



## **London is an island in the sea of England!**

On November 4, 2004, New York Times carried an article - "A Blue City (Disconsolate, Even) Bewildered by a Red America." Brexit reminded me of this news article and would like to quote a few lines from this article which has left an impact on me enough to cause an immediate recall, even after 11years.

Quote - Striking a characteristic New York pose near Lincoln Center yesterday, Beverly Camhe clutched three morning newspapers to her chest while balancing a large latte and talked about how disconsolate she was to realize that not only had her candidate, John Kerry, lost but that she and her city were so out of step with the rest of the country.

"Do you know how I described New York to my European friends?" she said. "New York is an island off the coast of Europe." Unquote.

Looking at the voting pattern of the EU Referendum, it appears that Londoners, who voted overwhelmingly in favour of "Bremain", must be feeling the same way New Yorkers felt after the re-election of President George Bush in November 2004. The voting pattern also reveals that the highly educated and affluent British seem to have voted in favour of 'remain' whereas the others voted in favour of exit EU.

Apart from London, Scotland too voted in favour of remain. But the UK as a whole has voted to "Leave", raising the prospect of Scotland being taken out of the EU against its will or will there be a clarion call for another referendum in Scotland for independence remains to be seen.

This result, which came as a surprise, has raised several other questions including on the future of British economy and also London as a financial hub. Let me share my key takeaways from this result and view on what this means for India.

1. Socialism to raise its head?: the results point to discontent and disenchantment among the poor or the marginalized sections of the society. Job losses and lower wage growth seem to be hurting and seem to have found an expression through Brexit.
2. Globalization demand to moderate?: Job losses and lower wage growth has also been attributed to globalization. Brexit also seems to be a referendum on globalization as well and may present challenges to Hillary Clinton.
3. Specifically on India, the economy is relatively secure and less globally exposed than other emerging markets. India's exports as percentage of GDP is only 23%, foreign exchanges reserves are at an all high and in excess of USD360bn. Having said that, and knowing very well that India is not immune in the event of a risk-off

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scenario, the markets and INR could come under pressure in the short term. However, as Reserve Bank of India Governor Raghuram Rajan mentioned today, the 3 lines of defense, as far as India is concerned, are –

- a. Good fundamentals of the economy;
- b. Limited short term liability (external) along with moderate participation of foreign investors in Indian debt; and
- c. Foreign exchange reserves

While the Indian economy has been opened up reasonably, incremental pressure on the Government of India to open up further is expected to be lower. As the dust settles, the question that will emerge is “what are the good places or markets to invest in?” Believe, India on the back of its strong fundamentals will stand to benefit immensely.

“Be greedy when others are fearful” - Warren Buffett.

Best,

Aashish Wakankar

p.s. Please click on the link to read the NY Times article dated Nov 4, 2004  
- <http://www.nytimes.com/2004/11/04/nyregion/a-blue-city-disconsolate-even-bewildered-by-a-red-america.html? r=0>

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