Tremors in World Market: A Study on Future of India after Brexit

Mnisha Shoor

Assistant Professor of Economics, Govind National College, Narangwal, Ludhiana, Punjab

Abstract: ***The historic vote triggered the seismic tremors in equal measure in politics and business when Britain decided to quit European Union that shattered the unity of 60 year old continental bloc. When the entire world is worried as it will directly affect the trade, employment, business and immigration policies, India is no way different in the reaction. There are number of questions regarding access to European markets, the increasing trade barriers, agreements related to movement of goods, capital and labour. All that lurks is the uncertainity over such questions that might hamper smooth working of financial markets across the world. Due to historic and cultural this with UK, India is the second largest source of FDI for Britain but Brexit has put huge obstacle in the way of India's access to European Union as Britain was the only gateway to it. Although our emigrations to UK would be welcomed in cheerful mood as Britain get maximum talented English speaking labour from our nation but the actual scene is yet so felt. The paper examines the impact of Brexit on Britain – India relations, India –EU relations and future prospects if Indian markets bear a hug from UK.***

Keywords*:* Immigrations, Foreign Direct Investment, Industries, Trade Agreements, Companies

1. Introduction

European Union, a group of 28 countries mostly located within Europe, is an economic union that aims to ensure free movement of goods and services, labour and capital within the nations. It has common legislation in justice and home affairs and maintains common policies. Britain had troubled relationship with European Union since the beginning and has made various attempts to break away from it. It gains much more from European Union than it pay as contributions.

UK joined the European Union in 1973 and the details of its History is like- After making first-formal application to join the European Economy Community, Britain finally entered EEC after French President Charles de Gaulle twice vetoed the country"s application in 1963 and 1967.

In 1992 when next stage of European integration was signed, Britain secured an opt-out from joining single European currency- euro. Though Prime Minister Tony Blair announced his intention to hold referendum in European constitution but it was never held after France and Denmark neglect to move. In Feb., 2016, Camron announced the date for referendum after Tories won surprised majority in 2015 polls.

In April 2015, referendum campaign begin and ultimately billions of Britons voted in referendum and Brexit occurred. The brave campaign argues that Britain is losing out a big deal in the European Union as it has to pay millions of pounds every week as a contribution for being its member and maintaining the budget. The extremely bureaucratic nature of European parliament is hurting British exports and causing unmitigated migration from EU to Britain creating unbalance in welfare schemes of the UK government.

Although Brexit mean exit of Britain from unified EU market. Britain can negotiate of favourable agreement which is not bound by restrictive EU laws. It can definitely negotiate trade agreements with India, China and US. But Brexit will make Britain suffer too as

Losing Exports

The goods and services of UK can freely move in European Union member countries signifying absence of trade barriers. Approximately 45% of the UK"s exports goes to EU and nearly 8 percent of the UK"s imports comes from EU revealing the well integration of both the economies. Therefore brexit will put significant impact on their trades. The transaction cost of goods and services from the UK to EU will increase because of trade barriers and the companies in the UK will lose the competitive edge of the single market. It will be difficult for UK companies to sell its good and services in EU.

No Work Condition

As UK used to serve nearly 50 crores population, brexit and more trade barriers will leave high unemployment rate in UK. The UK treasury analysis estimates that 3.3 million jobs will be in danger. London is the financial hub of the Europe and many banks will be forced to shift their offices from London to EU because of the trade barriers.

Benefits from EUs Free Trade Agreements Will Disappear

Being UKs economy much smaller as compared to EU it will take years for the UK to sign the FTAs with other countries and it will not be easy for UK to get the deal like can get. According to HM Treasury analysis, 12.6 percent of the UK"s GDP depends on upon EU-UK trade and now it will not be able to reap benefits of EUs FTA with other nations.

Contribution to EU Will Be Saved

In 2015, the UK contributed £12.9 billion to the European Union budget. The UK is the second largest contributor to the European Union budget after Germany. But according to the HM Treasury analysis, UK pays nearly 1 penny for every £1 tax collected in the UK. Whereas, the benefits of a single market with approximately 50 crore population is far more than the contribution made by the UK in EU budget which will be a huge loss.

2. Review of Day Before Brexit

Arun Jailtey and RBI governor Raghuram Rajan said a solid economy and a planned government reforms would allow the country to withstand any major impact from Britain"s vote to have the European Union. Here is the quick review of day before Brexit.

- **Dollar at Rs. 68**

Rupee was the worst hit as one dollar counted for Rs. 68 creating major impact on trade and commerce.
97 paise and intra-day fall in rupee on June 24 to touch 68.22 / $ and but recovered after resume Bank Of India infused liquidity to prop it up.
71 paise fall in rupee"s value on June 24, to close at 67.96/$.

- **Pound at Rs. 93**

Brexit has pummelled the pound making the dollar more strong.
The stronger dollar has weakened the Indian rupee with respect to the greenback but obviously more stronger against the pound.
Rs. 9.47 Intra-day rise in rupee on June 24 to touch 90.75 per pound.
Rs. 7.07 rise in rupee"s value on 24 June to close at 93.13 per pound.

- **Stock Market**

The stock markets went to a tailspin with the sensed plunging by 604.51 points to close at 26397.71 which was the biggest single day fall in nearly four months.
There was 1091 points fall in sensed during intra-day trade on day before Brexit.
Rs. 1.77 lakh crores of fall in investor wealth was found within a day.

3. Trading Partners of India

Table 1 related to trading partners of India reveals that when exports are concerned EU 28 purchases most of the goods manufactured here helping India to earn foreign exchange. Total 11percent of India"s import is done from EU which states that European Union lies at the top trading trading partner of India and exit of Britain will affect the trade adversely.

Table 1: Represents Top Trading Partners Of India In 2015

	IMPORTS	
PARTNER	*Value Mio €*	*% World*
World	365177	100
China	56357	15.4
EU 28	40230	11
UAE	19931	5.5
Saudi Arabia	19742	5.4
Switzerland	19258	5.3
USA	18755	5.1
Indonesia	12193	3.3
South Korea	11813	3.2
Iraq	10662	2.9
Nigeria	10206	2.8
EU 28	40230	11
	EXPORTS	
PARTNER	*Value Mio €*	*% World*
World	239900	100
EU 28	40463	16.9
USA	36413	15.2
UAE	27324	11.4
Hong Kong	11012	4.6
China	8734	3.6
Singapore	6943	2.9
Saudi Arabia	6259	2.6
Bangladesh	5162	2.2
Sri Lanka	4981	2.1
Vietnam	4811	2
EU 28	40463	16.9
	TOTAL TRADE	
PARTNER	*Value Mio €*	*% World*
World	605078	100
EU 28	80693	13.3
China	65091	10.8
USA	55168	9.1
UAE	47255	7.8
Saudi Arabia	26001	4.3
Switzerland	20110	3.3
Hong Kong	17526	2.9
South Korea	15133	2.5
Indonesia	14855	2.5
Singapore	14148	2.3
EU 28	80693	13.3

Source: International Monetary Fund Reports

4. Results and Discussion

Brexit and future of India

ArunJaitley, the Finance Minister quoted, “This (Brexit) is an indication and I hope this is only a temporary phenomenon, where popular thinking and governmental thinking are at variance. The political system thinks in one direction across the party line, and the people think otherwise.” It is felt in Indian economy that nation need to brace itself from short term, knee jerk global reactions as India is an open market oriented economy. Although the policy makers feel that country"s fundamentals are sound and is well- prepared to deal with such situation but one cannot escape from its impact.

India enters into the european market through UK and more than 800 Indian companies in UK generate more than 26 billion pounds every year. Indian pharmaceuticals, Automobiles, IT etc. are the major employers in which operates throughout the EU, without trade barriers. UK has large number of immigrants from India, who can travel in any EU state for work. Indian entities (like others) enjoy the common policies laid by the EU. After the Brexit, which is a conundrum now and unlikely to happen, the UK investment in India would not affect but the Indian investment there would surely be affected.

Table 2: Represents EUs Trade Flow And Balance With India And Member Nations

	Imports		Exports		Balance
Period	*Value Mio €*	*% Growth*	*Value Mio €*	*% Growth*	*Value Mio €*
2005	19114	-	21250	-	2136
2006	22637	18.4	24241	14.1	1604
2007	26666	17.8	29181	20.4	2515
2008	29632	11.1	31356	7.5	1724
2009	25503	-13.9	27499	-12.3	1996
2010	33464	31.2	34891	26.9	1427
2011	39927	19.3	40582	16.3	655
2012	37528	-6	38593	-4.9	1066
2013	36843	-1.8	35959	-6.8	-884
2014	37147	0.8	35625	-0.9	-1522
2015	39446	6.2	38179	7.2	-1267

Source: Eurostat Comext - Statistical regime 4

Table 2 regarding trade flows of EU with its member nations in period of 10 years reveals that imports and exports were continuously fluctuating showing negative trends in 2012 and later again rising in 2015.However the scenario tends to change with exit of Britain from the European Union.

So here are some possible impacts of Brexit on Indian markets, GDP, trade, stock, exchanges. Britain accounts for 18% of the EU‟s GDP and the bloc stands to lose around a sixth of its economic output after Brexit. The European Union and UK, both undoubtedly play greater role in growth story of India. As fifth of India‟s foreign exchange resumes come from export raining and other inflows from both. Brexit could lead to temporary fall in the foreign exchange reserves.UK counts for 17% of Indian IT firms so weak pounds could force companies to negotiate existing deals.

Nearly, a third of Indian investment in UK is in the information technology and telecom. If even few of it has to be migrated to continent with manufacturing firms then obviously, the Indian investment into UK will be diverted to European Union.

Nasscom has well challenged that 30% of IT Industry‟s $100 billion revenue comes from European Union. UK would be under no obligation to adopt restrictive EU data norms which it does not subscribe to in their entirely. This would definitely benefit Indian UK bilateral economic relation. The Indian IT sector is bracing short turn increases in costs and a decline in value of the UK pound.

It is felt that Indian IT plays serving clients in financial service space in London may shift their operations to other parts of Europe as a cheaper pound sterling will have biggest impact on these firms.

5. Impact on Investment

Greater FDIs

Owing to historic and cultural ties with the UK, India is the 2nd biggest source of foreign direct investment for UK and it proved to be a gateway into the rest of Europe. Indian companies that would set up their factories in the UK could sell their products to the rest of Europe under the European free market system. However, now, it will not be an attractive destination for Indian FDI like before. Britain would not want to lose out on capital coming in from India. Thus, one can expect Britain to try extra hard to woo Indian companies to invest there by providing much bigger incentives in terms of tax breaks, lesser regulation and other financial incentives. Moreover now the Indian companies can expect a deregulated and freer market in Britain. Since UK needs to redo its trade deals with EU, bilateral trade between UK-India will increase exponentially. Now it will be desperate to find new trading partners and a source of capital and labour. There have already been many proponents of the Leave Campaign that suggest that the UK should look towards the Commonwealth to forge new alliances. Britain will still need a steady inflow of talented labour, and India fits the bill perfectly due to its English-speaking population.

- UK is the third largest investor in India (after Mauritius and Singapore) for the period April 2000 to February 2014 with a total FDI inflow of US$ 20.8 billion equalling 10% of total FDI inflows.
- Sector-wise distribution of FDI equity inflows received from U.K. for the period April 2000 to February 2014 is: Chemicals (Other Than Fertilizers) (27%) followed by Drugs & Pharmaceuticals (16%) and Food Processing Industries (15%) in the third place.
- For 2013-2014 (Apr-Dec) UK is 16th among India‟s trading partners. First five being: China (8.7%), USA (8.1%), UAE (8.0%), Saudi Arabia (6.4%) and Switzerland (2.9%).

Table 3: Actual Inflows To India (In Rs Million)

Year	*From UK*	*UK share of total (%)*	*Year*	*From UK*	*UK share of total (%)*
1991	479.1	13.5	2003	8629	9
1992	871.8	12.6	2004	6585.4	4.5
1993	2422.7	13	2005	9578.1	5
1994	4967.6	15.9	2006	78247.3	15.5
1995	2236.8	3.4	2007	19671	3
1996	1809.4	2	2008	70058.4	5
1997	3323.2	2.5	2009	22594.2	1.7
1998	2208.5	1.6	2010	34243.6	3.6
1999	3959.9	3.8	2011	454283.2	28.4
2000	2814.8	1.5	2012	43718.8	3.6
2001	12840.2	4.3	2013	224990.9	17.3
2002	16988.1	7.9	2014	2385.87	1.8

Source: Secretariat for Industrial Assistance, Ministry of Commerce & Industry, Government of India

This is best going to suit India‟s interest. The UK will make efforts to foster its ties with India.EU is more protectionist creating large unnecessary trade barriers. For Instance, mango exports from India were totally banned after fruit flies were found in the consignment. However, it got lifted in 2015 that lid to losses for India. Exports ultimately, Brexit could mean less trade barriers.

It is felt that it would a great opportunity for buying properties in UK. London holds a special attraction for Indians, particularly HNIs, and the favourable exchange rate is likely to bring a Rs. 9.5 crore into the Rs. 7.5 crore range.

"The leave vote may pique the interest of foreign and Indian buyers who are so important for the London housing market", said analysts from UBS Wealth Management, UK. "Even with a weaker pound, we believe the international buyer‟s perception of the economic and political stability of the UK outside of the EU will be a key influence on international demand."

An interest rate cut of 25 basis points is seen as a strong possibility at the Monetary Policy Committee‟s meeting. Those who are already invested in the UK should stay put as in the long term as the market will pan out, Baijal said.

However, commercial leasing is likely to remain unaffected. The real estate sector in India will continue recovering on the back of a resilient Indian economy and strong capital inflows. "Brexit will not disturb that recovery much, since India‟s office market leasing is dependent only to the extent of 5% of 7% on UK headquartered companies, and investments and activity of PE Funds from the EU countries is more in India that in the UK", said Anuj Puri, Chairman and country head, JLL India.

6. Impact on Commodities

- After the crash of 2015, commodities have already entered the bull market on the back of a weakness in the dollar, stabilisation in the Chinese economy and demand revival.
- Brexit can guarantee lower commodity and crude prices for a longer duration.
- Oil prices are up close to 80 per cent since they hit their 13-year lows earlier this year. This has ended India's honeymoon with low inflation, with consumer price inflation showing a spike for two consecutive months.
- CPI inflation for May stood at 5.76 per cent, thanks to a surge in food prices at home and internationally and prices of farm products swelled.
- That has curtailed the Reserve Bank of India's ability to continue with the downward spiral in policy rates to spur investment and growth.
- Retail petrol prices have risen by Rs 4.97 a litre after the June 15 hike, while diesel prices are up by Rs 7.72, taking both of them to their highest levels in a year, hurting pockets of consumers.
- India might have cover commodity prices that can help maintaining fundamentals of nation like fiscal deficit, inflation that will provide more levers to government to pump up investment.

Brexit is a „tail risk‟ for India, the third largest investor in the UK in terms of number of projects. The bilateral trade agreement with UK might become viable as on alternate to the tough and drawn out negotiations on the EU Free Trade Agreement.

These should provide a fillip to slowing India- UK trade. The UK accounts for 15 percent of India‟s merchanist trade but its share seems to be continuously declining.

Trade in services has also eased with UK service imports from India be slowing down rapidly, that makes up only 2 percent at present which is comparatively lower than that with Asia and United States.

Oil Prices Warrant

Presently the Indian crude oil basket in (INR terms) have gone up 50 percent from its January 2016 floor. Moreover, the macro indicators definitely will feel the heat of sustained rise in oil prices beyond USD 60 per barrel. The direction of global crude prices will be important for India as seen from risk perspective.

Trade in goods and services as represented in Table 4 reveals that the total trade suffered a downfall in 2009 which eventually got up again in 2010. The whole data seems to be fluctuating but the result reveals that Brexit will definitely impact the trade terms presented here.

Table 4: Trade in Goods and Services Among India and UK

UK/INDIA TRADE STATS	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
UK exports of goods (£ mn)	1720	2235	2197	2745	2702	2948	4105	2939	4067	5699	4659	5261
UK imports of goods (£ mn)	1778	2043	2254	2722	3139	3731	4524	4613	5803	6097	6208	6468
Total Trade in Goods (£ mn)	3498	4278	4451	5467	5841	6679	8629	7552	9870	11796	10867	11729
UK exports of services (£ mn)	636	744	1024	1256	1769	1757	1815	1708	2114	2613	2224	2386
UK imports of services (£ mn)	832	850	1128	1336	1652	1793	2260	1961	2536	2475	2311	2310
Total Trade in Services (£ mn)	1468	1594	2152	2592	3421	3550	4075	3669	4650	5088	4535	4696
Total Trade in goods & services (£ mn)	4966	5872	6603	8059	9262	10229	12704	11221	14520	16884	15402	16425

SOURCE: Source: Office for National Statistics, UK http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2013/index.html

7. Impact on Companies

Brexit is such a significant event for equity markets because EU is India‟s largest exporter and Indian companies set up their offices in UK primarily to enter European Market. So UK ultimately is the entry point for Indian business in rest of the Europe. The Brexit will impact the Indian companies which have subsidiaries or in operation in EU and export or import from UK to other EU members. Such companies will be the biggest losers as their free access.

People will be lost and cost of their products and services will also increase because of tariffs and trade barriers. 800 odd companies are operating in Britain and employing over 100,000 people. It is felt that if EU slips into recession after Brexit export order of India could dry out.

Brexit could supper Tata Steel‟s plans to see off its UK assets.Tata Motors owned British luxury car unit Jaquar Land Rover (JLR) it, honourable to make all its investments in the UK while remaining committed to its European customers even if one of it (Britain) noted to leave EU.

The greatest impact being felt here is that the profits at luxury car maker could be lower by one billion pound from 2020 as Brexit occurred because of levy on vehicles exported to Europe and from taxes on impacts of counterparts.

EU is one of the biggest markets for JLR, accounting for fifth of its global sales. The company will be keen on consolidating its presence in continent especially at a time when its other large market China has been grappling with industry uncertainties and recalls.

JLR exports around 80% of vehicles to other countries and around 20% to other to nations. With Brexit, vehicles JLR

sales in Europe may end attracting high duties making them uncompetitive to rival BMN, Mercedes and Audi. This situation created tension for Tata Motors as JLR is major cash cow.

JLR reported a profit before tax of 1.56 billion pounds in 2015-16 that went down from 2.6 billion pound in previous year reflecting to tough market conditions in China. The company planned to invest 3.75 billion pounds in this fiscal.

8. Impact on Trade

In the 2016 financial year, India-UK bilateral trade was worth $14.02 billion. India exported goods and services worth $8.83 billion while imports from the UK were at $5.19 billion.

In the last five years, the trade has been more or less stable.

Britain‟s exit from the EU probably won‟t have any significant impact on this.Two-way trade between India and the UK has been fairly stable since the end of the last decade.

This sharply contrasts with India‟s total trade with EU members, which has been declining during the same period.

It may, thus, be argued that the historical relationship between the two countries still plays itself out in the realm of trade.

IT Industry

Indian $ 150 Billion IT Industry will definitely deal with short term pains, as UK accounts for India's 2nd biggest market for large Indian IT Companies, an average of 25 percent of market share. The immediate impact for Indian IT Companies would be from BFSI (Banking Financial Services & Insurance) segment as London is the financial hub and the currency uncertainty will delay the new contracts and may put on hold to some ongoing projects due to low profit scenario.

Textile and Apparel Industry

Britain makes up for roughly 1/3rd of India's apparel exports to EU (37% of total India's Apparel export share). With the present situation of brexit transforming entire world, market is going to show big reluctance towards this sector.

Auto Component Manufacturers

UK is one of the highest contributor in the European Union. Motherson Sumi, Mahindra CIE, Bharat Forge like auto components manufacturers are going to be badly affected as the EU's economy is expected to slow down which will lead to the decrease in auto industry sales and hence will be a huge negative impact to these companies.

Steel Industry

According to WSA (World Steel Association), steel industry will remain insulated as UK is neither a big importer of steel, nor a big exporter. But still uncertainty lingers.

Pharmaceutical Industry

A marginal impact can be seen on Indian Pharmacy Firms, as only 10-15 percent of overall sales revenue of Indian companies like: Dr. Reddy's, Biocon, Aurobindo Pharma comes from EU including UK. Moreover the rules and regulations for these firms in UK & EU are already different. Hence, Brexit will hardly impact on this sector's trade.

Tea Industry

In 2015 India exported 42 million Kg tea to EU, including 20 million Kg tea to UK, which constitutes 15 percent of India's export. India being the world's 2nd largest tea producer is a big consumer as well. Tea exports realisation may be impacted marginally.

9. Impact on Migrations

Some advantages are seen for skilled migration from India to Britain because most migrants who are free to work in EU and are EU citizens are mostly unskilled as compared to the highly skilled migrants from India. There have already been many proponents of the Leave Campaign that suggest that the UK should look towards the Commonwealth to forge new alliances.

Talented Labour

Britain will still need a steady inflow of talented labour, and India fits the bill perfectly due to its English-speaking population. With migration from Europe drying up, Britain would be able to accommodate maximum migration from other countries, which will suit India's interests. The immigration of overall skilled labour from India will increase. With the EU reservations over, in a free market Indians, famous for their hardwork, diligence and intelligence, can be more competitive and far better off than many a EU nation.

Benefit to Students

Further, Britain is one of the most important destinations for Indians who want to study abroad. Presently, British universities are forced to offer subsidized rates for citizens of the UK and EU.With Brexit, the universities will no longer be obliged to provide scholarships to EU citizens, which will free up funds for students from other countries. Many more

Indian students may be able to get scholarships for studying in the UK. This entire situation will be beneficial to India.

Impact upon Business Relations With EU

New Trading Partner- With the exit of Britain from EU, India will lose its gateway to Europe. This might force India to forge ties with another country within the EU, which would be a good result in the long run.India is already trying to build trade negotiations with Netherlands, France, Germany, and others. Netherlands is India"s top FDI destination as of now. A Brexit could force India to build trading partnership with other EU nations in order to access the large EU market.

Better Trade-It would be in Europe"s interest to develop India as a strong trade and strategic partner. Brexit would surely accelerate this process. Europe needs to counterbalance United States and China geo-politically and would also need to hedge against a slowing China for its economic interests. For this, Europe would be looking at the fastest-growing major economy in the world and would need to quickly resolve the pending trade issues with India in order to develop a lasting relationship. Even though Britain stands to suffer from leaving the European Union in terms of reduced trade and a sustained drop in its GDP, the net effect can turn out to be positive for India causing better relations and more benefits.

10. Concluding Remarks

India being one of the fastest growing economies is rightly poised to gain from this development. Certain positives as well as negative signs are seen in the impact of Brexit on Indian as well as entire economy.

The migration of EU skilled labour would decrease and english speaking Indian talent pool is going to get benefit from this. Indian students will be able to secure more financing for their college degree, as preferential scholarships to EU countries will reduce. This would mean India could be seen exporting more talent than present levels. India is a former colony of Britain and a member of Commonwealth of Nations. With UK separated from EU, it would want to create new economic alliances and may tilt towards its former colonies. With substantial Indian population in the UK (highest minority group in the UK with 2.5 percent of the population), which we have witnessed are treated differently during elections, and UK supporting India NSG bid, we could expect a stronger ally in the UK than EU. However, India may have to rework a little about its strategy in aligning with some other key EU nations.

However we cannot completely ignore the negativities out of it like the pound will loss some value in the shorter term. That would immediately impact any existing contracts, as the value of these contracts would decrease. Indian IT companies with European headquarters in the UK would need to spend on infrastructure and staff for setting up a new office in the EU as there are approximately 800 Indian companies in Britain.India has been negotiating a free-trade agreement with the EU for almost 10 years and now will need to rework its strategy. A separate pact might need to be negotiated with the UK.

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