

# Effect Of Brexit On Indian Economy

Vinuta Dodamani

Kusuma K M

Research Scholar, Department of Economics and Co-operation,  
University of Mysore, India

**Abstract:** June 23<sup>rd</sup> 2016 is a milestone for UK citizens, as it pulled UK from EU through the process of Referendum, as early promised by then the President of UK David Cameron. BREXIT is the result of referendum, officially exit of UK from EU process will start from May 2017 and end up in 2019. Brexit is not only related with UK and EU, every Country was watching the referendum; it's mainly because of inter-dependency of trade and business. Europe is a major manufacturing and market hub so whatever the changes in European countries will affect the world. This paper tries to explain the effect of Brexit on Indian Economy by using secondary data of 2005-2015. It is too soon to assess the impact of Brexit on India and Global Economy. Although the study identified some economic aspects like flow of immigration from EU and Non EU to UK, Export import as well as flow of FDI from India to UK is taken into consideration with the help of AGR (Average Growth Rate). Paper focuses on immigration of EU and Non EU citizens to U.K. 2006 remarked as a peak period of about 322 thousand immigrants. The boom period followed by recession of 2008-09 leads to decrease in the immigration but, it has been risen to 1055 thousands from the EU and 1130 thousands of Non EU citizens to U.K. in 2015, shows the recovery stage. Once the policies are spelled out by European Union and United Kingdom things can be positive, if both UK and EU managed well, but some frictional issues cannot be ruled out. For positive note India has new opportunities due to Brexit because of professional workers are abundant in India (especially English speaking and writing). So there is no dearth in demand for Indian labors at UK, as it is building a new economy. In total, India will gain out of Brexit rather than losing anything.

**Keywords:** Immigration, foreign direct investment (FDI), export and import

## I. INTRODUCTION

Exit of Britain from European Union is a 'BREXIT'. President of U.K, David Cameron opted for referendum on June 23<sup>rd</sup> 2016. As he already mentioned during his campaign as a result of this, 51.9 per cent of voters or 17.4 million people helped to pull the U.K out of the European Union. But it's not as simple like coming out of EU, Britain is bonded with EU explains EU for trade and migration. Britain is more importer than exporter, Britain imports is 45353.00 GBP million (Great Britain Pound) and exports is 43090.00 GBP million in the FY (Financial Year) 2016. India is third largest FDI flow to Britain next the China, U.S.A, and Europe in the FY 2016.

Britain has always acted as financial hub or gateway to Europe, which helped to access the capital market but with Brexit the situation may not as early, may be limited access to capital markets and migration to UK. Britain people thought that immigration is the main hurdle for unemployment opportunities to local people and also they are suffocated from EU rules and regulations. Now India has a good trading relation with Britain so in this paper much focus is on FDI flow from India to Britain immigration of EU and Non-EU countries, pattern of export form India and impact of BREXIT us discussed.

## II. MEANING AND SOME TWITS ON BREXIT

**MEANING:** Exit of Britain from European Union, in short it is BREXIT. BREXIT is the term coined for Britain's referendum to exit the European Union. The referendum is due for voting on 23rd June 2016. Momentum is growing behind the EU exit campaign, which wants to end central control by Brussels and give Britain the freedom to manage its own affairs.

In broadly speaking BREXIT is EXIT from European Union In the matter of political, social and economic aspects. Some important tweets on BREXIT as follows,

Jeenclad (President of EU) said that People of Britain already given the decision, as soon as possible leave the European Union so that no uncertainty will be there.

Donald Trump (US President) says that, exit of Britain from EU is an historical event and he is very happy for the decision of Britain.

Arundhati Bhattacharya (SBI bank Chief, India) opines, temporary uncertainty will be there due to BREXIT, but it will create market opportunity for India, both at Britain and EU.

Landon School of Economics- centre for Economic performance study outcome, (i) Immigrants from EU are more educated and hard workers. (ii) Compared to Landon citizens EU migrants pay high tax but England look migration as a problem.

## III. REVIEW OF LITERATURE

- ✓ *Mr.Moid san, (December 2016)* this article explains about the impact of Brexit on Indian economy he narrates Brexit is likely came slow growth less economic prospects.
- ✓ *Rajalakshmi B and A Marcus (September 2016)* article focused on impact of Brexit on Indian stock market. Brexit is a surprising unexpected event leads to immediate negative effects on world financial market. They suggest taking step towards stability of Indian economy which is linked with UK and EU in broader prospects.

## IV. HISORICAL BACKGROUND

After the 2<sup>nd</sup> world war (1945), people of European countries realized the affect of war and its financial depression, so to over from the problem they decided to unite with neighbor countries for the purpose of trade and its benefits during the period of 1957. EEU (European Economic Union) formed with six basic members, they are France, West Germany, Belgium, Italy, Luxemburg and The Nether land, by the Paris Treaty, With the 28 members it formed EU. EU is more liberalized and unified European Countries.

UK at applied for EEC its membership in 1963 but opposed by France president then, Charles de Gaulle with his veto power. Because he doesn't want French is replaced by English language as at last Britain joined to EEC in 1973. But in 1975 Britain opted a referendum to quit common market (EEC) but 67 per cent against to quit EU (Common Market). So during 2016 Brexit come to existence.

Crack was started during the time of 1984, on the subject of reduction of payments to EEC, by that time UK was the poorer-nation in the community, because of the efforts of then the president Margaret Thatcher reduced its payment 20% to 12 % ( due to lack of farm lands, was not-able to claim subsidies for farm).

During 1993, by the treaty of Maastricht EEC, renamed as EU simply Economic Union, integrity between the European nations politically, economically, single citizenship right and single currency (except UK in currency matters).

David Cameron (UK independent party) became the 1<sup>st</sup> prime minister to get veto during 2011. In early 2013 Cameron gave much importance to Referendum in his speech before election and he won in re election by 2105, as on his promise during the time of campaign he went to Referendum by 23<sup>rd</sup> June 2016. Thus the BREXIT come to a figure.

## IMPORTANCE OF THE STUDY

It's a common thing that if developed country gets a cold, then LD's will get sneezing. It's because, of the financial matter of the country is inter-related and dependent. So in this view exit of UK from EU is also one among them. In the era of globalization migration is dynamic factor even in USA and UK becomes a political agenda. At the same time without skilled professional workers there will not be any growth of capitalism. Most of the developed countries are capitalistic in nature, so the growth of capitalistic country definitely relay on professional labour abundant country. In this way, Indian professional will suite for any developed countries. Ultimately always there will demand for Indian professional skilled workers whatever may be policy changes. Global future publishers noticed that, UK is in need of immigrants of about more than 2, 00,000 for the long run to avoid catastrophic affect.

## STATEMEENT OF THE PROBLEM

Brexit is not only a political issue, but also economic in nature. With respect to UK it has to take care of its citizen's interest and also in need of skilled professional workers to re-build the economy. It does not mean that UK do not have skilled professions but in terms of number and cost. India and china are in lead. In this view paper will look in to so for flow of FDI, import export and immigration with reference to india. The concept of brexit is around the anti-immigration to UK but without the mobility of men material and money no country has been developed so for.

## V. OBJECTIVES AND METHODOLOGY OF STUDY

- ✓ To discuss the effect of 'BREXIT' on Indian Economy
- ✓ To spell out the present scenario of EU and Britain.

## METHODOLOGY

The present study is based on secondary data, in this direction the secondary data has been collected from various books, reputed journals, regional and national news papers and

various government reports. Only Average Growth rate(AGR) is used to discuss the flow of immigrants to United Kingdom.

## VI. FOR AND AGAINST GROUP OF BREXIT

Who is against BREXIT?	Who is favoring BREXIT?
✓ David Cameron- PM, Britain	✓ Nigel Farage- UKIP Leader, UK
✓ Barack Obama- President of the United States	✓ Boris Johnson- London Mayor
✓ George Osborne- Former Chancellor of the exchequer, Britain	✓ George Galloway- Respect partly leader, UK
✓ Mark Carney- Governor, Bank of England	✓ Vladimir Putin- President of Russia
✓ John Major, Tony Blair Gordon Brown- Former British PMs	✓ Michael Gove- Justice Secretary, UK

## FOR AND AGAINST BREXIT ACCORDING TO MAIN CAMPAIGNS

### REASONS FOR BREXIT IN

- ✓ **Trade:** Out of total exports of Britain, 45 percent go to EU because of its size with export tariff free.
- ✓ **EU Budget:** Earlier Britain use to pay \$340 per year per household where as EU spends \$ 3000 per household per year directly or indirectly, Britain citizens are the beneficiary due to a member of EU
- ✓ **Regulation:** EU has made single uniform regulations to all 28 nation and will be easy get better business benefits.
- ✓ **Immigration:** Britain coming out of EU does not mean reduces the immigration. Any country that can trade with EU will have higher immigration than Britain.
- ✓ **Influence:** Britain has got 2 times representation at international summit by the co-operation is able to fight Ebola and piracy in Africa

### REASONS FOR BREXIT OUT SUPPORTING FROM EU

- ✓ **Trade:** Without bondage by the EU laws of trade one can individually trade with other important countries such as China, India and America.
- ✓ **EU Budget:** Britain can stop save \$350 million is almost equivalent to half England's School budget which was early use to deposit at EU every week and that can be utilized for R and D and new industries.
- ✓ **Regulations:** Getting out from EU will help to Britain to regulate on employment and even on health and safety.
- ✓ **Immigration:** Due to free movement of labour from EU led to expensive and out of control situations at Britain and rigid the immigrants who could contribute the UK.
- ✓ **Influence:** Britain had not much influence within the EI.

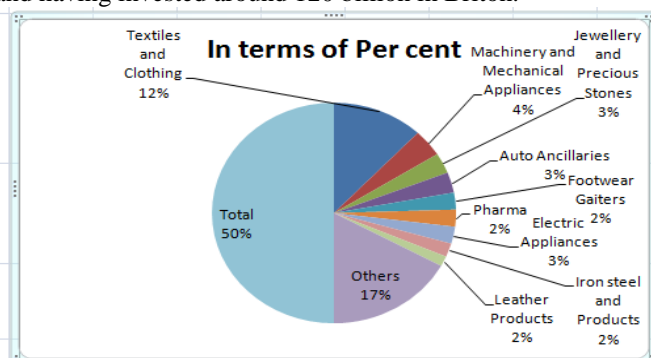
## EUROPEAN UNION

EU comes to an existence during the time of November 1, 1993 with the treaty of Maastricht with the 28 member countries (excluding UK, 2016). Treaty was design to form integration in Politics Economic and Social issues of 28 countries. EU was awarded Nobel Prize for peace during 2012, for the effort of peace and democracy in Europe.

## LISBAN AGREEMENT

Lisban Agreement is known for its reforms, it's an amendment to fundamental principles of the EU constitution came to an existence during the period of 2009 December 1<sup>st</sup>. In this Lisban agreement of Article 50, (any European Union member can exit from Union) explains about the exit of relating rules/laws are mentioned. EU is started with the intention of mutual trade for the developments between the EU member countries; so far no country has exit from the union, but Britain is the 1<sup>st</sup>. Starting from 1975 to till the joining of Croatia 2013 membership was 28 but now it has been reduced to 27 with the exit of Britain.

Germany is the prominent member in EU 27. For most Germans Brexit does not matter much but the issue in political circles. Its mainly because of German car sector specially depends on UK based factories and sales with this, machine building, financial institutions and pharmaceuticals of German depend on UK based companies. So there is no wonder that, out of Ten German Companies, four are expecting that Brexit may harm to their business. In 2016 only, Germany exported € 86 billion worth goods to UK, while imports less than half of that. Around 750,000 jobs in Germany are said to depend on export to UK and 2,500 companies of German active in UK and having invested around 120 billion in Britain.



Source: <http://capitalmind.in/2016/06/brexit-need-know-impact-india>

Figure 1: Major Exports from India to UK are as follows

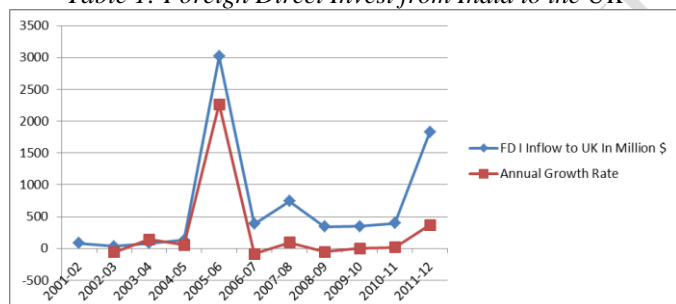
The above figure -1 reveals the major export from India to UK. India had a very long relationship with UK. Before Independence, India use to export raw material to United Kingdom like natural indigo dye and raw silk, but now the pattern of export more is shifted to finished goods in textile. Textile is the prominent exporting sub-sector to UK compared to machineries and jewellery. Textile grabs 24 percent of total export to UK, during the time of 2016 followed by machinery and mechanical appliance (8 per cent), precious stones and jewellery (6 per cents). Even auto ancillary had 6 per cent of export share followed by footwear gaiters,

pharmacy and electrical appliances holds 5 percent each. Iron steel and Leather product share of export is very meager of 4 and 3 per cent respectively. Other product share to the total export from India to UK is about 34 per cent. According to ONS source of 2016, US ranks 1<sup>st</sup> in total UK's export worth of 88 £ billion (17 per cent of total export from UK), followed by Germany about 43.3 £ billion (2<sup>nd</sup> rank), The Nether Lands of 34.1 £ billion (3<sup>rd</sup> place) and India receives only 8.8 £billion worth goods from UK exports (13<sup>th</sup> rank in total exports of UK). Total Imports of UK, from Germany is about 70.6£ billion (12.8 per cent with 1<sup>st</sup> rank of total imports of UK) followed by US of 51.6 £billion (9.4 per cent with 2<sup>nd</sup> rank) and India stands 12<sup>th</sup> rank (out of top 15 countries imports of UK) about 10.3£ billion worth of goods are imported by UK, share of total import is only 1.9 per cent and its very small role to play.

Year	FD I Inflow to UK In Million \$	Annual Growth Rate
2001-02	83.46	-
2002-03	33.7	-59.62
2003-04	82.14	143.74
2004-05	127.57	55.31
2005-06	3019.09	2266.61
2006-07	384.66	-87.26
2007-08	740.8	92.59
2008-09	343.98	-53.57
2009-10	344.84	0.25
2010-11	393.04	13.98
2011-12	1832.54	366.25

Source: EXIM Bank India pp-16

Table 1: Foreign Direct Invest from India to the UK



Source: Table-1

Figure 2: Foreign Direct Invest from India to the UK

The above table -1 and figure -2 depicts about flow of FDI from India to U.K. as of availability of data for the period 2001-02 to 2011-12. We can observe 2005 and 2006 are the peak period for the flow of FDI or the boom stage at U.K. is \$ 3019.09 million. Then again we can observe there is decrease in the FDI due to instability of the recession. It recovered flow FDI in the year of 2011-12 is started to increase. When there is flow of capital is high, and then definitely there will be more scope for economic activities as we observed in the above table 2005-06. So there more number of immigrants at U.K. India stands third largest investor in the U.K.

Year	British Citizens		EU Citizens		Non EU Citizens	
	In Thousands	AGR	In Thousands	AGR	In Thousands	AGR
2005	98		152		317	
2006	176	79.59	322	111.84	663	109.15
2007	151	-14.2	387	20.19	631	-4.83
2008	166	9.93	382	-1.29	613	-2.85

2009	184	10.84	350	-8.38	595	-2.94
2010	377	104.89	706	101.71	1277	114.62
2011	339	-10.08	684	-3.12	1292	1.17
2012	310	-8.55	631	-7.75	1107	-14.32
2013	309	-0.32	762	20.76	978	-11.65
2014	324	4.85	946	24.15	1104	12.88
2015	343	5.86	1055	11.52	1130	2.36

Source: International Passenger Survey (IPS), Long-term International Migration - Office for National Statistics, AGR= Annual Growth Rate.

Table 2: Immigration of EU And Non EU Citizens During The Period Of 2005-2015

In the above table -2 reveals about immigration of EU and Non EU citizens to U.K. from the period of 2005 to 2015. In respect to EU migrants to U.K was increased from 152 thousand to 322 thousand during the period of 2005-06. From the period 2005 to 2015, 2006 recognized as the highest growth rate of 111.84 of immigrants to U.K from EU. After 2006 we can observe there is a drastic change in immigrants to U.K it's because of U.S recession. But it has been rise to 1055 thousands from the EU and 1130 thousands of Non EU citizens are in U.K.

## VII. EFFECT OF BREXIT ON INDIAN ECONOMY

Britain is a financial hub EU or gateway to Europe; due to exit of Britain will have wide repercussion on every country which is connected to global market. Here we focus impact of BREXIT only on India on Indian economy as follows

- ✓ *Third largest outward direct investment or inflow of FDI to UK:* Earlier UK regarded as the financial hub or gateway to Europe for the investment by Indian companies. FDI to UK is 65% in the financial year 2016 stands 3<sup>rd</sup> largest outward direct investor or FDI to UK followed by US and China, even flow of FDI may increase.
- ✓ *Increase in international trade:* During financial year 2016 India has positive surplus trade of \$3.64 Billion out of \$14.02 Billion total trade. In which \$ 8.83 billion was exports. So we may expect more trade with UK. Due to BREXIT, euro and pound value may decrease and on other hand the imports from UK may be getting cheaper.
- ✓ *Uncertainty following BREXIT:* There is no proper plan regarding EU and UK relationship and their trade barriers after BREXIT. There will be volatility in global financial market.
- ✓ *In search of another EU partner:* If Britain exit from EU, India will lose financial hub or gateway to EU market, so India need to search of another partner at EU. India is already trying and negotiation with the Netherlands, Germany and France for future EU trade.
- ✓ *India suits to UK for the new trading partner and source of labour supply:* Due to BREXIT Britain will lose much trading contacts with the EU, so desperately it prefers China, India and U.S.A for more trading. To a Britain still there is requirement for inflow of labour and India fits due to its English speaking population.
- ✓ *Europe can make India as strategic partner:* India is a fastest growing country in the world and Europe would need to quickly resolve the pending trade issues so there



is a chance of development through EU with or without BREXIT.

- ✓ *Income may come down by IT sector:* Indian IT and IT service companies may get affected by BREXIT. India's leading IT companies like Infosys and TCS will get affected because almost 15% to 18% of their income from UK, so income may come down.

dearth in demand for Indian labors at UK, as it is building a new economy. In respect to trade, may be some positive notes if UK looks other than Non-EU by competing with China. In total, India will gain out of Brexit rather than losing anything. A fluctuation in stock market is of temporary phenomenon, it will respond to any changes in the world, as of investors from the world.

#### RECENT UPDATES OF INDIA AND UK RELATIONS

In 9<sup>th</sup> UK India economic and financial dialogue agreed to setup a 240 million pound funds called Green Growth Equity Fund-to finance clean energy fund. UK voice Chancellor of the Exchequer Phillip Hammond pointed out that Britain is the largest G20 investor in India in the last 10 years, while India is the 3<sup>rd</sup> largest investor in the UK.

#### SUGGESTIONS

- ✓ Countries like India should adopt 'Happy Home>Returns' scheme for emigrants.
- ✓ Indians economy should not rely on remittance and have more concern towards stability in Indian currency.

#### VIII. CONCLUSION

It is too soon to assess the impact of Brexit on the Global Economy and India. There will be more need clarification about Brexit, once the policies are spelled out by European Union and United Kingdom. Things can be positive if both UK and EU managed well, but some frictional issues cannot be ruled out. For positive note, India has new opportunities due to Brexit. One can expect that after the Brexit completion (2019), for sure UK will have their own trade and immigration policies. UK will definitely take care of smooth relations with EU also as it has more of manufacturing companies at EU than the native at the same time EU also depends more on UK for marketing. UK may look forward other than EU for its trade and business, so Non-EU will have more opportunities. Major changes may be at the side of immigration policies in support of Brittan civics, nothing but a cherry picking.

With reference to India, it has a more human capital abundant country especially, professional workers, so no

#### REFERENCES

- [1] Rashmi Banga (2016) BREXIT: OPPORTUNITIES FOR INDIA Emerging Issues Briefing Paper (7) pp-1-22
- [2] Swati Dhingra, Gianmarco Ottaviano at all, "The consequences of Brexit for UK trade and living standards" published by the Landon school of economics and political science, pp-1-15
- [3] Banga Rashmi (2016) Brexit: Opportunities for India published by The Commonwealth Secretariat pp 2-22
- [4] FICCI (2016) BREXIT – Views and suggestions from India Inc. PP-2-18
- [5] International Passenger Survey (IPS), Long-term International Migration - Office for National Statistics
- [6] Rajalakshmi B and A Marcus (September 2016) "Brexit impact on the Indian economy and stock market" published by IMPACT International Journal of research in humanities, arts and literature. ISSN- 2347-4564, Vol-4, Issue 9, pp-75-80
- [7] Mr.Moid san,(December 2016) " Mapping the potential impact of brexit on Indian economy" SIBM Pune Research Journal, Vol XII, ISSN 2249-1880, ISSN 2348-5329, pp 42-47
- [8] <http://capitalmind.in/2016/06/brexit-need-know-impact-india/http://www.tradingeconomics.com/united-kingdom/imports>
- [9] <https://www.chathamhouse.org/publication/increasingly-apart-post-crisis-growth-trajectories-uk-and-eurozone?>
- [10] <https://www.chathamhouse.org/expert/comment/germany-brexit-more-about-politics-business>
- [11] <http://ficci.in/Sedocument/20369/BREXIT-July-2016.PDF>
- [12] [www.britanica.com](http://www.britanica.com)