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The socio-economic impact of Brexit on India, Pakistan and Sri Lanka in times of Corona

Dirk Kohnert ¹



["Brexit!", view from India](#) ²

Abstract: Following the Brexit, London endorsed a CANZUK union with its former white settler colonies, Canada, Australia and New Zealand. This was meant as a valuable alternative to replace the lost EU-market access. In contrast, non-white former British dominions – whether big (like India, Pakistan) or small (like Sri Lanka) were left on their own. The Indian Government perceived the Brexit vote initially as rather unfortunate because it would increase global instability and a weakening of the West. Indian multinationals like 'Tata', however, which had invested heavily in Britain as their gateway to Europe, saw Brexit as an economic risk. Later on, New Delhi realised also eventual policy advantages in Britain leaving the EU. The Brexit impact on Pakistan's economy remained small so far. However, Islamabad would be well advised to formulate separate policies for post-Brexit Britain and the remaining EU-27. Sri Lanka's economic and political ties with the UK, on the other hand, are considerably stronger than with any EU country. Annual trade with the UK amounted to over 10 %. Therefore, Brexit impacted negatively on the Sri Lankan economy. Changes to strengthen economic relations with the UK to overcome post Brexit challenges were imperative. As for the COVID-19 pandemic, it soon became in all three countries not just a health emergency but also a social and economic crisis. Given the historic responsibility of the UK as a former colonial power and the renewed commitment of London to international free trade principles, it seems at least debatable whether the British government should not consider all its former colonies as equal partners concerning its foreign trade policy and grant them the same rights and facilities.

Keywords: [Brexit](#), [COVID-19-pandemic](#), [Corona](#), [economic growth](#), [India](#), [Pakistan](#), [Sri Lanka](#), [United Kingdom](#), [international trade](#), [free trade area](#), [customs union](#), [Anglosphere](#)

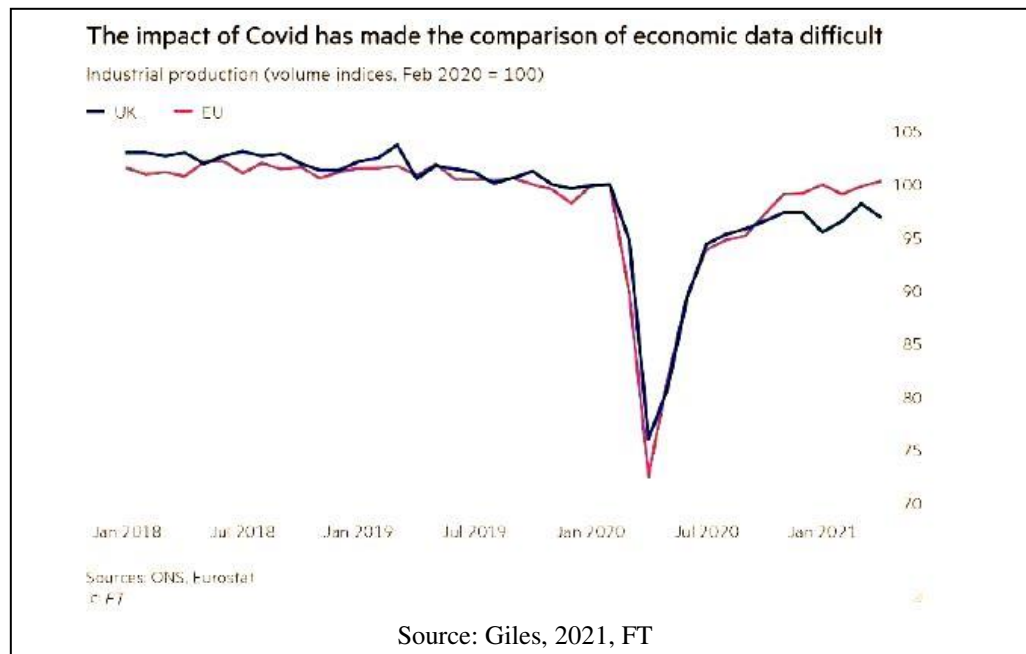
JEL-code: F13, F15, F22, F52, F68, I14, N1, N40, O24, O5, Z13

¹ Dirk Kohnert, deputy director (retired) of Institute of African Affairs, [GIGA](#), Hamburg. *Draft* : 23 July 2021.

² Cartoon by [Satish Acharya](#), an [Indian cartoonist](#) from [Kundapura](#), @satishacharya, 25 June 2016, *twitter*.

1. Introduction

The [Brexit](#) rules in force since 31 January 2020 hurt the British economy. Since the expiration of the transition period on 31 December 2020, the [United Kingdom](#) (UK) is no longer part of the [European Union Customs Union](#) and the [European Single Market](#). Yet, the full scale of the damage, hitting trade and deepening labour shortages, is still uncertain, because the impact is overloaded by the economic effect of the Covid-19 pandemic (Giles, 2021).



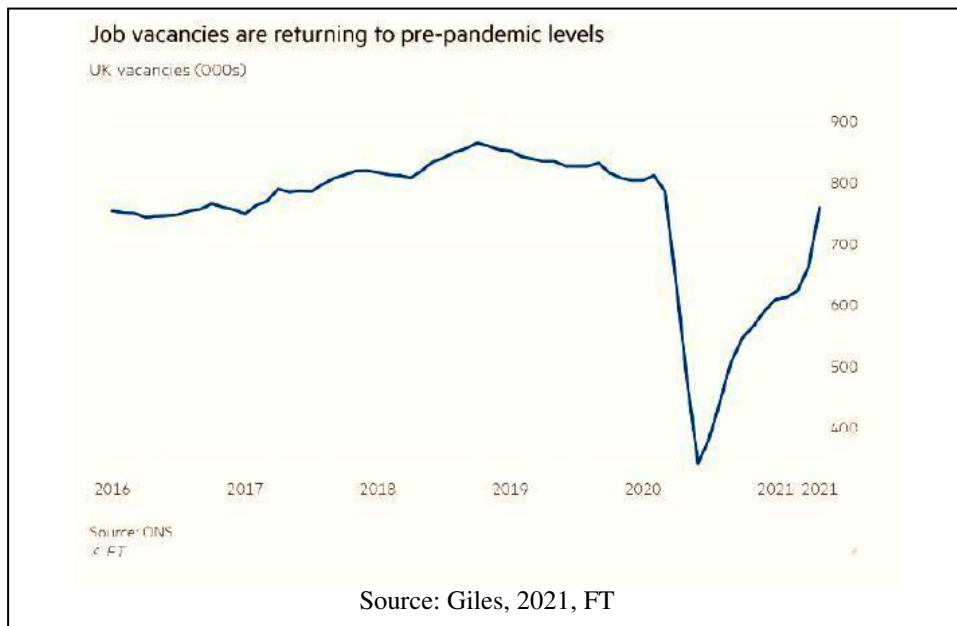
Graph 1: Brexit impact on UK industrial production, 2018 – 2021

The Brexit effects became visible first concerning the trade in goods. But the estimated impact depends largely on which statistics are used. According to the UK's [Office for National Statistics](#) (ONS), exports to the EU were 5 % lower in April 2021 than last December but cut by 24 % when measured by [Eurostat](#) over the same period (Giles, 2021). Likewise, the value of imports of trade in goods from the EU to the UK was 19 % down over the same period, according to the ONS, while Eurostat recorded only a 13 % decline.

Yet, economists generally agree about the [long term Brexit effects](#), e.g about a reduction of British GDP by about 4 % compared with remaining inside the EU. For the years to come, much depends on the degree of supply chain ruptures between Britain and the EU-27 as well as the extent to which the UK becomes less attractive to investors.

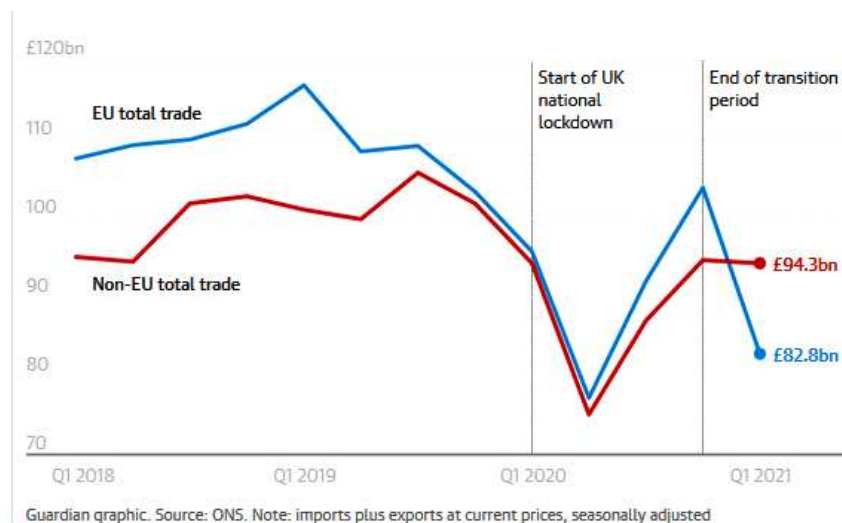
Moreover, the new restrictions concerning labour movement, introduced with Brexit, limiting the rights of EU citizens to come and work in Britain, raised concerns about labour shortages (Giles, 2021). Though, here again, it is difficult to differentiate. Labour shortages resulted from an impact mix of the [Covid-crisis](#) and Brexit. There were similar trends observed in other EU countries which suggested that it was not solely a Brexit effect. Employers had to realize in some sectors such as social care that the times when they could expect labour to be freely available were over and that on the contrary, they needed to pay more to ensure available staff (Giles, 2021).

Graph 2: Brexit impact on UK job vacancies, 2016 - 2021



But then, the benefits of Brexit for the UK are not evident either. London rapidly rolled over many trade agreements with countries that already had deals with the EU. The then foreign affairs minister, [Boris Johnson](#), promised already before the Brexit vote in 2016 a ‘titanic success’ of the envisaged [CANZUK](#) union with the former white settler colonies of the British empire, meant to replace the lost EU market (Kohnert, 2021). However, economists are sceptical about the positive net effect of the deal. Even the British government’s impact assessment suggested a total gain of just 0.02 % in the long run (Giles, 2021).

Graph 3: Post-Brexit UK trade in goods with non-EU countries surpassed that with EU, 1st quarter 2021



Source: [The Guardian](#), Partington, 2021

In the following, I should like to extend my recent analysis on the impact of Brexit on the CANZUK union with Britain's former 'white settler' colonies, Canada, Australia and New Zealand, which was meant as a valuable alternative to replacing the lost EU-market access (Kohnert, 2021). In contrast, 'non-white' previous British dominions were largely left on their own, which possibly discriminated against them vis à vis the CANZUK members. The

subsequent analysis focusses on the question if, and to which extend, India, Pakistan and Sri Lanka suffered from such unequal treatment and whether this could be considered fair, given the historic responsibility of the UK as a former colonial power and the renewed commitment of London to international free trade principles.

2. Impact of Brexit and COVID-19 crisis on India

2.1 The impact of Brexit on India

Contrary to popular delusions – even among Indian nationals - British colonialists conquered [India](#) in a combination of outright violence and deceit (Wilson, 2016). The political turmoil in the last days of the [Mughal Empire](#) provided also other European powers with easy entry into establishing coastal trading enclaves. Moreover, the growth of the [City of London](#) as a centre of global finance gave the [British East India Company](#), an instrument of the British crown, the means to bribe petty [rajahs](#) for support (Datta, 2017). The repercussions of this conquest are still to be felt today.

Beside the [CANZUK union](#), India is the most important trading partner of the UK. Some of the English Brexit voters might still consider it as a major jewel in the post-Brexit crown (Sullivan, 2019). India’s rapidly growing economy is the world’s [sixth-largest](#) by [nominal GDP](#) and the [third-largest](#) by [purchasing power parity](#) (PPP). With a population of 1.3 billion India is a [middle income developing market economy](#) (IMF; [Economy of India](#), wikipedia).

Graph 4: Post-Brexit prospects of major Indian firms exposed to Europe, UK

Company	% Revenue from Europe & UK	CM (₹)	Chgin %*
IT SECTOR			
Mastek	72	1,158.40	5.44
Tata Elxsi	41	1,849	5.08
Firstsource Solution	38	109.2	18.82
PHARMA SECTOR			
Suven Pharma	79	475	3.22
Aurobindo Pharma	26	907.95	-0.12
Biocon	15	465.2	-3.48
AUTO & ANCILLIARY			
Balkrishna Ind	49	1,557.05	0.08
Tata Motors	33	186.3	5.91
Motherson Sumi	27	160.9	4.48
MATERIALS SECTOR			
Tata Steel	55	632.8	1.70
SRF	17	5,511.15	0.70
UPL	15	454.15	1.07

*1-day price change in %; CMP: current market price Sources: Bloomberg, exchange

Source: Goel & Upadhyaya, 2020

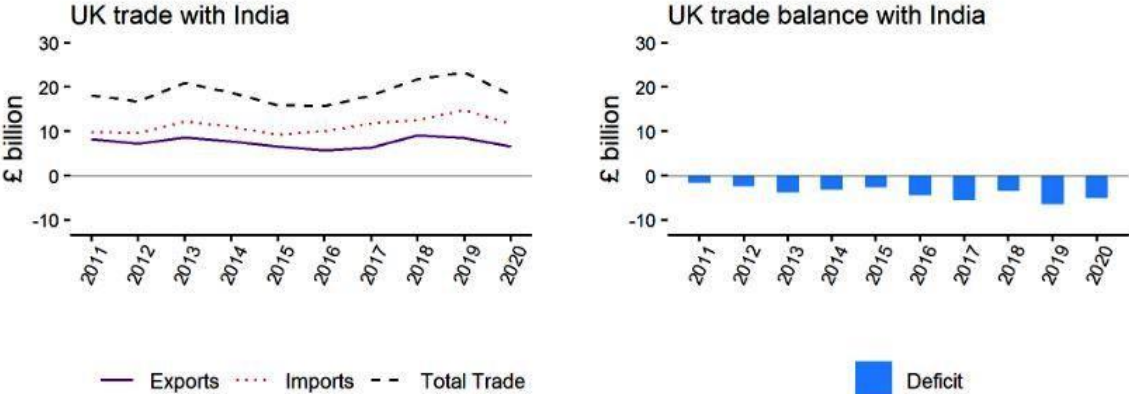
The Indian Government perceived the Brexit vote initially as rather unfortunate because it would increase global instability and a weakening of the West. Indian multinationals like

'Tata', however, which had invested heavily in Britain as their gateway to Europe, saw Brexit as an economic risk. If at all, Brexit is to benefit Indian firms only in the long run, according to trade analysts (Goel & Upadhyaya, 2020).

Britain and India arranged to start negotiations for a full free trade deal in autumn 2021, as announced by the British trade minister, [Liz Truss](#), on 4 May 2021 (James, 2021). In a similar vein, the EU and India had agreed to restart trade talks which had been stalled since 2013. London wanted among others to see India's tariffs on imported cars and whiskey lowered or removed as part of such a deal. Moreover, London and New Delhi announced £ 1 billion (USD 1.39 billion) of private-sector investment and pledged to seeking a free trade deal before talks. Both sides agreed on an "Enhanced Trade Partnership" and promised to try to double existing bilateral trade by 2030. Among others, export barriers on a wide range of goods were to be lifted, and India's legal services sector opened up to British firms. In return, London agreed to improve access to its fisheries and nursing sectors. Shortly after, Premier Johnson held a virtual meeting with Indian Prime Minister [Narendra Modi](#), replacing a trade visit he had to due to surging COVID-19 cases in India (James, 2021).

London regarded India as a key pillar of its post-Brexit push to seek trade and influence in the Indo-Pacific region and address growing Chinese dominance (James, 2021). Negotiations included a pact on migration that sought to address friction between the two allies. London held the view that there were too many Indians living illegally in Britain, whereas [New Delhi](#) complained that tens of thousands of Indian students who came to Britain were denied job opportunities. London claimed there were as many as 100,000 Indians living illegally in the UK, though New Delhi disputed this figure (Pal, 2021). Therefore, it was envisaged that the new deal will provide enhanced employment prospects for 3,000 young Indian professionals annually, in return for India agreeing to take back any of its citizens who are living illegally in the UK. The two partners also announced agreements on climate change, technology and pharmaceuticals (James, 2021).

Graph 5: Bilateral trade between the UK and India, 2011 – 2020



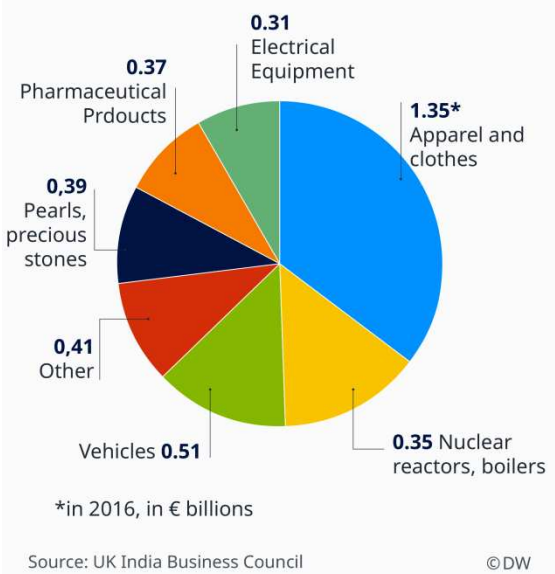
Source: ONS, UK Economic Accounts, Q1 2021

Source: [Trade and Investment factsheet](#), Dept. for Intern. Trade, UK-Government, 7 July 2021

Total trade in goods and services between the UK and India was £ 18.2 billion in 2020/2021, a decrease of 21.5% compared with the year before, probably related to the combined effects of the Covid crisis and Brexit ([Trade and Investment factsheet](#), Department for International Trade, UK-Government, 7 July 2021). Total UK exports to India amounted to £ 6.6 billion, a decrease of 22.6%, and UK imports from India to £ 11.6 billion, a decrease of 20.9%. (ibid). In 2019, the outward stock of foreign direct investment (FDI) from the UK in India was £15.3

billion accounting for 1.0% of the total UK outward FDI stock. In 2019, the inward stock of foreign direct investment (FDI) in the UK from India was £ 9.5 billion accounting for 0.6% of the total UK inward FDI stock (ibid).

Graph 6: Indian trade with Britain (types of Indian exports to the UK)



Source: Sullivan, 2019; DW

Yet, concerning bilateral trade, the Indian trade relationship with the UK does not look particularly outstanding. The EU’s relations with both countries will overshadow everything for the years to come (Sullivan, Arthur, 2019). India was only the UK’s 15th largest trading partner in 2020 accounting for 1.6% of total UK trade. India’s ten [largest trading partners](#) in 2020 were the United States, China, UAE, Saudi Arabia, Switzerland, Germany, Hong Kong, Indonesia, South Korea, and Malaysia ([Department of Commerce](#), 2019–20, Gov. of India; Wikipedia). In 2019–20, the [foreign direct investment](#) (FDI) in India was \$74.4 billion with the service sector, computer, and telecom industry remains leading sectors for FDI inflows (["FDI Statistics"](#), [Department for Promotion of Industry and Internal Trade](#), 2020; Wikipedia).

As for future India-UK trade relations, a key factor is that not just London had visions of a glorious future (Dhananjay, 2021). Brussels too had been negotiating with India over a trade deal since 2007. Although there was little progress made since the Brexit vote, the EU is still eager for a deal to be done. According to the new EU Strategy for India, adopted in November 2018, the EU remains committed to a balanced, comprehensive and ambitious trade agreement with India in a win-win situation. In the medium and long term, the key to the overall relationship in both countries will be the quality of bilateral ties, including the level of investment from both countries into each other, and the level of shared innovation and research (Sullivan, Arthur, 2019).

The Government in New Delhi seems to be in a comfortable position to outplay both rivals to get the most favourable conditions. However, London may be less ambitious concerning human rights, sustainable development and international standards, which might be debatably an unfair advantage vis à vis the EU.

Graph 7: Kashmir: Lessons learned from Brexit ?



Source: Narayanan, 2019

Besides, there is still another issue, triggered by the Brexit debate, affecting bilateral relations between India and the UK. The Indian security establishment perceives London as favouring Pakistan in the controversy on India's governance over Kashmir. Pakistan could be tempted to take Brexit as an example and demand the separation from India. This was in response to New Delhi's controversial decision of 5 August 2019 to revoke Articles 370 and 35A of the Indian Constitution and to end the semi-autonomous special status of Jammu and Kashmir and merge it fully into the Indian Union as two union territories (Roy-Chaudhury, 2020).

2.2 The socio-economic impact of the COVID-19 crisis on India

According to the most recent figures (12 June 2021), India has the largest number of confirmed COVID-19 cases in Asia, and the second-highest number in the world (after the United States). There were 29.3 million reported cases of COVID-19 infection and up to now 367,081 deaths, the third-highest number of COVID-19 deaths worldwide (after the United States and Brazil; [COVID-19 pandemic in India](#), Wikipedia). The second Corona wave, beginning in March 2021, was much larger than the first. It came along with shortages of vaccines, hospital beds, oxygen cylinders etc. By late April, India led the world in new and active cases. India's vaccination programme started in January 2021. By April health personnel administered 3 to 4 million doses a day. As of 25 May 2021, the country had administered over 200 million vaccine doses (ibid.).

The socio-economic impact of the pandemic was at least as severe as the health effects, at any rate for the poorer sections of the population, the vulnerable, migrants and the informal sector which is the largest in the world, employing nearly 90% of the total working population (Aneja & Ahuja, 2021). Thus, after the first lockdown in 2020, millions of discharged migrant workers lost their income with serious repercussions for their livelihood. Many tried to get home to their native villages, often accompanied by their families. Their fate was still aggravated by rumours about the lockdown lasting for more than three months which created panic reactions among the migrants. In early May 2020, the central government permitted the Indian Railways to launch "[Shramik Special](#)" trains for the migrant workers and others stranded, and state governments were asked to set up relief camps ([COVID-19 pandemic in India](#), Wikipedia).

The societal impacts concerned not only job losses, but also the educational system, mental illness, increased domestic violence, and so forth. According to the former Governor of the

Reserve Bank of India (RBI), [Raghuram Rajan](#), it was the greatest emergency for the Indian economy since independence, even worse than the financial crisis of 2008 (Aneja & Ahuja, 2021). The economic sectors had been hit differently. Agriculture was likely to get affected less as compared with other sectors. In the manufacturing sector, especially the automotive industry and medium and small enterprises were suffering more loss, last, but not least because of disruptions of global supply chains. Especially hard hit was the Service sector, till then the key driver of economic growth and the largest contributor of GDP, due to restrictions on mobility, fewer transport activities, the shutdown of schools and colleges, loss of tourism and so forth (Aneja & Ahuja, 2021). Already existing poverty and inequality is likely to increase with major negative impact on migrants, casual and informal worker.

According to a recent IMF publication on inequality in the time of COVID-19, the Corona crisis will result arguably in falling income gaps *between* countries (when not weighted by population) and rising gaps *within* countries, like India. Given the educational and labour market dynamics the latter gaps may well persist for more than a generation (Fereira, 2021).

A comparison between the socio-economic implications of the great 1918 [Spanish flue](#) with the actual COVID-19 pandemic in India suggests that India did not suffer as much economic loss during the [influenza](#) pandemic as many other developing countries (Sharma, 2021). Nevertheless, due to the poor health infrastructure during those times, India's mortality rate in the 1918 pandemic soared to about 5% to 6 % of its total population. Women, the elderly, and children were especially at risk from the deadly virus. Compared with the Spanish flue, the changed live-perspectives one century later, including the healthcare system and the economy, impacted also the COVID-19 pandemic. Nevertheless, the heterogeneous Indian population, with people belonging to different classes and castes, had still major effects on the COVID-19 crisis. However, one major difference between COVID-19 and the 1918 influenza was the option to work from home or other remote locations. This helped both, the employers in reduction of recurring costs such as rent, and the employees by reducing travel time and providing flexible working hours; and services becoming available online. On the other hand, poorer and disadvantaged people who had no access to online services got negatively affected. Many lost their jobs and sources of livelihood, as their services were not considered safe during COVID-19 (Sharma, 2021).

Foreign trade was also severely affected by the Corona crisis. India's exports fell by -36.65% on a year-on-year base in April 2020, while imports fell by -47.36% in April 2020 as compared to April 2019 ([Economic impact of the COVID-19 pandemic in India](#), Wikipedia). This downturn was probably mainly due to the combined national and global effects of the COVID-19 pandemic and not to Brexit.

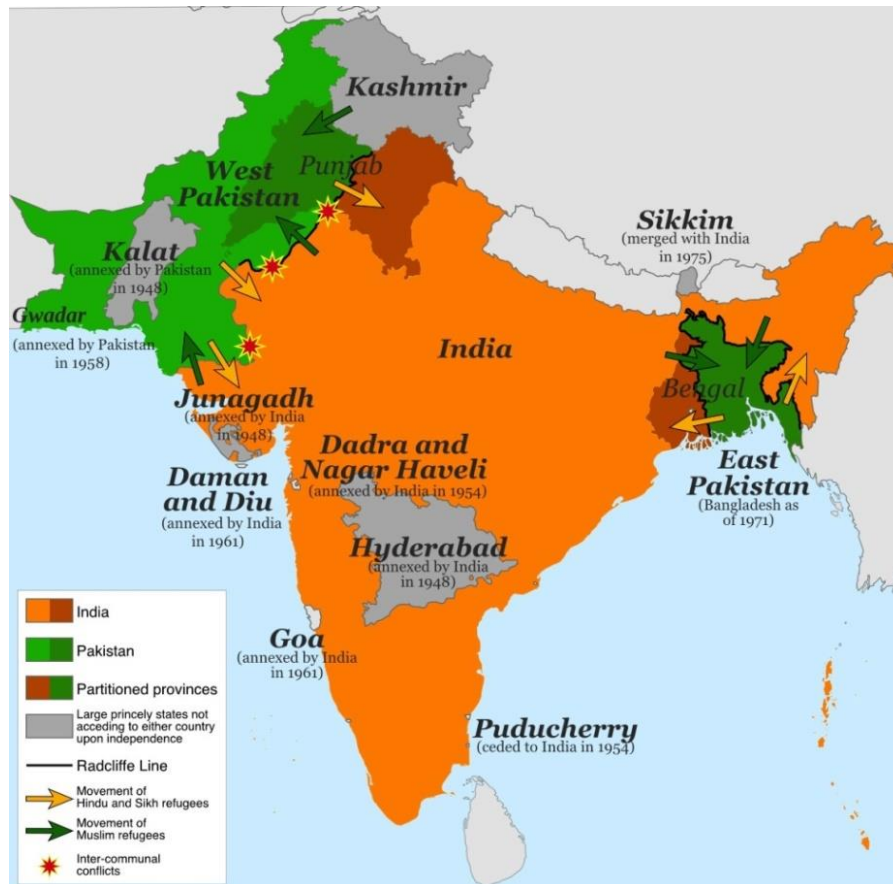
3. Impact of Brexit and COVID-19 crisis on Pakistan

3.1 The impact of Brexit on Pakistan

In 1947 the political, religious and social tensions in India culminated in independence from Britain and the making of [Pakistan](#). This heralded at the same time the end of ninety years of the [British Raj](#), i.e. the direct rule by the British Crown, and curtailed the effective power of the [Maharajahs](#). The former British colony was divided and Pakistan as a country split into two halves hurriedly created whose capitals were two thousand kilometres apart. During the subsequent battle for independence nearly 1 million people died and countless more lost their

homes and their livelihoods. The direct outcome was three wars, countless acts of terrorism and polarization of both countries on conflicting sides of the Cold War powers. The roots of much of the violence in the region up today were entrenched in the decisions taken by the British after World War II under [Winston Churchill](#), [Clement Attlee](#) and [Louis Mountbatten](#), the last Viceroy of India (White-Spunner, 2017). These events shaped the history of the whole subregion of South Asia for the following seventy years and contributed to the transfer of economic and cultural power from the West to the East. It also influenced the Brexit debate in these countries right from the beginning.

Map 1: The [Radcliffe Line](#), Map of the partition of India (1947)



Source: Wikimedia Commons

Pakistan’s economy has suffered in the past from internal political disputes. It is the 22nd largest in the world in terms of purchasing power parity (PPP), and the 45th largest in terms of nominal gross domestic product. Pakistan has the 5th-largest population in the world with over 220 million. Yet, Pakistan still counts among the developing country. Its economy is semi-industrial, with growth poles along the Indus River, like Karachi and major urban centres in Punjab. Primary export commodities include textiles, leather goods, sports goods, chemicals and carpets/rugs. However, there exists a widening gap in foreign trade, import growth outstrips export expansion. The country is currently following policies of economic liberalization, including privatization of all government corporations, aimed to attract foreign investment and decrease budget deficit ([Economy of Pakistan](#); Wikipedia).

Pakistan was the UK’s 56th largest trading partner in 2020 accounting for 0.2% of total UK trade. In 2019, the outward stock of foreign direct investment (FDI) from the UK in Pakistan was £7.1 billion accounting for 0.5% of the total UK outward FDI stock. Total trade in goods

and services (exports plus imports) between the UK and Pakistan was £2.3 billion in 2020, a decrease of 29.0% or £919 million from 2019. Total UK exports to Pakistan amounted to £769 million in 2020, a decrease of 34.3% or £401 million compared to 2019. UK imports from Pakistan amounted to £1.5 billion in 2020, a decrease of 25.9% or £518 million compared to 2019 (Factsheet, Pakistan, UK-Gov., July 2021). The significant decrease in trade and investment was probably due to the combined effects of Brexit and the Corona crisis, although the latter certainly dominated developments.

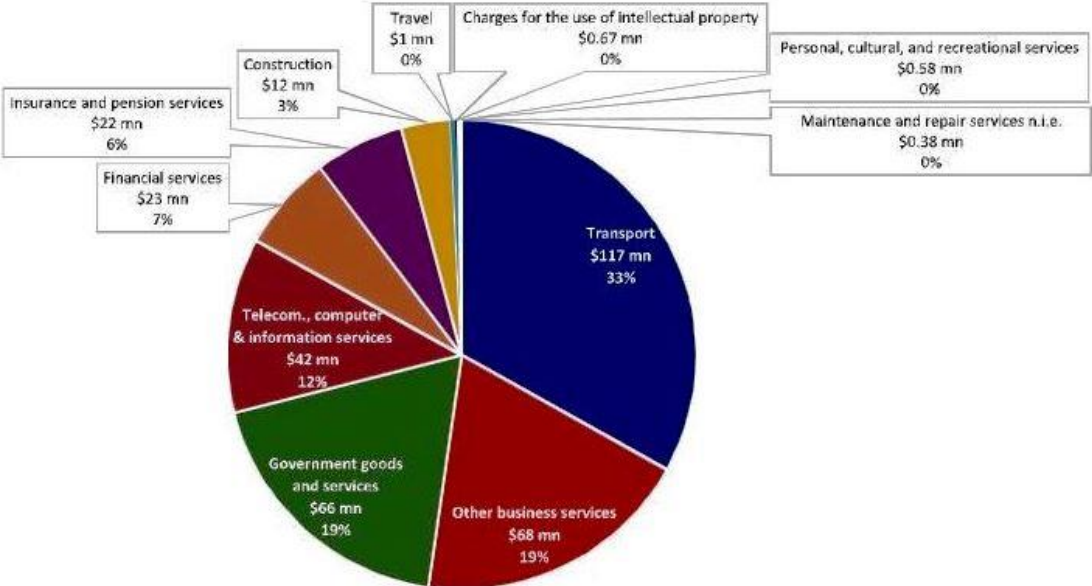
Graph 8: Bilateral trade between the UK and Pakistan, 2008 – 2015



Figure 1: Pakistan's merchandise trade with the UK, 2008-2015

Source: .Pakistan Business Council, 2017

Graph 9: Pakistan’s exports to the UK, 2015
Composition of Pakistan’s service trade with the UK (\$ 353 million)

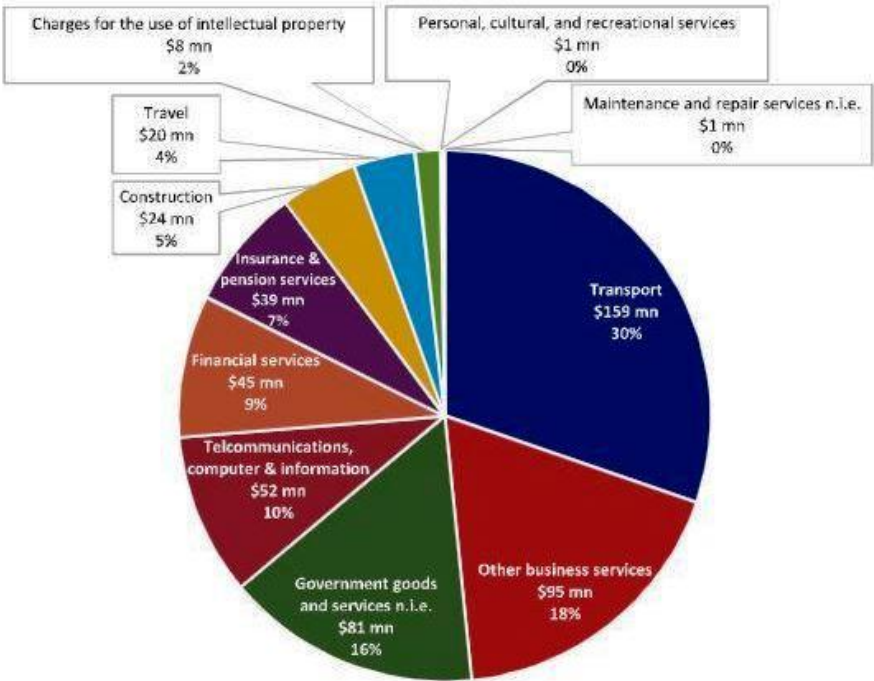


Source: Pakistan Business Council, 2017

Up to the Brexit, Pakistan’s exports to the UK were governed by the [Generalized System of Preferences](#) (GSP) Plus of the EU. The continuation of the GSP+ or a similar arrangement is, therefore, crucial to continue the current level of Pakistan’ exports to the UK. Pakistan’s potential to import from the UK (\$18.7 billion) is twice its potential to export to the UK (\$9.1

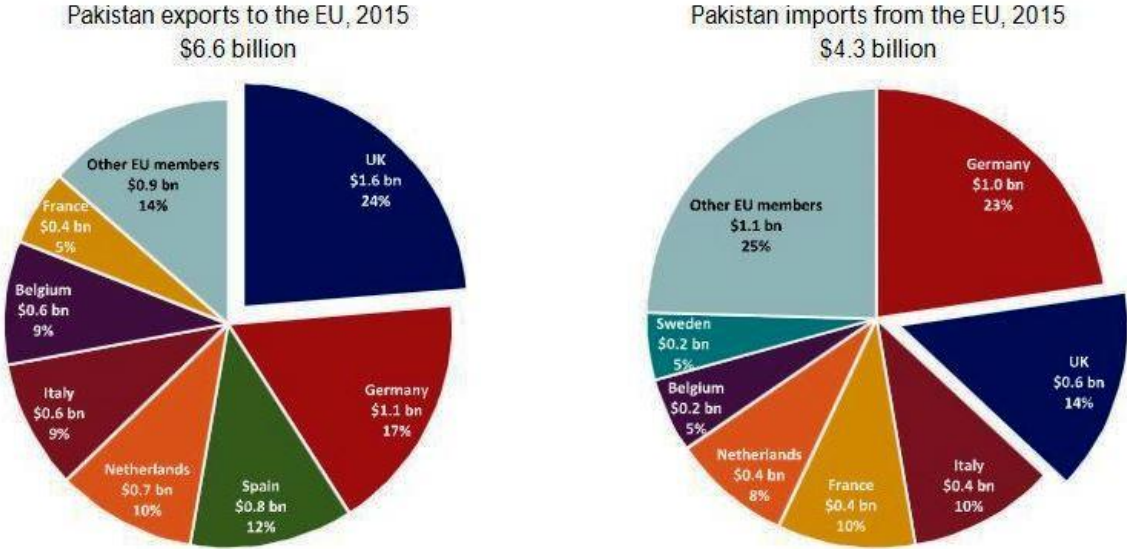
billion). Yet, in products with high import potential for Pakistan, the tariffs applied by Pakistan on the UK are close to tariffs applied by Pakistan to its other Free Trade Agreement (FTA) partners ([Post-Brexit Feasibility of a Pakistan-UK Free Trade Agreement](#), Pakistan Business Council, 2017).

Graph 10: Pakistan’s services imports from the UK, 2015 (\$ 525 million)



Composition of Pakistan *service* trade with the UK: *imports*, 2015.
Source: Pakistan Business Council, 2017

Graph 11: Importance of Pakistan’s trade with the UK as part of the EU
Distribution of Pakistan’s trade with EU by member country,
highlighting the top 7 trade partners for each trade flow



Pakistan trade with the UK as part of EU trade, 2015.
Source: Pakistan Business Council, 2017

Although Pakistan's economy is not entirely immune to the implications of Brexit, its economic indicators have remained stable, and the Brexit pressure has remained relatively supple so far. However, to maintain steady export trends, the country would be well advised to formulate separate policies for the UK and the post-Brexit EU trade. Moreover, instead of a simple FTA, [Islamabad](#) should bargain for a 'Generalized Scheme of Preferences Plus to access the post-Brexit UK market (Riaz & Yasmin, 2020).

3.2 The socio-economic impact of the COVID-19 crisis on Pakistan

Pakistan so far has experienced three different waves of COVID-19. The first wave began in late May 2020, marked by a relatively low death rate. The second wave peaked in mid-December 2020 and was relatively moderate too. The third wave began in mid-March 2021 when confirmed cases and deaths began to skyrocket. It mainly affected the provinces of Punjab and Khyber Pakhtunkhwa. In late April 2021, new cases and death were falling ([COVID-19 pandemic in Pakistan](#), Wikipedia).

[Punjab](#), the country's most populated province, counted the highest number of confirmed cases (334,000) and deaths (9,770). [Sindh](#), the second-most populated province, had the second-highest number of confirmed cases (308,000) and deaths (4,910) and still has higher proportions of confirmed cases than all of Pakistan's other provinces. Moreover, it had the second-highest death rate, after [Khyber Pakhtunkhwa](#), which is Pakistan's third-most-populated province. The latter had the third-highest number of confirmed COVID-19 cases (129,000), but an exceptionally high fatality rate of 3.03%. This resulted in the highest death rate out of any province and the third-highest number of deaths (3,920) ([COVID-19 pandemic in Pakistan](#), Wikipedia).

In early April 2021, the Government announced that Pakistan's economy had lost [Pakistani Rupees](#) (Rs) 2.5 trillion due to the coronavirus pandemic. The Pakistan reforestation program was maintained through the pandemic employing 60,000 people. In June, Islamabad announced plans to privatize several state-run industries, including the state-run [Pakistan Steel Mills](#) which led to the layoff and subsequent unemployment of over 9,300 employees. The Ministry of Planning estimated that from 12.3 million to 18.5 million people will become jobless due to the pandemic. The COVID-19 pandemic affected especially the vulnerable groups and daily labourers. ([COVID-19 pandemic in Pakistan](#), Wikipedia).

COVID-19 induced lockdowns, social distancing and travel restrictions impacted especially on the livelihoods of nearly 7.15 million workers. A rise of 33.7% of the poverty level was projected by the government, as well as negative impacts on primary, secondary and tertiary sectors of the economy such as agriculture, education and health (Rasheed et al., 2021; Meo et al, 2020). However, economic activity, in general, worsened significantly only in 2020, recording a negative growth of -0.5 %, whereas economic activity rebounded strongly in 2021 with estimated growth of 3.9 % ([Policy responses to COVID-19](#), Pakistan, IMF, 2021).

In May 2021, the World Bank approved the restructuring of the Pandemic Response Effectiveness in Pakistan (PREP) project, originally approved in April 2020, to redeploy USD 153 million to support the ongoing national vaccine drive in Pakistan ([WB, May 13, 2021](#)).

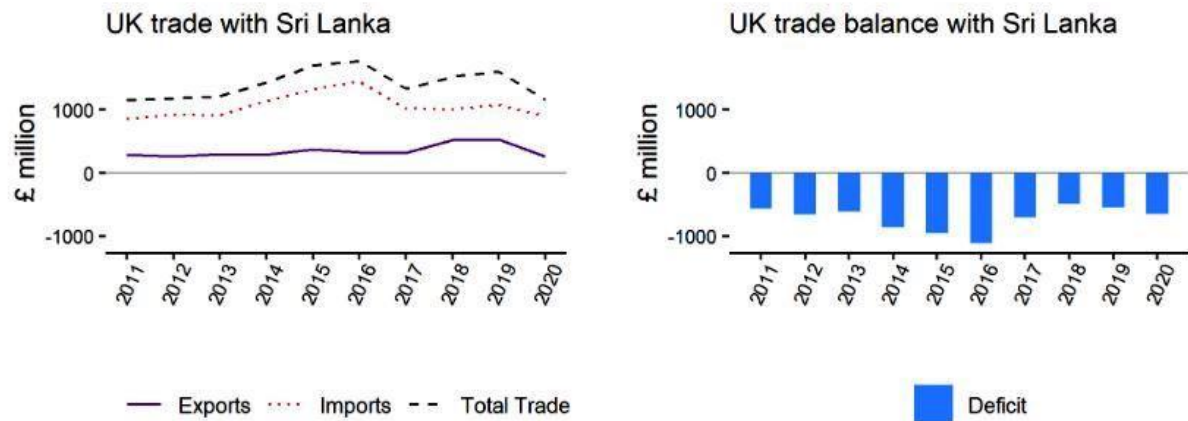
4. Impact of Brexit and COVID-19 crisis on Sri Lanka

4.1 The impact of Brexit on Sri Lanka

The Brexit had significant implications for the economy of Sri Lanka. The country shared strong trade relations with the EU. Yet, its engagement with the UK was significantly stronger than its relationship with any other EU country. Overall foreign trade with the UK totals more than 10 %. Hence, Brexit could cause a drop in British demand for Sri Lankan merchandise. Moreover, tariff access to the UK could be complicated and subsequently Sri Lankan exports to the UK reduced. Therefore, [Colombo](#) should adapt its foreign- and trade policy to overcome post Brexit challenges (Wisidagama, 2019).

Graph 12: Bilateral trade between the UK and Sri Lanka, 2011 – 2020

The charts below present a time series for trade between the UK and Sri Lanka for each year between 2011 and 2020:



Source: ONS, UK trade in goods and services, Q4 2020

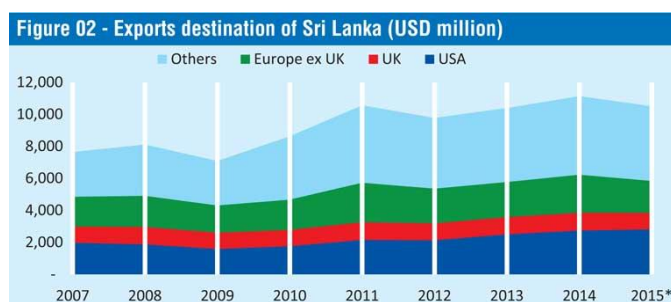
Source: .factsheet Sri Lanka, UK-Gov.2021

The [Sri Lankan Government](#) initially assumed that it would be beneficial for Sri Lanka if the UK remained in the EU because of strong trade, service and tourism with both partners. Immediate after the Brexit vote in 2016, the main Sri Lankan political parties informed their diaspora in the UK on the implications of the eventual Brexit for the Sri Lankan economy and requested them to support the remaining of Britain in the EU. Several ministers travelled to London for taking part in the awareness campaign (Somaratne, 2016).

The EU is the second-largest trading partner of Sri Lanka in terms of merchandising exports behind the United States. Overall, the EU including the UK purchased nearly 29% of Sri Lankan exports in 2015, thereof 9.8% to the UK and 19% to the EU-27. Moreover, Western Europe and the UK have traditionally strong inbound tourism to Sri Lanka. Even during the civil conflict period, Sri Lanka received tourists from the above markets. Though the number of tourists arriving from the UK is less than that of India and China, the British are the number one in terms of guest nights, contributing 1.9 million guest nights or 12% of total guest nights. Western Europe - including the UK - contributed 45% of the total nights in Sri Lanka (Somaratne, 2016).

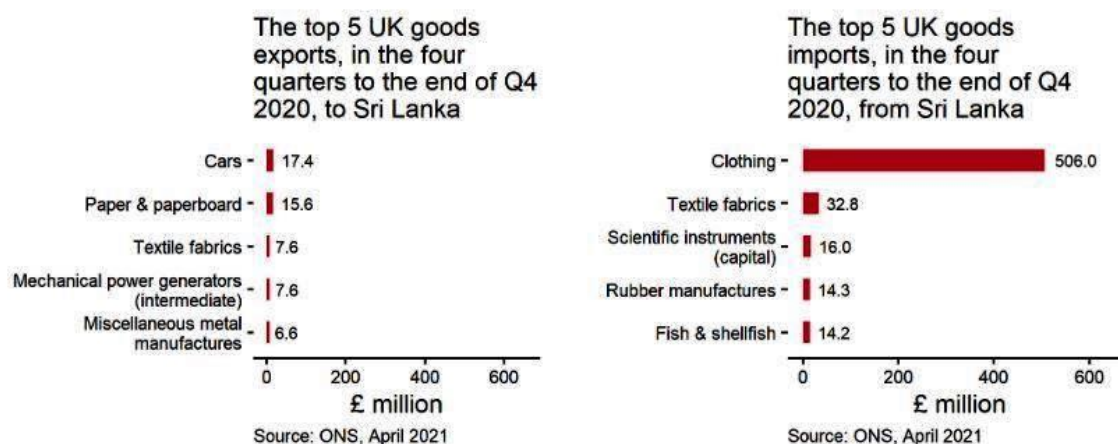
Graph 13: Sri Lanka foreign trade & services, 2007-2015

Figure 01 - Sri Lankan Exposure to the UK & the EU		
Keys Products: Garments, Fish & Transport Equipment		
Exposure to	UK	EU
Total Exports	9.8%	19.0%
Garments	17.9%	23.7%
Tourism: Arrivals	9.0%	21.7%
Tourism: Guest nights	12.4%	32.0%



Somararatne, Lasantha (2016): [Brexit and the impact on the Sri Lankan economy](#).
Source: Colombo: *Daily FT*, 1 July 2016

Graph 14: Top five imports and exports of Sri Lanka, 2020



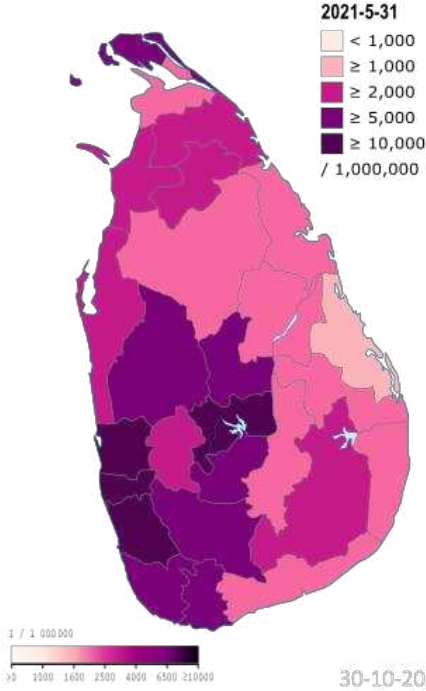
Source: factsheet Sri Lanka, UK-Gov.2021

Britain being the largest contributor to the tourism industry in Sri Lanka, Brexit would probably impact negatively the tourism sector. Moreover, decreasing income and an eventual decline in the currency could cause imported goods and foreign travel more expensive for locals. Similarly, the UK may purchase less from Sri Lanka if the economic slowdown could lower purchasing power of the UK citizens. Colombo is looking to revive the GSP plus concessionary access to the EU region. However, in this case, Sri Lanka will no longer be able to claim benefits from the UK, if London would not succeed to renegotiate GSP Plus with favourable terms for both partners. Finally, the impact of Brexit may vary depending on the development of the global economy. An immediate impact could be increased risk aversion, including flight into quality, increasing safe-haven assets like gold, USD, and US Treasuries, while exerting pressure on oil and commodities (Somaratne, 2016).

One way out could be an increased South-South cooperation and trilateral cooperation e.g. between the UK, China and Sri Lanka (Gu & Chua, 2020).

4.2 The socio-economic impact of the COVID-19 crisis on Sri Lanka

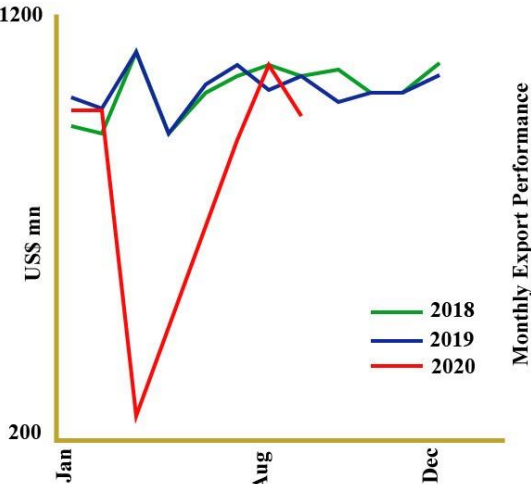
Map 2: COVID-19 pandemic in Sri Lanka, 31 May 2021



Map of confirmed cases per million residents
 Source: ([COVID-19 pandemic in Sri Lanka](#), Wikipedia)

Sri Lanka suffered severely under the socio-economic impact of the Corona crisis. Already in the beginning experts cautioned that the country was likely to record negative economic growth in 2020. The [Asian Development Bank](#) forecasted a decrease of GDP by -5.5% ([www.dailymirror.lk](#), 24 March 2020; [COVID-19 pandemic in Sri Lanka](#), Wikipedia).

Graph 15: Monthly export performance, 2018-2020



Source: ([COVID-19 pandemic in Sri Lanka](#), Wikipedia)

The lockdown also posed a detrimental impact on the country's key economic sectors, namely manufacturing and services. Primary and secondary schools and universities were closed because of lockdown restrictions and demands for social distancing. [Remittances](#) by migrant workers that in normal circumstances contributed up to 63% of total export earnings, decreased by 32% in April 2020, thereby posing a negative impact on the country's foreign exchange earnings. [Small and Medium Scale Enterprises](#) [SMEs] and the [informal sector](#), including daily wage earners, were especially hard hit. Most SMEs experienced a shortage of materials as well as a decline in local and global demand for their products and difficulties in repaying loans (Amaratunga et al, 2020). Big companies, announced to cut down their employees salaries by 5% to 35%. These companies, including [John Keells Holdings](#), [Sri Lankan Airlines](#), and Sri Lanka's biggest apparel exporter [Brandix Lanka](#) (ibid).

Conclusion

Economists and economic literature agree that Brexit is likely to harm the UK's economy, including a significant decrease in the UK's real per capita income in the medium and long term. In contrast, proponents of the withdrawal of the UK from the EU, like Premier [Boris Johnson](#), promise a glorious future and a '[titanic success](#)'. Liberated from the supposed patronizing and dominating behaviour of [Brussels](#), London is in search of profitable markets worldwide. Whether the proposed [CANZUK](#) union, meant to replaced lost EU-market access, which has gained new momentum since the Brexit vote, will be a success is open to question (Kohnert, 2021). Apart from that, it is debatable whether the preferential treatment of former British 'white settler' colonies by British foreign trade policy, compared with 'non-white' ex dominions, e.g. economic and political heavyweights India and Pakistan, is a reasonable decision justified mainly out of economic motives.

It is not to be excluded that subliminally [xenophobic](#) sentiments too were not only a driver of English leave voters decisions, but also informed, unconsciously or not, the post-Brexit policy of Johnson's government. On economic criteria alone, likely productivity gains could be expected at least comparably from trade partners like India and Pakistan, compared with CANZUK partners Canada, Australia or New Zealand. The former share several comparative economic advantages, producing particular goods and services at a lower marginal and opportunity cost, as well as economies of scale. Certainly, the preferential treatment of CANZUK members is based on close political, economic and cultural similarities. But also India and Pakistan share at least English as *lingua franca* (although not official language, which is, [Hindi](#) and English in India, [Urdu](#) in Pakistan and [Sinhala](#), [Tamil](#) in Sri Lanka) as well as basic features of the [Westminster parliamentary system](#). The latter is for example enshrined in the Indian constitution of 1950, although it is debatable whether the Indian Westminster adaptation with its concentration of political power in the executive, is optimal for a deeply divided society, with fundamental ethnic, religious and cultural differences. The same applies to the *de facto* presidential system of Pakistan.

Given the historic responsibility of the UK as a former colonial power and the renewed commitment of London to international free trade principles, it seems at least debatable whether the British government should not consider all its former colonies as equal partners concerning its foreign trade policy and grant them the same rights and facilities. The actual policy of preferential treatment of CANZUK by the British government rather resembles a [beggar-thy-neighbour](#) policy at the expense of former non-white colonies with a lose bargaining power.

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Résumé : *L'impact socio-économique du Brexit sur l'Inde, le Pakistan et le Sri Lanka au temps de Corona*

À la suite du Brexit, Londres a approuvé une union CANZUK avec ses anciennes colonies de colons blancs, le Canada, l'Australie et la Nouvelle-Zélande. Cela se voulait une alternative valable à la perte d'accès au marché de l'UE. En revanche, les anciens dominions britanniques non blancs – qu'ils soient grands (comme l'Inde et le Pakistan) ou petits (comme le Sri Lanka) ont été laissés à eux-mêmes. Le gouvernement indien a d'abord perçu le vote sur le Brexit comme plutôt malheureux car il augmenterait l'instabilité mondiale et un affaiblissement de l'Occident. Cependant, des multinationales indiennes comme « Tata », qui avaient massivement investi en Grande-Bretagne comme porte d'entrée vers l'Europe, ont vu dans le Brexit un risque économique. Plus tard, New Delhi a également réalisé des avantages politiques éventuels en Grande-Bretagne quittant l'UE. L'impact du Brexit sur l'économie pakistanaise est resté faible jusqu'à présent. Cependant, Islamabad serait bien avisé de formuler des politiques distinctes pour la Grande-Bretagne post Brexit et le reste de l'UE-27. Les liens économiques et politiques du Sri Lanka avec le Royaume-Uni, en revanche, sont considérablement plus forts qu'avec n'importe quel pays de l'UE. Le commerce annuel avec le Royaume-Uni s'élevait à plus de 10 %. Par conséquent, le Brexit a eu un impact négatif sur l'économie Sri Lankaise. Des changements visant à renforcer les relations économiques avec le Royaume-Uni pour surmonter les défis post-Brexit étaient impératifs. Quant à la pandémie de COVID-19, elle est rapidement devenue dans les trois pays non seulement une urgence sanitaire mais aussi une crise sociale et économique. Compte tenu de la responsabilité historique du Royaume-Uni en tant qu'ancienne puissance coloniale et de l'engagement renouvelé de Londres envers les principes du libre-échange international, il semble pour le moins discutable si le gouvernement britannique ne devrait pas considérer toutes ses anciennes colonies comme des partenaires égaux concernant sa politique de commerce extérieur et accorder les mêmes droits et facilités.

Zusammenfassung : *Die sozioökonomischen Auswirkungen des Brexits auf Indien, Pakistan und Sri Lanka in Zeiten von Corona*

Neben dem Brexit befürwortet London eine CANZUK-Partnerschaft mit seinen ehemaligen weißen Siedlerkolonien Kanada, Australien und Neuseeland. Dies sah London als wertvolle Alternative zum verlorenen EU-Marktzugang. Im Gegensatz dazu wurden nicht-weiße ehemalige britische Herrschaftsgebiete – ob groß (wie Indien und Pakistan) oder klein (wie Sri Lanka) – sich selbst überlassen. Die indische Regierung empfand das Brexit-Votum zunächst als eher unglücklich, weil es die globale Instabilität und eine Schwächung des Westens erhöhen würde. Indische multinationale Konzerne wie „Tata“, die stark in Großbritannien als Tor nach Europa investiert hatten, sahen den Brexit jedoch als wirtschaftliches Risiko. Später erkannte Neu-Delhi auch eventuelle politische Vorteile beim Austritt Großbritanniens aus der EU. Die Auswirkungen des Brexit auf die pakistanische Wirtschaft blieben bisher gering. Islamabad wäre jedoch gut beraten, eine separate Politik für Großbritannien und die verbleibenden EU-27 nach dem Brexit zu formulieren. Die wirtschaftlichen und politischen Beziehungen Sri Lankas zum Vereinigten Königreich sind dagegen deutlich stärker als zu jedem anderen EU-Land. Der jährliche Außenandel mit Großbritannien betrug über 10 %. Daher wirkte sich der Brexit negativ auf die srilankische Wirtschaft aus. Veränderungen zur Stärkung der Wirtschaftsbeziehungen mit dem Vereinigten Königreich zur Bewältigung der Herausforderungen nach dem Brexit waren zwingend erforderlich. Die COVID-19-Pandemie entwickelte sich in allen drei Ländern schnell von einem Gesundheitsnotstand zu einer sozialen und wirtschaftlichen Krise. Angesichts der historischen Verantwortung Großbritanniens als ehemaliger Kolonialmacht und des erneuten Bekenntnisses Londons zu internationalen Freihandelsprinzipien erscheint es zumindest fraglich, ob die britische Regierung nicht alle ihre ehemaligen Kolonien als gleichberechtigte Partner in ihrer Außenhandelspolitik betrachten und ihnen gleiche Rechte und Möglichkeiten einräumen sollte.