into 2025 the Indo UK relationship is progressing in terms of formal trade architecture, but fragile in terms of strategic leverage. The FTA is a necessary step, but its real impact will depend on how well it offsets the wider headwinds the UK faces after Brexit in FDI, global competitiveness, and market access. (Eiser, D., McEwen, N., & Roy, G. (2021).

Conclusion

Brexit has fundamentally reshaped the economic and geopolitical dynamics between the United Kingdom and its global partners, with particularly significant implications for the India-UK relationship. In the immediate aftermath, the UK experienced declines in trade and foreign direct investment, alongside heightened regulatory and customs challenges with the EU. This cre-

ated both constraints and opportunities for India, which strategically engaged the UK through targeted diplomacy, investment promotion, and the pursuit of a stand alone Free Trade Agreement (FTA). Key sectors such as information technology, pharmaceuticals, and advanced manufacturing emerged as focal points for bilateral cooperation, allowing India to capitalize on the realignment of global trade and investment flows.

Looking beyond 2025, the India-UK economic relationship is expected to deepen further, supported by structural trade agreements, sector-specific investments, and collaborative innovation initiatives. Both countries stand to benefit from increased economic integration, diversification of supply chains, and expanded services trade. Policy implications underscore the need for continued regulatory flexibility, proactive bilateral engagement, and investment in innovation-driven sectors to sustain competitiveness. For the UK, success will depend on balancing domestic economic reform with global trade outreach, while India's strategic preparedness and adaptive economic policies position it to seize emerging opportunities. Overall, Brexit illustrates the long-term interplay between geopolitical shifts and economic strategy, emphasizing foresight, resilience, and collaboration in navigating the post-2025 global landscape.

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