# FDI IN THE UK BEFORE AND AFTER BREXIT: FORECAST AND REALITY

E. Riabchinskaya
Scientific tutor L. V. Bedritskaya
BSEU (Minsk)

Foreign direct investments (FDI) significantly influence country's economy increasing gross domestic product (GDP) and the number of working places. It also encourages technology development and create competitive environment. Consequently, the question about the influence of such political decision as Brexit (the exit of the United Kingdom (the UK) from the European Union (the EU)) on FDI inflow arises, since one of the investment attractiveness factors was the easy access to the single market of the EU which can be changed because of increasing costs of trade conducted by UK business entities with EU business entities.

Firstly, it is important to identify the role of FDI in the UK's economy. Then I will touch upon the reasons of the potential decrease in FDI inflows and scientists' forecasts. And finally, I will analyze the current figures concerning FDI in the UK.

The UK is one of the biggest importers of FDI. The role of FDI in the UK can be defined using the following figures. FDI stock in the UK amounts to $1 trillion. What is more, approximately 50 per cent of it is from the EU member countries such as the Netherlands, Luxemburg, France and Germany. According to the figures, FDI is more important to the UK than any other G7 economy, with total stock of FDI equivalent to 71.6% of GDP. Additionally, more than 23,000 of foreign companies with annual revenues more than $1.3 trillion are operating in the UK. These companies play a big role for the UK's economy, since the share of foreign transnationals in the production achieves 30 per cent, in the research and development (R&D) expenditure – 52 per cent. It should be also noted that they also account for one-third of employment and 50 per cent of investments in manufacturing [1].

Identifying the role of FDI for the UK it is necessary to analyze the inflow of FDI in previous years. In 2015, the UK was at the twelfth place in the world and the fifth place in Europe according to the FDI inflows ranking. The inflow of FDI this year achieved as much as $40 billion. In terms of this criterion, it left behind such highly developed countries as Germany ($32 billion), Belgium ($31 billion) and Luxemburg ($25 billion) [2]. As a result of it, the share of the UK in Europe FDI inflows was approximately as much as 8 per cent.

As we can see, the role of FDI in the UK is huge, that is why it is important for the UK to identify what reasons may decrease the inflow of FDI. There are several reasons why FDI in the UK may decrease after Brexit. They can be classified into two groups: 1) those which in a greater degree influence FDI from already operating in the UK foreign companies (they may just leave the UK's market); and 2) those which in a greater degree influence FDI from newcomers. The first group deals with two main factors. Firstly, being fully in the Single Market makes the UK an attractive export platform for multinationals as they do not bear potentially large costs from tariff and non-tariff barriers when exporting to the rest of the EU. Secondly, multinationals have complex supply chains and many co-ordination costs between their headquarters and local branches. These will become more difficult to manage if the UK leave the EU. Uncertainty over the shape of the future trade arrangements between the UK and the EU belongs to the second group of reasons. As a result, it would also tend to dampen FDI.

All reasons mentioned may decrease the inflow of FDI in the UK. But the question is "To what extent?" Forecasts of different scientists can answer this question. According to the scientific researches, there is a significant positive effect of being in the EU on inward FDI. Using different methods of calculating, the magnitude ranges from a 14% to 38% increase in FDI stock taking into account the Center for Economic Performance's (CEP's) researches. Moreover, EU membership increases inward FDI stocks by 14% from non-EU countries and by 28% from other EU members. Thereafter, the CEP estimates that FDI into the UK will fall by 22% over the next decade due to Brexit. What is more, this figure can be even higher for greenfield investments in the case that the UK will not join the EU single market after Brexit [3].

However, forecasts tend to be mistaken. That is why the role of current situation analyses increases. In order to analyze the current situation it should be pointed out the following issues. Firstly, according to the data of the Office for National Statistics the inflow of FDI in the UK decreased after the UK vote: from £13.6 billion in the second quarter to £7.0 billion in the third quarter. In spite of this, according to the UNCTAD report (dated 1st February, 2017) the FDI inflow in 2016 in the UK was $179 billion, which significantly higher than in 2015. As a result, the UK took the second place after the US ($385 billion) in 2016. Secondly, it is necessary to point out that in Doing Business Report prepared by World Bank all aspects of countries' economies are analyzed including uncertainty in the international trade. And in accordance with this report in 2017 the UK's ranking is 82.74 which is even higher than in 2016 when it was 84.73. It means that in 2017 such factor as uncertainty will not influence the decrease of FDI in the UK.

To make a conclusion, it should be pointed out that the statement about the possible decrease of FDI inflow in the UK after Brexit is ambivalent and now cannot be confirmed despite existing uncertainty. And it is very likelihood that it depends on the way the UK will settle this political situation, and more specifically, whether it will join the EU single market in the aftermath or not.

**References:**

1. The influence of Brexit on foreign direct investment into the UK [Electronic resource] / WAVTEQ. – 2017. – Mode of access: http://www.wavteq.com/brexit/. – Date of access: 08.03.2017.
2. World investment report 2016 [Electronic resource]/ UNCTAD. – 2016. – Mode of access: http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf. – Date of access: 08.03.2017.
3. The impact of Brexit on foreign investment in the UK [Electronic resource] / CEP. – 2016. – Mode of access: http://cep.lse.ac.uk/pubs/download/brexit03.pdf. – Date of access: 08.03.2017.

## SECTION 6

## MARKETING COMMUNICATION AND ADVERTISING IN MODERN BUSINESS. INTERNATIONAL BUSINESS IN AN ONLINE ENVIRONMENT

### AUGMENTED AND VIRTUAL REALITY AS NEW INSPIRATION FOR MARKETERS

A.A. Negreyeva,
G.A. Borisevich
Scientific tutor L.V. Bedritskaya
BSEU (Minsk)

In today’s world, producers are giving up trying to draw consumers’ attention to their products. Nowadays, in the era of information boom, people have created so called mental barriers to protect themselves from massive flow of information,