

# **Brexit and Foreign Direct Investment**

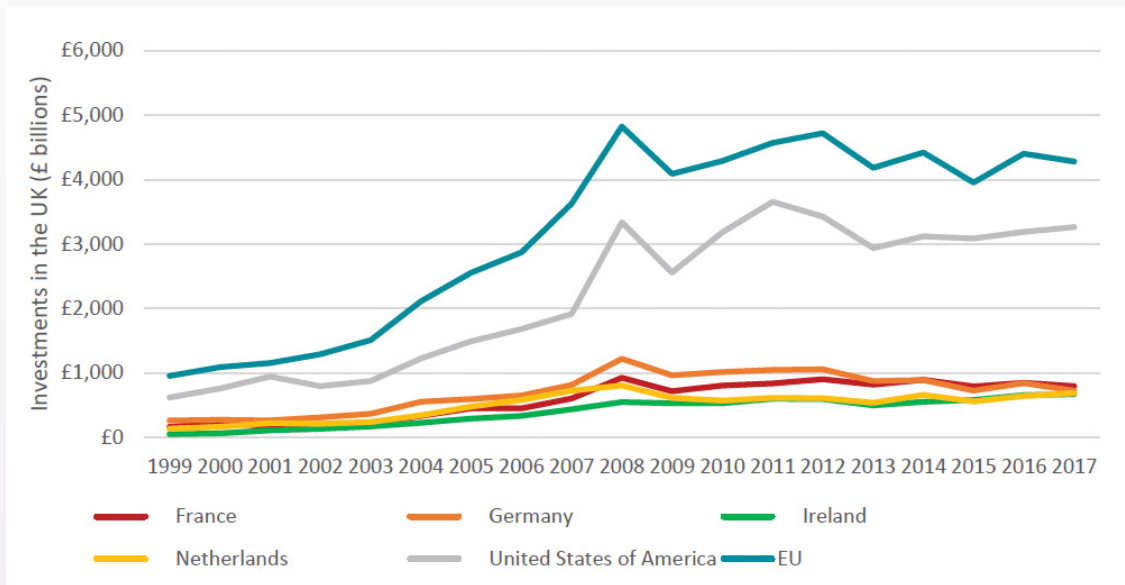
Foreign direct investment (FDI) in the UK and  
how this is being impacted by Brexit  
**March 2019**



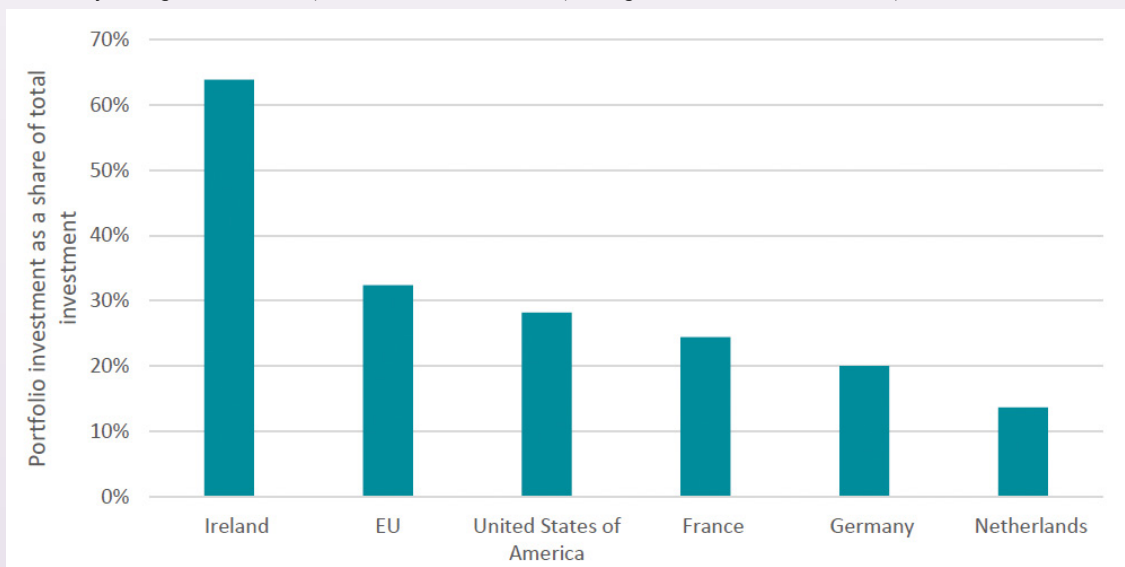
# Foreign direct investment into the UK – latest data

By a considerable margin, US investors have a larger presence in the UK than investors from any other country in terms of the stock of assets held.

However, investors from the EU collectively hold a larger stock of UK assets than US investors. The stock of UK assets held by EU investors fell by £124 billion between 2016 and 2017.



Nearly two thirds (64 %) of UK assets held by Irish investors are portfolio investments, where the investor has less than a 10 % ownership of the recipient firm. Portfolio investments are far more liquid than direct investments, meaning that there is a higher risk of capital outflows. 28 % of the total stock of UK assets owned by foreign entities are portfolio investments, equating to over £3.1 trillion of capital.



## Exports of professional services

Exports of professional services are determined by a number of factors, including demand from external markets, currency movements and organisational decisions taken by firms.

With the UK's impending departure from the single market, many international firms are having to consider whether to move some of their operations from the UK to the European Economic Area, in order to ensure continued access to the EU market. Any such offshoring would be reflected to some extent in the exports data, through the loss of activities that were previously conducted in the UK and exported abroad.

The value of the UK's exports from the legal sector was £5.2 billion in 2017 – 7 % lower than £5.5 billion recorded in 2016. However, financial services exports rose by £3.6 billion to £59.6 billion between 2016 and 2017.

## Investment case studies

Norway's sovereign wealth fund – which has around \$1 trillion of assets – has recently indicated that it will increase its investment in the UK, stating that short term political developments do not change their long-term view of the UK as a destination for investment.

Brexit will have a notable impact on the UK legal sector's ability to operate in Europe. Potential issues include a reduced recognition of UK professional qualifications, and the loss of the right of audience in EU courts. These risks have already been acted upon by major firms.

For instance, Slaughter and May has already moved some of its antitrust activities from London to Brussels. With that being said, most major law firms already have a well-established EU presence, so any changes would likely involve a gradual shifting of resources rather than large-scale site closures or openings.

## Current state of Brexit discussions

There was hope that the EU's approval of a withdrawal agreement in November would provide some clarity on the form of the UK's future relationship with the EU. However, in reality it served to merely transfer the political deadlock from Brussels to Westminster.

In January, MPs voted against the withdrawal agreement by a margin of 230 votes – the largest defeat for a government in modern parliamentary history.

MPs have since voted in favour of the Brady amendment, which calls for an amendment to the Brexit deal that replaces the Irish backstop with alternative arrangements. Theresa May has since been trying to secure concessions in Brussels, but EU leaders have been resolute in their assertion that the withdrawal agreement cannot be reopened.

In February, Theresa May promised MPs a meaningful vote on a revised withdrawal agreement on March 12th. If this is voted down, a subsequent vote on whether MPs support a no-deal Brexit has been promised. If this is also rejected, MPs will vote on whether to request an extension to Article 50.

However, it is not guaranteed that the EU would approve a request to extend Article 50. For instance, French President Emmanuel Macron has stated that France would not accept a delay "without a clear understanding of the aim that's being pursued".

# Investment impacts of Brexit

Business leaders have long been warning about how Brexit, and in particular a no-deal Brexit, could adversely impact their operations and investments in the UK. However, numerous major companies have made announcements about their operations in the UK which demonstrate a more tangible effect of Brexit.

Jaguar Land Rover has announced that it will be pausing sites across the West Midlands between April 8th and April 12th. Meanwhile, Nissan announced in February that it would not be building its X-Trail in Sunderland as was initially planned.

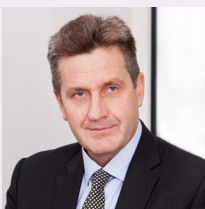
Given Brexit's current pre-eminence in the political and economic discourse, many commentators are quick to tie international firms' business decisions to Brexit. While the economic uncertainty is undoubtedly a major factor weighing on business investment, there are also other factors at play.

For instance, in the case of Jaguar Land Rover, temporary closures of plants are not unprecedented, although the specific timing of the April shutdown is attributable to Brexit. Meanwhile, Nissan's decision to move production to Japan also reflects the waning demand for diesel vehicles in Europe coupled with the fast growing Asian market.

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## Contacts



### **Bryan Bletso**

Partner and Head of International

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**T:** +44 (0)20 7650 3820

**M:** +44 (0)7770 795 703

**E:** [bryan.bletso@irwinmitchell.com](mailto:bryan.bletso@irwinmitchell.com)



### **Robert Cowling**

Business Development Manager

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**T:** +44 (0)113 220 6215

**M:** +44 (0)7552 164 354

**E:** [robert.cowling@irwinmitchell.com](mailto:robert.cowling@irwinmitchell.com)