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"A STUDY ON POSSIBLE IMPACT OF BREXIT ON EU AND GLOBAL ECONOMY"

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ABSTRACT

European economic union is the most powerful economic union consisting of 28 countries with accession of Croatia on 1 July 2013. It is the most powerful economic integration which has dominated the entire globe. This paper makes an attempt to study the impact of the exit of Britain from EU. Globalisation has facilitated the free movement of goods, services and the labour from one nation to another facilitating the growth of the economy expansion of market and availability of resources at competent prices. The paper investigates the effects of the restricted trade on EU in specific and other nations in general in case of Britain exit from EU. Paper highlights the impact of exit of Britain from EU on the various currencies such as euro, pound, dollar and Indian rupee. It also looks into the challenges posed to the EU and the opportunities or threats it can create for the various economies. Paper concludes with the remark that how a restricted and a free economy can regulate or facilitate the growth of the countries around the globe.

***Key words-* immigration, volatility, stability, regulation**

INTRODUCTION

The European Union is a unique economic and political union between 28 European countries that together cover much of the continent. The EU was created in the aftermath of the Second World War. The first steps were to foster economic cooperation: the idea being that countries that trade with one another become economically interdependent and so more likely to avoid conflict.

The result was the European Economic Community (EEC), created in 1958, and initially increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Since then, a huge single market has been created and continues to develop towards its full potential.

From economic to political union

What began as a purely economic union has evolved into an organization spanning policy areas, from climate, environment and health to external relations and security, justice and migration. A name change from the European Economic Community (EEC) to the European Union (EU) in 1993 reflected this.

The EU is based on the rule of law: everything it does is founded on treaties, voluntarily and democratically agreed by its member countries. The EU is also governed by the principle of representative democracy, with citizens directly represented at Union level in the European Parliament and Member States represented in the European Council and the Council of the EU.

Mobility, growth, stability and a single currency

The EU has delivered more than half a century of peace, stability and prosperity, helped raise living standards and launched a single European currency: the euro. In 2012, the EU was awarded the Nobel Peace Prize for advancing the causes of peace, reconciliation, democracy and human rights in Europe.

Thanks to the abolition of border controls between EU countries, people can travel freely throughout most of the continent. And it has become much easier to live, work and travel abroad in Europe.

The single or 'internal' market is the EU's main economic engine, enabling most goods, services, money and people to move freely. Another key objective is to develop this huge resource also in other areas like energy, knowledge and capital markets to ensure that Europeans can draw the maximum benefit from it.

Human rights and equality

One of the EU's main goals is to promote human rights both internally and around the world. Human dignity, freedom, democracy, equality, the rule of law and respect for human rights: these are the core values of the EU. Since the Lisbon Treaty's entry in force in 2009, the EU's Charter of Fundamental Rights brings all these rights together in a single document. The EU's institutions are legally bound to uphold them, as are EU governments whenever they apply EU law.

Transparent and democratic institutions

The enlarged EU remains focused on making its governing institutions more transparent and democratic. More powers have been given to the directly elected European Parliament, while national parliaments play a greater role, working alongside the European institutions. In turn, European citizens have an ever-increasing number of channels for taking part in the political process.

OBJECTIVES OF THE STUDY

1. To find out its impact on EU- trade, labour market and services
2. To find out its impact on Pound and dollar in specific and other currencies in general
3. To find out its indirect impact on India

NEED OF THE STUDY

The study is primarily undertaken with the objective of identifying how the powerful nations of the world can affect trade commerce and currency exchanges with their change in terms of trade and services. After all exit happens or not? Whether it can create any opportunities to a country like US as Britain is alone after its exit from EU and to what extent it can challenge with its independent identity as a nation.

RESEARCH METHODOLOGY

The study is mainly depends on secondary sources for its data. The secondary data- is collected through the internet, newspaper articles of economic times, financial express, business line and times of India.

IMPLICATIONS OF BRITAIN EXIT FROM EU ON THE EUROPEAN UNION

Brexit will disrupt the EU's internal equilibrium. With Britain out, the bloc's seven non-euro countries will account for only 15 per cent of EU economic output, as opposed to more than 30 per cent with Britain in. Brexit will increase Germany's political and economic supremacy in the E-a prospect neither Berlin nor its partners welcome.

Brexit will harm the EU's cohesion, confidence and international reputation. The biggest consequence of all, therefore, is that Brexit will undermine the liberal political and economic order for which Britain, the EU and their allies and friends around the world stand

Trade within Europe

- EU membership is estimated to have boosted British goods trade with other member states by 55%, equal to £130bn in 2013.Overall, and the evidence does not suggest this has been at the expense of trade with non-EU states, but this may be a factor in individual protected sectors, such as agriculture, footwear and clothing. Costs for consumers might fall in these sectors, but rise overall.
- The single market provides opportunities for economies of scale, competition and innovation, which enhance productivity and which would be hard to replicate fully through trade outside Europe. There is a strong relationship between exporting and productivity, between 1996 and 2004 the productivity growth for UK exporters was 1.3%, compared to 0.8% for non-exporters.
- Supply chains are becoming more important for competitiveness, but tend to be geographically concentrated. About half of EU imports to the UK are intermediates. But UK demand is very important in macro terms for many EU countries. The UK runs large bilateral deficits against several member states.
- The UK accounts for just one sixth of the EU economy. One-tenth of EU exports are to the UK, whereas half of UK exports are to the EU. However, the imbalance in the trade relationship is such that the UK is an important source of demand for the rest of the EU. The UK's trade deficit with the rest of the EU has grown substantially in recent years and was €66bn in 2013, the equivalent of 0.6% of the GDP of the EU27 countries.
- In value terms the trade surpluses with the UK are concentrated in a small number of countries, notably Germany, which exported €78bn to the UK in 2013 and imported €50bn.However, as a percent of GDP the trade surplus with the UK is important many countries. This exceeds 1% of GDP in the Netherlands, Poland, Czech Republic, Belgium, Hungary, Latvia, Lithuania and Slovakia. Only a few EU countries run a trade deficit with the UK, notably Ireland at 6.2% of GDP in 2013.But the UK is an extremely important bilateral trading partner with many Irish firms exporting into UK supply chains.

Immigration

- Immigration is a fraught political issue in the UK both because the costs and benefits are not distributed evenly and as perceptions have become disconnected with reality, partly due to hostile media coverage. The scope to tighten immigration depends on the Brexit model. This risks damaging competitiveness, particularly of London, and being economically costly.

- Immigration helps address skills shortages and the consequences of an aging population. Free movement allows UK firms access to specialist skill that are increasingly important to high-value added industries. 63% of CBI members say free movement has benefitted their business. It is estimated that 1.5m new jobs will be created in higher-skilled jobs popular with EU15 migrants by 2022. Few new lower-skilled jobs will be created, but there will be a high demand for labour to replace retirees in these areas.
- According to the OECD migrants are more likely to be net contributors to public finances if they are younger, in work and skilled. The evidence suggests that on average EU migrants make a net contribution to public finances and the OBR estimates the net contribution will be large in future. However, A8 migrants will increasingly have families and put pressure on education spending. They also exacerbate the shortage of affordable housing. On average migrants have contributed 34% more in fiscal terms to the UK than they have taken out, or £22.1bn in total in 2011 terms.
- Businesses operating elsewhere in Europe can largely work around any restrictions on the free movement of labour imposed by the UK. However, changes to the labour supply and the flow of remittances will impact on some countries. Perhaps the biggest risk, but the hardest to predict, is of ‘political contagion’ elsewhere in Europe if the UK tightens border controls.
- The biggest costs from UK controls will be borne by EU firms invested in the UK as operations based outside the UK can always substitute for UK labour. There is no limit to inter-company transfers under Tier 2 for salaries above £40k.This would reduce the negative impact on EU firms invested in the UK.
- There would be a significant effect on countries that are major sources of immigration to the UK, such as Poland. It would impact positively on skills and the supply of labour, but negatively on remittances. There could be an indirect impact on other countries, such as Germany, if UK immigration is ‘deflected’ there. The economic consequences will depend on the scale and composition, but are likely to be net positive if unevenly distributed.
- There may be fiscal benefits for some countries if the rules on entitlement to public services are changed for UK immigrants in other member states. These benefits would be concentrated in countries, like Spain, that are home to a large number of British retirees. But these countries also benefit from the pension payments remitted to British residents from the UK.
- The biggest risk for the rest of the EU is that UK restrictions increase hostility towards immigration in other states, both because of deflected immigration and how UK policies impact on the policy debate elsewhere. Polling shows concerns are already high in several states. Immigration will be a factor in the

French presidential election in 2017, where there might be pressure to follow UK immigration controls. However, there is one important difference between the UK and other member states.

- The UK is the leader in euro-denominated wholesale banking, but Eurozone countries and institutions want this activity to move to the Eurozone and be overseen by the ECB. This would be much more likely following Brexit, as the UK would no longer be protected by ECJ enforcement of single market rules. The UK might also suffer an opportunity cost from being absent from future liberalising initiatives such as Capital Markets Union, which could open up new markets in areas such as securitisation and covered bonds. The impact in the UK would be felt beyond London in financial centres such as Edinburgh, Leeds and Glasgow, as well as in the Crown dependencies

Financial services

- Brexit may impact on the location, liquidity and cost of financial services in Europe if it undermines London's competitive position. This would be costly for businesses and households across Europe. Most large European banks have major operations in London which would be costly to relocate. Only a small number of financial centres elsewhere may benefit.
- The UK is highly integrated into the European financial system. Total UK claims on the EU15 alone are $880bn with most of the credit to households and firms, but some also to governments and interbank lending. European bank exposure to the UK is even greater at $1.7tn in total. It would be costly for European banks to relocate wholesale banking activity away from London.
- London is not just a European financial centre – it is an international centre with a dominant position in many product areas. However, London's international position could be damaged if large amounts of European business migrate following Brexit.
- The most likely beneficiaries in the EU are Paris, Frankfurt, Amsterdam and Dublin. But they cannot replicate overnight the advantages of the London 'ecosystem' supporting financial services, including skilled staff, legal services and market infrastructure. Competition between them borne out of new barriers to trade with London would be disruptive and costly. Businesses in Europe would lose due to higher charges, poorer products and less liquidity.
- Brexit would likely change the balance of financial regulatory debates in Europe. The UK now takes a more interventionist and risk-averse approach to regulation. Even so, the UK largely avoids politically-

motivated interventions.Initiatives such as the Financial Transactions Tax and the cap on banker bonuses would have found an easier passage in an EU without the UK

Trade policy

- The UK would be free to set its own trade policy priorities under some Brexit models, but these are unlikely to be much different from the EU's. The UK would have less leverage and be a lower priority trade partner than the EU for the major economies. The UK would lose the strength in numbers at the WTO when settling disputes with countries like China.
- The EU has considerable experience negotiating deep and comprehensive trade agreements. The EU is a signatory to over 30 bilateral and regional agreements with over 50 partners. The EU is currently negotiating trade deals with the US, Canada and Japan, which would improve access to markets worth $23tn in total. The EU is negotiating an investment agreement with China.
- The UK would gain flexibility in negotiating trade deals and in particular be less encumbered by agricultural protectionism. However, economic size matters given trade negotiations are increasingly bilateral or regional, rather than multilateral. The UK gains leverage when addressing irritants or concluding FTAs through the EU. This is particularly important in services, where regulatory obstacles often need resolving to gain meaningful access to markets. Evidence from UK business suggests the UK benefits from the EU's negotiating weight when concluding bilateral deals on intellectual property.
- If the focus ever shifts back to the WTO the UK will find it no longer has influence at the top table. Moreover, the UK may find itself more exposed when seeking to settle disputes at the WTO. While many cases are technical some can take on political dimensions and provoke retaliation.
- The UK would have to renegotiate EU trade agreements as these would not automatically apply. This would require considerable diplomatic effort before the UK could turn to new deals. The eurosceptic vision of an 'Anglosphere' trading bloc is overblown. The EU is already negotiating with the US and Canada. Moreover, the UK would not find it easier to close a deal with India, particularly given concerns over mode IV and migration
- The EU has an open, liberalising approach to trade policy, in part due to UK influence. The UK, more than any other state, has put top-level political weight behind trade negotiations. The EU would be a less attractive partner for trade agreements if the UK was no longer part of the deal.

- The EU's top trade priorities are the Transatlantic Trade and Investment Partnership (TTIP) with the US and the Economic Partnership Agreement with Japan. But the EU is not the top trade priority for either the US or Japan, who are preoccupied with negotiating the Trans-Pacific Partnership (TPP).
- EU GDP would be around 15 percent lower without the UK. While the EU will remain an attractive trade partner, its appeal will be reduced. The external trade of the EU 27 would be about 15% of the global total compared to 4.3% for the UK.
- The UK has championed a liberalising agenda for the EU. The UK was one of the strongest advocates for launching TTIP and wants an investment agreement with China to lead to a full FTA negotiation. The UK was also the strongest supporter of the Doha round. Successive UK Prime Ministers have invested political capital in the completion of trade deals.
- The UK leaving the EU may shift the balance in favour of more active use of trade remedies. While some industries would welcome this and regard trade remedies as a legitimate means to counter unfair competition, this would disadvantage consumers and firms that rely on imported intermediates, particularly from emerging markets. It also risks a protectionist response

Currency

The pound fell dramatically after the Brexit vote at the end of June. It then declined to a three-year low against the euro By 22 December it had regained some ground back to a pound being worth 1.18 Euros. On 22 December the pound was worth $1.23 - compared with $1.47 pre-referendum. The fall in the pound helps exporters but it makes foreign holidays more expensive for British tourists and it has also increased import costs for manufacturers However, one beneficiary of cheaper sterling has been the UK's own tourism sector, as a weaker pound makes Britain a cheaper destination for overseas tourists. Of course these are expected to be normalized in the long run.

There is also potential for a euro flight if the United Kingdom pulls out. Losing the United Kingdom threatens the political and economic stability of the entire EU, which already suffers from internal conflict and banking issues. The clear winner from ongoing drama in the continent would be the U.S. dollar.

Nevertheless, most experts still predict a Brexit to hurt the pound more than the dollar. Even if the euro weakens against the dollar, it might see gains against the pound. Volatility on both ends could decouple the euro from real economic data, creating overvaluation or undervaluation and setting up forex markets for a bumpy ride.

Interest rates

Since the vote the Bank of England has taken a number of steps to boost the UK economy. It cut interest rates from 0.5% to 0.25% in August - the first reduction in the cost of borrowing since 2009 and taking UK rates to a new record low. The Bank left its main interest rate at 0.25% in December.

EFFECT OF GLOBAL ECONOMIC CHANGES ON THE INDIAN ECONOMY

India is one of the most lucrative markets for foreign investors and, hence, we attract attention globally. So, any major change across the globe, be it political or economic, is bound to have an impact on India too.

Britain always provided a gateway to the European Union. 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.

Positives

1. UK loses a huge preferential market in the EU and would seek to build new alliances and trade pacts. India being one of the fastest growing economies is rightly poised to gain from this development. The migration of EU skilled labour would decrease and English speaking Indian talent pool is definitely going to benefit out of it.
2. Before Brexit, British universities were forced to offer scholarships and subsidies to the citizens of the UK and EU. Brexit frees up funds for the other students and more Indian students might be able to get scholarships.
3. Also, let us not forget than India is a former colony of Britain and a member of Commonwealth of Nations. With UK separated from EU, it would want to create new economic alliances and may tilt towards its former colonies.

4. With substantial Indian population in the UK (highest minority group in the UK with 2.5% of the population), which we have witnessed are treated differently during elections, and most recent instance being UK supporting India NSG bid, we could expect a stronger ally in the UK than EU. However, India may have to rework it's strategy in aligning with some other key EU nations.

Negatives:

1. The pound will lose some value in the shorter term. That would immediately impact any existing contracts, as the value of these contracts would decrease. What we hear immediately is 'Pound is already trading at 31 year low.
2. Indian IT companies with European headquarters in the UK would need to spend on infrastructure and staff for setting up a new office in the EU. (There are approximately 800 Indian companies in Britain)
3. India has been negotiating a free-trade agreement with the EU for almost 10 years and now will need to rework its strategy. A separate pact might need to be negotiated with the UK.
4. Automobile, Pharma and IT might be the most affected. NASSCOM has predicted that the effect of Brexit will be felt on the $108 Billion Indian IT sector in the short term

Variance analysis of Pound against US Dollar

Table No. 1: Pound value against US Dollar before Brexit

Feb 2016	March 2016	Apr 2016	May 2016	Jun 2016
0.700	0.702	0.699	0.688	0.705

Table No. 2: Pound Value against US Dollar after Brexit

Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016
0.763	0.761	0.811	0.804	0.802

Analysis: For better understanding the fluctuation of Pound against US Dollar before Brexit and after Brexit, we go for standard deviation statistical tool. The following is the calculation of total variance and standard deviation of Pound against US Dollar before Brexit and after Brexit.

Table showing computation of Variance before Brexit

X	X-x	$(X\text{-}x)^2$
0.700	0.0012	0.00000144
0.702	0.0032	0.00001024
0.699	0.0002	0.00000004
0.688	-0.0108	0.00011664
0.705	0.0062	0.00003844
∑X= 3.494		$\sum(X\text{-}x)^2 = 0.0001668$

x = ∑X/n = 3.494/5= 0.6988

S = 0.0057758

Table showing computation of Variance after Brexit

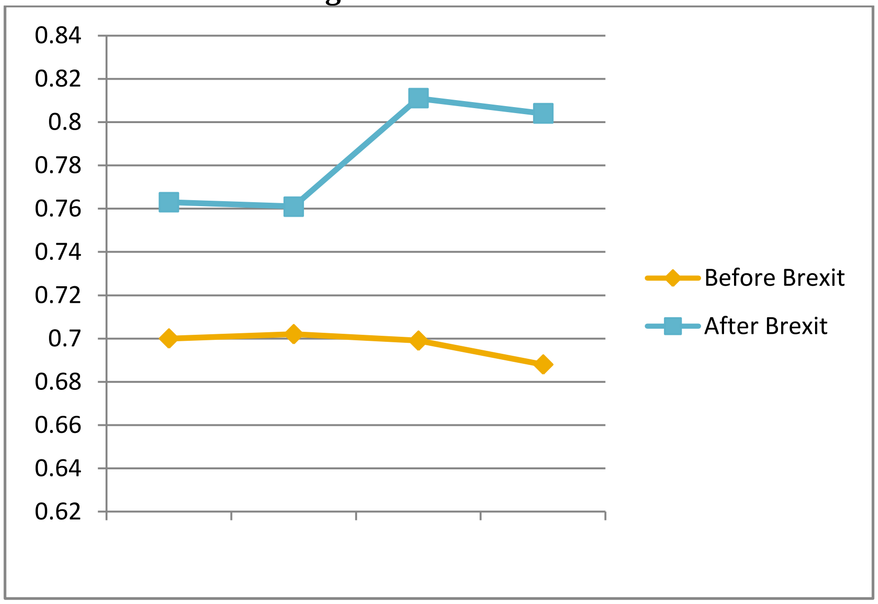
X	x	(X-x)2
0.763	-0.0252	0.00063504
0.761	-0.0272	0.00073984
0.811	0.0228	0.00051984
0.804	0.0158	0.00024964
0.802	0.0138	0.00019044
∑X= 3.941		$\sum(X\text{-}x)^2 = 0.0023348$

X = ∑X/n = 3.941/5 = 0.7882

S = 0.021609257

From the above analysis it is clear that After Brexit the Standard deviation of pound against US Dollar is more than that of before Brexit. Thus we found that the variation in the pound against US Dollar is more after Brexit. After Brexit dollar has become stronger in comparison with pound.

Fluctuations In Pound against US Dollar Before and After Brexit



FINDINGS:

- The UK accounts for just one sixth of the EU economy. One-tenth of EU exports are to the UK, whereas half of UK exports are to the EU. The EU is a more important trade partner for the UK than the UK is for the EU.
- EU membership is estimated to have boosted British goods trade with other member states by 55%, equal to £130bn in 2013.
- The high ratio of trade in gross relative to value-added terms suggests that much UK trade with Europe is connected to supply chains Post-Brexit outcomes which reduce trade or increase the cost of trade between the UK and the rest of Europe will be damaging for both sides
- The UK is the largest recipient of FDI in the EU. Brexit could reduce the attractiveness of the UK as a gateway to Europe. It could also lead to a reduction in investment from the rest of the EU, which is the biggest source of FDI in the UK.
- The UK has championed the single market, but outside the EU would no longer be an effective advocate of further liberalisation. The UK has on several occasions used its clout to frame a policy debate in liberalising terms. Following Brexit the UK would lose influence over EU regulation without gaining much freedom to regulate independently

- UK industry benefits from research collaboration in Europe and researchers have done well in EU competitions.
- The UK receives more funding from the European Research Council than any other country and 50% more than Germany, allowing UK universities to fund more than 10% of project-based research from EU contributions. The automotive, aerospace, pharmaceuticals, and chemicals sectors are among the beneficiaries.
- Immigration helps address skills shortages and the consequences of an aging population. Free movement allows UK firms access to specialist skill that are increasingly important to high-value added industries. 63% of CBI members say free movement has benefitted their business. It is estimated that 1.5m new jobs will be created in higher-skilled jobs popular with EU15 migrants by 2022. Few new lower-skilled jobs will be created, but there will be a high demand for labour to replace retirees in these areas.
- Brexit may impact on the location, liquidity and cost of financial services in Europe if it undermines London's competitive position. This would be costly for businesses and households across Europe. Most large European banks have major operations in London which would be costly to relocate
- The UK would be free to set its own trade policy priorities under some Brexit models. The UK would lose the strength in numbers at the WTO when settling disputes with countries like China.

CONCLUSION

UK has been a very open country to the other countries across the globe. It has significant business and trade connections all over the world. It has gathered so much of strengths with its association with the EU over the past decades, which it held a strong grip on the world economy. After the exit it now can be said the nation now holds a lesser grip than before. This may likely cause a degeneration of the trust worthiness among the global traders towards the nation. Further a web of strict rules and regulation is foreseen ultimately causing the business houses face a numerous difficulties and problems whilst their operation in the country. Exporting to UK and importing to UK will now not be a piece of cake. Stringent policies and strict regulations are now awaiting the roads.

The movement of goods within the EU countries will be challenging now. Moving goods to France, Germany, Sweden and other countries of the union and to UK will now have to face various hurdles. Not only this, the well-established and sophisticated nexus of the bureaucrats, business leaders and related parties of the countries among the EU now has been disturbed, resulting less quantum of trade and business practices, henceforth will likely lessen the interest of the investors in carrying business with UK. It's clear that entry and exit both has its own merits and demerits which will create an impact on UK in specific and other countries in general. Localization can affect Globalization.

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