Knowledge Paper

on

BREXIT : Broken Steel Chain.....

It’s Relevance to the Indian Economy
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Overview and Need for European Union

"UK the steel fortified financial economy breaking alliance from the world’s fundamentally strong union of trade centric economies".

BREXIT has earned deep attention from various world economies for the very reason that it is for the first time the world will experience the breakup of one of the most stable economy from the world’s most powerful economic group. UK has had a troubled relationship with the EU since the beginning and has made various attempts to break away from it.

UK’s latest campaign to leave the EU is the biggest yet and it has garnered enough momentum to have a referendum. The European Union is a proto version of what the US today stands for in a larger sense. A union of independent countries versus the union of independent states. The Article 50 of the Lisbon Treaty will be invoked for the formal separation from the European Union after being part of it for last 43 years by UK with the process taking a time period of two years for the same.

Through this knowledge paper we explore what was the need for such a massive union of economies, what were the reasons for UK to join such a union when it was an established super power itself and the reasons for separating out of this union and its possible long term effects. This will help us at least go closer to the cause of such a split which has made the world awe at.

Need for an European Union

At a time when World War II brought about untold changes in Europe it was a period marked with a cultural and economic shift for the entire globe, and the recovery from that shift. Economically, the period after the end of World War II was a time for moving from the industry of creation for the purpose of destruction into the industry of creation for creation’s sake, of exploring new technologies and business models previously unheard of.

The formation of European Union had many precursors in place and saw the coming together of European communities to form groups. The 1948 Hague Congress was a pivotal moment in European federal history, as it led to the creation of the European Movement International and the College of Europe, where Europe’s future leaders would live and study together. The creation of the European Coal and Steel Community in the year 1952 played another very important role in creation of the European Union and was proclaimed as the first step in the federation of Europe.

In 1957, Belgium, France, Italy, Luxembourg, the Netherlands and West Germany signed the Treaty of Rome, which created the European Economic Community (EEC) and established a customs union. They also signed another pact creating the European Atomic Energy Community (Euratom) for cooperation in developing nuclear energy.

Through the 1960s, tensions began to show, with France seeking to limit supranational power. Nevertheless, in 1965 an agreement was reached and on 1st July 1967 the Merger Treaty created a single set of institutions for the three communities, which were collectively referred to as the European Communities.

Maastricht Treaty

The euro was introduced in 2002, replacing 12 national currencies. Seven countries have since joined.

These attempts to form a united European region finally led to the formal formation of the European Union upon signing of the Maastricht Treaty—whose main architects were Helmut Kohl and François Mitterrand which came into force on 1st November 1993. The treaty also gave the name European Community to the EEC, even if it was referred to as such before the treaty.

In 2002, euro banknotes and coins replaced national currencies in 12 of the member states. The Lisbon Treaty in December 2009 entered into force and reformed many aspects of the EU. The changes brought about in particular were the legal structure of the European Union which merged the EU three pillars system into a single legal entity provisioned with a legal personality and created a permanent President of the European Council.

Facts about the EU

EU policies aim to ensure the free movement of people, goods, services, and capital within the internal market, enact legislation in justice and home affairs, and maintain common policies on trade, agriculture, fisheries, and regional development, along with the passport controls being abolished in the Schengen Area. A monetary union was established in 1999 and came into full force in 2002, and is composed of 19 EU member states which use the euro currency.
The EU operates through a hybrid system of supranational and intergovernmental decision-making. The seven principal decision-making bodies which are known as the institutions of the European Union are the European Council, the Council of the European Union, the European Parliament, the European Commission, the Court of Justice of the European Union, the European Central Bank, and the European Court of Auditors. Through the Common Foreign and Security Policy, the EU has developed a role in external relations and defense. The union maintains permanent diplomatic missions throughout the world and represents itself at the United Nations, the World Trade Organization, the G8, and the G-20. The European Union has been described as a current or as a potential superpower because of its global influence. Covering 7.3% of the world population, the EU in 2014 generated a nominal gross domestic product (GDP) of 18.495 trillion US dollars, constituting approximately 24% of global nominal GDP and 17% when measured in terms of purchasing power parity. Additionally, 26 out of 28 EU countries have a very high Human Development Index, according to the United Nations Development Program.

In 2012, the EU received the Nobel Peace Prize for having "contributed to the advancement of peace and reconciliation, democracy, and human rights in Europe.

In spite of all these credits the European Union at the same time has witnessed a series of tests, namely the debt crisis in some Eurozone countries, increasing migration from the Middle East countries, Russian military intervention in Ukraine etc.

Conflicts in UK's entry to the EU

We observe from the above record of events that U K has never been an active contender and joined the European Community only in 1973 after negotiating many reservations and finally settling for the currency reservation.

The United Kingdom entered the European Exchange Rate Mechanism, a prerequisite for adopting the euro, in October 1990. UK spent over £6 billion trying to keep its currency, the pound sterling, within the narrow limits prescribed by ERM, but was forced to exit the programme within two years after the pound sterling came under major pressure from currency speculators. The ensuing crash of 16 September 1992 was subsequently dubbed "Black Wednesday". During the negotiations of the Maastricht Treaty of 1992 the UK secured an opt-out from adopting the euro. The Maastricht Treaty was signed to create a single European currency so that Europe as an entity had a currency to challenge the international supremacy of the dollar. UK got an "opt out" clause for UK. This meant that UK was a part of the European Community and wanted to be a part of it, but not to participate in a single currency, therefore, maintaining the pound themselves. The other underlying issues that stood in the way of monetary union is the structural difference between the UK housing market and those of many continental European countries. Although home ownership in UK is near the European average, variable rate mortgages are more common, making the retail price index in UK more influenced by interest rate changes. It was perceived that removing the United Kingdom’s ability to set its own interest rates would have detrimental effects on its economy. Another perception was held that currency flexibility is a vital tool and that the sharp devaluation of sterling in 2008 was just what UK needed to rebalance its economy. UK also objected that many continental European governments have large unfunded pension liabilities and if UK adopted the euro, these liabilities could put a debt burden on the British taxpayer however , this objection lacked evidence.

UK had put up the five economic tests which were the criteria defined by the UK treasury which would assess the UK’s readiness to join the Economic and Monetary Union of the European Union (EMU), and so adopt the euro as its official currency. In principle, these tests were distinct from any political decision to join. In addition to these self-imposed criteria, UK would also have to meet the European Union’s economic convergence criteria ("Maastricht criteria") before being allowed to adopt the euro. One criterion is two years’ membership of ERM II, of which the UK is currently not a member. Under the Maastricht Treaty, UK is not obliged to adopt the euro. Insipite of review of the tests on yearly intervals UK chose to opt out of the Euro. Polls have shown that the majority of British people were against adopting the euro. UK also had given the reason to be effects of the global credit crisis.
Need for UK to be part of the EU

The entry of the UK into the eurozone would likely result in an increase in trade with the other members of the eurozone. It could also have a stabilizing effect on the stock market prices in the UK. A simulation of the entry in 1999 indicated that it would have had an overall positive, though small, effect in the long term on the UK GDP if the entry had been made with the rate of exchange of the pound to the euro at that time. With a lower rate of exchange, the entry would have had more clearly a positive effect on the UK GDP. A 2009 study about the effect of an entry in the coming years claimed that the effect would likely be positive, improving the stability for the UK economy.

Scenario of UK’s Exit from the EU

After looking into the many issues discussed above and after being part of the Union for last two decades United Kingdom’s European Union membership referendum to opt out of the European Union took place on 23 June 2016. Immigration and lack of freedom to decide upon economic policies was cited as one of the major reasons. The leave vs remain vote is a mere 1.9% margin indicating there was enough impetus on remaining within the EU. Parts of UK that benefitted from EU’s grants and subsidies voted to leave by large margin and parts that are polyglot and multicultural like London having most of the immigrant share voted by big majority to remain. It is presumed that the leave vote will be harsh to stand in short term and the effects of which will only be revealed in the future post it. The estimates of this harsh economic future due to leave vote has already decided the future of the pound which slid against its counterparts. The economy and the number of jobs lost or gained by a withdrawal are likely to be dominant issues; the BBC’s outline of issues warns that precise figures are difficult to find. Scenario of the economic outlook for the country if it left the EU is generally negative.

Tabulation of the votes indicated 51.9% in support of leaving the European Union (17,410,742 votes) and 48.1% (16,141,241 votes) in favor of remaining in the EU. Voter turnout was high, 72.2%. (There were 26,033 rejected ballots).

According to a poll by Ipsos MORI released on 18 May, issues identified by voters as being very important to them in deciding which way to vote were headed by the impact on UK’s economy (33%), the number of immigrants coming to UK (28%), and UK’s ability to make its own laws (15%).

Issues identified as important by voters who said they were likely to vote leave were headed by the number of immigrants coming into UK (49%), UK’s ability to make its own laws (30%), the impact on UK’s economy (25%), the cost of EU immigration on UK’s welfare system (16%), impact on public services/housing (11%), the number of refugees coming to UK to claim asylum (10%), UK’s ability to trade with countries in the European Union (9%), cost of EU membership fees (9%), regulations by the European Union on British businesses (8%), the impact on British jobs (7%), and UK’s status in the world (7%).

Issues that had been identified as important by voters who were likely to vote remain included the impact on UK’s economy (40%), the number of immigrants coming into UK (15%), UK’s ability to trade with countries in the European Union (12%), the impact on British jobs (11%), the impact on the rights of British workers (10%), UK’s relationship with other countries (7%), the impact on British national security (7%), the ability to travel in the European Union (7%), the ability of British citizens to live and work in other European countries (6%), and UK’s status in the world (6%). Other issues were identified by 5% of respondents or less. This collection of issues is broadly in line with the findings of other surveys published during the campaign.

Research groups like Oxford Economics, Think tank, Open Europe, Centre for Economic Performance at the London School of Economics, predict that a vote to leave the European Union might trigger a recession. The impacts would vary across sectors such as construction and manufacturing which would be the worst affected. 3.3 million UK jobs are linked to the EU through exports and suggest that some would be lost in the event of a UK exit.

The leave campaign has its own set of arguments such as the reduction in red tape associated with EU regulations would create more jobs and that small to medium-sized companies
who trade domestically would be the biggest beneficiaries. UK would end fiscal austerity by leaving EU, pointing out that leaving EU 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. Along with this general discussion we also probe specific issues to understand the implications of BREXIT.

UK pays more into the EU budget than it receives. The net contribution figures range from £5.7 billion (2014) to £8.8 billion (2014/15) depending on sources and the time frame. In 2014, the UK was the third biggest net contributor to the EU budget, or the 8th highest by net contributions per head. The membership fee paid by the UK of £350m per week to the EU has been used extensively by the Leave campaign as an example of how the UK would benefit from leaving the EU. Leave campaigners argue that this transfer of cash is a “hidden tariff” for exported goods while the remain argument claims the net contribution is negligible in comparison to the benefits to business. In either event, changes to government finances as a result of the economic benefit or loss from leaving or remaining are likely to outweigh the membership fee.

Some of the issues on which is based the Leave campaign are,
1. Fiscal policies with reference to abolishment of VAT on tampons and green goods and centralizing the same. Another issue concerning the implementation of fiscal policies is that European Courts rulings which made it more difficult to levy corporation tax on some firms and amend tax codes.

2. Immigration to UK which has increased pressures on the British public services especially that of health and education.

3. Sovereignty to take decisions.

4. In case of UK’s Security it was observed that France and UK had very good and aggressive intelligence services and Scandinavian countries small and still good services, while most of the rest of the European countries had small services, adding that Belgium had small, under-resourced and legally limited services. These issues hampered enforcing security, law and defense as EU was not a natural contributor to national security of each of the entity states and in some ways got in the way of the state providing security for its own citizens, pointing out that national security was a national responsibility, and that EU states intelligence agencies were very uneven. Also European Army was unnecessary duplication, a massive waste of money, and inefficient in terms of its decision-making.

5. The proposed Transatlantic Trade and Investment Partnership (TTIP) deal between the EU and the US has been a particular source of contention during the EU referendum.
6. Science is an issue in the referendum because scientists in the UK receive funding from the EU, take part in EU-wide collaborations and are subject to EU regulations. Scientists are also used to a free flow of labor within the EU, often recruiting scientists into UK universities from other EU countries. Most of the scientists who have taken a public stance on the UK’s membership of the EU have done so to warn that exit would harm the science sector, although some object to European regulations.

7. The expansion of EU was also an item considered for debate especially with concerns towards Turkey joining the EU which is supposed to have poor economic resources and susceptible to easy terrorist access due to weak security fortification.

8. UK had made it very evident that it would not back the issue of accepting refugees and by and large had kept itself away from this issue though had already sent huge grants in form of aid to the concerned authorities to take care of the refugee problems. The EU policy has human rights conservation as one of the mainstream consideration.
Switzerland and the European Union

Switzerland and U K are one of the most stable economies and fully equipped with financial and banking intelligence. Effective governance and administrative excellence are the major positive features of these countries with their currencies competing with the dollar strength. Switzerland is virtually part of the European Union however has maintained inertness in most of the above mentioned areas especially currency and immigration. This paper tries and understands this aspect by understanding how a comparable economy has stood test of time.

The relations between Switzerland and the European Union (EU) are framed by a series of bilateral treaties whereby the Swiss Confederation has adopted various provisions of European Union law in order to participate in the Union's single market.

In February 2014, the Swiss voted in a referendum to introduce quotas for all migrants in Switzerland. Such a quota system would, if implemented, violate the agreement between Switzerland and the European Union on the free movement of persons, and so terminate all the various bilateral agreements between Switzerland and the European Union. However Switzerland still maintains serious checks on non EU migration. The main motive for Switzerland to have relations with the EU is trade and thereby avail the single market efficiency.

Trade

The European Union is Switzerland’s largest trading partner, and Switzerland is the EU's fourth largest trading partner. Switzerland accounts for 5.2% of the EU’s imports; mainly chemicals, medicinal products, machinery, instruments and time pieces. In terms of services, the EU’s exports to Switzerland amounted to €67.0 billion in 2008 while imports from Switzerland stood at €47.2 billion.

Treaties

Switzerland signed a free-trade agreement with the then European Economic Community in 1972, which entered into force in 1973.

Switzerland is a member of the European Free Trade Association (EFTA), and took part in negotiating the European Economic Area (EEA) agreement with the European Union. It signed the agreement on 2 May 1992, and submitted an application for accession to the EU on 20 May 1992. However, after a Swiss referendum held on 6 December 1992 which rejected EEA membership by 50.3% to 49.7%, the Swiss government decided to suspend negotiations for EU membership until further notice. However, its application was not formally withdrawn until 2016.

In 1994, Switzerland and the EU started negotiations about a special relationship outside the EEA. Switzerland wanted to safeguard the economic integration with the EU that the EEA treaty would have permitted, while purging the relationship of the points of contention that had led to the people rejecting the referendum. Swiss politicians stressed the bilateral nature of these negotiations, where negotiations were conducted between two equal partners and not between 16, 26, 28 or 29, as is the case for EU treaty negotiations.

These negotiations resulted in a total of ten treaties, negotiated in two phases, the sum of which makes a large share of EU law applicable to Switzerland. The treaties are:

Bilateral I agreements (signed 1999, in force 1 June 2002)

1. Free movement of people
2. Air traffic
3. Road traffic
4. Agriculture
5. Technical trade barriers
6. Public procurement
7. Science

Bilateral II agreements

1. Security and asylum and Schengen membership
2. Cooperation in fraud pursuits
3. Final stipulations in open questions about agriculture, environment, media, education, care of the elderly, statistics and services.

The Bilateral I agreements are expressed to be mutually dependent. If any one of them is denounced or not renewed, they all cease to apply. According to the preamble of the EU decision ratifying the agreements:

The seven agreements are intimately linked to one another by the requirement that they are to come into force at the same time and that they are to cease to apply at the same time, six months after the receipt of a non-renewal or denunciation notice concerning any one of them.
This is referred to as the "Guillotine clause". While the bilateral approach theoretically safeguards the right to refuse application of new EU rules to Switzerland, in practice the scope to do so is limited by the clause. The agreement on the European Economic Area contains a similar clause.

Prior to 2014, the bilateral approach, as it is called in Switzerland, was consistently supported by the Swiss people in referendums. It allows the Swiss to keep a sense of sovereignty, due to arrangements when changes in EU law will only apply after a joint bilateral commission decides so in consensus. It also limits the EU influence to the ten areas, where the EEA includes more areas, with more exceptions than the EEA has.

From the perspective of the EU, the treaties largely contain the same content as the EEA treaties, making Switzerland a virtual member of the EEA. Most EU law applies universally throughout the EU, the EEA and Switzerland, providing most of the conditions of the free movement of people, goods, services and capital that apply to full member states. Switzerland pays into the EU budget and extended the bilateral treaties to the new EU member states, just like full members did, although each extension requires the approval of Swiss voters in a referendum.

Thus we observe that Switzerland has maintained virtually same relations as if it being part of EU through the series of treaties.

Impact of BREXIT on Indian Economy

The Indian stock market reacted with a huge slide as a reaction to BREXIT. The major impact if any has to do with the Indian companies who have invested in UK and have set up their operations to cater to the rest of the EU under the European free market system. Europe is the second-largest market for India's $146 billion IT outsourcing industry, generating around 30% of its revenue and presently the second biggest source of FDI (Foreign Direct Investment) for UK. Many IT companies have their EU headquarters in the UK and use the country as a gateway for business across the EU. Some 800 Indian IT companies currently have exposure to the UK, and employ around 110,000 people. In circumstances such as these, the invested companies would have to either calculate the profitability of the venture by staying in the UK or set up parallel operations in EU countries. India has already made an attempt to establish such investments in other EU countries and Netherlands being the most preferred destination. The slide in financial indicators is estimated to be only in the short run as fundamentally financial efficiencies are not predicted to have deep cut however economic clashes such as these have created financial doldrums in the past and recovery has taken a larger time than implementing and nurturing the same. However, on UK’s exits from the EU, it will not be as attractive a destination for Indian FDI as before in context to this situation. Hence UK would not want to lose out on capital coming in from India. Thus, one can expect UK to try extra hard to woo Indian companies to invest there by providing much bigger incentives in terms of tax breaks, lesser regulation and other financial incentives. Further, if UK is leaving the EU due to the latter's complex bureaucratic regulatory structure, Indian companies can expect a deregulated and freer market in UK along with the other incentives.

According to UKTI, India invested in recent times 122 projects in the UK, compared with 124 for France and 564 for the US. This meant that Indian investment created 7,730 new UK jobs, and safeguarded a further 1,620. According to a report earlier this year from government department UK Trade & Investment (UKTI), India is now the third-largest source of foreign direct investment into the UK. Indian companies have played an important role in the UK. There are over 700 Indian-owned businesses in the UK, employing more than 100,000 people. The top 41 fastest-growing Indian companies in the UK generate some £19 billion of turnover although this figure is dominated by Tata Motors, which accounts for more than 80% of the total. Investing in the UK gives Indian companies direct access to the UK and the EU market for their products and services, where traditionally they may have relied on distributors. Some look to the UK as a springboard into Europe as they seek to go global to de-risk their businesses and reduce reliance on a stuttering domestic market. Still others have been attracted by the ability to acquire iconic UK brands, such as Typhoo, Jaguar Land Rover or fashion retailer East. Indian investors can gain access to leading edge technology, know-how and research, as evidenced for example by automotive giant Mahindra’s recent investment in a research and development centre in collaboration with Ricardo in the UK. Over half of the fastest-growing companies, top 41 are in the pharmaceuticals and chemicals (22%) and technology and telecoms (32%) sectors. These sectors have remained
enduringly strong for outward-looking Indian enterprises attracted to UK know-how, technology and market positioning. Indian companies also appear to regard the UK as a good base for engineering and manufacturing, with 10% of the top 41 operating in the industry. The automotive industry remains a significant contributor to growth, with 10% of the Indian companies operating in this sector. Unsurprisingly this is dominated by Tata Motors. Food manufacturers such as Britannia Brands, also amongst them. Many such businesses, have been actively accessing technology and brands in this sector and successfully exporting this to the Indian market, for example India Hospitality Corporation’s acquisition of Adelie Foods in 2012. The spread of Indian companies region wise are detailed as, North of England has 29% of the total, the South 32%, and interestingly, just 10% are based in the Midlands, traditionally the heart of UK manufacturing. These patterns are encouraging signs that other UK regions have successfully established themselves as centers of expertise able to attract inward investment.

Major challenges for Indian companies could arise from the volatility of the British pound, uncertainty about future policies between the UK and Europe, and changes in financial and banking systems. There could be a decline in the value of the British pound, which could render many existing contracts losing propositions unless they are renegotiated, the pound dropped to a 30-year low against the dollar following the vote. The uncertainty surrounding protracted negotiations on the terms of exit and/or future engagement with EU could impact decision making for large projects.

All major Indian IT companies, too, came under pressure at the stock markets even as experts said they are exposed to currency risk, which was the first to play out after the voting results were out.

While a Bank of America Merrill Lynch report said BREXIT could dent IT demand further, hurting the 10-14 per cent revenue growth forecast for the UK businesses of Indian IT companies in FY’17, the revenue break-up for top five IT companies show that the European market accounts for 11-29 per cent of their revenues.

Indian companies will probably incur costs pertaining to legal contracts as there is a likelihood of uncertainty in contracts such as those pertaining to distribution agreements, joint venture agreements, franchisee and license agreements that come with territorial provisions. Several IT companies may need to take fresh look in terms and conditions of their service agreements with clients given the volatility in exchange rates and the likely restrictions in the movement of employees between EU and the UK in post BREXIT phase.

Thus, even though UK stands to suffer from leaving the European Union in terms of reduced trade and a sustained drop in its GDP, the net effect can turn out to be positive. Some of the projected advantages for India are, UK by forging ties with EU will restrict talent from EU in form of skilled and semi skilled labor. UK will still need a steady inflow of talented labor to maintain operations and India fits the bill perfectly due to its English-speaking population. With migration from mainland Europe drying up, UK would be able to accommodate migration from other countries, which will suit India’s interests.

Further, UK is one of the most important destinations for Indians who want to study abroad. Presently, British universities are forced to offer subsidized rates for citizens of the UK and EU. With BREXIT however, the universities will no longer be obliged to provide scholarships to EU citizens, which will free up funds for students from other countries. Many more Indian students may be able to get scholarships for studying in the UK.

India’s has yet to sign a formal trade agreement with the EU and at a time when ongoing talks were being held, EU banned sale of around 700 pharma products of a domestic company due to which India’s flagship trade sector the Pharmaceuticals sector suffered a setback. Though the issue was company specific it did hit the entire sector as a whole. This suffered prospects of India’s negotiations in terms of the possible signing of the FTA between the two. BREXIT has infact opened doors for an independent trade alliance with UK. However India proposed to sign a Broad-based Investment and Trade Agreement (BITA) with the EU. At this point of time it would be Europe’s interest to develop India as a strong trade and strategic partner. BREXIT has surely accelerated this process. Europe needs to counterbalance United States and China geopolitically and would also need to hedge against a slowing China for its economic interests. For this, Europe would be looking at the fastest-growing major economy in the world and would need to quickly resolve the pending trade issues with India in order to develop a lasting relationship for India.
Impact of BREXIT on EU

The official Leave campaign presented its roadmap to lay out what would happen if UK left the EU. The blueprint suggested that parliament would pass laws: Finance Bill to abolish value-added tax on tampon and household energy bills; Asylum and Immigration Control Bill to end the automatic right of EU citizens to enter UK; National Health Service (Funding Target) Bill to get an extra 100 million pounds a week; European Union Law (Emergency Provisions) Bill; Free Trade Bill to start to negotiate its own deals with non-EU countries; and European Communities Act 1972 (Repeal) Bill to end the European Court of Justice’s jurisdiction over UK and stop making contribution to the EU budget. However, these strategies are singly placed and not part of a constituted plan in place to adjust for the losses. Moreover, UK residents will none the less have to pay a higher price for electronic gadgets like mobile phones and tourism and in either ways will be affected badly.

Former Chancellor of the Exchequer Norman Lamont argued that if UK left the EU, the EU would not impose retaliatory tariffs on British products, pointing out that the EU needs a trade agreement with UK as German car manufacturers wanted to sell their cars to the world’s 5th biggest market. Lamont argued that the EFTA option was irrelevant, and that UK and the EU would agree on a trade pact which tailored to UK’s needs.

Companies will have to bear risk of changes in law including re-introduction of customs duties and tariffs. The UK may cease to be part of the customs union. The EU trade Marks and Registered Design are governed by the EU laws and will eventually cease to apply in the UK.

Conclusions

We understand from the above discussions that peoples’s vote whether to remain or leave in favor of such a union would mean a large loss to the investment in raising an infrastructure to support such a massive union such as the European Union. It is a lesson to learn for the leaders of such a union to assess this fact and bring about the necessary changes in its principles while allowing a new candidature or reform the existing candidates. We see from the vote an imposing amount of remain vote which could spark another set of trouble by splitting the country’s economy itself and thus prove hazardous to global economic and trade policies and need to be averted by making subsequent provisions in the Union’s policy document.

There has been no concrete strategy mapped out for the future course of action in event of the confirmation of BREXIT by UK with the other global economies. Neither is there a sound plan regarding UK’s future relationship with the EU or any other specific country within the EU nor any counter actions to key decisions on issues dealing with the internal economy having connections with the EU such as access to the European markets, trade barriers or any agreements with the Union regarding the movement of goods, capital and labor. These are the important issues that have left unanswered questions and precisely the uncertainty over these that are spooking financial markets across the world.

Such a ill provisioned mandate affects three types of economic and trade related entities, one who have already established investments in infrastructure in the UK, second ones who are exporting to UK via the EU and the third who were in process of seeking an investment or trade in UK through the EU. All these three entities have already secured and raised a huge amount of capital to carry out their businesses and an erratic decision of withdrawal from an association which governs virtually the economy of the country to certain extent leading to spoiling of projected returns. This causes major breakdown in financial strengths of such intending entities. Such sudden economic downturns form a chain of economic and financial distress amongst all the stakeholders in this chain.

Though this mandate, projects short term volatilities in the economic and trade spheres of most of the global economies, the matter cannot be taken for granted due to huge nature of investment in infrastructure which has been established and creates abnormal distortions in the projected profitability figures of projects affecting their viability. Such crisis leads to bad loans or non performing assets on the balance sheets of banks, companies and the
related stakeholders resulting into economic doom of the same. This is of critical nature as the smallness of the affected sector may make representation to financially bail it out all the more difficult.

Indian investments abroad have faced lot of challenges in the past which have led to erosion of capital. At a moment when the Indian economy is facing pressure of no competitive advantage in trade even after the slowing down of Chinese economy which is further marred by low Chinese interest rates due to quantitative easing in China, falling exports and low domestic consumption, such incidents tend to further deepen the challenges which are not much evident in the short run. This happens because investments are further pumped in hoping for the be good factor and erupt as bad scenarios only when the economy is depleted of its investment power.

UK has been world’s major financial services sector having best of the world’s talent which can predict economic and financial viability and its impact ranging for a century. A decision such as the BREXIT questions the effectiveness of such a talent. Moreover with BREXIT in place UK and EU are losing their best chance to stay relevant in greatly altered world order. In reality it was EU’s goal to enhance the region’s clout in the global economy. BREXIT is projected to increase China’s challenging the west’s cherished institutions and ideals from navigation rights to human rights and a united EU could have presented a serious check to China’s growing assertiveness when US expressed concerns over China’s plans to set up rival to the World Bank.

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Editorial Team

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