GE-International Journal of Engineering Research
Vol. 4, Issue 12, December 2016 Impact Factor- 5.613
ISSN(O): 2321-1717, ISSN(P): 2394-420X

Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

COLLISION OF BREXIT ON INDIAN MARKET

Ms. Lubna Suraiya

Research Scholar, Research Department of Commerce,

St. Xavier's College, Tirunelveli, India.

ABSTRACT

The European Union often known as the EU - is an economic and political partnership involving 28 European countries. It began after World War II to foster economic co-operation, with the idea that countries which trade together are more likely to avoid going to war with each other. The United Kingdom (UK) intends to withdraw from the European Union (EU), a process commonly known as ***Brexit****, as a result of June 2016 referendum in which 51.9% voted to leave EU. The separation process is complex, causing political and economic changes for the UK and other countries. CRISIL ratings denote Brexit is to have an unlikely notable impact on India's GDP growth in fiscal 2016. Indian companies in a multiple ways for instance, demand weakness, volatility in commodity prices, currency impact on account of the potential depreciation of the rupee, exposure to un hedged overseas borrowings may be slightly affected. Yet, in the short run, there is no significant downside to India's exports.*

Keywords : European Union, Brexit, CRISIL, GDP and Un hedged overseas borrowings

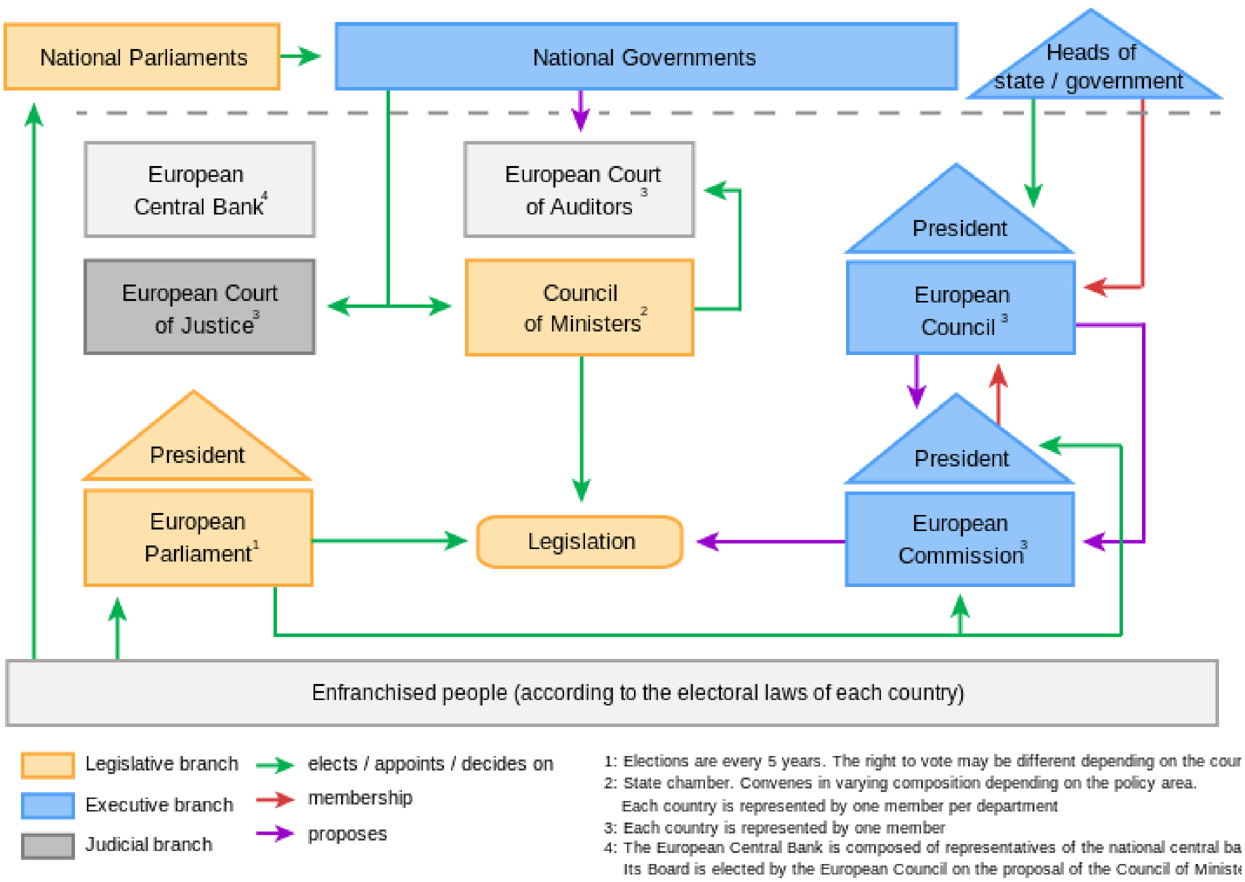
INTRODUCTION

The process of withdrawal from the European Union has, since 2007, been governed by Article 50 of the Treaty on European Union. A referendum is being held on 23 June, to decide whether Britain should leave or remain in the European Union. Prime Minister David Cameron wants Britain to stay in the EU. Britain has greater influence over international matters to tackle threats to security, including terrorism and cross-border crime independently and has proved that it can opt EU policies considering counterintuitive, such as the euro, the Schengen Agreement and enforced migrant quotas. On the other hand, Britain contributes billions of pounds in membership fees to the EU every year. The EU subjects Britain to slow and inflexible bureaucracy, making it more prohibitive for smaller, more innovative companies. There have been many twists and turns in British politics that have led to this particular moment. Two main forces driving this trend:

1. The EU expanded to include post-communist countries in the mid-2000s, and people in those countries were poorer. Many of their citizens immigrated to wealthier countries — like the United Kingdom.
2. The 2008 market crash hit some European countries especially hard. When people from those countries couldn't find a job at home, their citizens went to find jobs in other countries — like the United Kingdom.

STRUCTURE OF COUNCIL

The structure of Council is represented in the pictorial form:



FRAMING OBJECTIVES

1. To study about the reasons for Brexit.
2. To analyze various Brexit factors that affects Indian markets.
3. To recognize the future impact of Brexit on Indian markets.

METHODOLOGY

The study is based on Secondary Data. The data collection includes from:

1. The London Speaker Bureau
2. EU Referendum: Citizens Advice Bureau
3. The AIRE Centre
4. The Brexit Resource Centre
5. CBI Annual London Conference 21.11.2016
6. Local Government Association Records.
7. The Center for Economic Performance.

LIMITATIONS OF THE STUDY

1. The present study does not cover the entire scope of Brexit due to the lack of time and other restrictions.

2. Secondary data are used.

REVIEW NEWS ON BREXIT

For the UK to leave the EU it has to invoke an agreement called Article 50 of the Lisbon Treaty which gives the two sides two years to agree the terms of the split. This means that there is no clear idea of what kind of deal the UK will seek from the EU, on trade and immigration, until next year. Theresa May has set up a new government department, to be headed by Veteran Conservative MP and Leave campaigner David Davis, to take responsibility for Brexit. Former Defense Secretary, Liam Fox, who also campaigned to leave the EU, has been given the job of International Trade Secretary and Boris Johnson, who led the Leave campaign, is Foreign Secretary. Three Brexiteers will play a central role in negotiations with the EU and seek out new international agreements. The government did not do any emergency planning for Brexit ahead of the referendum and it is now rushing to hire a team of skilled negotiators to manage the complex business of negotiating withdrawal and ensuring Britain gets the best possible deal.

Former Foreign Secretary Philip Hammond, now Chancellor, wanted Britain to remain in the EU, and he has suggested it could take up to six years for the UK to complete exit negotiations. The terms of Britain's exit will have to be agreed by 27 national parliaments, a process which could take some years, he has argued. EU law still stands in the UK until it ceases being a member. The UK will continue to abide by EU treaties and laws, but not take part in any decision-making. Ex-chancellor Lord Lawson, say that as the UK does not want freedom of movement and the EU says that without it there is no single market membership, the UK should seek to end "uncertainty" by pushing ahead with Brexit and not "waste time" trying to negotiate a special deal.

Oxford Economics says that depending on the new trading relationship with EU, the impact on UK economy would be between 0.1% and 3.8% by 2030, if UK had remained inside EU. The impacts would vary across sectors but the group said that construction and manufacturing would be the worst affected. A report by the Confederation of British Industry and Price Water House Coopers found that UK would lose between 350,000 and 600,000 jobs by 2030 if it left the EU. On 14 April 2016, Conservative politician John Redwood argued that Britain would end fiscal austerity by leaving EU, that would allow UK to scrap VAT on energy, tampon and others, claw back money from Brussels and increase social-welfare expenditures, and embrace the World Trade Organization rule to trade with other countries without paying anything.

REASONS FOR BREXIT

The most important arguments for Britain to leave the EU, they are:

1. Over the past few decades, a series of EU treaties have shifted a growing amount of power from an individual member states to the Central EU bureaucracy in Brussels. On subjects where EU has been granted authority like competition policy, agriculture, and copyright and patent law, therefore it is a threat to British Sovereignty.
2. The United Kingdom has had a significant faction of euro skeptics ever since it joined the EU in 1973. But until recently, this was a minority position.
3. UK did not join the common currency.
4. Brexit is heavily influenced by immigration. EU law guarantees that citizens of one EU country have the right to travel, live, and take jobs in other EU countries. British people have increasingly felt the impact of this rule since the 2008 financial crisis.
5. The EU doesn’t have the power to directly collect taxes, but it requires member states to make an annual contribution to the Central EU budget. Currently, UK’s contribution is worth about £13 billion ($19 billion) per year, which is about $300 per person in the UK.
6. British fishing policy is determined by the political imperative of European integration. The objective is to create an EU fishing fleet catching EU fish in EU waters under an EU permit system controlled from Brussels.
7. 23% of the ERC (European Research Council) funding goes to UK universities. With Brexit, UK Universities need to look for alternate corporate/multilateral donor sources of research funding.

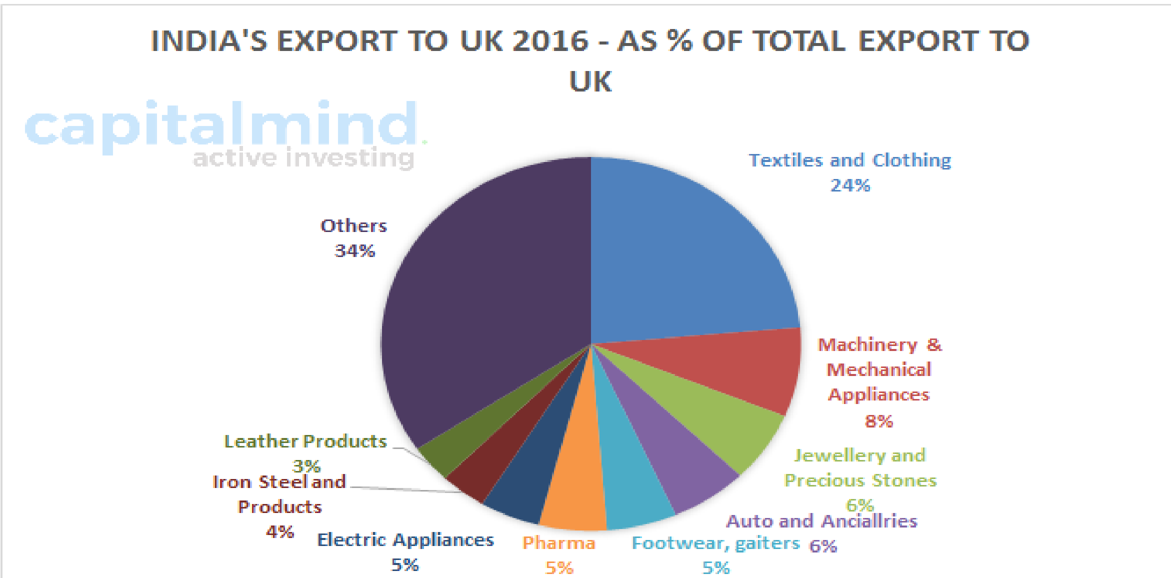
BREXIT FACTORS AFFECTING INDIAN MARKETS

There are few factors which affects Indian markets due to Brexit. To name a few:

- Risk aversion is likely to take hold across asset classes. The first hint of this was seen when crude oil fell while gold rallied 5% each. Among the global currencies, only the Japanese yen and the US dollar appreciated (considered as safe currencies by the market). Currency depreciation was seen in Asia including India.

- As Brexit has already happened, the rate increase by the US central bank may not happen soon. The Indian market need not fret about the upcoming Foreign Currency Non-Resident (FCNR) fixed deposit redemption due, as RBI has accumulated enough FOREX reserves. If there was a deficit in the reserve then Indian economy would have not been self - reliant.

- Many Indian businesses have their offices in Britain so they can avail benefits and continue to remain a part of the EU. But with Brexit, this benefit will be taken away and may result in companies relocating their business set ups to other places. Brexit might also have a positive effect, but these results may not show up immediately. The process might take time considering that the new government will take time to design and implement their policies.



- NASSCOM has predicted that the effect of Brexit will be felt on the $108 Billion Indian IT sector in the short term. Leading Indian IT firms have not commented on it as since there is a possibility of renegotiations for all the ongoing projects because of the devaluation in the value of pound. The massive selloff of the British pound resulted roughly 8% decline of the currency relative to the Indian rupee. Financial experts predict the plunge to continue before the pound stabilizes, making it considerably less expensive for Indians to travel and study in the UK. The falling currency also presents cheaper real estate options for Indian citizens and companies seeking property in the UK's notoriously expensive property market.
- Brexit will likely compel London to seek a more robust trade relationship with New Delhi. Britain and India have been so far unable to reach a free trade agreement, with negotiations having become mired in the convoluted financial politics of the 28-nation EU bloc.
- Indian parties in cross -border contracts commonly include English jurisdiction and governing law clauses. Post- Brexit may be uncertainty over the recognition of English

judgments in EU countries. The impact might lead the parties to invoke ‘force majeure’ and ‘material adverse change clauses, leading to a surge in litigation.

- Automobile, Pharma and IT might be the most affected. India is one of the largest exporters of IT enabled services and the sector has significant exposure to the European market especially the UK. UK accounts for about 17% of India’s total IT exports. Skilled labour mobility issues can arise as the multi-location contracts will get deferred on account.
- On April 5th, 2016, with the support of the UKIERI and the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India, transnational standards for 82 job roles were launched. However if India is to consider Brexit as an opportunity, it is essential that if the UK and India are to negotiate an FTA, it should include a clause on the movement of people.
- India is already trying to build trade negotiations with Netherlands, France, Germany. 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. If Britain exits EU, India will lose its gateway to Europe.

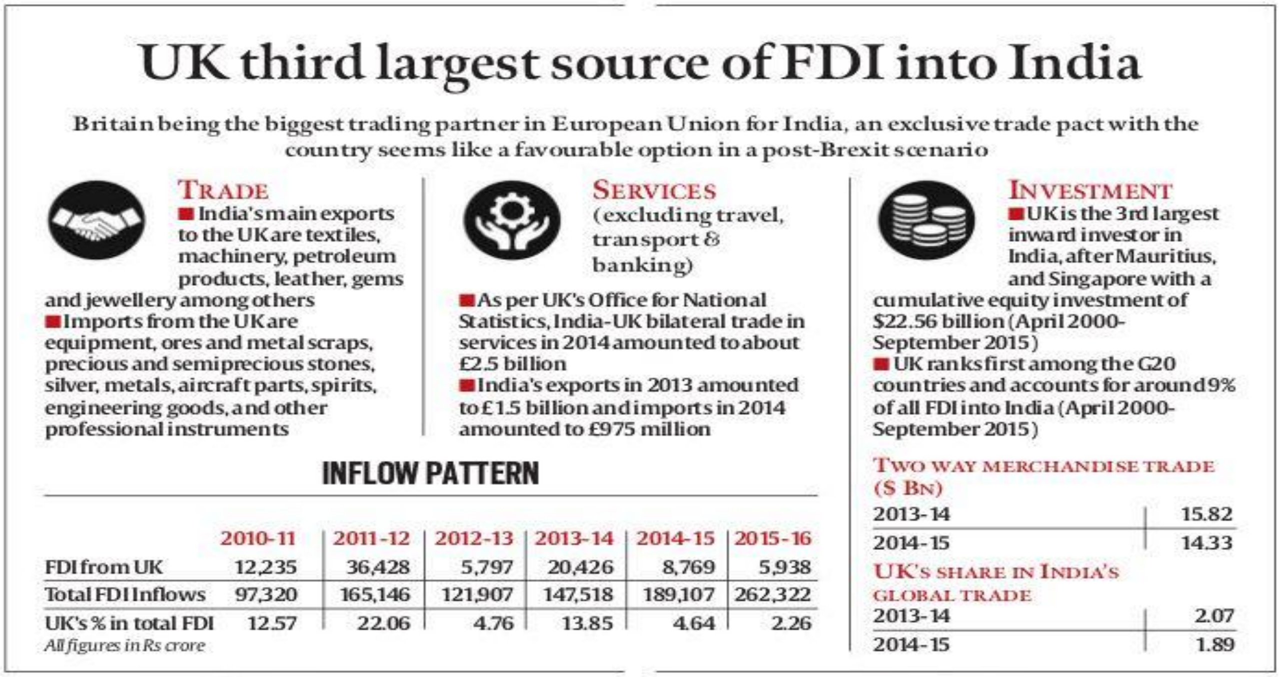
FUTURE IMPACT OF BREXIT IN INDIA

Let us examine the future impact scenario of Brexit towards India:

COMPANIES THAT MAY BE AFFECTED BY BREXIT

Tata Motors	The main business unit, JLR, derives 24% of its sales volumes and 35-40% of component supplies from Europe.
Tata Steel	12% of the volume of foreign subsidiary Corus is exported from the UK to the EU.
Bharat Forge	30% of consolidated revenues from the EU.
Motherson Sumi	60% of consolidated revenues from the EU.
Hindalco	9% of consolidated revenues from the EU.
Tata Consultancy Services	26.8% revenue from Europe ; 15.8% from UK.
Infosys	23% revenue exposure Europe.
HCL Technologies	31.2% of its revenues from Europe.
Tech Mahindra	29% of its revenues from Europe.
Mindtree	24.5% of its revenues from Europe.

Source: CLSA, company data



UK third largest source of FDI into India

Britain being the biggest trading partner in European Union for India, an exclusive trade pact with the country seems like a favourable option in a post-Brexit scenario

TRADE

- India's main exports to the UK are textiles, machinery, petroleum products, leather, gems and jewellery among others
- Imports from the UK are equipment, ores and metal scraps, precious and semiprecious stones, silver, metals, aircraft parts, spirits, engineering goods, and other professional instruments

SERVICES (excluding travel, transport & banking)

- As per UK's Office for National Statistics, India-UK bilateral trade in services in 2014 amounted to about £2.5 billion
- India's exports in 2013 amounted to £1.5 billion and imports in 2014 amounted to £975 million

INVESTMENT

- UK is the 3rd largest inward investor in India, after Mauritius, and Singapore with a cumulative equity investment of $22.56 billion (April 2000-September 2015)
- UK ranks first among the G20 countries and accounts for around 9% of all FDI into India (April 2000-September 2015)

INFLOW PATTERN

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
FDI from UK	12,235	36,428	5,797	20,426	8,769	5,938
Total FDI Inflows	97,320	165,146	121,907	147,518	189,107	262,322
UK's % in total FDI	12.57	22.06	4.76	13.85	4.64	2.26

All figures in Rs crore

TWO WAY MERCHANDISE TRADE ($ BN)

2013-14	15.82
2014-15	14.33

UK'S SHARE IN INDIA'S GLOBAL TRADE

2013-14	2.07
2014-15	1.89

CONCLUSION

Brexit is a huge legal and political convulsion for a European Union which is already struggling to cope with its many crises, deep structural flaws and collapsing political leadership and weakening Europe geopolitically. According to The Guardian, Britain has the highest ratio of services exports to GDP in the G7, at 13%. It also has the biggest share of financial services exports at 29% in 2012. As long as the UK stays in EU banks in the UK can offer a wide range of financial services through the banking passport system. But Brexit tends to mislay this opportunity. Like a coin, having a head and tail Brexit has its own favourism and critics. However, it is to be observed that due to this isolation of Brexit from EU it must not result in any economic rivalry as integration can lead to further development of economy without any isolation. Brexit should be avoided because it would create no winners, only losers.

REFERENCES

1. Agreement with the Swiss Federation: free movement of persons, European Commission. Retrieved 14 July 2016.
2. Brennand, David A. Jackson, Carolyn H. Lalone, Nathaniel W.; Robson, Neil; Sugden, Peter (24 June 2016). "Brexit: Implications for the Financial Services Industry". The National Law Review. Katten Muchin Rosenman LLP. Retrieved 28 June 2016.
3. Britain must include Gibraltar in post-Brexit negotiations, Retrieved 27 April 2016.
4. "EU Referendum: Would Brexit violate UK citizens' rights?" BBC News. Retrieved 5 July 2016.
5. Grose, Thomas. "Anger at Immigration Fuels the UK's Brexit Movement", U.S. News & World Report, Washington, D.C., 16 June 2016. Retrieved 24 June 2016.
6. Matt Osborn (7 May 2015). "2015 UK General Election results in full". The Guardian.

7. Parker, George, et, al. (4 July 2016). "Britain turns to private sector for complex Brexit talks". Financial Times. Retrieved 5 July 2016.
8. *"Osborne: UK economy in a position of strength"*. BBC News – Business. BBC. 27 June 2016. *Retrieved 27 June 2016*. George Osborne has said the UK is ready to face the future "from a position of strength" and indicated there will be no immediate emergency Budget.