Brexit and Foreign Direct Investment

Foreign direct investment (FDI) in the UK and how this is being impacted by Brexit

November 2018

Foreign direct investment into the UK – latest data

- In 2017, FDI into the UK was £50.8 billion - £148 billion down on the £199 billion recorded in 2016. The 2016 figures were heavily skewed by two major takeovers involving SABMiller and Arm Holdings.
- Excluding 2016, 2017's figure is the highest since 2008.
- London is the largest beneficiary of FDI, with nearly 18,000 jobs created in FY 2017/18.
- The US remains by far the most important source of FDI in terms of job creation, followed by Germany and India.

Figure 1 Jobs supported by foreign direct investment, by UK region

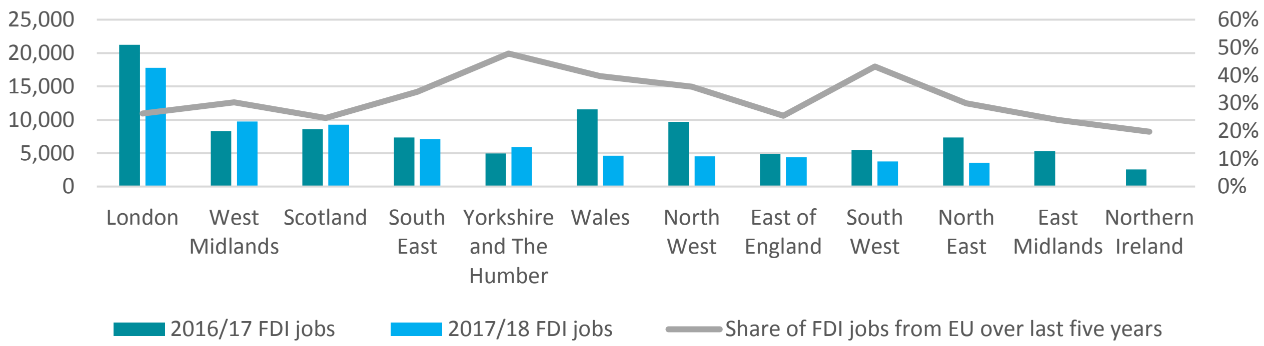
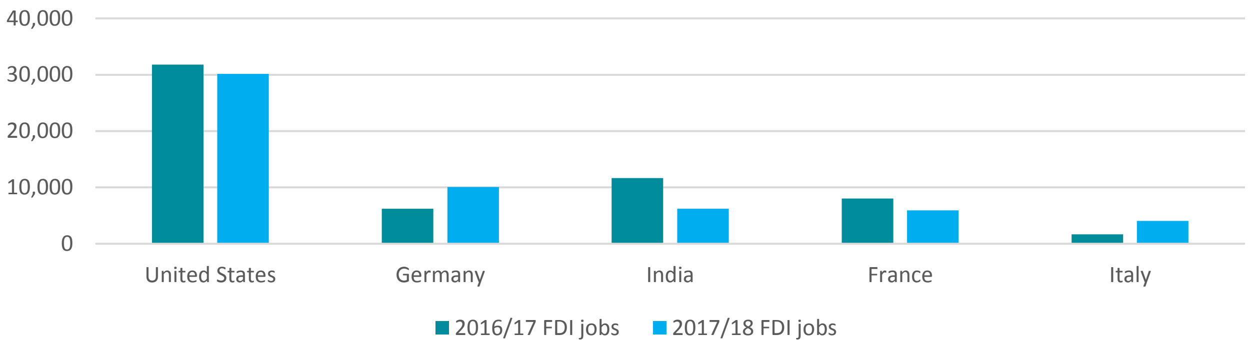


Figure 2 Jobs supported by foreign direct investment, by source country



Investment case studies

- In October, the Department for International Trade launched £2 billion worth of property investment opportunities, in a bid to attract global investors.
- The UK's aeronautical sector received a boost after aircraft giant Boeing opened its first production facility in the UK – a manufacturing site in Sheffield representing a £40 million investment.
- French private equity firm Omnes Capital is reportedly planning on investing more than €500 million into the UK's wind-power sector.
- A recent survey by IP Global has found that international appetite for investing in the UK property market remains solid – supported by a weak pound and the stability of the UK compared to some other markets. This is despite waning interest from domestic investors.

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Current state of Brexit discussions

- The EU's October summit failed to yield meaningful progress on some of the key sticking points of the Brexit negotiations, most notably the issue of avoiding a hard border on the island of Ireland while maintaining the integrity of the customs union and single market.
- An emergency EU summit in November has been called off for now, but there are still hopes that sufficient progress can be made to justify a summit later this month with the aim of finalising a deal.
- The UK government is continuing to pursue an outcome broadly resembling its "Chequer's plan", which would see the UK remain in the single market for goods but not for services. Reports have surfaced that the EU would allow the whole of the UK to remain in the customs union temporarily after the end of a transition period. The UK government has dismissed these reports as speculation, but asserts that 95% of the withdrawal agreement has been settled.
- The Prime Minister has expressed a willingness to extend any transition period "for a matter of months". However, this does little to address the fundamental challenges that remain in the negotiation.

Investment impacts of Brexit

- Toyota recently joined a slew of car manufacturers who have expressed concerns about the impacts of a no-deal Brexit, with its Europe Chief saying that an inability to access the EU market tariff free would impact future investment decisions.
- According to a survey commissioned by the Confederation of British Industry, eight in ten firms state that the UK's imminent departure from the EU has had a negative impact on their investment decisions.
- Perhaps in a nod to some of these issues, the Chancellor announced in the October Budget an increase in the annual investment allowance in 2019 and 2020 from £200,000 to £1 million.