OPEN BOOK EXAMINATION **345**

Roll No.....................................

Time allowed : 3 hours *Maximum marks : 100*

Total number of question : 6 *Total number of printed pages : 8*

NOTE : *Answer **ALL** Questions.*

1. Case study :

Impact of Brexit on Indian Economy

Britain's exit from the European Union (EU) is known in common parlance as Brexit, has come about as a shocker not only for global business markets but also the political leaders across the world, throwing a huge amount of uncertainty as to which way the world economic winds would blow ?

Britain, the second largest eocnomy in Europe after Germany, is the second country after Greenland to quit the bloc. London, Scotland and Northern Ireland voted strongly to stay in the EU but Brexit held strong in the north of England, the Midlands region, Wales and most English countries. Since 1973, the Europe continent has seen 54 instances of citizens deciding policy via referendum.

There are three interesting insight on the political and constitutional side of Brexit. First, that the issue of immigration is a crucial one for people even today and there canbe irrationality choices about this despite the fact that it may fly in the face of economic logic. As a matter of fact, what strikes as an "unkindest cut" for the Brexit camp is the fact that countries which are formally not part of the EU but enjo access to the single market as members of the European Economic Area-like Iceland, Liechtenstein, Norway and even Switzerland, being a member of the European Free Trade Association. Several EU leaders have put their foot down and stated unequivocally that if the UK wishes tohave access to its single market, then it has to permit the free movement of EU citizens within its borders andtheir right to be engaged in employment. In other words, "free market" implies "free movement of persons".

Second, a pro sentiment in some parts is not shared in some other parts.For example, Scotland and London have voted to stay in the EU but were balanced by other parts where people saw immigration as a significance threat.Finally, on the political front, the exist of Britain still has some ambiguity. It is long process and is as yet not legally binding.

Economic Catastrophe for Britain

The economic catastrophe for Britain will occur in 10 categories like (*i*) The loss of trade preferences, (*ii*) the loss of community funding, (*iii*) the loss of jobs, (*iv*) the loss of manufacturing capacity, (*v*) the loss of scale economics, (*vi*) the oss of institutional scope, (*vii*) the loss of market access (*viii*) the loss of solidarity in political economy, (*ix*) the loss of international credibility, and (*x*) classification downgrading it from a major important global player to a humble local country player. The political components of this catastrophe would involve the engendering of complete rethinking of the need for union among the different components of the nation that is the UK today.

Further, more disadvantage would be the UK's size. Its population is 64 million, while the EU's post-Brexit population would be about 440 million. The UK may face a shortage of skilled professionals, if free movement of EU professionals is curtailed. The expert expect more restrictions on immigration in the UK post Brexit. The move might lead to brain drain from the UK. If the UK-EU divorce proceedings become protracted and acrimonious, growth and markets will suffer. And an ugly divorce may also lead Scotland and Northern Ireland to leave the UK. In that scenario, Catalonia may also push for independence from Spain. And without the UK, Denmark and Sweden, which aren't planning to join the euro zone, may fear that they will become second-class members of the EU, thus leading them to consider leaving as well. Japan's priority in negotiating deals with Europe rather than individual European states.

EU Position in World Trade

The EU is in prime position when it comes to global grade. The EU is an atrractive market to do business with :

- 500 million customers looking for quality goods.
- The most open market to developing countries in the world. Excluding fuels, the EU imports more from developing countries than the USA, Canada, Japan and China put together.
- The average applied tariff for goods imported into EU is very low. More than 70 per cent of imports enter the EU at zero or reduced tariffs.

- The world's largest exporter of manufactured goods and services, and is itself the biggest export market for around 80 countries.
- Together, the European Union's 28 members account for 16 per cent of world imports and exports.
- Its ranks first in both inbounded and outbound international investments.

The EU referendum result means the UK will regain control over its trade and investment agreemetn once the EU deal is signed. A number of Commonwealth nations have expressed interest in trade talks such as India, Australia and New Zealand. Australia and NZ have offered trade negotiators to help the UK. India as a leading coutnry of commonwealth could grab this opportunity.

India and EU

Experts from abroad believe that Indian business and exports could benefit from Brexit in the long run in terms of better market assess. Britain ranked 12th in world in terms of India's bilateral trade among individual countries. It is among just seven in 25 top countries with whom India enjoy a trade surplus. The bilateral trade between India-EU constitutes a quarter of India's total trade. EU is an important trading partner for India, acounting for 16 per cent of Indian exports and 11 per cent of imports in 2014-15 (April-June). In the year 2015-16, India's bilateral trade with Britain was worth $14.02 billion, out of which $8.83 billion was in exports and $5.19 billion was in imports.

Brexit Impact on Indian Economy

India is positioned fairly well at present vis-à-vis its peers. The macro-economic fundamentals have improved and the strong orientation displayed towards reforms over the past two years has given us an edge. Further, India is also one of the few major economies still growing by

7.5 to 8 per cent, amidst a global slowdown. Following analysis narrates the impact of post-Brexit in India's trade :

(*i*) *Gross Domestic Product* : Most of the factors like favorable conditions on the domestic front, the performance of agricultural sector due to good monsoons, increase in domestic demand due to seventh Pay Commission decision etc., indicate that India is holding on to its growth path even in the post Brexit Scenario.

(*ii*) *Auto Component Sector* : India is a major supplier of auto components to the EU region, The region accounts for about 36 per cent of India's total auto component export, while the share of UK is about 5 per cent. The anticipated slowdown in the UK and EU region will have a dampening effect on the sector by losing nearby 10 per cent of their value.

(*iii*) *Information Technology* : India is one of the largest exporters of IT-enabled services and the sector has significant exposure to the European market especially the UK. The UK itself account sfor about 17 per cent of the total IT exports whereas other European countries is at about 11 per cent. Thus the IT companies are expected to face the heat in light of the Brexit.

(*iv*) *Diamond and Jewellery* : Diamond and jewellery business is currency-sensitive. The Britain's exit is likely to affect India's gems and jewellery exports and rough diamond imports badly due to depreciation in the Pound (GBP) against global major currencies including the Indian rupee.

(*v*) *Pharmaceutical Sector* : The EU accounts for 10-13 per cent and UK accounts for 3-4 per cent of India's total pharmacy exports. These companies do not really expect a big hit following the Brexit and have indicated a limited impact of Pound depreciation.

(*vi*) *Garment Industry* : Readymade garment is one of the key export items to the UK from India. It account for about 20 per cent of the India's total exports to the UK. This sector is expected to feel the pinch on account of moderation in demand.

(*vii*) *Seafood Industry* : The Britain's move is expected to bring a fresh lease of hope among the India seafood exporters who see this opportunity to boost their exports.

(*viii*) *Financial Services* : There is currently bond issuances planned of range USD 100 to 150 million in USD and INR. Brexit it making it very hard for UK and other markets like Singapore, Paris and Frankfurt as green bond investors are mainly in EU.

(*ix*) *Higher Education* : The Britain's move is expected to open up significant business and economic opportunities for Indian education sector. Presently UK is obliged to offer around 50 per cent of its seats in higher education for EU countries. In post-Brexit scenario, India will have more opportunity for these seats as the cost will come down due to INR and Pound parity.

(*x*) *Immigration* : The UK is less dependent on intra-EU immigration into the UK, it could become more open to high-skilled immigration from the non-EU countries including India. Also, now the UK would be under no obligation to adopt restrictive EU data localization norms, which it does not subscribe to in their entirely.

Goverment's Initiatives

The impact of Brexit on the Indian economy had been hotly debated. For the Indian firms, the unanswered questions are many. How will an 'independent' UK deal with employment restrictions for foreigners and barriers for companies to access the European Continent ? How soon will they be able to recalibrate their operations to align with the new Euro zone order ? The Government will now have to steer a new trade equation between India and the UK, as also India and Europe. There are about 800 Indian companies operating in the UK, which employ about 110,000 people. These firms are operating across multiple sectors. The issue for most of them is the centrality of Lodon, as a financial centre, and its importance to Indian companies as a gateway to the rest of Europe.

India has underlined the need for a judicious mix of fiscal, monetary and structural policies by major economies to deal with the heightened uncertainty on account of Brexit. Besides, programmes such as Make in India, Start-up India and Skill India are focused on encouraging innovation, entrepreneurship and job creation.

But the question still lingers : is it going to be smooth and easy for the world markets from here on ?or is this just the calm before the storm. However, the anticipation is that Britain's exit is a huge event and will continue to haunt the global economy in the coming months. Thus ''It is a big, once-in-a-life kind of event. Its consequecnes will last longer than one can thing''.

Referring the above, answer the following :

(*a*) Do you agree with the view that ''regional trade blocks promote trade within the blocks and defend its members against global competition.'' Justify your answer by explaining different categoires of regional trading blocks existing in the world.

(*10 marks*)

(*b*) Is there any difference in responsibilities between the EU's Council of Ministers and the European Commission ? Narrate.

(*10 marks*)

(*c*) Why pre-Brexit EU is an attractive market to do business in the world ? Explain the economic catastrophe for Britain in post-Brexit scenario.

(*5+5 marks*)

(*d*) ''The impact of Brexit on the Indian eocnomy is balanced one.'' Justify the statement by analyzing Brexit impact on various sectors of Indian economy.

(*10 marks*)

(*e*) Why Britain exist from EU ? How do you justify that ''the government of India is keeping bird's-eye-view on each movement of Britain''.

(*5+5 marks*)

2. (*a*) MBW, a leading Germany based automobile company decided to make India a hub for the company's 100cc (smallest) motorcycle to be manufactured in collaboration with The TWS Group, a leading Indian motorcycle manufacturer to be exported to the company's home market as well as to other European countries. Describe the favourable effect of such MNC collaboration on Indian economy.

(*5 marks*)

(*b*) Discuss the provisional measures and price undertakings that can be levied under antidumping in order to protect domestic industry from injury caused by dumped import.

(*5 marks*)

(*c*) ''Logistics management involves the integration and coordination of various marketing activities so that end markets are served in most effective manner.'' Discuss the statement.

(*5 marks*)

(*d*) A Hyderabad based company desires to float a new company for production and sales of cell phones and its accessories. Explain how PEST analysis would be helpful to the promoters before taking the decision to launch such a venture ?

(*5 marks*)

(*e*) ''To keep pace with industrial development, it has become necessary to create a better and more conducive atmosphere for increased inflow of foreign investment and capital in the country.'' Explain the statement in the context of industrial policy in developing countries like India.

(*5 marks*)

(*f*) Anand is to send a shipment from Vizag to Kuala Lumpur, what are the pre-shipment documents that Anand needs to generate authenticate and submit to concerned authorities. What should he do after goods have been shipped ?

(*5 marks*)

3. An Indian consumer appliances copany has developed a multi-functioning 'Torch Light' at a cheaper price and having a good market share due to its technology. A survey conducted by the company shows that torch is having a great demand in south-east-Asia. As ahead of the international business division of the company, by critically examining various options available to expand its operations overseas, suggest the most suitable one for this firm.

(*5 marks*)

4. Now-a-days the 'National treatment' principle is considered more importnt than the 'Most Favored Nation' principle. Discuss why ?

(*5 marks*)

5. "Asian Development Bank (ADB) supported projects and programs have had significant development impacts and worked towards improving the lives of the ultimate beneficiaries of the India." Narrate with examples.

(*5 marks*)

6. Considering Ricardo's Comparative Advantage theory, explain why is trade always possible between two countries, even when one is absolutely inefficient compared to the other ?

(*5 marks*)

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