

IMPACT OF BREXIT ON INDIA - AN OVERVIEW

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Abstract

At present, Brexit is a hot and prominent topic in the world. UK withdraw from the EU is called Brexit which resulted in the Sensex opened lower by 635 points and went down by 1,091 points before bottom fishing brought some stability. Even as the index recovered 486 points from the day's low, it still closed the day with a deep cut of 605 points or 2.24%. With Britain's exit, global financial markets also had a jolt. The Britain & EU-centric export related economics may feel the immediate impact. The economic advisors assure that Brexit effect on India will be relatively limited. "Brexit is a big, once-in-a-life kind of historic event. Its consequences will last longer than we can think," says Motilal Oswal, CMD, Motilal Oswal Financial Services. This paper is an attempt to analyze the impact of Brexit on India. This study is based on secondary data.

Key Words: Brexit, European Union, Referendum.

Introduction

The European Union (EU) is a politico-economic union was formed by 28 countries, for developing trades and economic ties, after the economic slowdown due to Second World War. Later, European Union introduced its own unit of currency "the Euro". The EU has developed an internal single market through a standardized system of laws that apply in all member states. Within the Schengen Area, passport controls have been abolished. EU policies aim to ensure the free movement of people, goods, services, and capital, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development. The monetary union was established in 1999 and came into full force in 2002. Nineteen member states use the euro as their legal tender.

Statement of the Problem

The economy of every country mainly depends upon the trade. Foreign trade plays a crucial role in the intensification of economy. But in case of foreign trade importers and exporters have been facing marketing barriers (Tariff or Non Tariff Barriers). Hence, the economic integration is indispensable for removal of all barriers to intra-bloc movement of goods and factors between integrating economies. However, any trivial changes made in economic integration will affect all country which is trading with them. At present, the UK's withdrawal from EU consequently affects our economy because of India's trade with UK. For this reason, the researcher has attempted to analyze the impact of Brexit in India.

Objective

- To understand the History of EU and Brexit
- To study the impact of Brexit on India.

History of European Union

The European Economic Community (EEC) also known as the European Common Market (ECM) or the European Community (EC) and now as European Union (EU) is by far the most successful of the regional economic integration schemes. The EU which originally comprised six nations, namely Belgium, France, Federal Republic of Germany, Italy, Luxembourg and the Netherlands was brought into being on January 1, 1958 by virtue of the treaty of Rome, 1957. The EU was expanded in 1973 with the inclusion of the United Kingdom, Denmark and Ireland. Greece joined the community in 1981. Spain and Portugal became members on January 1, 1986. With Austria, Finland and Sweden joining the EU later, the membership rose to 15. With effect from May 1, 2004, the total membership of the EU increased to 25 with the accession of ten countries, viz., Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovak Republic, Hungary, Slovenia, Cyprus and Malta. The EU expanded further with Bulgaria and Romania joining in 2007 increasing the membership to 27, besides the accession of Turkey which may happen before that. At present the EU membership was 28.

Brexit

British withdrawal from the European Union, often shortened to Brexit (a portmanteau of "British" or "Britain" and "exit"), is a political goal that was pursued by various individuals, advocacy groups, and political parties since the United Kingdom (UK) joined the precursor of the European Union (EU) in 1973. Withdrawal from the European Union has been a right of EU member states since 2007 under Article 50 of the Treaty on European Union. In 1975, a referendum was held on the country's membership of the European Economic Community (EEC), later known as the EU. The outcome of the vote was approximately 67% in favour of the country's continued membership of the EEC. The UK electorate again addressed the question on 23 June 2016, in a referendum on the country's membership. This referendum was arranged by Parliament when it passed the European Union Referendum Act 2015. The result of this referendum held in June 2016 was 51.9% in support of an exit (17,410,742 votes) and 48.1% (16,141,241 votes) to remain with a turnout of 72.2% and 26,033 rejected ballots, which resulted in its exit from the EU-Brexit-spooked the markets.

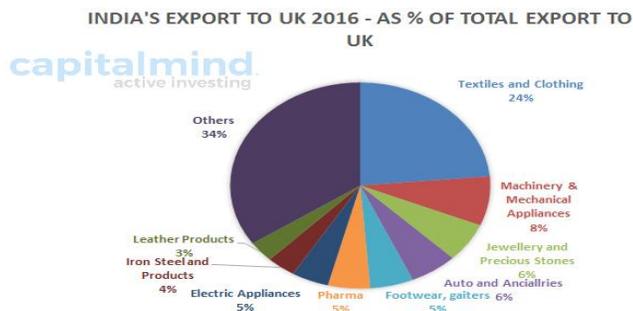
Reactions of Brexit

The Brexit phenomenon can be classified to have 4 types of reactions.

- 1) The value of American Dollar may go up. This will result in poor export and in the long run, US Dollar may be forcefully devalued.

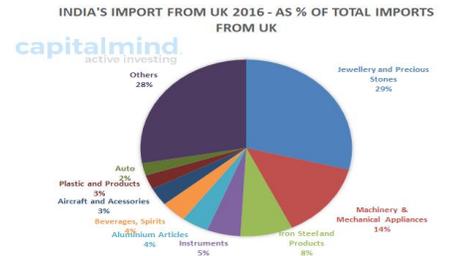
- 2)
- England may save £ 10bn per year, which has been their annual contribution to European Union, on an average.
 - UK may restrict migration. In such case, the production sector which is heavily dependent on migrant man power for low wage could face a potential problem.
 - As Prime Minister Narendra Modi stated England has been the gateway of trading for Asian countries. Official trade statistics show that the European Union is the destination for half of British goods exports.
 - Favorable trade agreements are needed now, in continuing the close trade agreements for the benefit of European Union & Asian countries
- India's exports, already shrinking, may suffer further. The 8.83 billion dollar trade with Britain will be in jeopardy, as also the auto and pharma exports to Europe.
 - A fall in crude oil price is expected, which will be benefits India. Indian economy has good fundamentals, domestic focused economy, low short term external debit and sizeable foreign reserves. These aspects have withstood the initial blow. But the foreign funding expected to pour in infrastructure, defence, civil aviation, real estate and other areas may get delayed or even shelved. As for investors and fund managers, at turbulent times they look for dollar and gold as safe-havens. This was evident on the Brexit day itself. But the other assets such as stocks, currencies, commodities fell, further impacting the performance of economics and companies. As a result, poor corporate earnings would derail the scheduled management of bad loans of public sector banks, which runs to more than Rs. 1 lakh crores. This may trigger capital out flows and ultimately weaken the rupee in international market.

India's Trade with UK



India is one of the exporters to the UK, and the exports include leather products, electric Appliance, Footwear, Textiles etc, it is presented below. India also imports some of the essential commodities from UK like Machinery, Jewellery, and Instrument etc as shown in the below chart.

Impact of Brexit on India



The decision by the UK leaving the European Union has impact on India on multiple layers.

- Market benchmark Sensex tanked over 1,000 points as UK's vote to exit European Union sent financial markets into a tailspin, eroding nearly Rs 4 lakh crore from the investors' wealth held in stocks. Rupee also fell past 68 Vs US dollar
- Indian IT companies get anywhere from 6-18 percent of their revenues from the UK. The UK has traditionally been the gateway for Indian IT firms to enter Europe and they have set up a large presence in the UK to serve the EU markets from their headquarters in London. Consequently, a negative implication of Brexit is that Indian IT companies may need to establish separate headquarters/operations for EU, leading to disinvestment from the UK and diversion of activity from the UK to EU. Also, the immediate fallout of Brexit on the IT industry in India would be the impact of the decline in the value of the British pound, which would render many existing contracts losing propositions unless they are re-negotiated.

Indian Firms to Look Out for on the Event of Brexit

Company	Impact of Brexit
Tata Steel	Has turnover more than GBP 2 billion from UK Steel Plants. Has 12 production plants spread across UK.
Tata Motors (Jaguar & Land Rover)	Jaguar and Land Rover are UK based and are UK's largest automotive manufacturers
Motherson Sumi	Have major Automotive Clients in Europe and derives more than half of its income from Europe
Kitex Garments	Kitex Garments client Mothercare derives 20% of revenue from UK
Tata Consultancy Services	For FY16, its Europe operation grew by 12.9% and UK by 8.23%. Europe and UK together are major contributors to its revenue.
Bharat Forge	Caters European automotive clients, Has 3 plants in Germany and 1 in UK
Tech Mahindra	Has Banking and Financial Clients from UK, and acquired UK based firm Fintech
Bharat Airtel	Has been rated by Grant Thornton as fastest growing Indian company in UK
Marksans Pharma	UK and Europe market account for 60% of their revenue.
Emcure Pharma	Has acquired UK based Tillomed Laboratories and still expanding

- The British exit will also lead to greater investments into less risky assets like gold and increase the overall outflows from the domestic equity markets.

- Britain ranks 12th in terms of India's bilateral trade with individual countries. It is also among just seven in 25 top countries with which India enjoys a trade surplus.
- As per data with the Commerce and Industry Ministry, India's bilateral trade with Britain was worth USD 14.02 billion in 2015-16, out of which USD 8.83 billion was in exports and USD 5.19 was in imports. The trade balance thus was a positive USD 3, 64 billion. This apart, the country brief of India's Ministry of External Affairs says Britain is also the third largest investor in India after Mauritius and Singapore, with a cumulative inward flow of USD 22.56 billion between April 2000 and September 2015. A Brexit will create a lot of uncertainty within Europe, but can open up opportunities for India,
- Trade is expected to go down after Brexit, as European Union is among the largest trade partner of India, embracing 13% of its trade, which surpasses China (9.6%) and US (8.5%). Even if trade with Britain increases, there is no certainty that a UK outside of Europe would drive bilateral trade. At this point, such an argument is mere speculation. A re-negotiation of the EU-UK agreement following Brexit would mean further uncertainty for India since a conflict of interest could arise, restricting UK from adapting certain deals with India.
- The future of a strong Diaspora of Indian-origin UK citizens and also that of those who visit the UK as students, professionals, tourists, businessmen or relatives. Could there be a strict visa regime in the post-Brexit period?

Conclusion

Different types of opinion given by the public about Brexit like UK withdrawal could tip the EU towards protectionism, exacerbate existing divisions, or unleash centrifugal forces leading to the EU's unraveling. Alternatively, the EU could free itself of its most awkward member, making the EU easier to lead and more effective. Some of the people said Brexit could not impact our country, but it might affect our economy if we couldn't implement any effective measures. How monetary policy is shaped in the days to come, will decide the fate of Indian financial markets, businesses and economy. All said and done, under the Lisbon treaty, a country leaving European Union has 2 years cure period, in which to negotiate a withdrawal agreement. Contrary to the claims of many authors, commentators and analysts, it is probable that the impact of Brexit on trade may be relatively small. In such eventuality, some more countries may leave European Union in future, Frexit, Nexit, Swexit and the likes.

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