ISSN: 0976-3031

Available Online at http://www.recentscientific.com

CODEN: IJRSFP (USA)

International Journal of Recent Scientific Research
Vol. 8, Issue, 11, pp. 21725-21727, November, 2017

International Journal of Recent Scientific Research

DOI: 10.24327/IJRSR

Research Article

IMPACT OF BREXIT: GLOBAL ECONOMY AND THE CASE OF INDIA

Sumedha Pandey*

Department of Economics, University of Allahabad

DOI: http://dx.doi.org/10.24327/ijrsr.2017.0811.1127

ARTICLE INFO

Article History:

Received 15th August, 2017
Received in revised form 25th September, 2017
Accepted 23rd October, 2017
Published online 28th November, 2017

Key Words:

BREXIT, Economy, European Union, UK, Trade

ABSTRACT

One of the hugely anticipated major economic events "BREXIT – Great Britain's referendum to exit from the powerful European Union" happened in June 2016. This certainly marked the materializing of a global event risk in today's world. BREXIT has certainly taken many by surprise and was unexpected by most quarters of the world financial markets which was evident from the immediate negative reaction mostly driven by the sentiments. Post which, developments have been more in line with broader market consensus as policy makers have expressed their willingness to extend full support to the economy. UK's Bank of England has already loosened its monetary policy and is probably going to do more in the coming days to avoid any unnecessary collateral damage. The initial reaction in the markets was of shock and resulted in steep declines in the equity markets and strengthening of the USD. However, since then the level of risk aversion has reduced and equity markets across the globe have done well along with a rise in price of most sovereign bonds. Still, the true ramifications of Brexit will take months, to become apparent. While there are a number of possibilities that can play out in the coming months, it is important to take a step back and gauge the impact on the Indian economy through its linkages with UK and the broader EU economy. This paper attempts to find the impact of Brexit on the global economies and stock markets, with a special focus on India.

INTRODUCTION

The European Union is an economic and political partnership among 28 European countries. In order to avoid going to war and to improve the economic cooperation with each other, these countries formed the EU after the World War Two. Since then, these countries treat their association as a one market, allowing goods and people to trade around. To facilitate the same, they traded with a single currency "Euro", which was used by around 19 member countries. As per estimates, the EU GDP is worth more than $18,000 billion and a population of more than 500 million and is considered to be the biggest economy in the world.

BREXIT is an abbreviation for "British Exit". This refers to the UK's referendum to exit from the European Union. This referendum is a vote by the citizens of UK to give a Yes or No answer to a question. Supporters of Brexit believe Britain is being held back by the EU, which they say impose too many rules on business and charges billions ofpounds a year in membership fees for little in return. Moreover, they feel that Britain must reduce the number of people coming to Britain to live and work and also to take back full control of their borders. On June 23rd, 2016, the people of Britain voted for the Brexit from the EU, which is considered a historic referendum. Withdrawal from the EU has been a right under Article 50 of the Treaty on European Union of EU member states since 2007.

Sumedha Pandey, Department of Economics, University of Allahabad

Article 50- The Lisbon Treaty

The formal and legal process for any country to withdraw from the EU comes under Article 50 of the Lisbon Treaty. The Government of the country wishing to withdraw from the EU must formally notify the European council of its intention to leave the EU, which triggers a two-year process for the remaining EU members to negotiate alternate arrangements between the leaving country and the EU. During these two years, EU laws continue to apply for the leaving country as in the past. In case of an agreement is not reached at the end of the two years, EU rules and rights stops applying to the leaving country, unless the remaining EU members unanimously decide to extend the negotiation period. However, as of now, Article 50 has not yet been triggered, and it is unclear as to when exactly it will be triggered. Governments are not legally obligated to trigger Article 50 immediately, and in the case of

Corresponding author:* **Sumedha Pandey
Department of Economics, University of Allahabad

the UK, it is likely that Article 50 will be invoked by the new Prime Minister after due course of internal discussions. The UK may need some time to create a strategy and deduce which aspects of the EU are the most important to it from an economy perspective and from a more populist point of view.

Trade Relations between India-UK-European Union

Merchandise Trade

The UK and the EU are both important trading partners for India. According to Ministry of commerce data points, UK-India bilateral trade was valued at USD 14.02 billion in FY16, and EU-India trade (including UK) was valued at USD 88.56 billion in FY16. Further, exports to the UK and the EU were worth USD 8.83 billion and USD 44.62 billion, whilst imports were worth USD 5.19 billion and USD 43.94 billion, respectively. Trade deals and negotiations were being discussed even before the referendum took place. The UK used to be India's third biggest trading partner 15 years ago; today it is its 12th. Also, the UK is one of the seven countries with which India has a trade surplus. Negotiations with the EU are currently being held regarding the Free Trade Agreements, which will likely provide a boost to bilateral trade between nations.

Table 1

Indian Merchandise Trade in FY16 (in USD Billion)	
UK Exports	3.4%
EU Exports	17.0%
Total Exports	USD 262 billion
UK Imports	1.4%
EU Imports	11.5%
Total Imports	USD 380 billion

Source: Ministry of Commerce and Industry, India

Services Trade

While the bilateral trade relationship between UK and India is dominated by goods, services also form an important part of the equation. As such, the trade in services has declined over the last five years as India exported around USD 6.8 billion and imported around USD 3.16 billion in the calendar year 2011. However, since then imports haveincreased to USD 3.5 billion while exports have declined and stand at approximately USD 3.9 billion for the calendar year 2015.

Table 2

Year	Exports (in USD Billion)	Imports (in USD Billion)
2009	5.4	2.8
2010	5.9	3.3
2011	6.8	3.2
2012	5.9	3.3
2013	3.9	3.2
2014	4.6	3.6
2015	3.9	3.5

Source: Office for National Statistics, UK

The European Union after BREXIT

The most relevant concern of the UK's vote is that it may lead to similar referendums across the EU economies. There have been adverse reactions to BREXIT particularly from some Southern European countries and the pressure is on the EUR as a currency holding the union together. It needs to be recognized that the EU has been in existence for a while now and this existence itself has created mutual interdependencies between the economies from a geopolitical, regulatory and investment perspectives which far outweigh purely the monetary union aspects.

The EU as a body has had success stories. It has been largely relevant in removing barriers to the movement of people, capital and trade which has in turn made the powerful EU economies more powerful. However, global headwinds in the form of increased competition from emerging economies particularly China and India makes one rethink the strategy. The EU has a choice of looking inwards or outwards in embracing these forces of globalization. An expansion of the EU to more eastern European economies or creating a political union may not be viable options at this stage. Several trends go against a more federal view of the union, some of which are supported by the view that the EU is more bureaucratic than it perhaps needs to be. A rethink of EU strategy in looking at lesser centralized regulation and leaving more to the member economies may help. Embracing globalization and bringing in newer ideas of research, education, training, technology, cross-border infrastructure, etc. from India and other similar emerging economies may help support the union's weaker members. This will benefit India positively offering greater opportunities to penetrate newer EU markets with lesser regulations, reduced barriers and greater vigour.

BREXIT: Impact on UK Economy

Since the referendum, the pound fell to its lowest level since 1985 and triggered a major political shuffle in UK. Emergency steps are now being taken to calm the economic turmoil after the historic pound fall. Britain has lost its top AAA credit rating. The central bankers however feel that the market and economic volatility can be expected as this process unfolds and has initiated interest rate cuts and other measures aimed at saving the country from slipping into recession. However, economists feel that the Brexit vote is good news for exporters who have struggled with the high value of the pound. Moreover, Brexit would mean that Britain will no longer contribute billions of pounds a year towards the EU's budget.

Impact of BREXIT on India

Brexit may impact businesses in two possible ways:

Currency Weakening: The GBP (Great Britain Pound) is likely to remain weak and may depreciate versus the USD (United States Dollar) as the UK is a current account deficit economy. As such, it needs investment flows to fill the gap. This weakening is likely to affect companies that earn in GBP.

Growth Impact: The impact of the BREXIT vote will be felt over the coming years, and there is likely to be a slowdown in growth of the UK economy. This slowdown may not only be limited to the UK but also to the EU region as uncertainty on future prospects is likely to hold back investments for businesses and consumption for households.

Commodities face challenges

The global slowdown is expected to delay the recovery in international commodity markets. This will help India to control import bills and imported inflation, and will also assist the central bank in maintaining its monetary easing stance.

Concern for Businesses

The major concern for India relates to business sectors with high/direct exposure to the UK and Europe. The biggest impact could be among IT companies if clients in the UK and EU postpone spending due to uncertainty over how things will pan out in the near future; this would have a negative impact on revenue growth from Europe. The potential depreciation of the pound and euro against the rupee could also hit revenues from these economies.

Trade and Investment to be hit

India invests more in the UK than in the rest of Europe combined, and the UK is the third-largest FDI investor in India (after Mauritius and Singapore), with a cumulative inward flow of approximately USD 23.1 billion between April 2000 and March 2016. The flows in both directions could be impacted as a high degree of uncertainty threatens the UK's investment outlook and terms of trade. Meanwhile, Brexit clears the way for a possible bilateral trade deal with the UK in the medium to long term (which was not possible under the Eurozone trade agreement).

CONCLUSION

At this juncture, it is almost futile to say that BREXIT implies uncertainty, but that is an aspect most economies and corporates would have to deal with. The way forward will be volatile and can possibly be subject to changing political equations in the EU and UK itself. While it will be beneficial for both the parties to resolve the situation as fast as possible, the reality may be different. Given these circumstances, Indian companies can expect some hit to their UK businesses as overall growth in the country slows in the immediate short run. A weaker currency will also mean that any repatriation of profits from the UK region may result in losses as compared to the pre-BREXIT era. However, in the mid to long run, if the forces of globalization play themselves out well, an event such as BREXIT may turn out to be positive for India, bringing it closer both to the EU and the UK.

References

BBC, The links between the UK and India, November 2015, http://www. bbc.com/news/uk-34767180.

European Commission, http://ec.europa.eu/trade/policy/ countries-andregions/countries/india.

Business Standard, Indian auto sector most affected by Brexit http:// www.business-standard.com/article/ companies/indian-auto-sectormost-affected-by-brexit-116062400334_1.html.

Live Mint, Brexit may impact auto, garments, IT sectors: Crisil, June 2016, http://www.livemint.com/Industry/ Cf5mqAVg4ZNKLDIB1u4yZO/Brexitmay-impact-auto-garments-IT-sectors-Crisil.html.

Reuters, Oil prices plunge 5 percent as Britain votes to leave EU, June 2016, http://www.reuters.com/article/us-global-oil-idUSKCN0ZA00G.

Economic Times, UK exit from EU to hit Indian businesses, professionals: Ficci, February 2016, http://economictimes.indiatimes.com/news/ economy/foreign-trade/uk-exit-from-eu-to-hit-indian-businessesprofessionals-ficci/articleshow/51125787.cms.

Business Standard, Brexit: 4-7% earnings impact for Indian IT firms, June 2016, http://www.business-standard.com/article/opinion/brexit-4-7- earnings-impact-for-indian-it-firms-116062700714_1.html.

Economic Times, Top IT stocks slump as brokerages downgrade ratings, cut target prices on possible Brexit hit, June 2016, http://economictimes. indiatimes.com/markets/stocks/news/top-it-stocks-slump-asbrokerages-downgrade-ratings-cut-target-prices-on-possible-brexit-hit/ articleshow/52933593.cms.

How to cite this article:

Sumedha Pandey.2017, Impact of Brexit: Global Economy And The Case of India. *Int J Recent Sci Res.* 8(11), pp. 21725-21727. DOI: http://dx.doi.org/10.24327/ijrsr.2017.0811.1127

****