



BREXIT AND IT'S ECONOMIC EFFECTS

KEYWORDS

Brexit, Economy, European Economy

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ABSTRACT *This article focuses on the 'what and why' of the Britain's exit from the European Nation and its impact on UK, European countries, and India. The article explains the concept of what is Brexit and also gives some reasons why Britain intends to withdraw from European Union. It explains how the Brexit was overstated and how its real impact on the economy can be gauged only after the treaty that Britain will sign. The article illustrates how the various sectors are going to be affected by this and cites few examples of companies like Tata Steel, Tata Motors, Lupin etc. to explain the views. The relationship of other European nations, the economic effects are very well covered in it*

What is BREXIT

It is the abbreviated form of "Britain Exit " which refers to the referendum by British voters to exit the European Union.

The European Union

The European Union is association of 28 European countries which was founded in the year 1993 at Netherland .The Foundation of EU was laid back after the II world war when there was a new movement to create unity between Germany and France. People felt that there is need to unite the European countries which were fighting against one another and it is greatly hurting the continent.

The European Union was established under its current name in 1993 following the Maastricht treaty. This treaty creates the EU which consists of three pillars : European communities , Common foreign and trade policies and police and judicial cooperation in judicial matters. This allowed People, Goods, Services and Capital to move freely between member countries.

Why Britain Wants to leave EU

Almost every western European country joined the EU in 1993. The EU has helped foster long periods of economic prosperity and it's helped keep the region at pace. The Appealing part of EU was that it allowed EU countries to share in each other's prosperity.

For any union, cooperation means living through the bad times together but it didn't happen with this union.

In mid 2000 the EU included post-communist countries, the people of these countries were poorer and EU made easy for these people to migrate to much wealthier countries such as United Kingdom.

Britain's foreign born population skyrocketed to about 8 million from 4 million in 10 years. After the economic crises of 2008 many of the people of these countries lost their jobs at home and moved to Britain to find new jobs. For them the British labour market was easier to break into as lots of people across Europe speak English.

The tension of immigration has risen significantly in Britain as during one survey 45% British citizens marked issue of immigration as top issue facing the country.

People of UK think that leaving the EU will directly result in cost saving in terms of Membership Fee which Britain contributes towards EU budget. Now they don't have to pay any membership fee to EU, the same amount can be used to roll out some scheme for its citizens. Last year the amount was estimated around 8.5bn pound.

Leaving the EU will allow Britain to re- establish itself as independent country with connections to the rest of the world.

Security at the British borders was major concern for the people as open border does not allow it to check and control the people of other European countries.

Process of BREXIT

Although Britain has decided to leave EU, it will remain a member for time being till it's withdrawal and nature of future relationship with other EU countries worked out through negotiation.

The process of withdrawal will involve three sets of negotiations

- 1.The withdrawal terms has to be set considering that many British citizens are residing in other EU countries and in the same way many people of EU countries are resident of UK. The rights of these should be protected through mutual agreement.

2. It is necessary to decide the trade terms, as currently there is free trade of goods and service amongst the EU nations. At present UK imports more goods than it exports to EU nations.

3. UK will have to negotiate the terms of its membership of the WTO. It will also have to negotiate the trade deals with other 50 countries which have deals with EU. The existing terms will no longer apply once Britain leaves the EU.

Time to leave the EU?

It will take at least 2 years after the announcement of exit to actual exit that is end of 2018.

David Davis a Brexit secretary has scheduled a time lim-

it of 2 years to end Brussels rule in Britain which could see December 2018 but former cabinet secretary Lord O'Donnell opines that this process of break up with UK may take longer period.

Impact of BREXIT on British and EU

The referendum of Britain's exit from EU will have both immediate and long term effect on British as well as EUs economy. Immigration was one of the major issue to leave the EU. Whether Britain gets the power to restrict the immigration will depend on its future agreement with the EU.

Britain would like to restrict the entry of low skilled labour and attract high/semi skilled labour, this will adversely affect the low skilled sector such as agriculture but will benefit the sectors which requires high skilled labour such as software people.

EU is the destination for about half of all British goods exports. It is highly likely that the trade and manufacturing agreement will continue as it is with minor changes. This would be a win-win situation for both Britain and EU. UK also trades with other countries which has free trade agreement with EU. This scenario will change as Britain may not have the same agreement which it has with the EU. This will impact the trade relations of non EU countries with Britain.

The BREXIT will certainly have both social and economical affect on UK and EU, the intensity of this will depend on the agreement to which they reach.

BREXIT in Indian Context

India is the third largest FDI investor of UK. We invest more in UK than all other European countries put together. As per the data available for fiscal year 2015-16, the trade which we did with Britain was worth \$ 14.02 billion, out of which \$8.83 billion was export only, rest \$5.19 was in import. Thus our trade balance was a positive. UK will decide its own trade policy when it goes out of the European Union and when it is legally entitled to enter into trade agreements it will start entering in various countries of the world. As per the vision of the Finance Minister there is a huge amount opportunity between India and United Kingdom.

Many of Indian firms operating in European countries; have offices in Britain. This will change once Britain leaves the union, it would mean additional expenditure of setting up an office in some other European country, as these Indian firms may not be able to enjoy the free border access then.

The adverse effect is already reflecting in British currency as pound touched 31 year low and the volatility will be there in near future which would risk Indian business engaged with UK. The dramatic fall the value of pound will eventually mean less purchasing power for businesses and consumers as the price of imports increases.

Example of Tata Motors can be sighted which has a subsidiary in Jaguar Land Rover in UK. Jaguar Land rover is the Britain's biggest car maker and accounts for nearly 90% profit of Tata Motors. With BREXIT EU will impose new tariff for car made outside its boundary, which will make Jaguar less competitive than Merc, Audi and BMW which may eventually affect the profit of Tata Motors.

Another Indian sector which will take a hit, is software in-

dustry as Britain and other European countries would not be spending on technology in this uncertain economic environment. Presently Europe including UK, accounts for nearly 30% of business for five top most Indian software firms.

The effect can be seen in many other sectors such as Metal, Capital goods, Pharmaceutical, Automobile as Indian companies like Motherson sumi, Sun Pharma, Lupin, Tata steel, Cummins India have substantial business exposure in European Market.

But overall the Brexit impact was overstated as we saw the share markets only reacted for a day or two and then stabilised.

According to the UK Economic Index the business confidence jumped in September after the shock of June vote. Almost half of the business leaders are optimistic about the UK's economic outlook for the coming years

So, as per the current scenario Brexit has a mixed effect on the world economy in general and Indian economy in particular. The impact of Brexit on the Indian economy will be dependent on the treaty of trade policy which UK will sign and the rights they will get out of this treaty.