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Department of Arts and English Language

The Impact of Brexit on Foreign Direct Investment in UK

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Submitted by:

BERREHOUMA Nadjla

CHABBI El Djaida

Supervised by:

Dr. BERRA Yamina

Board of Examiners:

Dr. Mohammed CHOUCHANI ABIDI	**President**	University of El-Oued
Dr. BERRA Yamina	**Supervisor**	University of El-Oued
Dr. ATIK ZID Wahid	**Examiner**	University of El-Oued

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Dedication

We would like to dedicate this work to our beloved parents for their continuous support and sincere love.

To our respected supervisor for her invaluable guidance, assistance and unwavering encouragement.

We would like also to extend our thanks to all our family members and friends for their valuable motivation.

To all those who cherish knowledge.

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Abstract

The aim of the current study is to investigate the impact of Brexit on Foreign Direct Investment. Brexit caused economic uncertainty, which has led to various changes in several aspects of the economy, including foreign direct investment. The latter is the issue that the study seeks to explore to what extent it is affected by Brexit. To achieve accurate findings on the impact of Brexit on foreign direct investment, study is carried out. Qualitative method is used to collect and analyze data, provides existing numerical data related to foreign direct investment inward and outward flows and the flow percentages on the gross domestic product of the country before and after Brexit. Both data visualization and comparative analysis are used to facilitate comparing and analyzing the values and percentages. Hence, the study reveals that both inflows and outflows of foreign direct investment decreased after Brexit, without ignoring the Covid-19 effect besides Brexit. Yet, inwards increased in 2021, indicating that the United Kingdom is attracting new destinations as an independent economic power. It intends to broaden its transactions and agreements abroad to encourage investors to reinvest in the United Kingdom under the new conditions. Consequently, there is a need for further research to gain comprehensive insights on this topic.

Keywords: brexit, COVID-19, flows, foreign direct investment, gross domestic product.

List of Abbreviations and Acronyms

ALP	Apparent and Labor Productivity
BoP	Balance of Payment
Brexit	British Exit from EU
CEE	Central and Eastern Europe
DIT	Department for International Trade
EAEC	European Atomic Energy Community
ECSC	European Coal and Steel Community
EDC	European Defense Community
EEC	European Economic Community
EMS	European Monetary System
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Products
GVA	Grass Value Added
IMF	International Monetary Fund
LSE	London School of Economics
M&A	Mergers and Acquisitions
MNE/C	Multinational Enterprise/ companies
OECD	Organization for Economic Co-operation and Development
ONS	Office for National Statistics
R&D	Research and Development

TCA	Trade and Cooperation Agreement
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development

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General Introduction

1. Background of the Study

Brexit refers to the United Kingdom (UK) withdrawal from the European Union (EU). A referendum was held on June 23, 2016, in which 51.9% of voters voted to leave the EU, while 48.1% voted to remain. The withdrawal process was held on March 29, 2017, and the UK officially left the EU on January 31, 2020. Ever since, the decision to leave the EU has had a critical impact on the country's economy, trade, and investment, including the flow of foreign direct investment (FDI) in the UK. Foreign direct investment (FDI) refers to investment made by a foreign company into a foreign country. It is a crucial source of capital, technology, and employment. The UK is one of the top destinations for attracting FDI, after the United States (USA) and China, with an estimated stock value of over £1 trillion, according to the report UK Trade and Investment (UKTI, 2015). Yet, after Brexit, the rate of FDI in the UK declined in the year following the referendum. As the UK left the EU, investors were uncertain and hesitant about the future relationship between the UK and the EU.

2. Statement of the Problem

The impact of Brexit on the UK remains a topic of debate, with different sources reporting different outcomes. Some studies suggest that Brexit has had a negative impact on FDI, while others suggest that the effect has been positive. Therefore, there is a need for a comprehensive and systematic analysis of the impact of Brexit on FDI in the UK to determine the real effect and magnitude on the country's FDI.

3. Research Questions and Hypotheses

The current study aims to find adequate answers for the following questions:

1. What is the impact of Brexit on FDI in the UK?

2. Does the decline in FDI affect the country's economic growth?

Based on these research questions, the following hypotheses can be developed

H1: Brexit would have a negative impact on FDI in the UK.

H2: The decline in FDI would have bad consequences on the country's economic growth.

4. Aims of the Study

The study aims to investigate the impact of Brexit on FDI in the UK. It seeks to analyze the impact of Brexit on FDI trends before and after the event by reviewing previous inquiries regarding this topic. This can contribute to the broader context of whether the UK can stand on its feet and perform better in isolation from the EU.

5. Research Methodology

The dissertation is purely qualitative method which is employed to get a clear understanding of both Brexit and FDI in terms of their nature and the factors affecting them. This is obtained through gathering and analyzing qualitative data including the values of FDI inward and outward flow in the UK.

To investigate the impact of Brexit on FDI, comparing and analyzing numerical data before and after Brexit is the most suitable. This study is employing existing data from surveys and reports. Historical and numerical database related to FDI, including outflows, inflows, and their share in the UK, is gathered from institutional sources, for instance: the Office for National Statistics (ONS), the World Bank, the United Nations Conference on Trade and Development (UNCTAD), the Department for International Trade (DIT), academic journals, and news articles. Additionally, variables concerning FDI inflows and outflows can be analyzed over time to indicate the value and movement of FDI. Moreover, in this study, the researchers are expected to estimate the influence of factors such as Brexit on these variables.

For convenience, data visualization and comparative analysis are implemented. The former is suitable for presenting the FDI inflow and outflow values and rates before and after Brexit, using graphic representation and tabulation to help identify any changes. While the latter is suitable to compare and analyze the changes in the numerical data of the FDI inflows, outflows, and their percentage of GDP to identify the effect of Brexit. Several limitations should be considered in this study. For such a reason, this study focuses on Brexit as the influencer of FDI and neglects but does not disvalue other factors, such as the COVID-19 pandemic.

6. Significance of the Study

The significance of this study is to provide insight into the impact of Brexit on FDI in the UK. Additionally, by examining the effect on FDI, conducting this study can help us understand how has the Brexit influenced UK's attractiveness. Investigating the effect on FDI may help to get insight into whether the UK decision to leave the EU was really sound. Therefore, this study adds to the existing body of research and paves the way for future studies.

7. Structure of the Study

The current study is divided into three chapters; each chapter highlights a side of the study variables. The first chapter tackles the historical relationship between the EU and the UK. It discusses the UK first joining the bloc and the key factors that led to Brexit. The second chapter provides an overview of the FDI landscape in the UK. It discusses the FDI trends, measurements, distribution, types, and its effect on the economy. Finally, the third chapter entitled constitutes the analysis the FDI inflows and outflows values and their percentage in the UK GDP to find conclusive answers to the research question III.

CHAPTER ONE

EU Emergence and Brexit

Chapter One: EU Emergence and Brexit

Introduction

In the aftermath of the Second World War, Europe was left devastated and in need to create a significant presence in global matters. They thought of unifying European states into a single political and economic integration that sought to promote peace and prevent future conflicts, recognizing that those would ultimately hinder economic growth. Winston Churchill, the prime minister of the United Kingdom (UK), was the first to initiate the “United States of Europe.” However, this idea did not materialize until Robert Shuman introduced the Shuman Plan. Over the years, the inception of the European Union (EU) has its roots in the creation of the European Coal and Steel Community (ECSC), indicating that it had existed in practical terms for more than four decades prior to the introduction of the Maastricht Treaty. The latter established the EU on November 1, 1993, with the aim of strengthening political and economic collaboration among its member states.

The EU aspired to create an alliance that would include its influential member countries, notably the UK. After many requests to join the EEC, it was only in 1973 that the UK was finally authorized to become an official member. According to some studies, the relationship between the UK and the EU was complex, which made the UK initiate the first leaving referendum in 1975 after two years of joining the bloc. As a result, this led to a "Remain" vote with around 67%. During that period, the UK-EU relationship was sometimes tense; when it comes to UK disagreements over EU regulations. Moreover, growing issues about UK sovereignty, immigration, and national borders led to increasing calls for the UK to split from the EU in 2016, finishing 47 years of membership in a referendum commonly known as “Brexit”.

Following the Brexit vote, the UK has witnessed challenges across various economic areas, particularly Foreign Direct Investment (FDI) as it is considered to be an economic engine, a source of economic growth, technological transfer, job creation, and as a key indicator of a country's attractiveness to foreign investors. The uncertainty surrounding this event led to the decline in the FDI to the UK.

This chapter gives first, an overview of the emergence of the EU as a political and economic power aimed to unite the European states under one flag, currency, and market, along with its gradual establishment. Also, it analyzes the challenges the UK faced as it sought to become a member of the EU. Moreover, it discusses the rocky relationships between both sides. Second, this chapter uncovers Brexit definition, the main reasons that led the UK to leave, followed by its consequences. Third, it reveals the definition of FDI and its types, emphasizing the impact of EU membership on FDI, followed by how far the UK's attractiveness reached to foreign investors. Overall, the chapter is centered around four main points: the EU creation, the UK involvement in the EU, the events surrounding the UK exit, Finally FDI as a growth fuel.

1.1. An Overview of the European Union

Following is a brief overview of the EU and its basis. It starts with the definition of the EU. It also highlights the three significant periods that contributed to its development; the ECSC, from the ECSC to the EEC, and the Maastricht Treaty 1993.

1.2. Definition of the EU

The EU is an international, economic, and political organization consisting of 27 member states in Europe. In the early 2000s, the EU expanded into central and eastern Europe. Additionally, the Maastricht Treaty, or the founding treaty of the EU, went into action on November 1, 1993, and sought to boost European political and economic incorporation by initiating common citizenship rights, a unified foreign and security policy, and a single currency. Moreover, the EU has worked towards partnerships in areas including asylum judicial affairs and immigration (Gabel, 2023). Moreover, in 2012, it was awarded the Nobel Peace Prize by the Nobel Committee, in recognition of its contributions and efforts in enhancing democracy, human rights, peace, and reconciliation in Europe for more than 60 years. (Parker, 2017).

Further, enhancing unity and economic collaboration among countries was represented to mitigate the presence of conflicts, particularly those experienced in the World Wars. As a result, it gave rise to the formation of the EEC in 1958, which was originally composed of six states, namely Germany, the Netherlands, Italy, France, Luxembourg, and Belgium, functioning as a starting point for what is currently known as the EU. (Parker, 2017).

However, in order for a nation to become a member of the EU, it must satisfy three requirements: political, which involves having a stable democratic institution; economic, which requires a productive economy market; and legal, which entails recognizing EU laws and its practices (Parker, 2017).

Since 1957, the EU has accomplished great things for its citizens and the globe. First, it is a continent at peace; the EU has been a significant grantor to improving peace, stability, and economic growth for more than fifty years. Besides, the EU is actively involved in diplomacy, advocating for democratic values, fundamental freedoms, and the rule of law, not only limited to its member states but also beyond its borders, aiming at advancing these advantages worldwide. Second, it has granted freedom for its citizens to live, study or work anywhere in the EU; the EU has facilitated freedom of movement for its citizens, permitting them to pursue educational, professional, and retirement opportunities in any member state. Correspondingly, all EU countries are required to grant equal treatment to EU nationals in matters pertaining to employment, social security, and taxation, affording them the same privileges as their own citizens. Therefore, it is worth noting that 17 million EU inhabitants reside or work in another EU state, based on EU statistics in 2019. Third, the EU countries form the world’s biggest single market; the primary economic engine of the EU is its single market, which facilitates the free circulation of services, capital, goods, and individuals across much of Europe (Achievements and Benefits, n.d.).

Following WWII, European nations sought to establish agreements and treaties to promote peaceful coexistence and facilitate the development of their infrastructure. Over the course of more than 50 years, various actions and initiatives were undertaken, resulting in the foundation of the EU. These actions significantly contributed to the advancement and success of the Union as an economic and political force that occupies a distinct position in the global community.

1.2.1. The European Coal and Steel Community (ECSC)

In 1946, during a speech at the University of Zurich, British Prime Minister Winston Churchill introduced the concept of the European dilemma. According to European Commission (n.d.), he called for the formation of a "United States of Europe" to overcome the longstanding animosity and conflict that had resulted in countless casualties across the continent. Churchill envisioned a new Europe characterized by justice, freedom, homogeneity, and safety, in which its member states would function as a unified group. As a first step towards achieving this goal, Churchill proposed the creation of a Council of Europe, which was established on 5 May 1949 following the Congress of Europe attended by 800 delegates from across the continent. In his speech, Churchill emphasized that only through the establishment of a "United States of Europe" would it be possible for hundreds of millions of people to reclaim the simple joys and hopes that give meaning to life (European Commission, n.d.).

The process of European collaboration commenced with the proposal of the ECSC by Robert Schuman, the French Foreign Affairs Prime Minister. The original members of the ECSC were France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. Additionally, the main objective of this integration was to merge French and German coal and steel resources into a new organization, which would be open to other European nations. The ECSC represented a significant milestone to pave the way for future ties between European countries. In summary, the inception of the ECSC, as proposed by Schuman and crafted by Monnet, constituted a crucial early step towards European integration (The Editors of Encyclopedia Britannica, 2023).

Jean Monnet developed a brilliant strategy to foster the economies of France and Germany while encouraging collaboration among them. While the French Prime Minister, Robert Schuman, provided political support to the plan, financial assistance was provided by the United States. Building on the success of the ECSC, the European Defense Community (EDC) was a subsequent plan that aimed to create a European army and unify the defense capabilities of European countries. The EDC plan was proposed in 1950 but ultimately failed to be ratified by the French National Assembly in 1954 (The Editors of Encyclopedia Britannica, 2023).

1.2.2. From ECSC to EEC

Following the failure of EDC, Europe embarked on a search for new means of integration to promote its goals. In this regard, representatives of the six nations convened in Rome, Italy, to deliberate on the future integration of Europe. The meeting resulted in the creation of two communities: the European Atomic Energy Community (EAEC) and the European Economic Community (EEC). Although the European Defense Community was unsuccessful, the EEC proved to be a significant accomplishment as it established a common market for European countries and strengthened their relationships. On the other hand, the main objective of the EAEC was to expedite the growth of nuclear industries. Eventually, in 1967, the ECSC, EEC, and EAEC merged to form the European Community (EC) (Gabel, 2023).

1.2.3. The Maastricht Treaty 1993

The Maastricht Treaty, approved in 1993, facilitated the formation of the EU as it was built upon three fundamental pillars, the European Communities, the common foreign and security policy, and enhanced cooperation in domestic affairs and justice. The treaty conferred more powers to the European Community, which replaced the European Economic Community (EEC) as the primary component of the EU. As to Gabel (2023), it granted the EC extended authority, including formal control over community policies in development, education, public health, and consumer protection areas. It also increased its role in environmental protection, social and economic cohesion, and technological research. The treaty also established EU citizenship, entitling EU citizens to the right to participate in local and European Parliament elections in their country of residence, regardless of their national citizenship. While the treaty encountered opposition in some countries, it was ultimately approved with revisions and became effective on November 1, 1993 (Gabel, 2023).

Moreover, the primary objective of the Maastricht Treaty was to promote economic and political integration among the European states while establishing international organizations to facilitate commercial exchanges and transactions between the twelve member states. Furthermore, the treaty aimed at establishing a system of shared sovereignty to enable the member states of the Union collaborate and exercise joint decision-making powers. Although the name of the Union may change, it consistently denotes cooperation and mutual sovereignty (Moltke, 1995).

1.3. The UK Applications to Join the EEC

In the 1960s, the EEC was formed with six member countries, including Germany, France, Italy, Belgium, the Netherlands, and Luxembourg. The EEC aimed to promote economic cooperation among member states by creating a common market, removing trade barriers, and harmonizing regulations.

Britain, which had previously stayed out of the EEC, applied for membership in 1961 under the Conservative Government of Harold Macmillan. The British government saw the EEC as an opportunity to strengthen its economic ties with Europe and increase trade. However, French President

Charles de Gaulle, vetoed Britain's application. De Gaulle saw British membership as a threat to France's leadership role within Europe and was concerned that Britain's close ties with the United States would dilute Europe's sovereignty (UK in a Changing Europe, 2020).

The British government tried again in 1967 to join the EEC, but its application was rejected. Another attempt was made in 1969, but de Gaulle again vetoed the application. This time, he argued that Britain did not share the same commitment to European integration as the other member states, and he accused Britain of having a "deep-seated hostility" towards the EEC (Drake, 2010).

In this framework, De Gaulle's veto was a significant blow to Britain's aspirations for European integration. It delayed Britain's entry into the EEC for another decade until 1973, when a new French president, Georges Pompidou, supported Britain's application. Britain's entry into the EEC alongside Denmark and Ireland had a profound impact on the country's economy, politics, and society. It transformed its relationship with Europe and paved the way for closer European integration in the decades that followed (UK Parliament, 2013).

1.4. The United Kingdom Rocky Relationship with the EU

The UK has always had a troubled relationship with EU member states. Over time, the Member States of the European Community sought to improve integration and solidarity by implementing various treaties and agreements. However, the UK rejected some of the suggested policies that were aimed to promote progress and development within the Union and departed from the EC. One of these policies was the creation of the European Monetary System (EMS). The latter aimed at introducing a single currency to facilitate trade and movement between EU member countries, remove exchange rate barriers, and guarantee economic growth. The UK did not support this initiative, which could impede the steady advancement of cooperation among the member countries. Although Britain eventually joined the EMS in 1990, it left in 1992 as its currency devaluated significantly.

During Margaret Thatcher's conservative government, Great Britain faced several challenges, including an industrial crisis, the declining importance of coal, conflict in Northern Ireland, Falklands War, strikes, and tension within the EC. The British government viewed these hardships as a result of agricultural and financial issues. Thus, and since Thatcher's approach was characterized by strength and determination, it demanded reimbursement through Prime Minister Thatcher outburst, "I want my money back!" (Pilotto, 2012, p. 4) in the form of the British Rebate, as Great Britain was a net contributor to the EEC. The rebate was a success for Thatcher and has continued to be upheld by subsequent governments. Great Britain received a yearly reimbursement from the EU and contributed to the Union budget with 14.82% of the total (Pilotto, 2012).

However, this fact has not maintained a love for the EU among a significant percentage of the British population. In contrast, the UK once again introduced its refusal to another agreement within the bloc. It refused to participate in the Schengen Convention and waivered membership in the Schengen Area, citing the need to safeguard its security and its relations with other Anglo-Saxon nations through the exclusive oversight of the British Parliament. This decision could potentially have adverse consequences for Britain, particularly concerning the advantages associated with the unrestricted movement of individuals, such as tourism. To put it differently, the UK's decision to opt out of Schengen could have detrimental implications on its tourism industry, despite the country's rationale for prioritizing its national security and autonomy. Pilotto (2012) added that the EU's introduction of the single currency, the euro, aimed to enhance integration and cooperation among its member states and facilitate currency exchanges. However, despite this initiative, the UK, under the leadership of Prime Minister John Major, declined to adopt the euro as its new currency. Although Prime Minister Tony Blair expressed interest in adopting the euro during his tenure from 1997 to 2007, this plan never materialized. The decision was attributed to the lack of support from the majority of the British population, and subsequent Prime Ministers Gordon Brown and David Cameron also made no efforts to pursue the adoption of the euro during their terms in office.

In a nutshell, the relationship between the UK and the EU has been complex for many years. The UK joined the European Economic Community (EEC) in 1973, but tensions between the two sides began to emerge almost immediately. Moreover, these tensions eventually led to the UK's decision to exit the EU in a referendum held in June 2016, a process commonly known as "Brexit."

1.5. The United Kingdom Withdrawal from the EU

The relationship between the UK and the EU has been characterized by equivocation since the inception of the EU bloc. After many disagreements, the UK decisively decided to cast off its 47 years-old membership through a referendum known as Brexit, supported by the country's population. This outcome resulted in shock and uncertainty for many European nations.

Table 1.1. United Kingdom European Union Membership Referendum 2016

Decision	Voters	Percentage %
Leave	17,1.5410,742	51.89%
Remain	16,141,241	48.11%
Total votes	33,577,342	100%

Note. Adapted from *United Kingdom European Union Membership Referendum 2016,* by the Electoral Commission 2019, Sep 25 (https://www.electoralcommission.org.uk/who-we-are-and-what-we-do/elections-and-referendums/past-elections-and-referendums/eu-referendum/results-and-turnout-eu-referendum).

The referendum held in the UK posed the question of whether the country should remain or leave the bloc. It brought about 51.9% votes to leave the EU, while 48.1% votes to remain.

Additionally, this result was considered a defeat by the then-Prime Minister David Cameron, who resigned from his position. Later, in March 2017, the new Prime Minister, Theresa May, commenced the process of leaving the EU by invoking Article 50 of the Treaty on the European Union, which officially initiated the negotiations for Brexit.

1.6. What is Brexit?

In 2012, the term “Brexit” was first coined by Peter Wilding. It is a portmanteau word, that is to say, it is a mixture of two words (Britain Exit). He suggested this name to refer to the UK divorce from the EU. The term "Brexit" is a shortened form of "British exit" and is similar to "Grexit," which referred to Greece leaving the Eurozone. “Brexit" particularly refers to the departure of the UK from the EU. On June 23 2016, a referendum was held to decide whether the country should remain a member of the EU or not (Vikram, 2021).

1.7. Causes of Brexit

The withdrawal of the UK from the EU was a significant event, with a percentage of 52%, sending a shockwave through Europe. According to Day (2018), topics such as immigration and economic independence were important and acute reasons for the” Vote Leave” campaign to inject fear and Eurosceptic thoughts into the minds of voters. However, others focus on preserving national sovereignty as a primary motivation to leave. In this regard, Ipsos MORI, a leading survey company in Britain, and Lord Ashcroft’s polling team identified four main reasons for Brexit based on their polls.

1.7.1. Sovereignty

According to Paul (2019), the most effective slogan that supporters of the “leave” campaign adopted was “take back control”. Hence, this phrase advocated regaining authority over monies, borders, and laws (Paul, 2019). Additionally, Lord Ashcroft’s polling team found that on the day of the referendum, 49% of those who supported Brexit believed that the most significant reason for leaving the EU was the principle of self-governance. They saw that the UK should be solely responsible for making decisions that affect its citizens and opposed external control. Brexit supporters were convinced that leaving the EU would grant the UK greater power over its healthcare, security, and employment laws and allow the country to exercise greater control over its rules, even if they were at odds with EU laws (Lord Ashcroft, 2016).

Generally, the Brits believed that by exiting the EU (Brexit), they would regain control over their laws and be free from the influence of EU laws. Also, they believed that this would allow them to hold more authority over issues such as healthcare, security, and employment laws. Additionally, they expected that the UK parliament would have more power to implement laws that were beneficial to the British people, even if they conflicted with EU regulations.

1.7.2. Immigration

Immigration was a major issue in the Brexit vote and one of the main reasons many Brits voted to leave the EU. Moreover, there have been several concerns about immigration, such as the perceived impact on jobs, wages, public services, and cultural identity. In this context, proponents of the Leave campaign contended that a significant influx of immigrants to the UK would result in a high unemployment rate, a decline in wages, and insufficient access to public services for British residents (Day, 2018).

According to Lord Ashcroft's (2016) polling team, 33% of Brexiteers believed that leaving the EU could result in immigration reduction. In other words, the influx of migrants from Central and Eastern Europe (CEE) and Southern Europe had a notable effect on the Brexit vote, particularly in areas that had seen a recent surge in immigration. In contrast, places like London and major cities with established immigrant communities were more accepting of immigration and voted to remain in the

EU. The fear of potential immigration also influenced the Leave vote in areas with little historical or current immigration (Riley,2016).

1.7.3. Fear of Terrorism

Ipsos MORI conducted a poll in 2016 and found that around 37% voted in favor of leaving the EU. They believed that there was a significant connection between immigration and the rise of terrorism. Furthermore, they argued that this belief may be attributed to the emergence of the extremist groups such as ISIS (Burke, 2016).

Moreover, it was thought that the rise in terrorist attacks in certain European countries, such as the 2005 bombings on London public transport system and the 2015 Charlie Hebdo’s attack in France, led some in Britain to believe that Brexit would mitigate such threats. The belief was that Brexit would allow for greater control over the borders, what would prevent terrorists from entering the UK. Dominic Raab, a leader of the Leave campaign, held the view that leaving the EU would serve as a deterrent against future terrorist attacks (Burke, 2016).

1.7.4. Economic Independence

According to Ipsos MORI poll (2016), 32% believed that the economic conditions within the EU’s common market failed to meet the UK requirements. Moreover, it was argued that the British market would foster if the UK departed from the EU restrictions. Despite the undeniable benefits of the UK from the free trade area that exits between EU member states. Some Brexiteers contended that the UK's membership in the EU was holding it back economically. They claimed that the EU’s trade policies were excessively burdensome and that the UK could achieve more favorable trade agreements with other countries if it were not bound with the bloc’s regulations.

1.8. Economic Consequences

Although the decision was agreed on by the majority of the British people to end the issues that Britain faced, things would not go as expected. Brexit alone would not resolve these problems, and instead would bring about a new set of challenges for the nation to overcome.

Indeed, Brexit hindered the UK economy, starting with an immediate depreciation of the British pound as it has lost approximately a fifth (19%) of its value since the EU referendum. As a result, it made its imports expensive and increased inflation. In addition, the departure from the EU's single market and customs union was formally achieved on December 24, 2020, which made both EU and UK reconsider their trade relationships by ratifying a free trade deal known as the Trade and Cooperation Agreement (TCA), that came into effect the following year. This deal urged to eliminate tariffs on many products. Furthermore, the agreement also introduced several non-tariff barriers, such as customs checks, import duties, and health inspections for plant and animal products (Ziady,2022).

According to the London School of Economics (LSE) researchers, there has been a decline of 30% in the range of UK products exported to the EU during the initial year of the referendum. They attributed this decrease to the withdrawal of small exporters from small EU markets (cited in Ziady,2022).

Following the UK's withdrawal from the EU, there was a notable departure of around 20.000 EU residents from the country. As a result, the UK encountered a shortage of labor in multiple sectors, including hospitality, retail, and goods transportation. Moreover, due to the inappropriate immigration status, EU drivers were unable to operate fuel tankers in the UK, eventually leading to another shortage of fuel in October of 2021 (Consequences of Brexit, n.d.).

Finally, following Brexit in January 2020 with a basic trade deal, specialists were hopeful that UK's poor performance could be attributed to covid-19 and would therefore diminish after a while. Similarly, they argued that any disturbance related to the recent trade barriers would be temporary as traders adapted to conditions. Nevertheless, the current evidence indicates that it has caused negative consequences (The Economist, 2023).

1.9. The Literature of the Effects of Brexit on the UK Economy

The UK has forfeited the benefits of EU membership after choosing to withdraw from the bloc, such as its access to the single market. According to analysts and experts, this decision is expected to have short-term and long-term effects on the UK economy. As commonly recognized, Brexit represents a significant shift in the economic relationship between the UK and the EU and between the UK and other countries outside the EU.

Numerous academic studies have been conducted on Brexit, focusing on its multifaceted impacts from various perspectives. These studies revealed a negative correlation between Brexit and the country economic performance.

Dhingra and Sampson (2019) focused on the depreciation of sterling value by over 10% right after the referendum in 2016. However, this decline in value caused an increase in imports and business costs, along with overall inflation leading to a negative effect on exports, wages, and the competitiveness of the UK economy. In addition, an analysis conducted by The Resolution Foundation determined that this drop caused a decline in wages by 2.9%, resulting in an average annual loss of £870 per household. The same findings were reported by (Costa et al. 2019; Giles, 2022).

Another research suggested that Brexit-related uncertainty has hurt the investment in terms of inward and outward flows and productivity growth of firms in the UK. According to the data, Bloom et al. (2019) estimated that uncertainty surrounding Brexit reached an 11% decrease in business investment over the three years following the referendum. Yet, it is unclear whether this decline is attributed to an increased uncertainty or to a reduction in openness. Further, this finding is consistent with the overall trend of weak investment growth since the referendum, which is concerned with future growth prospects.

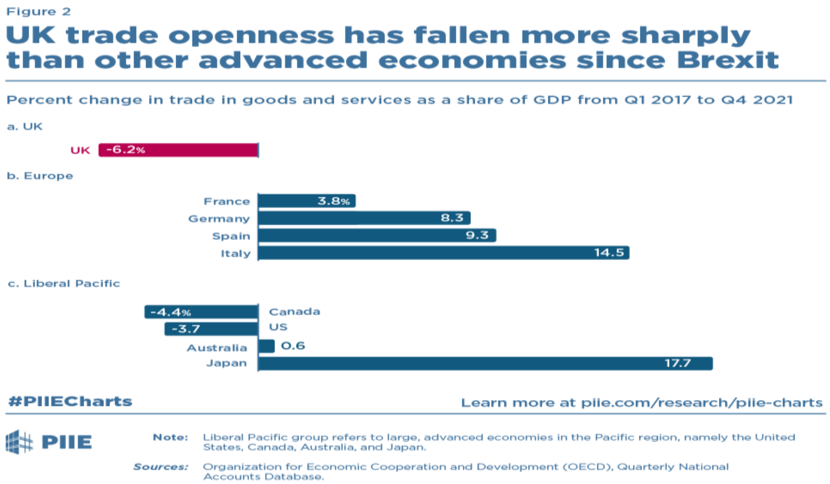
On the other hand, Alekseeva (2020) investigated the uncertainty surrounding Brexit as an unprecedented event. The author found that uncertainty is the core aspect behind its impact on the economic situation and trade relations between the UK and the EU. Moreover, its impact is already being felt in the UK, with a 3% loss to its GDP by 2020, as noted in research by the Organization for Economic Cooperation and Development (OECD). This uncertainty can be traced back to the 2016 referendum vote for Brexit and the subsequent potential scenarios that may follow. Despite the formal departure in 2020 and the beginning of the transitional period, the future of the UK-EU economic and trade relationships remains ambiguous, with no clear indications of what lies ahead.

De Lyon and Dhingra (2021) focused on the significant impact of Brexit on UK trade, specifically as most trade deals entail the exchange of goods used in production. Furthermore, Brexit has increased barriers costs as a result of higher input costs for firms, making them inefficient. The study shows that approximately one-third of companies reported that Brexit affects their prices. Also, their research reveals that employees in industries that are more susceptible to increased input costs have suffered a decrease in their wages and declined training chances. A fall in exports and imports from the EU is also stated by the sample companies of the study.

Peterson Institute for International Economics (PIIE) (2022) summarized the effects of Brexit on the UK trade, economy along with other indicators in graphs. UK trade, for example, is recovering from the shock of the pandemic much more slowly than its peers in Europe and the Pacific region.

Figure 1.1.

UK trade openness has fallen more sharply than other advanced economies since Brexit.



Note. Adopted from UK trade openness has fallen more sharply than other advanced economies since Brexit, by S. Posen, 2022, April 27 (https://www.piie.com/research/piie-charts/uk-and-global-economy-after brexit#:~:text=Before%20Brexit%2C%20the%20UK%20was,sample%20for%20FDI%20and%20immigration).

In the context of Algerian universities, some studies were carried out on the topic to investigate the impact of Brexit on the UK economy. Berki (2018) and Houma and Kalache (2020), for example, concluded that the economic sector, especially trade, would be highly impacted by Brexit.

Conclusion

In conclusion, this chapter started by defining some theoretical concepts related to this study to gain the reader's comprehension. Additionally, the UK first struggled to join the EEC after being rejected twice by the French president Charles de Gaulle. Ultimately the UK won its accession after Charles de Gaulle's resignation in 1973. Thus, the EU-UK relationship witnessed a complexity over several decades. Consequently, a referendum known as "Brexit" was held in 2016 to negotiate the UK's exit from the bloc, entering into two years of negotiations. Also, this study discusses the crucial reasons that made the UK reconsider its membership in the EU, leading to an official withdrawal from it.

CHAPTER TWO

Foreign Direct Investment in UK

Chapter Two: Foreign Direct Investment in UK

Introduction

Foreign Direct Investment (FDI) has been an essential catalyst of the UK economic growth and development for decades. It is important to note that the UK's accession to the EU market has positively affected the FDI flows by attracting a higher number of enterprises and helped to establish an open and efficient international economic system. However, before the Brexit era, the UK was widely regarded as one of the most attractive destinations for foreign investment due to its large market size, stable political environment, skilled workforce, and competitive tax regime.

The present chapter focuses on examining the FDI in the pre-Brexit era, going through fundamental points. Firstly, it defines the concept of FDI and its different types, measurements of FDI in the UK, followed by the definition of the concepts of inward and outward and its effect on the UK's economy. It discussed the distribution of FDI within the country. The effect of EU membership in attracting foreign investors was also examined. Additionally, the chapter highlights the factors behind the UK being an attractive destination for FDI, exploring the various factors that make the country an appealing option for foreign investors. By examining these points, the chapter seeks to provide a comprehensive understanding of FDI and its impact on the UK economy.

2.1. Definition of FDI

FDI refers to cross-border investments from one country into another, aiming at establishing a lasting interest in an enterprise where the investor's objective is to have an effective voice in the management of the enterprise. For FDI statistics, an effective voice means a 10% or more ownership of the equity share capital of the project as suggested by IMF. Inward FDI in the context of the UK refers to investments made by foreign investors in a UK-based affiliate enterprise, such as a subsidiary or an associate, or a branch of a non-UK parent company or head office (Department for International Trade [DIT], 2021).

According to Dhingra et al. (2016), FDI is a form of investment made by a foreign entity, such as a company or individual, into another country. This investment can take several forms, including starting-up new businesses, expanding existing businesses, or acquiring local companies. Additionally, the Office for National Statistics (ONS) (2023) states that FDI can be measured in two directions: outward and inward. The former refers to UK-based companies investing in businesses located in other countries. The latter, on the other hand, refers to foreign companies investing in UK-based businesses.

2.2. Types of FDI

According to the DIT (2021), FDI is divided into three main types. First, New investment projects, also called “greenfield” investments, involve a foreign investor establishing a new business entity in a host country. This typically implies building new facilities, such as offices or production plants, and making new capital expenditures to get the business up and running. Moreover, this type of investment can bring several benefits to the host country, including increased capital formation, job creation, and economic growth. These benefits arise from the new investments that the foreign investor makes, which can stimulate demand for goods and services, increase productivity, and create new employment opportunities. As reported by Calimanu (2022) greenfield projects inward in the UK is estimated to $36 billion and their outward to $34 billion in 2020. UNCTAD in its latest data compared the number of greenfield investments number and their value in 2019, 2020 and 2021 showing that despite the decrease in their number, their value raised.

Table 2.1.

Number of Greenfield Investments and Value (in Million USD)

FDI	2019	2020	2021
Number of greenfield investments	1.537	1.023	1.073
Value of greenfield investments (million USD)	36.078	39.189	44.476

Note. The table provided by UNCTAD include a set of variables. For convenience, the researchers extract those related to greenfield investment. (Cited in Banco Santander, 2023) (https://santandertrade.com/en/portal/establish-overseas/united/kingdom/foreign-investment).

Mergers and Acquisitions (M & As) are a common form of FDI made by foreign investors to enter or expand their presence in the UK market. In a merger, two or more companies agree to merge into a new single entity, whereas, in an acquisition, one company purchases the existing assets and liabilities of another company. M&As can provide various advantages to both the acquiring and target companies. For the acquiring company, an M&A can allow access to new markets, customers, and technologies, along with the opportunity to accomplish economies of scale and scope. On the other hand, for the target company, an M&A can permit new sources of capital, expertise, and markets and helps boost operational efficiency (DIT, 2021). As for research FDI report, M&A activity inward is estimated to $38 billion and outward to $73 billion in 2020 (Calimanu, 2022).

The third form of FDI is Expansion investment projects or joint venture. The latter requires an existing FDI to make further investments to enlarge the production or operational facilities of existing enterprises in the UK. According to World Bank Metadata Glossary (2023), in joint venture the FDI enters into a partnership with an entity abroad to create a new business. Moreover, by undertaking expansion enterprises, companies seek to extend their business and develop their competitive position in the market (DIT, 2021; World Bank, 2023).

2.3. Indicators Employed for Measuring FDI in UK

FDI has three components: a) equity capital, b) reinvested earnings, and c) intra-company loans. The first is defined by UNCTAD in its world Investment Report (2007) as "the foreign direct investor's purchase of shares of an enterprise in a country other than its own" (World Investment Report, 2007, p. 245). Reinvested earnings include those of the direct investor that are not distributed as dividends by affiliates or which are not returned to him. Affiliates reinvest this residual profit. The third component refers to borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises (World Investment Report, 2007).

FDI is a significant component of the UK economy, as it entails foreign investors making long-terms investments in the country. The main source of the UK FDI data is the annual FDI survey and the Bank of England for all monetary financial institutions (ONS, 2023). Such data is employed then by national and international organizations and institutions, such as World Bank, UNCTAD, IMF… The data provided is concerned with various indicators. Generally, there are four major indicators for measuring FDI in the UK; inward FDI stock, inward FDI flow, FDI inflow of GDP, and FDI inflow of the Balance of Payments (BoP).

a) Inward FDI stock indicates the total financial value of FDI in UK within a limited time frame, it includes the following components:

- Foreign companies' share capital and reserves.
- Net amount due to foreign parents on the inter-company account.
- Net amount due to foreign parents on the branch head-office account.

b) Inward FDI flows represent the total amount of net direct investment made by foreign investors into the UK during a specific reference period, it consists of several components:

- Acquisitions or disposals of equity capital.
- Re-invested earnings.
- Inter-company debt and other capital.

c) FDI inflow of GDP includes the rate of FDI inward flow in the GDP of the country, i.e., its contribution to the economic growth.

d) FDI inflow in BoP includes: BoP shows the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital. All of which indicates total net FDI. In BoP, financial account balances are calculated as the change in FDI outflows (assets) minus the change in FDI inflows (liabilities). Data on BoP is reported by IMF (DIT, 2021; World Bank, 2023). Net decreases of outflow or net increases in inflow are recorded as credits, whereas net increases in outflow or net decreases in inflow are recorded as debits. The former signed positively in BoP while the latter is signed negatively (World Investment Report, 2007)

The same measures are followed to calculate and provide statistics on FDI abroad using outward FDI stock, FDI outflow, FDI outflow of GDP, and FDI outflow of BoP.

According to UNCTAD's report in 2020, the UK held the largest amount of FDI stock in Europe and ranked second globally after the US. Europe continued to be the major generator of inward FDI stock in the UK, accounting for 56% of the total. However, as reported by ONS (2019), the USA held the largest share of inward FDI in the UK, at an individual country level, making up nearly 24.5% in 2019 (cited in DIT, 2021).

2.4. FDI Inflows and Outflows in the UK

FDI net inflows are defined by World Bank (n.d) as "the value of inward direct investment made by non-resident investors in the reporting economy," the UK in this research. All liabilities and assets transferred between the resident direct investment undertakings and its direct investors are referred to as inward direct investments or FDI in the reporting economy. It also includes all deals and transactions between resident and non-resident fellow companies when the ultimate controlling parent is non-resident.

FDI net outflows are "the value of outward direct investment made by the residents of the reporting economy to external economies." (World Bank, n.d) Assets and liabilities transferred between resident direct investors to their direct investment enterprises are part of outward direct investments or FDI abroad. Also, deals and transactions between resident and nonresident fellow companies are included under FDI abroad if the ultimate controlling parent is resident.

It is significant at this phase to refer to both UK FDI inflows and outflows to have a clear view of the value of FDI into the UK and the value invested abroad. Regardless causes of the increase or decrease of both values, it is worth comparing both inward and outward to recognize which FDI is generally higher. Comparative data is given by Clark (2022) for Statista regarding the value of FDI outward and inward flows in the UK from 2005 to 2021 in a line graph showing the values in a million US dollars for both. The graph is summarized in the table that follows.

Table 2.2.

Value of FDI outward and inward flows in the UK from 2005 to 2021

Years	**FDI outflow (in million U.S dollars)**	**FDI inflow (in million U.S dollars)**
2005	88.544	182.894
2006	81.113	147.396
2007	335.934	176.864
2008	197.411	91.796
2009	28.993	89.796
2010	48.075	58.180
2011	95.578	42.196

2012	20.767	55.626
2013	40.483	51.673
2014	- 151.368	24.704
2015	- 66.827	39.189
2016	- 37.587	258.570
2017	142.443	96.401
2018	82.934	87.818
2019	11.715	53.908
2020	- 78.170	58.908
2021	85.963	23.088

Note. Adapted from *Value of FDI outward and inward flows in the UK from 2005 to 2021*, by Clark, 2022, Nov 21 (https://www.statista.com/statistics/935245/uk-fdi-flows/).

According to the values given by Clark (2022), total FDI flows in the UK were $2.464.326 million from 2005 to 2021. FDI inward flows value is $1.538.316 million, and the outflows value is $926.01 million, with a difference of $612.306 million.

As for the data, the FDI outward and inward flows in the UK were in continuous fluctuation, witnessing ups and downs. In the first two years, 2005 and 2006, the inflows were higher and surpassed the outflows by $94.35 million and $66.83 million, respectively. Surprisingly, FDI outwards value boosted in 2007 to exceed inflows with $159.07 million, and despite the decrease in 2008, the outflows kept higher than the inflows with $105.613 million. With the severe decline of the outwards value, in 2009, the FDI inwards value exceeded the outwards by $60.863 million. It remained exceeding the following year, in spite of the increase of outflows and decrease of inflows in comparison with 2009, with only $10.105 million. As the outwards value increased and the inflows decreased in 2011, the former outdid with $53.382 million. Again, outflows declined in 2012, and the inflows surpassed with $34.859 million. The latter kept exceeding, for five years from 2012 to 2016, with the outwards witnessing extremely low values in 2014, 2015, and 2016. With the high rise in the outflows in 2017, after three years of severe decrease and the decline in the inflows, the former surpassed with $46. 042 million. The following three years, 2018, 2019, and 2020, witnessed an excess of inflows with only $4.875 million, $42.193 million, and $133,43 million, respectively. Most recently, in 2021, the outflows highly boosted and outdid with $62.875 million.

Overall, foreign companies investing in the UK generate higher flows in comparison with UK companies investing abroad, arguing the UK being a valuable destination for FDI.

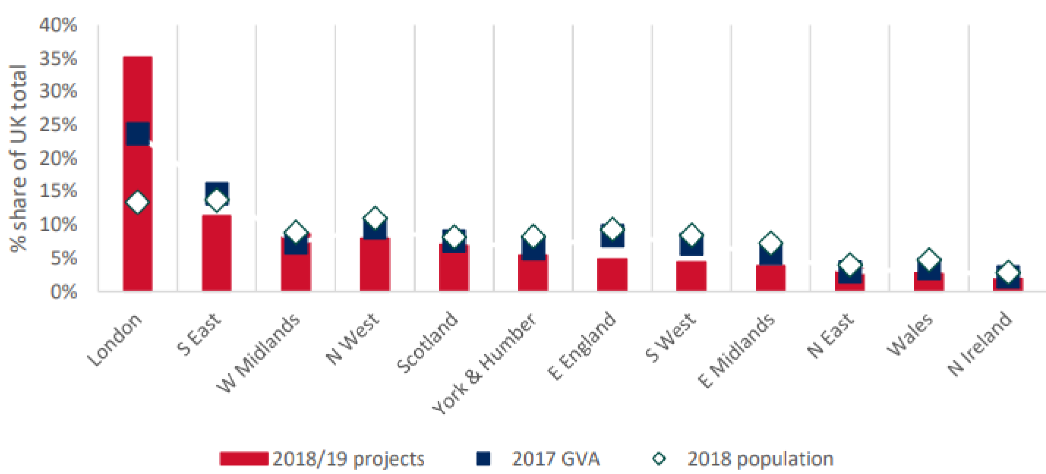
2.5. Distribution of FDI in the UK

2.5.1. The contributions of Foreign Multinationals to UK Regions

Examining FDI distribution at the subnational level is essential for gaining a comprehensive understanding of its real influence in terms of its economic growth, employment, and productivity. Nevertheless, FDI impact varies across different regions within a country.

Figure 2.1.

Spatial Distribution of FDI in UK.



Note. Reprinted from "*Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services*", by J. M. Anuj, et al, 2021, March 5, Department for International Trade, p.

11 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/ 966936 /Understanding-FDI-and-its-impact-in-the-United_Kingdom-for-DIT_s-investment-promotion-activities-and-services-phase-2-analytical-report.pdf).

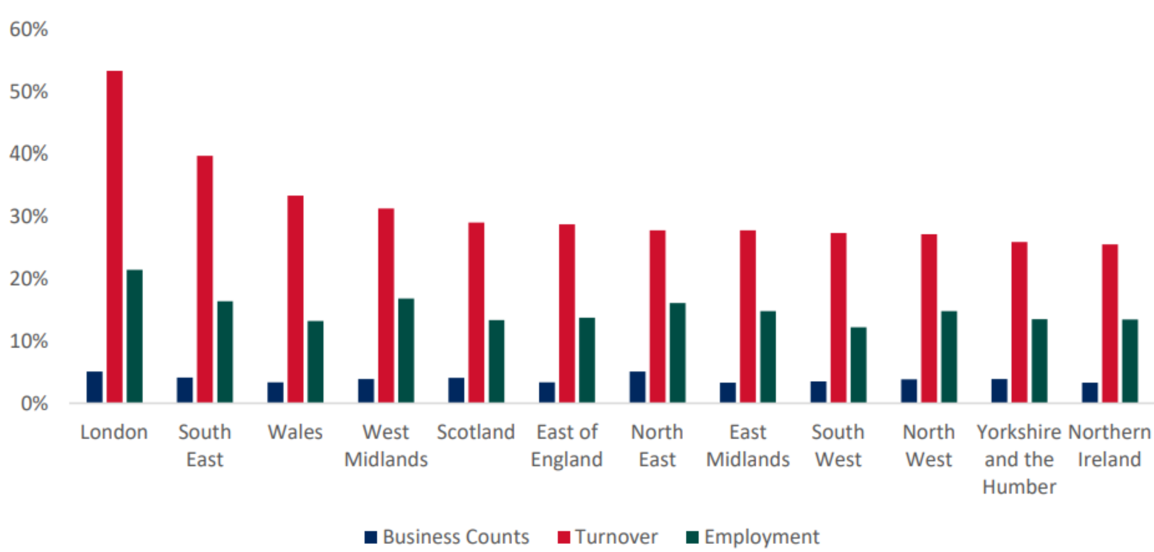
Figure 2.1. shows that London emerged as the dominant recipient of FDI in 2018-19 in the UK, attracting a portion of 35% of all FDI projects, followed by the Southeast region with 11%, while Northern Ireland and Wales received the lowest shares of FDI projects by 2% and 3%. Also, it is worth noting that London stood out as the largest share of the UK population (13%), and economic activity (24%).

2.5.2. Breakdown into Twelve Regions (NUTS1)

The importance of foreign multinational contributions cannot be underestimated to the UK economy. In 2018, only 4% of local business units were foreign-owned. Their contributions accounted for approximately 40% of the country's turnover employing 4.9 million individuals. Moreover, this contribution can be traced in all UK regions, as seen in Figure 2.2. In each of the twelve regions, they contributed to local employment ranging from 12% to 21%.

Figure 2.2.

Foreign-owned Multi-national Enterprise (MNE) activity as a percentage of total activity by region, 2018 From DIT analysis of the ONS Business Structural Database (cited in DIT, 2021).



Note. Reprinted from "Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services", by J. M. Anuj, et al, 2021, March 5, Department for International Trade, p. 12 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966936/Understanding-FDI-and-its-impact-in-the-United_Kingdom-for-DIT_s-investment-promotion-activities-and-services-phase-2-analytical-report.pdf).

When analyzing the data on business counts, turnover, and employment, we observe changes in patterns regarding the presence and the impact of foreign-owned MNE in different regions of the UK.

In terms of business counts, both London and the North East had the largest shares of domestic business units that were foreign-owned, accounting for 5%. However, when considering turnover, it is evident that the latter is considerably larger than business counts, as most of the turnover was generated in London at 53%, followed by South East with 12%, and Wales with 13%. In regard to employment, London had the highest proportion with 21%, followed by the West Midlands with 17%, and South East with 16%.

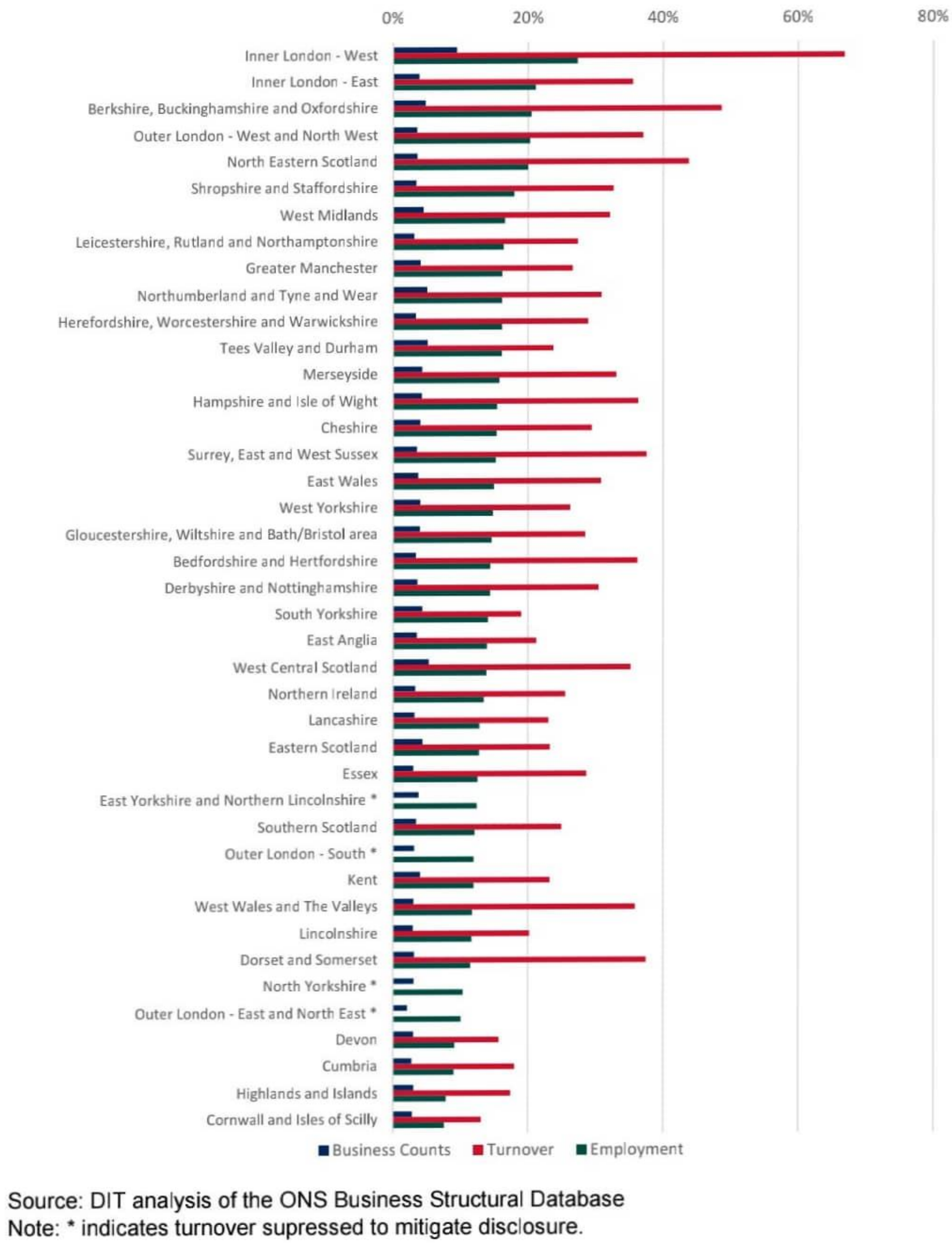
2.5.3. Breakdown into Forty-Two Regions

As previously mentioned, breaking down the UK into 12 regions can obscure variations in the activities of foreign-owned MNEs. Conversely, analyzing their contributions across 42 regions of the country reveals further variations in enhancing regional economies. In terms of employment, foreign multinationals participate with 20% within five regions.

Inner London West has the highest proportion of local business units owned by foreign MNEs with over 9%, regarding business counts. Also, it has the largest proportion of turnover contributed by MNEs, accounting 67%. In addition, it ranked the first in business employment capturing 27% of employment. While other regions received less share comparing to inner London West in all the business categories.

Figure 2.3.

Foreign-Owned MNE Activity as a Percentage of Total Activity by Region (NUTS2), 2018.



Note. Reprinted from "Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services", by J. M. Anuj, et al, 2021, March 5, Department for International Trade, p. 46 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/ 966936

/Understanding-FDI-and-its-impact-in-the-United_Kingdom-for-DIT_s-investment-promotion-activities-and-services-phase-2-analytical-report.pdf).

A report prepared for Research FDI by Calimanu (2022) gives further division of FDI projects across the UK, focusing on the number of FDI projects and new jobs in each reported region.

Figure 2.4.

Global investment across the UK. From Calimanu (2022*)*

Note. Adapted from Global investment across the UK. From Calimanu, by Stefan Calimanu 2022, April 13 (https://researchfdi.com/resources/articles/uk-fdi-2020-report/).

The figure shows the competitiveness of the UK as an investment destination despite the challenging circumstances brought about by the COVID-19 pandemic. As we observe, London receives the highest share enterprises accounted by 492 FDI projects leading to the creation of 13.832 new jobs, followed by Southern England, Northern England, Midlands, Scotland, Wales, and Norther Ireland, respectively (Calimanu, 2022).

According to ONS (2022), London successfully continued to preserve its position as desirable investment destination. Together, London and South East regions accounted for £1,114.4 billion of inward FDI in the UK, representing a total of 57.8%. In terms of outward FDI, they accounted for £1,037.3 billion, making up a total of 62.5% in 2020 (ONS, 2022).

2.6. The Effect of FDI Flows on Economy

FDI is considered an important contributor to economic growth due to its potential to enhance productivity and innovation, create employment and lead to several other benefits. An update to FDI measuring is adopted to include an "employment-based measure of FDI" (DIT, 2021, p. 16) to estimate the impact of an increase in employment by foreign firms. As shown above, new FDI projects result in the creation of jobs. To measure the impact of FDI on the economy, the relationships between FDI and economic variables should be addressed. Economic variables include; Gross value added (GVA)_ a measure of economic output, employment, average annual wages, and apparent and labor productivity (ALP). Generally, FDI firms or firms receiving FDI tend to be more productive with access to better technology and management practices, which existing firms can benefit from through knowledge spillovers (DIT, 2021). The high productivity of FDI affects GVA, that an increase of 1% in FDI results in a sectoral increase of 0.094 % in GVA using expenditure-based measure and of 0.24% using employment-based measure (DIT, 2021).

As for economic growth, an outstanding body of research has examined the impact of FDI flows on GDP. In a study conducted by Alfaro et al. (2004), they evaluated the relationship between FDI, financial markets, and economic growth, focusing on whether countries with advanced financial systems gain greater benefits from FDI compared to other emerging countries. The study analyzed two distinct data sets comprising countries belong to the Organization for Economic Co-operation and Development (OECD) and non-OECD countries between 1975 and 1995. consequently, the findings showed that FDI considerably supports economic growth (GDP), particularly in nations with advanced financial systems (cited in Steenvoorden, 2018). Based on the research of Alfaro et al.

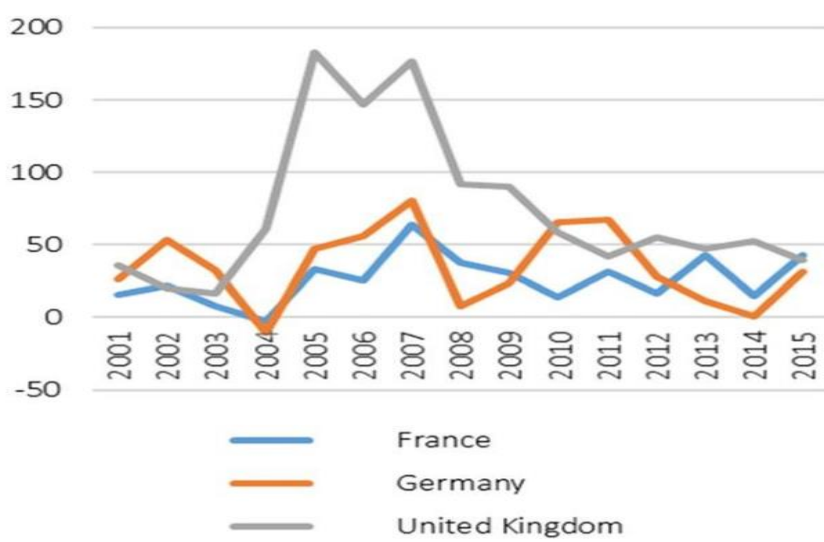
(2004), Dhingra et al. (2016) used their results to predict the potential decline in GDP in the case of Brexit, with their study approximating a 3.4% reduction over a decade.

2.7. The UK as an Attractive FDI Destination

It is undeniable that there are various factors that impact a company's decision to invest and locate in a particular country, for instance, market size, proximity to customers, legal framework, labor market flexibility, and skilled labor force. In this regard, the UK has several of these characteristics, making it an attractive location for FDI (Dhingra et al., 2016).

Figure 2.5.

FDI flows in France, Germany and the UK in 2001-2015 (in US$ Billion).



Note. Reprinted from FDI flows in France, Germany and the UK in 2001-2015 (in US$ Billion), by T. Steenvoorden, 2018 (https://thesis.eur.nl/pub/44196/Steenvoorden-T.-414172.pdf).

Figure 2.5. compares FDI flows of the three leading countries in Europe, the UK, Germany and France. It shows the UK's attractiveness to investors (cited in Steenvoorden,2018). In 2001, from 2004 to 2009, and from 2012 to 2015, the UK was the first FDI recipient in Europe.

In 2015, it reached the maximum number of FDI enterprises and vacancies in Europe. Moreover, despite a 11% decline in international FDI flows, the UK witnessed a 1.5-fold increase in FDI projects in 2014-2015. Over half of FDI projects in Europe were concentrated in three countries:

the UK, France, and Germany. Furthermore, London is considered one of the most attractive destinations for investors in the continent, with Paris following closely behind. Additionally, the UK was considered a leading country in Europe for FDI projects in terms of hospitality and retail sectors (Simionescu, 2018).

Despite the challenges posed by the Covid-19 pandemic, the UK maintained its appeal as a global investment destination. Indeed, the UK ranked second in the continent for total inflows of FDI enterprises and increased its share of the European market over that time. Moreover, the UK has achieved a high record share of FDI in the European market which is estimated at 19.6%. However, in 2020, 975 secured enterprises by the UK have decreased by 12% compared to the previous year (1109 projects in 2019). In this regard, the Covid-19 pandemic has notably affected the UK economy, as it has created uncertainty and prompted a reevaluation of investor priorities. In addition, the UK attracted USD 19.7 billion in 2020, which is an important decline of 57% compared to 2019. Despite this decline, the UK has performed better than the European average in which FDI has plummeted by 80% during the same period (Calimanu, 2022, April 13). The country maintained its status as one of the top world recipients of FDI. By the end 2020, the UK had been the fifth recipient of FDI, following the USA, the Netherlands, Luxembourg, and China (Shánchez-Muñs et al., 2021).

2.8. The Leading FDI Sectors in the UK

In 2020, the UK maintained its position as a top investor in Research and Development (R&D) in Europe, with R&D inflows rising by 12% and 62% in life sciences FDI projects. However, Financial Services, Professional, Scientific, and Technical Services; Retail and Wholesale Trade; Repair of Motor Vehicles and Motorcycles; Transportation and Storage; and Information and Communication were the most received FDI sectors in 2019. Thus, a total of 55,319 job opportunities, with the majority of them being located in London, followed by Manchester, Belfast, and Edinburgh. Moreover, the Digital Technology sector experienced the highest growth in FDI, registering a 62% boost, followed by Agri-Foods with 21%, Pharmaceuticals with 16%, and Logistics with 14% (Calimanu, 2022, April 13).

2.9. Leading Source Countries for FDI in the UK

In the same report, Calimanu (2022) stated that the US continued to be the largest contributor of foreign investment in the UK, accounting for 31% of the total enterprises, which slightly declined from 34% in 2019, but it considerably more significant and higher than the US's 22% share of the European market. Moreover, the UK has attracted one out of every four US investment enterprises in Europe, along with Germany, France, Ireland, and Japan. Despite the experienced decline post-2016, there has been a positive change in the number of projects of European origin in the UK which increased projects from 340 in 2019 to 345 in 2020. Despite the fluctuations in recent years, the UK's economy remained incorporated with Europe.

2.10. The Impact of EU Membership on FDI in the UK

EU membership has reduced trade and investment costs through several mechanisms, for example, the elimination of tariffs, customs procedures, and regulations, facilitating the flow of goods and services across borders. And it is worth mentioning that the accession to the EU's single market is thus a relevant contributor to the UK's attractiveness to investors, leading to increased FDI inflows.

Based on the available data, Dhingra et al. (2016) concluded that there is a statistically significant positive effect of being a member in the EU on inward FDI. Moreover, they evaluated that the magnitude of this effect ranges from a 14% to 38% increase in FDI. This will automatically have positive impacts on the economy of a host country like the UK. In fact, these impacts can bring *direct* benefits, including foreign firms that are more productive and pay higher wages than domestic firms, creating new jobs, access to new markets, and transfer of technologies. Besides, they also bring *indirect* benefits such as new technological and managerial know-how in foreign firms that can be adopted by domestic firms, often through multinational's supply chain, also increase competitive pressure, which forces managers to improve their performance (Harrison & Rodriguez-Clare, 2009; Dhingra et al., 2016). Accordingly, Straathof et al. (2008) found that being a member of the EU resulted in a 14% increase in inward FDI stocks compared to countries outside the EU and a rate of 28% higher when FDI came from other EU countries.

Many studies further revealed the advantages of being a member of the EU on FDI. Bruno et al. (2016) researched inward bilateral FDI and found a significant positive effect of being an EU member on inward FDI, with an average magnitude of 28% (Bruno et al., 2016). Campos and Coricelli (2015) questioned the possible consequences of Brexit on FDI. They examined a dataset covering all European countries between 1973 and 2004 since they joined the EU. They confirmed that EU membership increases FDI by 25-30%. Thus, they expected a loss in FDI after Brexit (Campos & Coricelli, 2015). For the same aim, Welfens and Bair (2018) examined a sample of 34 OECD countries between 1985 and 2012.

2.11. The Literature on the Effects of Brexit on FDI in the UK

An outstanding body of literature focused on EU membership's impact on FDI in the UK and, accordingly, proposed scenarios on the consequences of Brexit on FDI. A good example is the research conducted by BERKI (2018) that emphasized the significant positive impact of EU membership on FDI. They found that joining the EU offered access to its single market as an attractive destination to foreign investors, projects, and jobs. In favor of removing trade barriers, the cost of doing foreign business was reduced in the EU era. As a result, this led to increased UK FDI inflows, which in turn affected the EU GDP growth.

Moreover, Kalache and Houma (2020) projected FDI inward decline based on available data, stating that existing macroeconomic estimates about Brexit could result in a reduction of 22% of FDI inflows over the next decade. They further expected that there could be 3.4% decrease in real income which amounts to £ 2.200 of GDP per household. Campos and Coricelli (2015) and Welfens and Bair (2018) also expected a loss in FDI due to Brexit.

The above findings cannot be overlooked, especially the information provided on the issue of Brexit. However, due to the novelty of the phenomenon and its impact on the UK economy, these studies provided only limited results within a given time frame, as most of the reviews were conducted very soon after Brexit. They found that this phenomenon led to a depreciation of the pound sterling, a slowdown in the growth rate of GDP, and a decrease in FDI inflows. Specialists have not been sure that the reported results are attributed directly the Brexit, since it was accompanied soon by the Covid-19 pandemic, that its effects on the economy and FDI cannot be denied. As a result, the studies that we reviewed could not provide a definitive answer to the question of how Brexit has affected FDI due to the limited comment in this area. Despite these findings, the studies obtained should not be assumed to be always relevant, as new economic and political developments in the UK may have changed the situation.

As shown above, most of the research on the topic was devoted to projecting the possible impact of Brexit on FDI in the UK. Even those done in 2020 did not report proved findings because of the effects of the Covid-19 pandemic in global economy. In addition, the issue of FDI has not been addressed yet in the context of Algerian universities, as for the published articles, and dissertations. Accordingly, the researchers carry out this study to confirm or discard the projected expectations of previous studies, to find accurate findings on the effect of Brexit on FDI in the UK, and to fill in the gap in the literature in the context of Algerian universities.

Conclusion

In conclusion, FDI has played a crucial role in driving economic growth in the UK and has contributed significantly to the country's GDP. The UK has successfully attracted foreign investors due to its skilled workforce, business environment, and stable political and economic climate. Going forward, this chapter investigates the FDI in the pre-Brexit era, an overview was made about some key elements regarding: its types, measurements, inflows and outflows, and EU membership effect on FDI in UK. Finally, studying the FDI before Brexit is an essential stage in furthering this study.

CHAPTER THREE

The Impact of Brexit on FDI in UK

Chapter Three: The Impact of Brexit on FDI in UK

Introduction

After reviewing the theoretical concepts and available studies that sought to explore the impact of Brexit on FDI, it is evident that there is a need for an in-depth analysis of the available data to investigate that effect. This chapter aims to identify this impact by analyzing numerical data, including the FDI inflows rate of GDP, FDI outflows rate in GDP, FDI inflows and outflows value, and FDI inflows and outflows in BoP.

The chapter starts with a qualitative inquiry to get an in deep insight into the UK situation after Brexit, the UK losing its access to the EU single market, which involves hindering the movement of flows in and out of the UK. It depends heavily on a comparative analysis of the rates and values before and after Brexit to demonstrate any effect the latter has on the former. Visualization of data in tables and graphs facilitates analyzing and comparing the rates and values of the variables. The numerical data that the research is based on is taken from the World Bank indicators displaying a range of time from 2010 to the latest statistics given in 2021, as the World Bank launches the data every two years. In addition, the report of Clark (2022, Nov 21) to Statista is taken into account.

3.1. No Access to the EU Single Market

The EU single market refers to a free trade area where people, services, capital, and goods can move freely across the content without tariffs, barriers, or other taxes. Furthermore, this establishes a common market that enables seamless trade and investment chances.

After Brexit and the implementation of the TCA, the UK will no longer have the privileges of the EU single market and Custom's Union, resulting in hampering the free movement of services, people, and goods, as well as limiting investment opportunities between the two markets. Ultimately, reports estimated that Brexit could lead to a decline in FDI in the UK due to its departure from the EU market, which led to a reduction of the UK's attractiveness for multinational companies (MNCs) as an export platform, and the added complexity, and cost of managing supply chains between headquarters and local branches (Kaur, n.d). In addition, a professor of economics at University College London UCL (2020) said, "Over the last 20 years, the UK has been the largest recipient of inward FDI in the EU. Access to the single market and customs union has been instrumental; with entry into a larger market and the opportunity to exploit scale economies without hefty tariffs and red tape." (Campos, para. 1).

3.2. Analyzing Data Related to FDI Indicators Before and After Brexit

It is worth noting that the statistics of 2020 may be misleading to investigate the impact of Brexit on FDI since it was accompanied by the Covid-19 pandemic that led to worldwide economic decline. Accordingly, the results of the study are built upon the latest statistics of 2021 given by the World Bank (2023) and Clark (2022).

3.2.1. FDI Net Inflows Percent of the UK GDP

Table 3.1.

FDI net inflows (% of GDP) from 2010 to 2021

Year	Net of inflows (% of GDP)
2010	2.678599117
2011	1.013052041
2012	1.727453795
2013	1.955025587
2014	1.921244878
2015	1.54465681
2016	12.03163593
2017	4.671642556
2018	-0.870753912
2019	0.692697277
2020	4.898158179
2021	0.189126104

Note. Reprinted from *FDI net inflows (% of GDP) from 2010 to 2021*, the World Bank 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

3.2.1.1. From 2010 to 2015

According to the rates given by the World Bank (2023), FDI net inflow percentages of the UK GDP from 2010 to 2015 are approximants to some extent, with the highest in 2010 at about 2.7% and the lowest in 2011, which is about 1%.

According to the data, the FDI net inflows in the UK during this period were in overage fluctuations, characterized by both decreases and increases but at approximant rates. In 2010, the FDI net inflows percent of GDP was equal to 2.678599117% (around 2.7%), while in 2011, it decreased to 1.013052041% (about 1%). However, there is a general upward trend in the inflows rates from 2011 to 2014, with some slight changes up and down. This demonstrates an overage increasing interest in investing in the UK during this period which is characterized by shared conditions. Furthermore, from 2011 to 2012, there was an increase in the net inflow rate of GDP with a difference of about 0.714%. Moreover, this growth continued in 2013, but at a slower pace, with a difference of around 0.227%. Additionally, in 2014, there was a slight decrease with a difference of approximately -0.033%. The country witnessed the second-ranked low percent, in 2011 being the least, in 2015, with a -0.376% difference from 2014 in the rate of FDI.

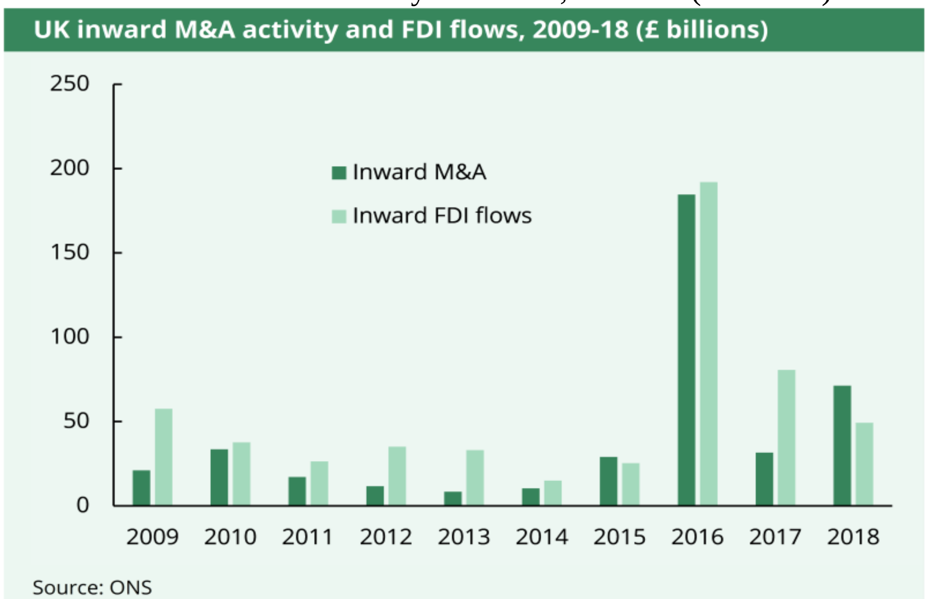
Overall, it is observed that there are no varying differences in the share of FDI net inflow in the GDP value in the UK in the subsequent stated six years.

3.2.1.2. The Years of Uncertainty and Brexit (2016-2021)

In contrast to the previous period, the period between 2016 and 2021 highly fluctuated with varying rates. 2016, the year of the referendum held to decide leaving the EU, saw the highest boosted rate of FDI inflow of GDP, that exceeded to reach 12.031%. The latter is the very remarkable percentage in the history of the UK and the highest value since 2006. According to ONS (2021), this increase is attributed to a handful of high-value M&A of UK firms by foreign firms, as shown in the figure below. The percent of FDI net flows of GDP declined drastically the following year to 4.671%, with a varying difference of 7.359%, partly due to the decrease in M&A activity.

Figure.3.1.

UK inward M&A activity and flows, 2009-18 (£ billions)



Note. Adopted from *UK inward M&A activity and flows, 2009-18 (£ billions)*, by M. Ward, 2020, Jan 30 (https://commonslibrary.parliament.uk/foreign-investment-in-uk-companies-in-2018-and-the-effect-of-brexit/).

In 2018, the UK witnessed a severe decline in the share of net inflows of FDI in GDP to about -0.9%, with a difference of 5.542%. It is important to mention that GDP itself was in a decrease in 2018 and the two following years, 2019 and 2020. According to the GDP annual growth, its growth decreased from 1.7% in 2018 to 1.6% in 2019 to severely decline to -11% in 2020 (the World Bank, 2023).

However, in 2019 FDI net inflows rate increased by 1.6% to reach about 0.9% of GDP. Additionally, in 2020, the net inflows rate grew further to reach nearly 4.9% despite the Covid-19 pandemic. It is a valuable contribution to GDP compared with the previous two years. However, in 2021, the percentage dramatically fell to around 0.2% marking the second lowest rate.

3.2.2. FDI Inward Flows between 2010-2021

The table below shows the FDI inflows by year in the UK:

Table3.2.

FDI inflow (in million U.S dollars) by year.

Year	**FDI inflow (in million U.S dollars)**
2010	58.180
2011	42.196
2012	55.626
2013	51.673
2014	24.704
2015	39.189
2016	258.570
2017	96.401
2018	87.818
2019	53.908
2020	58.908
2021	23.088

Note. Adapted from FDI inflow (in million U.S dollars) by year, the World Bank 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

The table shows the value of inward flows into the UK from 2010 to 2021 (in million dollars). From 2010 to 2015, the values are between $24.704 million at minimum to $58.180 million at maximum. It remarkably increased in 2016 to $258.570 million, the highest value in the history of the UK. The value of inflow kept decreasing to reach $23.088 million in 2021

The values given here indicate a gradual decrease in the inward FDI flows after 2017. This is due to the decrease in M&A activity, as stated above, besides the uncertainty related to the future trade relationship between the UK and EU after Brexit. In addition, the decrease in 2021 can be attributed directly to leaving the EU and the single market. This seems to be a natural result since the UK is in a transitional period. Yet, it is too early to deduce that the country's FDI affected negatively by Brexit till all available data is analysed.

3.2.3. FDI Net Outflows Percent of GDP

The table below shows the FDI outflows by year in the UK:

Table 3.3.

FDI net outflows (% of GDP) between 2010-2021.

Year	**Net of outflows (% of GDP)**
2010	2.183812635
2011	3.031559893
2012	0.444272939
2013	1.665993093
2014	-3.716380063
2015	-2.05042348
2016	1.218978535
2017	6.411416455
2018	-0.994809614
2019	0.752463024
2020	0.164342622
2021	5.139334666

Note. Adopted from FDI net outflows (% of GDP) between 2010-2021, by the World Bank, 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

3.2.3.1. From 2010 to 2015

According to the values given by the World Bank (2023), the rates of FDI net flows abroad of the UK GDP between 2010 to 2015 are more fluctuated than the inflows rates analyzed above.

The given data shows the net outflows of the FDI rate of GDP in the UK in that period. It experienced ongoing series of ups and downs, starting with a slight increase in 2010-11 with 2.183% to 3.031%, respectively. However, the value unexpectedly dropped in 2012 to 0.444%, with a difference of 2.587% compared to the previous year. In 2013 there was an increase to 1.665%, suggesting a renewed rise in the outflows. Yet, there was a significant decline to -3.716% in 2014, ranking it the lowest net outflows during this period. Nonetheless, in 2015 the outflows remained negative but slightly decreased to -2.050%, with a difference of -1.665%, in contrast to the prior year.

Compared with the net inflows of FDI in GDP, the net outflows share of GDP during the period were lower in general, confirming the results found above that foreign companies investing in the UK generate higher flows in comparison with UK companies investing abroad, arguing the UK is a valuable destination for FDI.

3.2.3.2. From 2016 to 2021

In 2016, the UK's net outflows percentage increased slightly after a period of decline, accounting for 1.218%. In contrast to the net inflows rate in the same year, this is too low as many foreign investors made M&A activities into the UK companies rather than UK investors did into foreign companies, contributing to the highest rate of inflows. In 2017, the value substantially raised to 6.411%, ranking the highest net outflows during this period. However, in the subsequent year, the value of net outflows continued to fluctuate and decreased to -0.994%. In the following two years, it experienced a minor increase to 0.752% in 2019 and immediately fell to 0.164% in 2020. The decrease in these three years is natural since the GDP value itself was low, as analyzed above. Surprisingly, the value of the net outflows skyrocketed to reach 5.139% in 2021. It is worth noting that the GDP value also increased.

The reason behind the increase in the net outflows and the decrease in net inflows (0.2%) is attributed to the UK's policy to attract new markets and investors. It started to invest abroad to build new investing relations being a powerful independent country from any barriers; the UK left the EU believing that it acts well in isolation from the Union and that the Union benefits from the UK more than the it does. Starting from 2021, the UK has entered new transactions and investments abroad, mainly targeting the major economic powers such as the USA and China.

3.2.4. FDI Outward Flows between 2010-2021

Table 3.4.

Value of FDI outward flow in the UK from 2010 to 2021.

Year	**FDI outflow (in million U.S dollars)**
2010	48.075
2011	95.578
2012	20.767
2013	40.483
2014	- 151.368
2015	- 66.827
2016	- 37.587
2017	142.443
2018	82.934
2019	11.715
2020	- 78.170
2021	85.963

Note. Adopted from Value of FDI outward flow in the UK from 2010 to 2021, the World Bank, 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

The values presented in the table show variation in the FDI flows abroad between the period 2010-2015 and 2016-2021. The FDI outwards kept fluctuating between the years 2010 to 2015. Moreover, in 2016 the value shifted into negative reaching $-37.587. while in the following year, it significantly increased to reach $142.443 and it remained exceeding in the next two years. In 2020, the value of the outflows declined again with $-78.170. Most recently, in 2021, it highly boosted with $85.963.

3.2.5. FDI Net Inflows (BoP, current US$)

Table 3.5.

FDI Net Inflows (BoP) by year.

Year	**FDI Net Inflows (BoP)**
2010	66734551294
2011	27012050072
2012	46750789728
2013	5.44731754
2014	5.889044525
2015	4.533348312
2016	3.25E+11
2017	1.25E+11
2018	-25055440307
2019	19790761929
2020	1.32E+11
2021	5.92E+09

Note. Adopted from FDI net inflows (BoP) by year, by the World Bank, 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

According to the data given by World Bank (2023), the total of the net inflows (BoP) in the UK between 2010 to 2021 was about $619.919.130.056.82 billion.

As for the data, in 2010, the net inflows reached $66.73 billion while in 2011, significantly decreased with about $2.701. In addition, in 2012 there was a slight increase in the value reaching $4.675 with a difference of $1.973, the value continued to rise at a slower pace in 2013 and 2014 with $5.447 to $5.889, respectively. in 2015, a reduction was detected for approximately $1.355 compared to the previous year. Furthermore, a notable increase in the followed year accounted for $3.250 billion, and in 2017 there was a considerable decrease in the net inflows of $200 billion, compared to 2016.

This decline continued to 2018 with a negative value $-2505 accounted for $-150 billion. Yet, in 2019, there was an impressive improvement with an increase of $44.85 billion. Also, it increased the next year by $112.21 billion. In 2021, there was a notable decrease with a difference of $-126.08 billion compared to the prior year.

In short, the data provided between the years 2010 and 2021 of the FDI net inflows (BoP) was characterized by volatility, taking into account major events and economic contexts. For instance, in 2011, the FDI net inflows experienced a reduction, possibly due to the economic recession that the country suffered from back then. Moreover, the net levels kept fluctuating showing ups and downs. Until 2016, the net total was exceptionally high reaching $3.250 compared to the other years, this could be attributed to the investing opportunities that the Brexit arisen. However, in 2017 and 2018, the FDI net inflows decreased compared to the prior year, likely due to the uncertainty surrounding the Brexit. In 2019, however, the net inflows rebounded to $19.790 and continued to significantly increase the next year reaching $132E+11. This increase was followed by a notable decrease in 2021, reaching $5.92, this could be attributed to the impact of the COVID-19 pandemic on the global economy or to the official exit of UK from EU.

According to the reported values in the table above, the results shown in section 3.2.1. above are reaffirmed. The first six years saw close values, in 2016 the value multiplied to seven from the following year to reach $324.81 billion. It surpassed the total value of the six years together, that is $299.18 billion. The years after 2016 witnessed sharp decline in 2017 and 2018, then started to increase in 2019 and 2021 to fall dramatically in 2021.

3.2.6. FDI Net Outflows (BoP, current US$)

Table 3.6.

GDP net outflows (BoP) by year.

Year	**FDI net ouflows (BoP)**

2010	54407453277
2011	80833604087
2012	12023540543
2013	46250908172
2014	-1.1392E+11
2015	-60177016430
2016	32908272029
2017	1.72044E+11
018	-28632134257
2019	-21498303884
2020	-4444825595
2021	1.60932E+11

Note. Reprinted from GDP net outflows (BoP) by year, the World Bank 2023 (https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS).

According to the statistics provided by World Bank (2023), the total of GDP net outflows in BoP in the UK between 2010-2021 was $420.960.591.112.

Table 4 reveals the changes in the outflows during these years. From 2010 to 2013, the outflows grew steadily reaching $5.440, $8.083, $12.023, to $46.250, respectively. While, in 2014-2015, there was a significant change as the GDP outflows shifted to negative $-1.1392E+11 and $-6.017. In 2016 and 2017, it turned positive again. However, in 2018, 2019, and 2020, the value of GDP outflows experienced a steeper decline, accounted for $-2863, $-2149, and $-4444. Therefore, it increased again in 2021, reaching $1.60932E+11.

To conclude, the data indicates fluctuations in the FDI net outflows of BoP (Balance of Payment), it is apparent that the value had significantly increased in 2016 and 2017with $3290, and $1.72E+11, respectively up from $-6.017 in 2015. Besides, this increase could be attributed to the uncertainties created by the Brexit on economy which urged investors to seek opportunities abroad. However, the outflows fell from $-2863 in 2018 to $-2149 in 2019. Additionally, due to Covid-19 pandemic, which resulted in travel restrictions, and quarantine measures that have negatively impacted investment outflows in 2020 with $-4444. Finally, in 2021, it suggested an increase in the value with $1.61E+11, this could be a sign for UK economic recovery from the pandemic.

3.2.7. Findings and Discussion

The analysis of the comparative data between the years 2010-21 of the percentages of FDI net inflows and outflows of GDP in the UK, the values of the FDI net inflows and outflows in BoP, and the values of FDI inward and outward flow show a fluctuation nature, specifically in the years of uncertainty, negotiation and Brexit.

The net inflows of FDI experienced stable levels from 2010 to 2015, followed by a sharp spike during the initial years of Brexit (2016-17) and subsequent ups and downs from 2018 to 2021. This sudden increase in 2016 could be attributed to currency depreciation; for some investors, the fall in the value of the British pound presented an opportunity to buy assets in companies that would potentially enhance their investment returns. This factor was stable in 2017, but because of the political instability, the values decreased yet are still higher than the other years. Also, this is not the only reason why Britain attracted more investors. Despite the uncertainty towards Brexit, the UK remained an attractive destination for investors providing various market opportunities. In 2016, the access to the EU market and the ability to trade within its borders may be a reason for its appeal.

As for the net outflows of FDI, they showed a mixed pattern from 2016 to 2021, with positive and negative periods. In 2017, the UK accounted for 6.411 and ranked the fourth largest investor abroad; after the USA, Japan, and China, this followed three years of reduction. However, these fluctuations continued in 2019 and 2020 because of the spread of the COVID-19 pandemic globally and the border closures, which hindered the progress of outward investment projects. In 2021, interestingly, the net outflows raised by 5.139%, which could be a result of the official withdrawal from the EU, which prompted a reassessment of its trade ties with other countries.

According to the analysis of the data, the following findings can be summarized:

- In 2020, FDI inflows increased, however, the outflows decreased but this cannot be attributed only to Brexit, as the year saw a global crisis due to the Covid-19 pandemic.
- In 2021, FDI inflows fell in comparison with 2020. The formal withdrawal of the UK from the EU affected the sentiments of the investors regarding carrying out business in the country.
- In 2021, FDI outflows increased significantly. The UK started to sign agreements to invest abroad, mainly targeting the world economic powers, such as the USA and China.

Conclusion

In conclusion, the analysis of the numerical data throughout this chapter confirms the earlier hypothesis that Brexit has affected the FDI in the UK. As noted previously, the flow levels have been both positive and negative. Moreover, despite the uncertainty that Brexit created during the initial years (2016 and 2017), there was a remarkable increase in the FDI flows rate of GDP. On the other hand, there was a decline in the years following the referendum vote, with additional disruptions introduced by the global COVID-19 pandemic. Most importantly, in 2021, inflows fell as the country lost FDI into the country, but outflows increased as the UK started to attract new FDI destinations.

General Conclusion

The aim of this dissertation is to examine how Brexit affected FDI in the UK. Therefore, a qualitative method is employed to get a comprehensive understanding of Brexit and FDI flows in the UK.

This dissertation consisted of three main chapters, which collectively enhanced the understanding of how Brexit affected FDI in the UK. The first chapter provided definitions of the main concepts, exploring the emergence of the EU, and Brexit, followed by its causes and consequences. These theoretical concepts paved the way to identify the potential impact of Brexit and contributed to developing the results.

The second chapter identified the importance of FDI in growing the country's economy taking into account relevant literature about this topic. The chapter highlighted the main concepts and aspects related to FDI, such as what FDI is, its types, and how it can be measured, comparing FDI investments into and abroad in the UK, the effect of FDI in the UK economy, and how EU membership helped FDI in the UK. Besides, this chapter was a road map for the third chapter's findings. This section investigated the nature of FDI and covered the motives behind it. Through meeting the relevant studies that covered the impact of Brexit on FDI within the UK, we were able to draw our conclusions regarding the UK remains an attractive destination for foreign investment, despite its departure from the EU.

The final chapter addressed the questions raised by the examination of the impact of Brexit on FDI in the UK by visualizing the data, comparing and analyzing it.

This study can make a valuable contribution to the existing literature due to the various limitations researchers may face when assessing the impact of Brexit on FDI in the UK. First, the little comment given to this area in the existing literature impeded drawing definitive conclusions; much work done is administrative reports and surveys rather than academic research. Second, due to the novelty of this phenomenon, immediate research was conducted right after the referendum vote aimed at forecasting its short and long-term impact on FDI, which remained open to discussion. Remarkable effects can take several years to unfold rather than forming conclusions in the initial period. Furthermore, it is worth mentioning the influence of Covid-19, as it has affected the UK economy, including the FDI.

The analysis of the data gathered for this study showed that the UK is trying to prove itself as an independent economic power by attracting new investors in the open market. This illustrates the increase of FDI outwards. However, the FDI inflow fell as foreign investors rethink of how to reinvest in the country under the new situation. This is a natural short-term impact because of the economic instability after Brexit. Yet, the UK is still one of the world's top ranked FDI recipients. Yet, long-term conclusions on the impact of Brexit on FDI in the UK cannot be drawn just three years after the phenomenon.

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ملخص

الهدف من الدراسة الحالية هو التحقيق في تأثير خروج بريطانيا من الاتحاد الأوروبي على الاستثمار الأجنبي المباشر. تسبب خروج بريطانيا من الاتحاد الأوروبي في حالة من عدم اليقين الاقتصادي ، مما أدى إلى تغييرات مختلفة في العديد من جوانب الاقتصاد ، بما في ذلك الاستثمار الأجنبي المباشر. هذه الأخيرة هي القضية التي تسعى الدراسة لاستكشاف مدى تأثرها بخروج بريطانيا من الاتحاد الأوروبي. لتحقيق نتائج دقيقة حول تأثير خروج بريطانيا من الاتحاد الأوروبي على الاستثمار الأجنبي المباشر ، تم إجراء الدراسة. تُستخدم الطريقة النوعية لجمع البيانات وتحليلها ، وتوفر البيانات العددية الحالية المتعلقة بالاستثمار الأجنبي المباشر الداخلي والتدفقات الخارجية ونسب التدفق على الناتج المحلي الإجمالي للبلد قبل خروج بريطانيا من الاتحاد الأوروبي وبعده. يتم استخدام كل من تصور البيانات والتحليل المقارن لتسهيل مقارنة وتحليل القيم والنسب المئوية. ومن ثم ، كشفت الدراسة أن تدفقات الاستثمار الأجنبي المباشر إلى الداخل والخارج انخفضت بعد خروج بريطانيا من الاتحاد الأوروبي ، دون تجاهل تأثير كوفيد -19 إلى جانب خروج بريطانيا من الاتحاد الأوروبي. ومع ذلك ، زاد الوافدون في عام 2021 ، مما يشير إلى أن المملكة المتحدة تجتذب وجهات جديدة كقوة اقتصادية مستقلة. وتعتزم توسيع معاملاتها واتفاقياتها في الخارج لتشجيع المستثمرين على إعادة الاستثمار في المملكة المتحدة في ظل الظروف الجديدة. وبالتالي ، هناك حاجة لمزيد من البحث لاكتساب رؤى شاملة حول هذا الموضوع.

الكلمات المفتاحية: خروج بريطانيا من الاتحاد الاوروبي، كوفيد-19، التدفقات، الاستثمار الاجنبي المباشر، الناتج المحلي الاجمالي.