



Brexit and Immigration: Tectonic shift in Indian IT sector

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Abstract

The European Union (EU) originated with aim to secure lasting peace through integration and cooperation in order to put an end to international hatred and enmity post the Second World War. Economic interdependence was considered as a means to avoid conflict among trading countries. The single 'internal' market allow EU citizens the right to study, live, shop, work and retire in any EU country. Currently EU is facing a range of political and economic pressures such as slow growth, unemployment in many EU countries and increasing eurosceptic sentiments due to supranational bureaucracy, euro area debt crisis and migrant crisis. The United Kingdom (UK) has initiated withdrawal from EU, the process being named as 'Brexit'. This paper adopts an exploratory approach to study the genesis, structure and current perils of EU, Brexit and its possible consequences on immigration and UK citizens. Finally, the impact of Brexit on Indian IT sector and immigration is discussed.

Keywords: the European union; EU; brexit; internal market; member states; immigration; IT

1. Introduction

The European Union (EU) has been a symbol of integrity and growth encouraging its expansion from six to twenty eight member states. The overall benefits of economic growth, security and peace, European identity in global context have shown that the union as a whole is greater than sum of its parts (Fontaine) [5]. The United Kingdom (UK) has had two referendums till date on the issue of relationship with the EU since it joined in 1973. In a referendum, first in British history, held on 05 June, 1975, the citizens (67% of 64% turnout) voted in favour of continued membership of the 'Common Market' of the European Community which later became the European Union (Miller) [8]. Citizens voted to gain prosperity and world peace through cooperation in 'Common Market'. After a membership span of 43 years, on 23 June, 2016, a second referendum on the issue saw a vote reversal with citizens (52% of 71.8% turnout) wanting to opt out of the EU. Fig 1 and Fig 2 show the referendum questions of 1975 and 2016. UK Referendum 1975

Source: Butler, David and Uwe Kitzinger. *The 1975 Referendum*. The Macmillan Press Ltd, 1976.

Fig 1: Ballot Paper of the UK Referendum of 1975

UK Referendum 2016

Source: <http://www.telegraph.co.uk/news/newsttopics/eureferendum/12122349/>

Fig 2: Ballot paper of the UK referendum of 2016

With the 'Leave vote', UK has officially become the first member to leave the union since its inception in 1951. The withdrawal of the UK from EU is widely being called Brexit – a linguistic blend of terms "British" and "exit". Controlling immigration has been one of the major factors leading to Brexit. Keeping in view the said scenario, it is necessary to understand the origin and concept of EU, the reasons that led to emergence of Brexit and its effect on UK citizens. As India is one of the largest exporters of IT-enabled services to Europe, it is significant to explore impact of Brexit on Indian IT sector and immigration.

2. European Union – Genesis, Structure and Perils

2.1 Tool of Reconciliation

Roots of the EU lay in the rubble of Second World War. The union originated with aim to secure lasting peace through integration and cooperation in order to put an end to

international hatred and enmity (Fontaine) ^[5]. The six founding member countries - Belgium, France, Germany, Italy, Luxembourg and the Netherlands - fostered economic cooperation by creating the European Coal and Steel Community (ECSC) in 1951 (“The European”) ^[17]. Economic interdependence was considered as a means to avoid conflict among trading countries. A ‘Common Market’ was created with the formulation of European Economic Community (EEC) in 1958 which eliminated most trade barriers and established a common external trade policy (Gabel) ^[6]. In year 1993, the pure economic union i.e. EEC evolved into the EU, a unique economic and political organization spanning a wide range of policy areas – trade, climate, environment, energy, space, health, external relations, human rights, security, justice and migration etc. In year 2013, the union expanded to its present strength of 28 member countries that together cover much of the continent, trading in a huge single or ‘internal’ market having ‘four freedoms’ of - movement of goods, services, people and money; which continues to develop to promote peace, stability, and economic prosperity (“The EU in”) ^[16].

2.2 Representative Authority

The EU represents a unique form of economic and political cooperation among sovereign countries called Member States that have pooled some of their sovereignty in order to gain strength and the benefit of size to promote collective interests. The EU is based on the rule of law: every action taken by EU is founded on treaties, voluntarily and democratically agreed by its members, which are ratified by their parliaments or by referendum (“The European”) ^[17]. The decision making is governed by the principle of representative democracy wherein the ‘European Parliament’ represents the EU citizens and is elected by them; Heads of State or Government of the Member States get represented in ‘European Council’ and the governments of the Member States are represented in the ‘Council’; and finally the ‘European Commission’ represents the interests of the EU as a whole. The general political direction and priorities are defined by the European Council. The European Commission proposes new laws which are adopted by the European Parliament and Council and implemented by the Member States and the Commission. For wider scrutiny of legislation in the democratic setup of the Commission–Council–Parliament triangle, various advisory bodies such as the ‘European Economic and Social Committee’, which represents civil society groups such as employers, trades unions and social interest groups; the ‘Committee of the Regions’ responsible for local and regional government representations; or the European Central Bank for proposals concerning economic or financial matters, must be consulted when proposed legislation involves their area of interest. The treaties list the policy areas in which the EU can take decisions, either exclusively or in shared manner. Areas of Exclusive Competence i.e., the decisions are taken at the EU level by the Member States meeting in the Council and the European Parliament, include trade, customs, competition rules, monetary policy for the euro area, and the conservation of fish. Areas of Shared Competence requiring the decision-making competences to be shared among the EU and its Member States, where legislation passed at the EU, if any, has

priority over national level legislation of the member states, include the internal market, agriculture, the environment, consumer protection and transport. The Commission cannot propose a law on an area not listed in the treaties. In such cases, the Union may support Member States’ efforts or it may carry out parallel activities. Such areas include - space sector, education, culture and tourism, overseas aid and scientific research and humanitarian aid programmes (“The European”) ^[17].

2.3 Internal market - the four freedoms and shared currency

The European ‘internal market’, also referred to as the ‘single market’, created by abolishing various technical, legal and bureaucratic barriers across nations, allows people and businesses to move and trade freely across the member states. The foundation of the single ‘internal’ market lies in the four freedoms – free movement of people, goods, services and capital/money which allow EU citizens the right to study, live, shop, work and retire in any EU country (“One Market”; “The EU explained”); ^[9, 15]. Moreover, within the EU, 22 Member States are part of Schengen area of free movement, in which individuals may travel without passport checks and any border control at their mutual borders (“The EU explained”) ^[15]. Consumers across the EU have benefitted by unrestricted access the European businesses within the EU for a wider choice of items at competitive prices.

With view that a market which share same kind of money would function better, EU introduced a single currency “euro” for non-cash transactions in 1999 and for all payments by issuing euro notes and coins in 2002. The euro area comprises of 19 of the 28 Member States of EU who share euro as currency thereby making it a symbol of integration (Fontaine) ^[5]. Economic integration through single market has played an important role in helping the EU in times of recession. However, appropriate legislation is required for financial security in the growing digital economy, especially for the ageing population.

2.4 Being EU Citizen

“Citizenship of the European Union is enshrined in the EU Treaty: ‘Every person holding the nationality of a Member State shall be a citizen of the Union. Citizenship of the Union shall be additional to and not replace national citizenship’ (Article 20(1) of the Treaty on the Functioning of the European Union)” (Fontaine 28) ^[5]. Thus, being a citizen of a Member State allows the person to enjoy citizenship of the entire geographical span of the EU. The EU citizen has the right to travel, work and live anywhere in the EU. EU citizen can vote and stand as a candidate in local elections in country of residence as well as in elections to the European Parliament. The EU promotes educational exchanges to enable young people to go to other EU countries for training or studying, learning new languages and to participate in joint activities of educational institutes. EU encourages cultural exchange across EU countries through cooperation amid their TV programme and film-makers, promoters, broadcasters and cultural bodies. Diversity of language is visible in the multilingual approach of EU legislation being available in 24 languages and the right to debate in own language of the

Member of European Parliament. The Schengen Agreement gives people a sense of belonging to a single, unified geographical area. The fundamental rights of Dignity, Freedoms, Equality, Solidarity, Citizens' rights and Justice set out the European Union's fundamental values and the civil, political, economic and social rights of EU citizens (Fontaine)^[5].

The benefits of being EU citizen are thus manifold, which in turn, are the main reasons for attracting immigrants. Moreover, the humanitarian approach towards foreigners and asylum seekers has led to a surge of immigrants – both authorized and unauthorized, in absence of internal border controls.

2.5 Current Perils

Although the EU came into being with aim of economic and political cooperation, yet, currently it is facing an array of political and economic pressures such as slow growth, persistently high unemployment in many EU countries, rise of populist political parties and “eurosceptic” sentiments (Archick)^[1].

- Having started as a free trade area and a customs union focused at cooperative integration, the EU has transformed into supranational entity that resembles a federal state marked by overregulation and centralization, governed by a complex bureaucracy in Brussels where the EU institutions are housed (Tupy)^[19].
- An absence of strong leadership and strategic vision has been observed in the EU as key countries like France and UK are more involved in their domestic political and economic matters leaving most power to Germany alone (Archick)^[1].
- Global recession and the euro area debt crisis significantly affected European economies putting European banking system at risk. Especially, Greece debt crisis with subsequent contagion to other members of euro area and migration crisis have led bitterness and a lack of trust among EU member states.
- It has become difficult for the EU to form common foreign and security policies and achieve integration in the area of justice and home affairs in the light of militarily assertive Russia and increased terrorism threat putting Schengen area of free movement at risk (Archick)^[1].
- The Schengen Agreement and the Internal market allows immigrants – authorized, unauthorized as well as refugees and asylum seekers, the flexibility to move across all member states under EU without border control.

3. Brexit: Britain exits the EU

Brexit is a cause of concern as UK is the first Member State to withdraw its membership from the EU since the integration process started in 1951.

3.1 Seceding away for immigration control

UK joined the EU in the year 1973 after cost and benefit analysis but has often found its organization and policies disagreeable. In the light of challenges threatening the EU, UK has highlighted the growing concerns on the issues of loss of sovereignty and control on immigration in the UK (The

Economist)^[14]. 35% of total immigrants living in UK are from EU states (Wadsworth *et al.*)^[20]. In the last 20 years, “the number of immigrants from other EU countries living in the UK tripled from 0.9 million to 3.3 million. The share of EU nationals grew from 1.5% to 5.3% of the total population and from 1.8% to 6.3% of the working age population (adults aged 16-64)” (Wadsworth *et al.*)^[20]. EU immigrants, being more educated than UK nationals, put downward pressure on wages by accepting low paying jobs thereby hurting less skilled workers (Wadsworth *et al.*)^[20]. Diminishing social status of UK's white working class has also been cited as a reason (Tilford)^[18]. The vote in favour of Brexit seems to be based on the fear that immigrants are causing to competition for jobs leading to low wages, scarce public housing and other public services like education and National Health Services and change in culture (O'Rourke; Tilford; Wadsworth *et al.*)^[10, 18, 20]. Concerns about increasing immigration to the UK have been one of the dominant factors for the electorate of the UK to make a sovereign choice to leave the EU in June 2016 (Harvey; Portes; “The Brexit”)^[7, 11, 14].

3.2 Consequences of Brexit on migration and UK Citizen

The Leave campaign message for Brexit was to get back the border and migration control. However, UK had its border and migration control while being a member state of the EU as it was not part of Schengen area nor did it join the euro area.

No legal consequences of Brexit in respect of Schengen area are foreseen as UK never participated in the Schengen Agreement, obtained an opt-out from all Schengen-related measures and opt-out from measures on immigration of third-country nationals in the Schengen area including entry, residence and rights of third country nationals. The number of EU's asylum seekers received by the UK is only 2.9% as per Eurostat statistics in year 2015, which is not proportionally substantial in comparison to other larger EU member states (Carrera)^[3]. However, Brexit would have consequences on migration and UK citizens residing in EU areas.

- **Citizenship Status:** All UK citizens will become third-country nationals, deprived of their EU citizenship along with all the rights and freedoms provided by EU legislation to its member states, in addition to being governed by immigration legislation for entry and stay in the Union. Likewise, rights and freedoms of EU citizens from other member states residing in UK would be affected. Brexit would affect the rights and freedoms of approximately 6.9m UK citizens residing in other EU member states who would be losing their EU citizenship and nearly 2.9 million European citizens residing in the UK (Carrera)^[3].
- **Security:** Brexit would raise the security concerns for the UK as being in the EU made it secure from crime and terrorism under its foreign policy and security links. Brexit would cause UK to leave the European Arrest Warrant (EAW) system with respect to extradition and surrender procedures among the EU member states. Thus UK will find it difficult to extradite any EU immigrant sought as suspect by other EU countries (Carrera)^[3].
- **Skill:** People tend to migrate from lower productivity areas to higher productivity areas for higher wages and living standards. Immigrants cultivate specialization to

fill the gaps in the skill composition of the national workforce, thereby enabling increase in wages of national workers having matching skills (Wadsworth *et al.*)^[20]. This fact has been observed in the data pertaining to net increase in employment in the UK which shows that the increase was accounted for by Non-UK born workers (Carrera)^[3]. As migration leads to greater labour allocation efficiency, Brexit could in fact cause a slowdown impact on those sectors and regions which employ large numbers of EU migrants, like finance sector (Portes)^[11].

- **Trade and Economics:** Leaving the internal 'single' market of free movement would affect trade between UK and other EU states once Brexit happens. The trade policy would have to be reconstituted by reconstructing UK-EU trade relations, World Trade Organisation (WTO) membership and trade relations with third nations (Portes)^[12]. This may further lead to a drop in Foreign Direct Investments (FDI) i.e. investments from other countries to start up new trades or to expand existing businesses in the UK. The fall in FDI may occur owing to loss of the benefits of the single market and associated coordination costs. This factor would have a cascading effect on the living standards and status of citizens of UK who may be UK nationals or immigrants.
- **Migrant Composition:** Migrants to UK are not only from EU but from non EU countries also. Half of net immigration comes from outside the EU ("The Brexit")^[14]. UK requires high-skill immigrants in the wake of globalization and rise in use of digital revolution.

In the light of the above, taking control of immigration has been an ambiguous factor for the Leave campaign. In reality, highly skilled immigrants are required for the economic growth by UK.

4. Brexit Impact on Indian IT sector and immigrants

India is one of the largest exporters of IT-enabled services to the UK and other European countries accounting for 17% and 11% respectively, of the total IT exports. ("Brexit-Views")^[2]. The impact of Brexit on Indian IT sector and immigrants is foreseen to have short term and long term effects.

- **Depreciation of Pound:** The Indian IT sector may face a decline in value of the UK pound and corresponding short term rise in costs. The IT companies in India having off-shore operations might have to lower their IT budgets owing to the disintegration. Depreciation of Pound may require renegotiation of contracts by companies which incur their costs in INR.
- **Skilled Worker Mobility:** Due to ease of movement of skilled workers between the UK and EU, Indian IT companies use the UK as a gateway to enter Europe and many have made London as their headquarter to serve the EU markets (Chandrashekhar)^[4]. However, Brexit would affect multi-location contracts which have to be renegotiated in the light of the type of trade relations opted by the UK with EU thereby causing skilled worker mobility issues. This mobility restriction on intra organization transfers or movement of IT professionals may further cascade to the overhead costs owing to

setting up of separate offices in the UK and EU.

- **The English advantage:** The UK has large number of Indian immigrants who enter through UK for further free movement into other EU countries. Post Brexit, Britain will still need a steady inflow of skilled labour especially in the field of IT due to globalization and digitalization of operations. Thus, Britain could become more open to high-skilled immigration from other non-EU countries including India, who has an advantage of having English-speaking population as well as an IT skilled pool of professionals.
- **Immigration for Education:** Britain is one of the most important education destinations for Indians. Post Brexit British universities would not be required to offer subsidized rates for citizens of the UK and EU. Depreciation of Pound and subsidized fee would open possibilities for Indian students to migrate for education and on completion obtain work visa (Shoor)^[13]. Immigrant students, after completion of education, have a chance of obtaining work visa. Thus, student mobility to UK would serve as a pathway for high-IT skilled workers.

5. Conclusion

Having harmonious relations with neighboring countries for economic and political growth were the main factors responsible for the idea and formation of the EU. The integration and cooperation has led to its expansion but there are growing concerns with the way the EU affects the sovereignty of member states. The United Kingdom has opted for withdrawal over concerns of immigration and border control. A post-Brexit Britain might not be able to stop EU migration anyway as it gets high number of immigrants from outside the EU. Moreover, the UK requires high-skill immigrants in times of globalization to survive in the era of digital revolution. Post Brexit, the Indian IT Sector immigrants in the UK and EU might face restricted intra organization movement. However, with the UK facing dearth of skilled workers due to restriction on free movement with EU, possibility of Indians to migrate to the UK for education as well as to work in IT sector may increase.

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