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Research Report

FDI to the UK will remain robust post-Brexit

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FDI to the UK will remain robust post-Brexit*

by

Laza Kekic**

The UK has been one of the top recipients of FDI among advanced economies and the biggest recipient of FDI flows into the EU. According to OECD data, the stock of inward FDI, US\$1.55 trillion, in the UK at the end of 2015 was higher than that of France and Germany combined.¹ However, the result of the June 23, 2016 referendum, in which the country voted by a majority of 52% to 48% to leave the EU, led many observers to expect that a significant negative impact on inward FDI would ensue.

The London School of Economics estimated that Brexit would lead to a 22% decrease in inward FDI flows over the next decade. The study looked at FDI flows across all 34 OECD countries over the past 30 years and analyzed how investment is affected by EU membership after controlling for other FDI determinants. These figures are similar to other estimates.² Many surveys also pointed to a probable negative impact of Brexit on FDI inflows to the UK. The heads of leading multinational enterprises, including the chief executives of GE, Airbus, Cisco, and Hitachi, warned that uncertainty following a vote to leave the EU could affect FDI decisions.

In assessing the impact of Brexit on FDI, one needs to distinguish between the short term and long term. Most forecasters predicted that the impact of Brexit on the economy and investment would be negative even in the short term. They definitely have been proved wrong. The UK's real GDP grew by 2% in 2016, well above predictions. Since the referendum, the country's economy has grown faster than that of the euro zone. Business investment, employment and stock market performance have all exceeded expectations.

According to UNCTAD, inward FDI to the UK surged to US\$179 billion in 2016, the second highest in the world, behind the US, representing a six-fold increase over the 2015 total (when the UK ranked 12th). Of the total, \$101 billion was due to one mega-deal acquisition, but notably this was finalized after the Brexit referendum.³

The long-term impact of Brexit is subject to uncertainty. Many investors may adopt a wait-and-see approach. Much could depend on the precise outcome of difficult UK-EU exit negotiations, especially for FDI by UK-based companies that focus on the European market. However, even for the long term, there are reasons to suppose that FDI into the UK will remain robust, especially by companies servicing UK and non-European markets.

Most surveys since the Brexit vote point to the likelihood of buoyant post-Brexit FDI. For example, the annual business survey conducted for the World Economic Forum by PwC found the majority of the UK's CEOs to be very positive about the UK's prospects. A recent survey by Colliers International found that London is set to remain the most attractive location for FDI among 20 world cities.

Surveys of investors show that EU membership, in any case, tends to feature low down the list of important factors that affect investment. The UK also has many advantages that will be unaffected by Brexit such as the English language, light regulation, highly developed capital markets, strong rule of law, and flexible labor markets.

Since the Brexit vote, foreign investors have continued to open headquarters in the country. On October 27, 2016, Nissan confirmed that it will build new models at its Sunderland plant, following unspecified "support and assurances" from the British government. Announcements from Boeing, GlaxoSmithKline, Google, Facebook, Apple, Jaguar Land Rover, Tata, and McDonald's have all indicated that these companies will continue to invest in the UK despite Brexit.

In addition to the UK's traditional location advantages, several factors suggest that FDI flows to the UK post-Brexit will continue to be robust. A weakened pound will boost FDI inflows. FDI will also be encouraged by the country's political stability and by the new opportunity to deregulate. Strong FDI inflows will also depend on government policies such as cuts in the corporate tax rate, investment in infrastructure and the pursuit of new trade deals across the globe. The government and the Bank of England will have to dampen inflationary pressures that threaten growth. Above all, the government will need to reduce uncertainty by outlining a clear goal for post-Brexit relations with the EU and by expeditious negotiations with the EU on Brexit after Article 50 is triggered.

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¹ OECD, *FDI in Figures* (Paris: OECD, 2016), <http://www.oecd.org/corporate/FDI-in-Figures-October-2016.pdf>.

² LSE Centre for Economic Performance, *The Impact of Brexit on Foreign Investment in the UK* (London: LSE, 2016), <http://cep.lse.ac.uk/pubs/download/brexit03.pdf>; see also PricewaterhouseCoopers, *Leaving the EU: Implications for the UK Economy* (London: PWC, 2016), <http://www.pwc.co.uk/economic-services/assets/leaving-the-eu-implications-for-the-uk-economy.pdf>.

³ UNCTAD, *Global Investment Trends Monitor*, No. 25 (Feb. 2, 2017).

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