

Brexit: Implications on Indian Business

Abstract

The article explains the concept of Brexit in simple manner and also gives some reasons why Britain tends to withdraw from EU. The United Kingdom is a big market for goods and services from the European union area. Brexit will hamper the growth in the UK as well as in the EU. A report by consulting firm Deloitte, analyze the lightly impact of slowing growth and a weaker pound on Indian business. This paper examines Brexit and what this mean for Indian companies. Many have been wondering that what is the Brexit and its impact on Indian economy. No source talks about it in a consolidated and in a simple language. I bring this research paper to simplify Brexit and its implications on Indian economy.

Keywords: Brexit, EU, UK, Impact on Indian business

Introduction

Britian has voted to leave the EU. Voters have voted in favour of brexit. Voters in the UK have decided to leave the EU by the margin of 52% to 45%. That means that in the upcoming months British and European leaders will begin negotiating in the terms of British's departure. It is an important day for India and British. The UK goes to the poll on june 23rd, 2016 to decide whether it should "remain" in the European union or leave. An exit or so called Brexit would likely be a mixed bag for business. The equity markets might not take it well, but trade could see some easing.

Aim of the Study

1. What is or why is Brexit?
2. The impact of Brexit on Indian business.

Meaning of Brexit

1. The word Brexit is made from the combination of two words "Britain=Br" and Exit.
2. Withdrawal of United Kingdom from the European Union.

What is Brexit

Brexit is the term coined for Britain's referendum to exit the European union. The referendum voted on 23rd June, 2016. Momentum was going behind the EU exit campaign, which wants to end the central control by Brussels (EU) and give Britain the freedom to manage its affairs. Commonly termed as Brexit-United Kingdom leaving European Union. UK comprises of four countries-England, Scotland, Wales and Ireland.

What is EU (European Union)?

The EU is a political economic union of 28 member states loacated in primarily in Europe. It has the area of 4,324,782 sq km and estimated population of all over 510 million. On 23rd June, 2016 Britain decided to exit from EU.

Why Brexit?

1. Britain felt that too many rules are being imposed on business due to being the member of EU. Also Britain has to pay billions of pounds as a membership fee with a meager return on this fee.
2. EU reduced the control which Britain had on its border. While Britain wanted better control of its borders.
3. Reason of free flow of external people to Britain was due to free movement policy. EU which eradicated any need to have visa while moving within the EU countries.
4. UK no more wants to spend its money on financial assistance to other EU countries which are having struggling economy.

Impact of Brexit on Indian Bussiness

There will be no Immediate effect. It will take time for UK to officially break all the ties with the EU. EU rules were stoping Britain from straicking a deal with India, but now the Britain would be free to negotiate its own far reaching Trade deals with India. It will be a boost to India UK ties.



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IT Companies

Indian IT companies may need to establish separate offices and hire different teams in UK and EU after fallout, putting heavy expenditure burden on IT companies in near term. However, in the long run Brexit could lead to the strengthening of India UK economic relationship as UK seeks to compensate for loss for preferential access EU markets. Nasscom recently said that Brexit will have negative impact on \$108 billion Indian IT sector in short term. However it is said that exact nature and extend of impact will emerge over a longer period of two years or more.

Automobiles

The UK and the EU account for 4% and 16% of India's automobiles exports. For companies manufacturing in UK, access to a single market is important; products will get 5% uncompetitive if they have to pay duties. In the near term, products become cheaper but profits will fetch lower amount.

Travel and Tourism

The travel and tourism sector will be affected by Brexit developments, as it is directly affected by the currency fluctuations. Travel to the UK could get boost, as the British economic gains competitiveness via weaker currency. But it means fewer British tourists in India and lower spending.

Garments Exports

Garment export accounted for a fifth of India's exports to the UK. Indian garments exporter have already witnessed a 5% drop in the demand in last year, and could see lower sales due to slowdown in growth. Indian companies are growing by 10% in Britain. Most of these companies invested in UK, popularly to have access to European market, but now they have to deal EU and UK separately. Brexit will have a bearing on future Indian Investment in UK.

A report in the Deccan chronicle says that stocks that would face turmoil include that of Tata Steel, Tata Motors, Tech Mahindra, Bharat Forge, Motherson Sumi, Infosys.

Investment in the UK is the gateway that its provide to EU. Hindalco, Wockhardt and Mindtree Apart from these the Indian Depository Receipts of

Stanchart are also likely to be impacted negatively. Jaguar Land Rover, British biggest car maker and Tata Motors subsidiary, estimates its annual profit could be cut by 1 billion pounds or \$1.47 billion dollar by end of decade if Britain leaves EU, said Rueter report.

As Deloitte explains in the note, one of the key factor among others, that attracts Indian enterprises and their Indian firms to look out for on event of Brexit.

Markets would definitely see a temporary hit because of Brexit. If we look at a indirect impact on an event like Brexit, it would be 'flight to safety'

Meaning, foreign investors exit Indian investments to rush back to dollars. This is unlikely, so as such nothing can be said as of now, Brexit has its no limited implications but cascading effect can be seen across the global markets on happening of Brexit. It will take some time to settle the dust, never the less we need to be prepared for it.

Conclusion

The reasearch paper simply highlighted about Brexit and impact of Brexit decision is expected to be minimal for Indian economy. A good monsoon and recovery in local demand would negate some of negative impact and support economic growth. There could be some slowdown in investment activity from foreign investors in short term, but the strength of India's macroeconomic Fundamentals would compel the investors to return in India's shores in the medium to long term.

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