

Headwinds for India: Brexit and its impact via other countries

Slowdown in the European Union (EU) and the Brexit response by China, Japan and others pose twin challenges to the Indian economy

Rajan Govil, Janak Nabar

Updated 4 Jul 2016, 01:44 AM IST

Advertisement



The recovery in the eurozone has been a fragile one, with the region having emerged from a prolonged recession in 2014. Photo: AFP

As the global financial markets grapple with the decision taken by the UK to exit the European Union (EU), it is clear that the question of future referendums in other EU member-countries and potential exits will likely dominate the headlines in the coming months.

The Indian economy has seen its total exports decline for 18 straight months, hurt by an overvalued exchange rate as well as a weak global economy.

mint POLL

[View T&C](#)

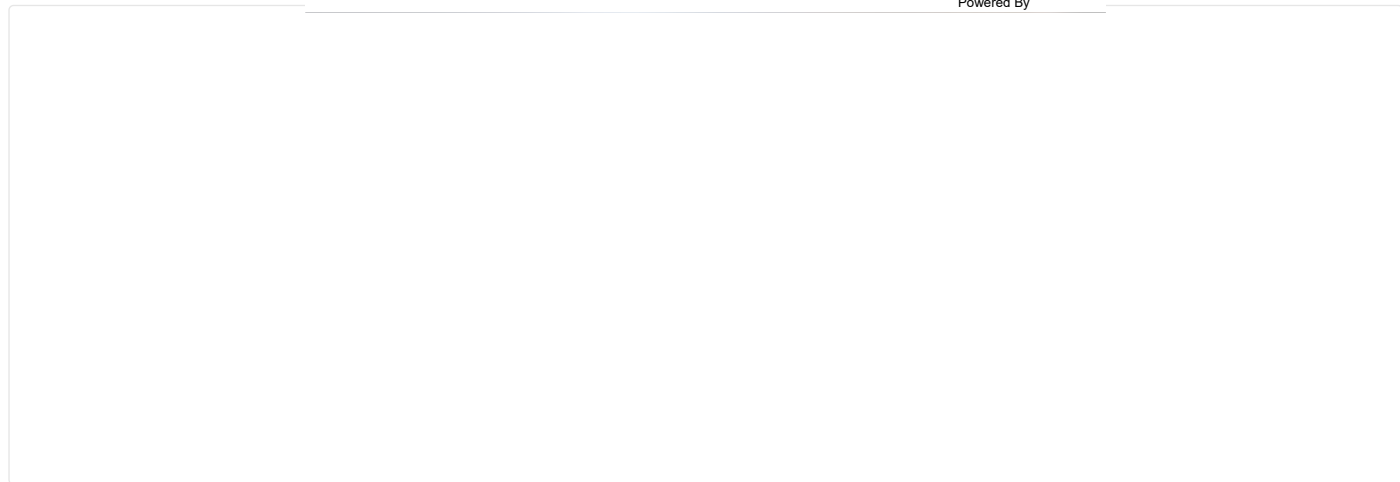


Q. What should be prioritized to resolve the conflict in Ukraine?

- Immediate ceasefire
- Peace negotiations
- Increased military aid
- International sanctions on Russia

The uncertainty that will likely unfold in the major EU countries and especially the eurozone will add to the headwinds for a recovery in India's exports. The challenges India now faces will be two-fold: the direct impact of any slowdown in eurozone and the policy response that may be unleashed in China, Japan and other countries to counter their own economic slowdown, both domestic as well as external. The EU is China's largest export destination after all, and China's currency, the renminbi, already faces depreciation pressures from capital outflows. A move by the Chinese authorities to allow their currency to depreciate further will continue to hurt India's domestic industry unless reciprocated via a weaker rupee.

Powered By



The recovery in the eurozone has been a fragile one, with the region having emerged from a prolonged recession in 2014. The past year has seen a broad-based recovery (as can be seen in the chart on eurozone industrial production alongside), which has continued into 2016 alongwith decline in the unemployment rates across countries.

Given the results of the UK referendum and the consequent uncertainty, both for businesses and households, the broad-based recovery in the eurozone will now remain suspect.

Is broad-based recovery in the eurozone under threat?

The broad-based recovery in eurozone, which was expected to see a gross domestic product (GDP) growth of about 1.6% in 2016, has been supported by a gradual improvement in domestic private consumption. Besides an improvement in intra-eurozone import numbers that have supported this view, one can also see evidence of this in the improvement in the export numbers on a trend basis for a number of countries that export to the eurozone.

PROMOTED



- ₹2 Crore Life Cover For Salaried Employees In...**
Best Term Ins... | Sponsored
- Mr. Kamalpreet Reveal's His Strategy For 2025 in Stock...**
TradeWise | Sponsored
- Viral video: Gujarat police beat up goons in Ahmedabad, leaving...**
Live Mint
- People In Maharashtra Say Goodbye To Mosquitoes With Thi...**
Mosquito Eli... | Sponsored
- Virat Kohli blasts broadcasters for discussing personal...**
Live Mint

She needs open-heart surgery but her parents can't afford it!

Donate For H... | Sponsored

Secure Your Child's Future with Strong English Fluency

Planet Spark | Sponsored

CB300R: Retro Style, Modern Power

Honda Motor... | Sponsored

ECONOMIC INDICATORS

Figure 1: Index of Industrial Production (3 mma*, year-on-year in %)

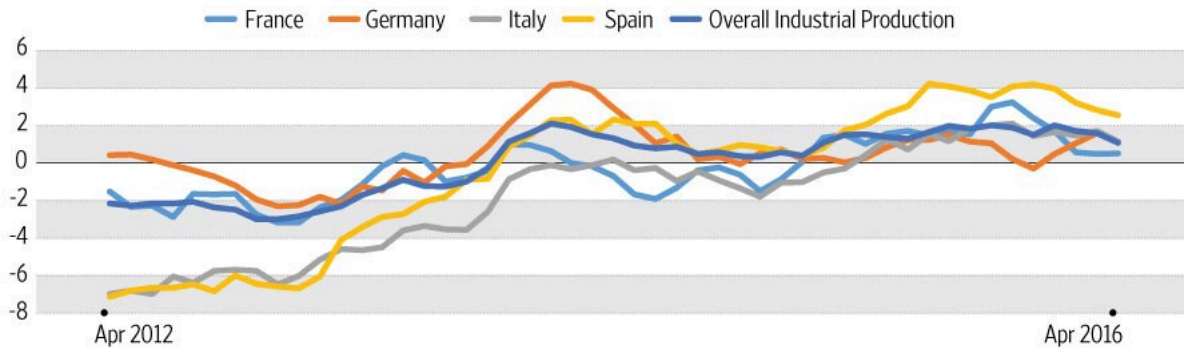
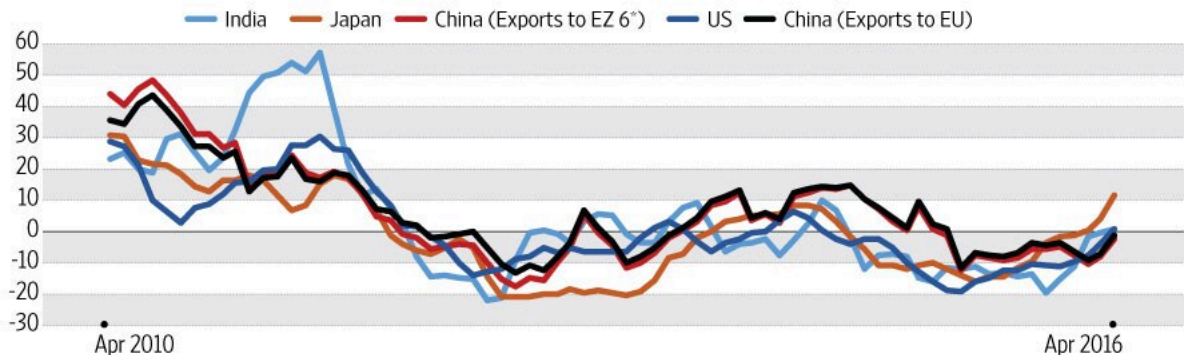
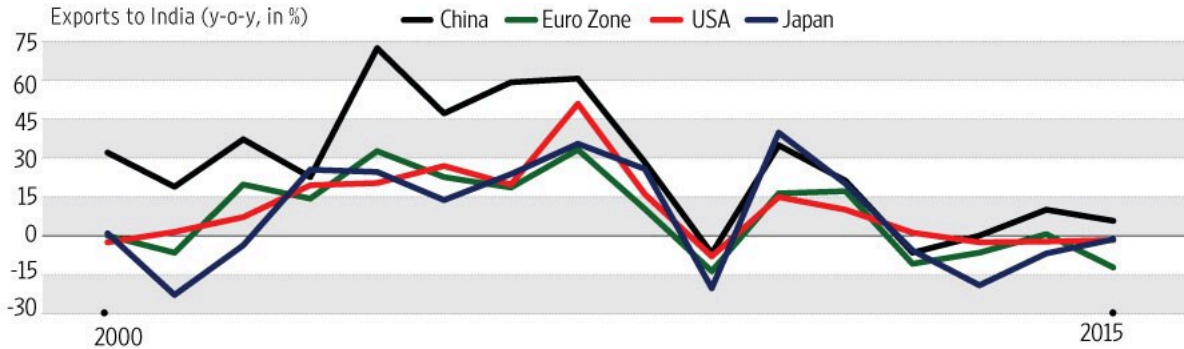


Figure 2: Exports to the eurozone (3mma*, year-on-year in %)

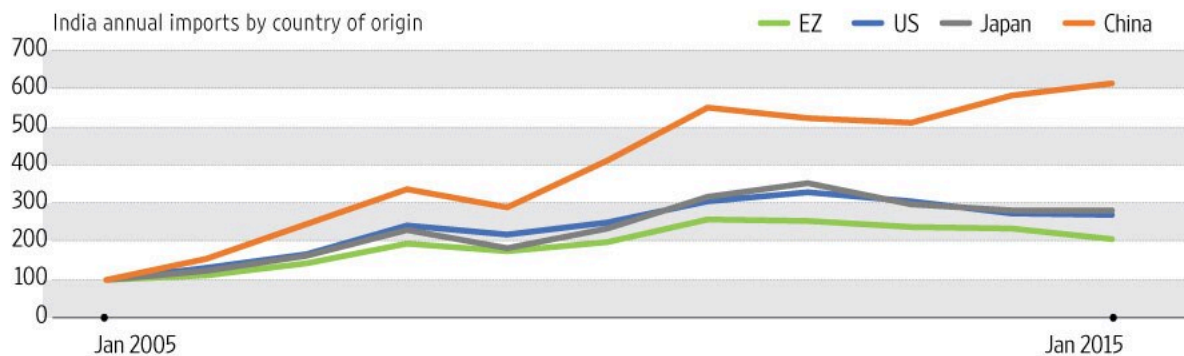


(EZ 6* refers to the six countries in the EU that China exports the most to, namely Belgium, Germany, France, Italy, the Netherlands and Spain)

Figure 3: China's exports to India outpaced those of other major economies in 2015



Imports from China are potentially competing with around 15% of India's manufacturing sector



Base value taken as 100

*3mma: Three-month moving average

Graphics by Ajay Negi/Mint

Source: CEIC, Marketnomix

[Click here for enlarge](#)

As can be seen from the chart alongside (Figure 2), exports from the US, China and India are on the cusp of seeing positive growth on a trend basis. Also, exports from Japan have seen a healthy pick-up in recent months. Prolonged global risk aversion and a strengthening Japanese yen will have its own set of consequences for the Japanese economy and policy responses, which should be the subject of a separate piece altogether.

Our concerns here are focused on the direct and indirect impact on the Indian economy from a potential slowdown in the eurozone. The direct impact is clear —a stalled recovery in India's exports to the eurozone.

The indirect impact, in particular from the slowdown in China, warrants closer attention. The ongoing slowdown in China is impacting the global economy, and especially commodity exporters from the emerging- market countries. More than half of India's exports are to emerging-market countries, and thus, the ensuing uncertainty will further weigh on India's external sector.

Exports to eurozone reflect a gradual pick-up in private consumption

China's recent economic indicators have continued to reflect the ongoing slowdown in the economy. While growth in industrial production has been steady over the last few months, hovering around 6%, the trend in retail sales of consumer goods as well as fixed asset investment has continued to slow.

The massive buildup in total credit in the economy, which stands close to 200% of GDP, will continue to weigh on China's growth prospects. The authorities have already cut interest rates six times since November 2014, and further monetary easing is likely to be limited. One of the consequences of these rate cuts has been a sharp double-digit increase in real estate prices in Beijing and Shanghai.

Liquidity will likely be a stress point in the Chinese economy, going forward. China's foreign exchange reserves declined \$600 billion in 2015, undoing much of what was earned through a trade surplus during the same period. The decline in forex reserves has continued on a year-to-date basis, having declined around \$140 billion to \$3.2 trillion as of May 2016, while the trade surplus has been around \$220 billion on the back of a sharper decline in imports.

Non-oil imports, a proxy for domestic demand, has also seen close to double-digit declines on a trend basis for some time now.

Progressively weaker data out of China will add to the depreciation pressure on the renminbi. With uncertainty now clouding the outlook for its largest export destination, the EU, limited policy options with respect to the interest rate may force the Chinese authorities to choose a path of allowing for a faster pace of depreciation of the currency, which will be detrimental to the Indian industry.

The combination of a weaker renminbi and an overvalued Indian rupee has already been gradually taking its toll on India's domestic industry, eroding its competitiveness as well as market share in recent years. Figure 3 is telling in that Chinese imports into India grew around 7% y-o-y in 2015, the only country with positive export growth to India among some of the major global economies exporting to India.

Significance of the Chinese imports into India

The significance of Chinese imports into India can be even better understood if one looks at Figure 4, which shows that how imports from China have grown multifold over the last 10 years.

In 2005, the import of goods from China stood at around \$10 billion whereas in 2015, imports from China were around \$60 billion. To the extent that this competes with India's manufacturing, it amounts to around 15% of India's manufacturing sector already (not a like-to-like comparison exactly, but value added in manufacturing in India is around \$320 billion at 16.2% of the GDP), which is only likely to increase in the coming years, hurting Indian manufacturing.

Brexit, therefore, offers India a great opportunity to ask the difficult but much-needed question: what are India's top macro-economic policy priorities? If India is to sustain growth of around 8% over the long run, it will need policies that will not only help the country counter the risks in the global economy, but also policies that will help boost productivity and increase the competitiveness of Indian firms.

For now, the growth risks in the Indian economy are tilted to the downside.

Rajan Govil is co-founder and managing director at Marketnomix and a former IMF economist. Janak Nabar is co-founder and director of research at Marketnomix and heads the Centre for Technology, Innovation and Economic Research (CTIER).

feedback@livemint.com

Catch all the [Politics News](#) and Updates on Live Mint. Download The [Mint News App](#) to get Daily [Market Updates](#) & Live [Business News](#).

More 

You May Like

₹2 Crore Term Plan For The Middle-Class Salaried Employees at Just ₹876/M

15% Instant Discount+ Financial Security To Your Family + Tax Deduction Under 80C Best Term Insurance!

"Best Strategy for Retail Investor's in 2025" in Stock Market

Join Kamal Sir's Swing Trading Masterclass to Boost your Profits. Sign up now for Success!
TradeWise

Sudiksha Konanki case: Clothes of missing Indian-American found at Dominican Republic beach where she vanished | Today News

The authorities believe the clothes, flip-flops found at the beach belong to Sudiksha Konanki. Footage shows she was going with Joshua Riibe, 22, who is senior at Minnesota's St Cloud State University around 4:15 am near the beach.

Live Mint

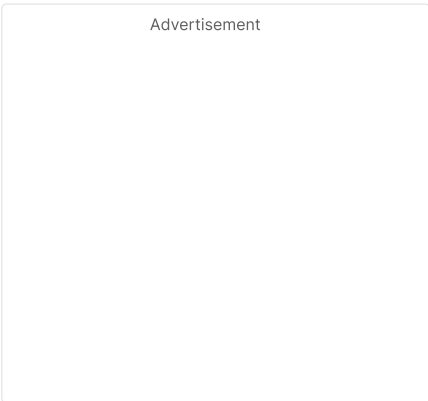
'Slapped 10-15 times, denied food': Kannada actor Ranya Rao makes shocking claims in gold smuggling case | Today News

In a letter to Additional Director General of DRI, Ranya Rao also alleged that she was forced to 50-60 typed pages and 40 blank white pages by officers of the agency

Live Mint

Promoted Links by Taboola

First Published: 4 Jul 2016, 12:37 AM IST



Get Instant Loan up to ₹10 Lakh!

Enter Mobile Number

Employment Type

Salaried Self-Employed Business

[Apply Now](#)

Most Active Stocks

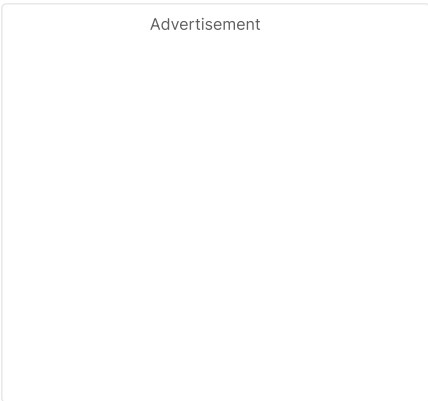
Bharti Airtel share price	03:06 PM 17 MAR 2025	6.10 (0.37%)	1,638.95
Bharat Electronics share price	03:06 PM 17 MAR 2025	0.05 (0.02%)	280.15
Indusind Bank share price	03:06 PM 17 MAR 2025	8.70 (1.29%)	680.80

Zee Entertainment Enterprises share price

03:06 PM | 17 MAR 2025

-0.73 (-0.73%) 99.47

[More Active Stocks >](#)



Market Snapshot

[Top Gainers](#) [Top Losers](#) [52 Week High](#)

Nuvama Wealth Management share price

02:55 PM | 17 MAR 2025

5,385.00

329.85 (6.53%)

Kec International share price

02:56 PM | 17 MAR 2025

41.35 (6.15%) 713.75

Indian Energy Exchange share price

02:56 PM | 17 MAR 2025

9 (5.86%) 162.55

[More from Top Gainers >](#)



Trending In Market

Gold Price Today

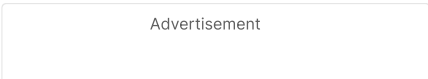
Bis raids amazon flipkart

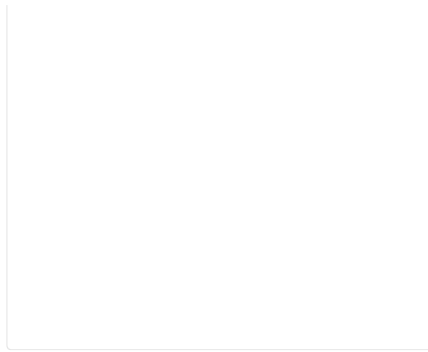
Ola Electric share price

Tata Motors shares

Indusind Bank Share Price

IRFC share price





Recommended For You



SCIENCE

Will NASA pay Sunita Williams overtime salary for her extended stay in space? The answer may shock you

NASA astronauts Sunita Williams and Butch Wilmore are set to return from a nearly nine-month space mission. With curiosity surrounding their compensation, discover how NASA's pay structure works and what additional earnings they may receive for their extended stay aboard the ISS.

2 MIN READ 01:56 PM IST

NEWS

Orry alcohol controversy: Bollywood's BFF booked for consuming alcohol near Vaishno Devi shrine in Katra

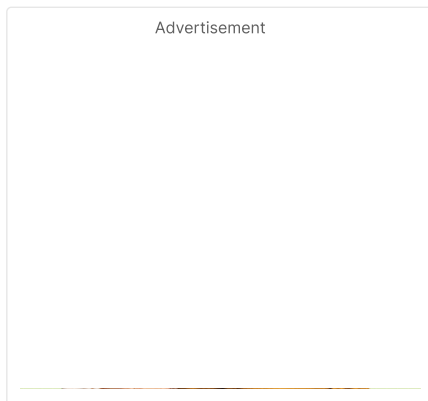
2 MIN READ 02:59 PM IST

NEWS

RG Kar Rape-Murder Case: Supreme Court disposes of parents' plea for fresh CBI probe - 'free to approach Calcutta HC'

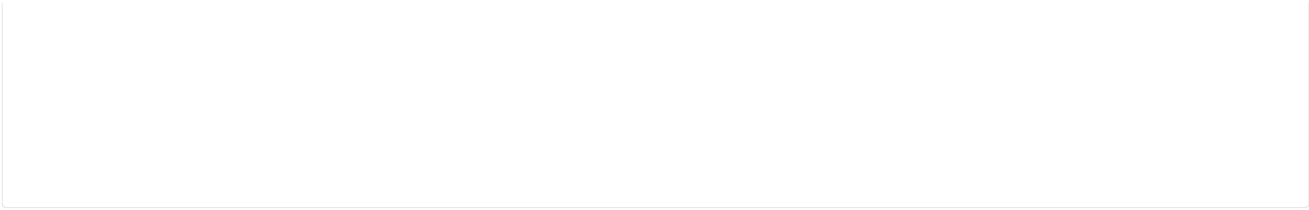
1 MIN READ 01:21 PM IST

[More Recommendations >](#)



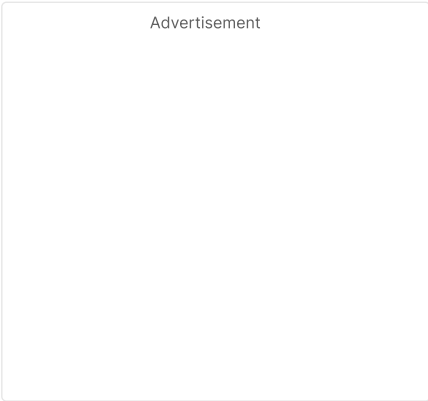
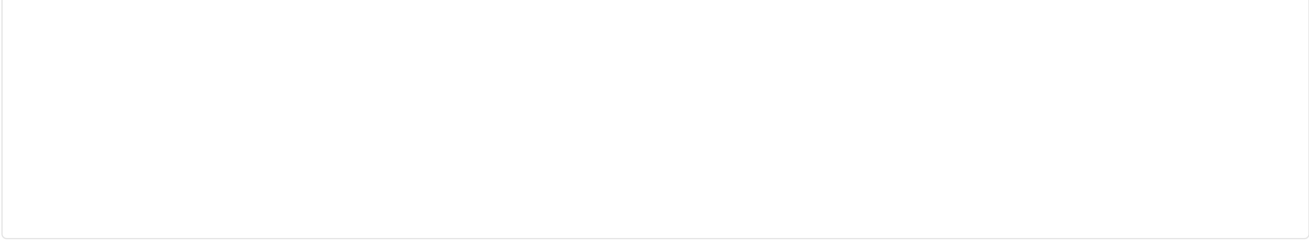
Gold Prices

24K 22K



Fuel Price

Petrol Diesel



Popular in Politics

POLITICS

Congress slams PM Modi's podcast with Lex Fridman: 'Hypo(d)crisy ki koi seema...'

2 MIN READ 01:19 AM IST

POLITICS

AIMPLB protest against Waqf Bill in New Delhi today

3 MIN READ 01:19 AM IST

[More From Popular in Politics >](#)

Download App

Download the Mint app and read premium stories

Trending Stories

[Airtel SpaceX](#) | [Maharashtra state budget](#) | [Maharashtra budget 2025 LIVE](#) | [Chhaava Box Office Collection](#) | [Champions Trophy 2025](#) | [Indian stock market](#) | [Mark Carney](#) | [Suzlon Share Price](#) | [ICC Champions Trophy 2025 Points Table](#) | [ICC Champions Trophy 2025 Schedule](#) | [ICC Champions](#)

Trophy 2025 Most Runs | ICC Champions Trophy 2025 Most Wickets | Livemint Hindi | Bank Holidays in Gujarat | Bank Holidays in Delhi | Bank Holidays in September | Income Tax Calculator 2025 | Bank Holidays in Jammu And Kashmir | Instant Personal Loan | Check Credit Score Online | Business Loan | Personal Loan Interest Rate | Personal Loan Eligibility | Personal Loan EMI Calculator | Gold Rate in Delhi | Gold Rate in Bangalore | Gold Rate in Chennai | Gold Rate in Hyderabad | Gold Rate in Mumbai | Business Radio - FAB Play | Assembly Election Results | Credit Card | Personal Loan Online | Gold Rate India | Bank Holidays India | Stocks to Watch | Stocks to Buy

Popular Stocks

JSW INFRASTRUCTURE share price | R R KABEL share price | CONCORD BIOTECH share price | IDBI Bank share price | Yes Bank share price | Adani Power share price | HUL share price | Indian Oil share price | Vedanta share price | Jio Financial Services share price | Paytm share price | Punjab National Bank share price | Canara Bank share price | Adani Green Energy share price | Indian Railway Finance Corporation share price | Suzlon Energy share price | IREDA share price | Vodafone Idea share price | Orient Technologies share price | Premier Energies share price | Bajaj Housing Finance Share Price | Garuda Construction And Engineer share price | Hyundai Motor India share price

Nifty 50 companies

ADANI ENTERPRISES share price | ADANI PORTS share price | APOLLO HOSPITALS share price | ASIAN PAINTS share price | AXIS BANK share price | BAJAJ AUTO share price | BAJAJ FINANCE share price | BAJAJ FINSERVE share price | BPCL share price | BHARTI AIRTEL share price | BRITANNIA share price | CIPLA share price | COAL INDIA share price | DIVIS LABORATORIES share price | DR REDDYS LABORATORIES share price | EICHER MOTORS share price | GRASIM INDUSTRIES share price | HCL TECHNOLOGIES share price | HDFC BANK share price | HDFC LIFE share price | HERO MOTOCORP share price | HINDALCO INDUSTRIES share price | HINDUSTAN UNILEVER share price | ICICI BANK share price | ITC share price | INDUSIND BANK share price | INFOSYS share price | JSW STEEL share price | KOTAK BANK share price | LARSEN & TOURBO share price | MAHINDRA & MAHINDRA share price | MARUTI SUZUKI share price | NTPC share price | NESTLE INDIA share price | ONGC share price | POWER GRID share price | RELIANCE INDUSTRIES share price | SBI LIFE share price | SBI share price | SUN PHARMA share price | TCS share price | TATA MOTORS share price | TATA STEEL share price | TATA CONSUMER share price | TECH MAHINDRA share price | TITAN share price | UPL share price | ULTRATECH CEMENT share price | WIPRO share price

Latest Stories

Section

Premium	Opinion	News
Market	Politics	Companies
Money	Sports	Mutual Fund
Industry	Technology	

Tools

IFSC Code Finder
Income Tax Calculator
SIP Calculator
Home Loan EMI Calculator
Car Loan EMI
NPS Calculator

Data Pages

Market Dashboard
Indices
Top Gainer
Mutual Funds
Gold Price
Silver Price
Fuel Price

[About Us](#) | [Mint Authors](#) | [Contact us](#) | [Terms of Use](#) | [Code of Ethics](#) | [Privacy Policy](#) | [RSS](#)

Copyright © 2025 HT Digital Streams Limited. All Rights Reserved.