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Investment Prospects Priority in the Policy of Stable Economic Growth in Great Britain*

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ABSTRACT. The article considers the components of the economic grown policy of Great Britain based on global consolidation of the investment position of the country. The place of Great Britain in the system of international economic relations and its role in the EU has been established by means of comparative analysis of a number of macroeconomic indices and components of foreign economic activity. Also, the article considers peculiarities of the country`s foreign economic policy aimed at overcoming the deficit of financial resources and accumulation of foreign capitals. The factors and components of further engagement of international financial resources have been determined, which shall positively influence the country` s investment attractiveness and provision of stable economic growth and development of the country in the future.

KEYWORDS. Great Britain, Eurozone, EU, foreign economic dynamics, debt position, economic growth, investment attractiveness, foreign direct investments.

Introduction

Among the leading European countries, Great Britain occupies a place which is getting more and more prominent. The economy of this country, after a significant fall (during the crisis of 2008—2009) which exceeded 6 % in total, tends to gradual and step-by-step post-crisis renewal. Consideration of the economic growth dynamics of the latest years shows that the real GDP will reach the pre-crisis level at the end of 2014 – beginning of 2015. Today, the economy of Great Britain is the sixth largest in the world in terms of GDP level, which exceeded USD 2.5 trillion in 2013.

Moreover, according to the forecasts of the Centre for Economics and Business Research (CEBR), Great Britain will manage to outrun Germany (the largest EU economy today) in the nearest two decades and become the leading European economy

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thanks to high competitiveness and efficiency, increase of able-bodied population, low tax level and «isolation» from the Euro-zone problems[2].

Numerous studies by the World Bank[3], International Monetary Fund[4], United Nations Conference on Trade and Development (UNCTAD)[5], the European Commission[6], the Bank of England[7] etc., were dedicated to research on theoretical concepts and applied issues of the role and place the Great Britain has in the system of international economic relations, its economic and investment development.

At the same time, Ukraine considers matters of current and future development of Great Britain mostly in the context of the European Union. Still, for the economic environment of Great Britain in general and macroeconomic components in particular, a number of peculiarities are characteristic, favouring the investment prospects of the country and thus distinguishing the country among European countries and consolidating the basis of stable long-term growth.

The analysis of characteristics represents the main focus of this research. First of all, it should be noted that an important factor of further economic consolidation of Great Britain is the leading position of the country in the global economy as importer and exporter of capital in general and investments in particular. At the same time, we could note that the «increased» integration in the global financial flows has a back side – reduction of business activity in the global economy immediately affected and continues affecting the economic condition of Great Britain causing its hindering. One of the main reasons of the current economic hin-

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[2] *Khesyn E. S.* Economy of Great Britain: Threat of Recession Remains. [Electronic resource] – Access mode:– http://russiancouncil.ru/inner/?id_4=2360#top [In Russian].

[3] European and Best Practice Bank Resolution Mechanisms: An Assessment and Recommendations for Policy and Legal Reforms // The World Bank. – March 2012. [Electronic resource] – Access mode:– https://openknowledge.worldbank.org/bitstream/handle/10986/12817/701520ESW0P12200Report.v30Overview.pdf?sequence=1

[4] United Kingdom: 2013 Article IV Consultation // IMF Country Report, № 13/210 – July 2013. [Electronic resource] – Access mode: – http://www.imf.org/external/pubs/ft/scr/2013/cr13210.pdf;

Denis S. The Impact of Uncertainty Shocks on the UK Economy / S. Denis, P. Kannan // IMF Working Paper, № 13/66. – March 2013. [Electronic resource] – Access mode: – http://www.-imf.org/external/pubs/cat/longres.aspx?sk=40380.0

[5] World Investment Report 2013: Global Value Chains: Investment and Trade for Development. [Electronic resource] – Access mode: http://unctad.org/en/publicationslibrary/wir2013_en.pdf

[6] Financial Programming and Budget: EU expenditure and revenue, European Commission. [Electronic resource] – Access mode: http://ec.europa.eu/budget/figures/interactive/index_en.cfm

[7] Dixon H. Sectoral shocks and monetary policy in the United Kingdom / H. Dixon, J. Franklin, S. Millard // Bank of England, Working Paper №499. – April 2014. [Electronic resource] – Access mode: http://www.bankofengland.co.uk/research/Pages/workingpapers/2014/wp499.aspx

The specified resources also contain references to a large number of publications concerning various aspects of the United Kingdom development.

dering is debt crisis of the Eurozone where a significant part of British export is diverted. And the financial crisis might turn out more ruining for Great Britain than all the crises related to the real sector of economy, as industry produces about 20 % of GDP, and the major part, about 79 % of GDP, is produced by the service industry.

Meanwhile, strong investment positions of the country usually serve as an important guarantee of macroeconomic stability. In general, a row of main components is distinguished, which have a decisive effect upon FDI attraction – macroeconomic stability, degree of economy openness, economic growth rates, GDP per capita, tax level, fiscal and foreign economic deficits, debt position, forecasting of exchange rates, level of infrastructure development etc. The specified components for Great Britain (except for growth rates) are mostly ones of the best in the global economy.

The investment prospects of the country are confirmed by the so-called Confidence Index of Foreign Direct Investments (FDI Confidence Index)[8], calculated by the international consulting company *A. T. Kerney*. In 2013, the Great Britain took the 8th place in the rating of the specified Index[9] and has been the most «attractive» for the investors who look for the highest stability and durability among the developed countries of the world. For the purposes of comparison, among the leading EU countries Germany took the 7th place reducing its rating by two positions, and France took the 12th place rising 5 positions higher compared to 2012. Attractiveness of Germany is mostly caused by export orientation and high level of technological development of the economy. France is attractive for investments due to favourable taxation mode in the sphere of scientific and research works.

The inflow of foreign investments to the Great Britain economy in the latest 2–3 years has been growing constantly. According to the World Bank research, *«Doing Business 2014»*, dedicated to the analysis of business conditions in various countries of the world, the Great Britain occupies the 10th rating position, which is quite high (the third place in Europe after Den-

[8] The FDI Confidence Index considers political, economic and legislative changes affecting receipts of FDI. The Index is based on a survey of more than 300 executives from 28 countries of the world, covering all economy branches, and is calculated as an average weighted number of high, medium and low answers to a question on probability of FDI inflow to the domestic market in the following three years. Higher Index values show more attractive investment climate of the country.

[9] Back to Business: Optimism Amid Uncertainty. The 2013 A.T. Kearney Foreign Direct Investment Confidence Index. [Electronic resource] – Access mode: http://www.atkearney.com/documents/-10192/1464437/Back+to+Business+-+Optimism+Amid+Uncertainty+-+FDICI+2013.pdf/96039e18-5d34-49ca-9cec-5c1f27dc099d

mark (5) and Norway (9) (Table 1). Business and investment advantages of the country include transparent access to loans, due protection of investors, favourable taxation system, developed foreign trade, easy terms for winding up business, and the regulating role of the country is generally much weaker than in continental Europe.

Table 1 **Positions of Great Britain in the «Doing Business» rating**[10]

Ease of doing business rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
10	28	27	74	68	1	10	14	16	56	7

We should note that the specific «driver» of British economy growth today is the increase of domestic demand level plus consolidation of the economic dynamics in general, enhancement of investment positions (namely the increase of the level of foreign investments influx) and improvement of foreign trade balance[11]. Let us look at the gradual analysis of the specified components.

Macroeconomic Dynamics

In the pre-crisis period, the Great Britain economy developed with quite high rates – during 1996—2007 the average annual GDP increase was 3.4 %[12]. Moreover, during the latest decades the British economic dynamics practically copied the dynamics of the USA, the country which was (and still remains) the leader of developed countries (Figure 1), and notably differed from the economic cycles of the largest EU countries, especially Germany (the economy of which is determinant for the continental Europe)[13]. The employment dynamics also demonstrates the similarity between the business cycles of the USA and the Great Britain. (Figure 2).

[10] Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises // The World Bank – 2013. [Electronic resource] – Access mode: http://www.doingbusiness.org/~/media/-GIAWB/Doing%20Business/Documents/Annual-reports/English/DB14-Full-Report.pdf.

[11] A Seemingly Stable Triangle. Global Economic Quarterly // Credit Suisse – November 2013. [Electronic resource] – Access mode: https://doc.research-and-analytics.csfb.com/docView?language=ENG&format=PDF&document_id=1025309591&source_id=emcmt&serialid=N5xfEik5Rq83BpceYdZ3vCVnuSB9HvCtgP%2b6Or0A9dk%3d.

[12] World Economic Outlook 2014: Recovery Strengthens, Remains Uneven // IMF – April 2014. [Electronic resource] – Access mode: http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf.

[13] Considering the fact that today the perspectives of long-term growth of the USA are better than the EU, consolidation of further orientation of Great Britain at the USA could also facilitate its faster renewal.

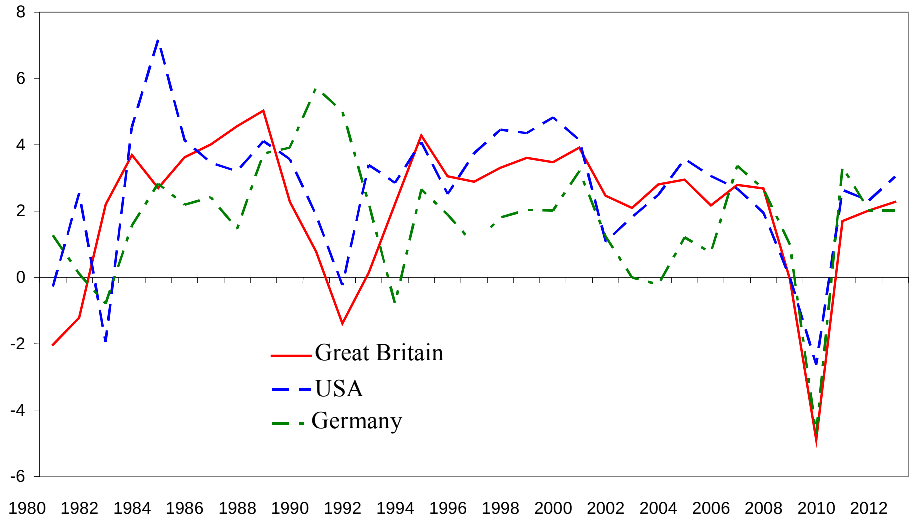

Fig. 1. Real GDP, year-over-year percent change[14]

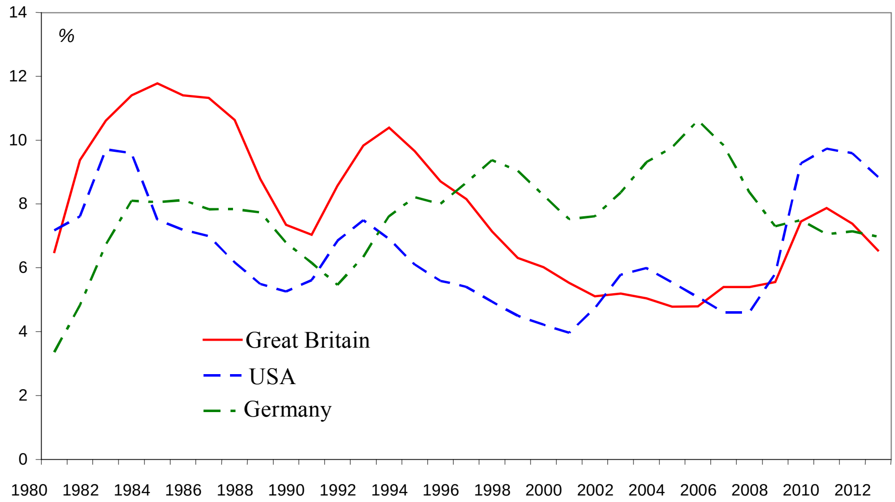

Fig. 2. Unemployment, annual percent change[15]

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[14] *Markevych K.* Possible withdrawal of Great Britain from the EU – specific macroeconomic aspects / K. Markevych, V. Yurchishyn // Razumkova Centre, February 6, 2013. [Electronic resource] – Access mode: http://uceps.org/ukr/article.php?news_id=1038 [In Ukrainian]**;**

World Economic Outlook Database // IMF – 2012. [Electronic resource] – Access mode: http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weoselgr.aspx.

[15] The same.

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It should be recognized that during the post-crisis period the dynamics of the Great Britain economic development still remains unstable. The second half of 2011 the country began to show signs of a new recession wave (during three quarters industrial production was declined), but in the second half of 2012 the positive dynamics was restored[16], including due to the private consumption, the share of which in the GDP is quite high (Table 2). Namely, significant expansion of consumer loans became a component of private consumption growth (the total amount of private loans in the end of 2013 made over USD 3.6 trillion.

Table 2 **Great Britain GDP by private consumption categories % of total (2013 – estimation)**[17]

Domestic household consumption	Public consumption	Gross fixed capital formation	Changes in inventories	Exports of goods and services	Imports of goods and services
66.5	21.4	13.8	0.4	31.1	33.2

At the same time, the high level of private consumption is a restrictive factor for provision of stable long-term growth. In the pre-crisis period the leading countries paid more and more attention to reduction of misbalance in the part of savings-investments. While in the EU countries the level of national savings practically returned to its pre-crisis level and facilitated improvement of budget and foreign trade balances, the situation in Great Britain is essentially different – the investment dynamics outruns the savings dynamics (Table 3), while the investment level in the capital assets is restored much slower than the GDP dynamics[18].

[16] Although it is stated that the improvement of the economic situation in 2012 was guaranteed by effect of temporary factors: celebration of Queen Elizabeth II anniversary and the Olympic Games hosting in London.

[17] A Seemingly Stable Triangle. Global Economic Quarterly // Credit Suisse – November 2013. [Electronic resource] – Access mode: https://doc.research-and-analytics.csfb.com/docView?language=ENG&format=PDF&document_-id=1025309591&source_id=emcmt&serialid=N5xfEik5Rq83BpceYdZ3vCVnuSB9HvCtgP%2b6Or0A9dk%3d

[18] In 2008-2009, the drop of investment level in the capital assets exceeded 19%. Although in 2010—2012 the level of such investments grew by approximately 5 %, the current economic dynamics shows that the investment level in the capital assets will be able to exceed the pre-crisis level no earlier than in 2015.

Table 3 **Savings and investments of the largest countries and regions, % of GDP**[19]

	2000-2007 (av.)	2008	2009	2010	2011	2012	2013	2014(p)	2015(p)
USA									
Savings	18.4	15.5	14.4	15.1	15.8	16.3	17.2	17.6	17.9
Invest-ments	22.5	20.8	17.5	18.4	18.4	19.0	19.5	19.9	20.5
Eurozone									
Savings	21.7	21.5	19.1	19.8	20.5	20.5	20.6	21.2	21.5
Invest-ments	22.5	20.8	17.5	18.4	18.4	19.0	19.5	19.9	20.5
Great Britain									
Savings	15.3	16.1	12.7	12.3	13.5	10.9	11.0	12.2	13.1
Invest-ments	17.5	17.1	14.1	15.0	14.9	14.7	14.4	14.9	15.3

High level of consumption in the public and private sectors along with the misbalance in the national economy of savings-investments mean formation of foreign trade deficits which provoke accumulation of debts both in public and private sectors, which reached USD 9.5 trillion as of the end of 2012 in Great Britain (see below for more details). Accordingly, today the question is the need to increase the level of national savings, which, according to the system of national accounts, can be achieved either by reduction of consumption or by reduction of foreign trade deficit. At the same time this would facilitate increase of investments in the GDP structure and enhancement of efficiency of the investment factor for acceleration of economic restoration of the country.

Lately, Great Britain paid more and more attention to formation of long-term strategic tasks of modernization nature, which would facilitate the increase of investment prospects in future. Namely, the point is to consolidate the real sector and diversify production, reduce dependence of the British economy on the financial sector which determines the nature of the whole national

[19] World Investment Report 2013: Global Value Chains: Investment and Trade for Development. [Electronic resource] – Access mode: http://unctad.org/en/publicationslibrary/wir2013_en.pdf.

economy to a great extent[20]. It is clear that even the slightest pressure upon the financial sector can cause deterioration of the economic environment in the country and affect positions of Great Britain in the system of global financial flows.

«The Plan of Growth» developed by the new Government in 2010 contains measures which, *on the one hand,* would consolidate macroeconomic (post-crisis) stability on the basis of strict fiscal policy and soft monetary policy (namely, the so-called «quantitative easing»), *and on the other hand,* provide the real sector of economy with an ascending long-term impulse. The latter means «re-industrialization» of the economy aimed at production of goods with high value added, first of all by means of active attraction of investments (including foreign ones) and innovations. Today we can state the efficient introduction of respective measures, despite the complex economic terms still effective in the EU countries, the Great Britain economy demonstrates stable positive dynamics which practically equals the German (leading) dynamics (Figure 3).

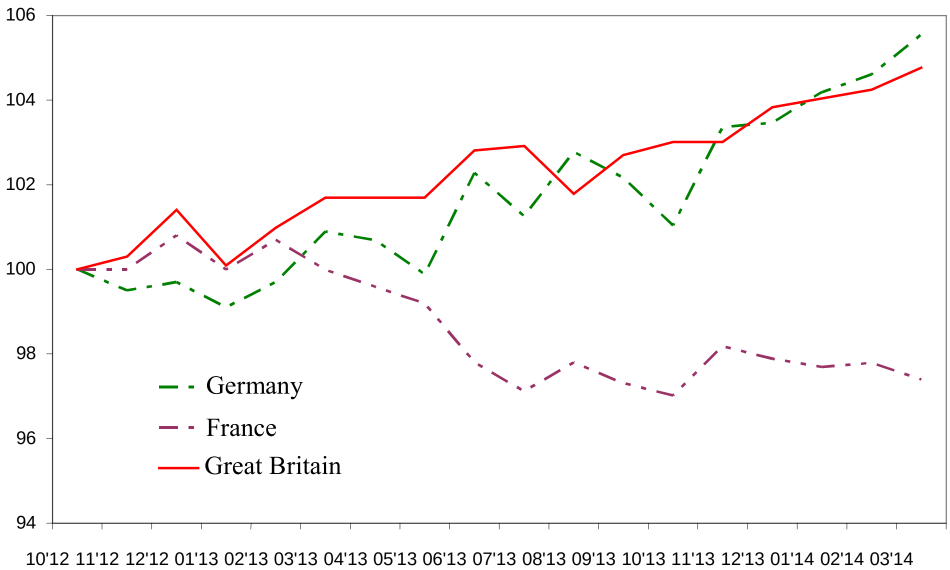
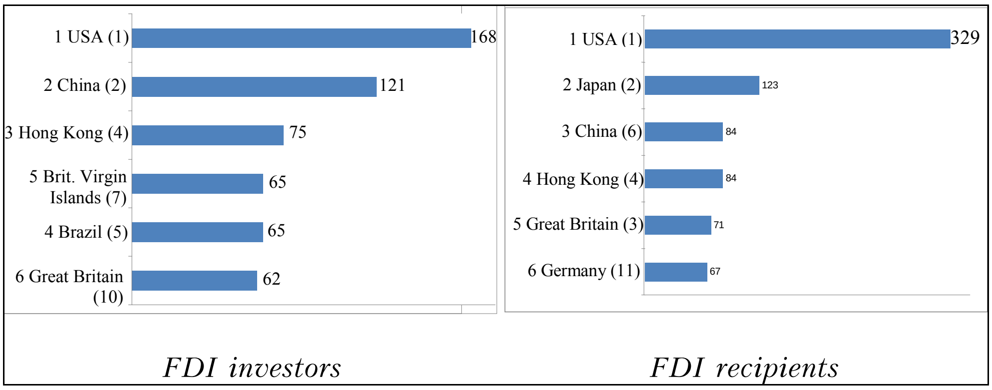


Fig. 3. Industrial production index (October 2012 = 100)[21]
Direct Investments

[20] For more information see: World. Global Crisis Challenges. Great Britain. // Global economy and international relations, 2013. – No. 6. – page 75-89. [In Russian].
[21] European Economics: The Week Ahead // Credit Suisse – 2012-2013 (various issues).

The determinant feature of Great Britain is that the country is one of the global leaders (one of the top six countries) both in the part of inflow and outflow of FDI (Figure. 4).



Ranging of 2012 (in brackets – position in 2011.)

Fig. 4. Leading FDI recipient/donor countries USD billion[22]

At that, although in general FDI to the USA and China exceeded FDI to Great Britain, but both the share of FDI to GDP of the country and FDI per capita for Great Britain greatly exceed the respective indices of the leading countries (Table 4).

Table 4 **Level of FDI inflow of individual leading countries, 2012**[23]

Country	FDI / GDP,%	FDI per capita, $
USA	1.07	533.5
China	1.52	89.4
Great Britain	2.54	985.9

The year 2012 was especially successful for Great Britain, when the investment inflow to the country grew by 22 % (Figure 5) along with the reduction of investment inflow to the largest economies, and the share of the country in the attracted global investments grew to make 4.6 % at notable decrease of the respective EU share (Figure 6).

[22] World Investment Report 2013: Global Value Chains: Investment and Trade for Development. [Electronic resource] – Access mode: http://unctad.org/en/publicationslibrary/wir2013_en.pdf.
[23] Rating of most attractive countries for investments and largest investor countries // World economic journal – October 2013. [Electronic resource] – Access mode: http://world-economic.com/ru/articles_wej-350.html. [In Russian].

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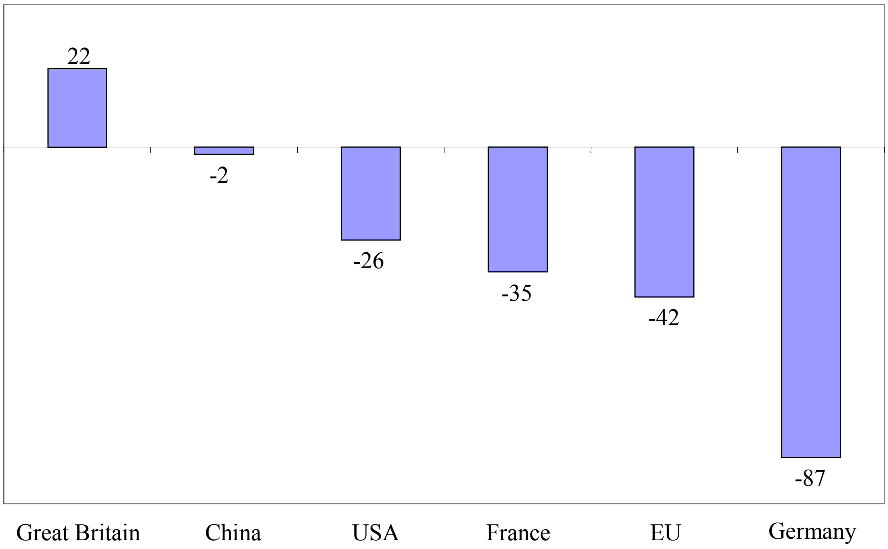

Fig. 5. FDI inflow to certain countries in 2012, year-over-year percent change[24]

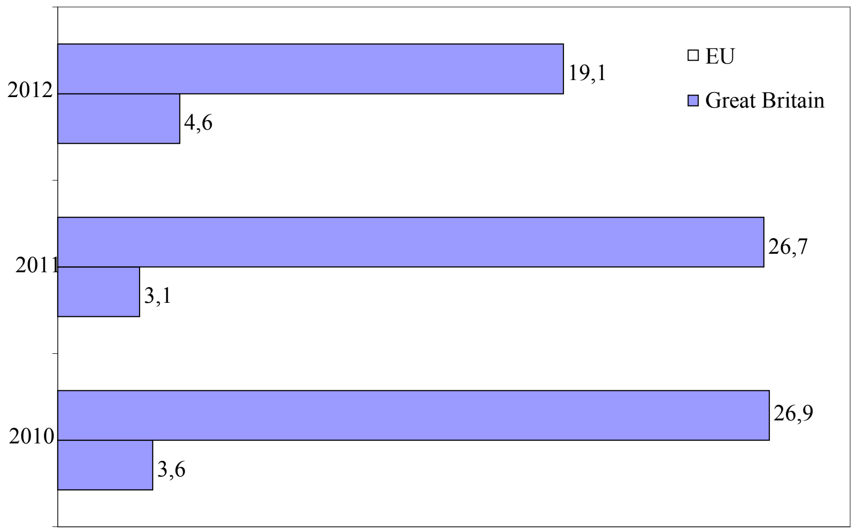

Fig. 6. Share of Great Britain and EU in the global FDI inflow, % of total[25]

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[24] Inward Investment Report 2012/13 // UK Trade & Investment – July 2013. [Electronic resource] – Access mode: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225424/-UKTI_Inward_Investment_Report_2012-13.pdf

[25] The same.

Thus, at the end of 2013, the accumulated foreign investments into the Great Britain economy exceeded USD 1.4 trillion, while the rate of general outgoing investments achieved almost USD 1.9 trillion.

We should note that the USA takes a special place in the FDI flows. Direct investments of American capital are still leading in the structure of investment inflow to Great Britain – American companies cover 25% (slightly more than USD 300 billion of the above-mentioned USD 1.4 trillion) of all direct investments accumulated by Great Britain. Other largest investors to Great Britain are the Netherlands (USD 190 billion), France (USD 90 billion), Germany (USD 75 billion), the share of which in the total direct investments accumulated in Great Britain is about 30%[26]. At that, lately the total volume of American FDI inflow is not that smaller than the volume of such capital inflow from all other EU countries, although the flows from the USA are much more stable (as they have lower volatility) and less dependent on the current processes of the global economy (Table 5).

Table 5 **FDI flows to Great Britain from USA and EU, £ billion**[27]

Region	2007	2008	2009	2010	2011	2012
EU	39.3	24.1	25.7	-6.6	17.7	17.5
USA	28.0	18.1	15.2	22.8	12.3	12.1

Another peculiar feature of the Great Britain policy is that attraction of direct investments is one of the elements of the above-mentioned programme of economic renewal and development of the country («The Plan of Growth») aimed at increase of productivity and competitiveness of the British economy, establishment of efficient working places, engagement of new technologies and consolidation of the country position at the international markets. During 2012 about 1.6 thousand projects were registered in the country with the attraction of direct investments, which allowed provision of working places for over 170 thousand employees, including by establishing new working places (Table 6).

[26] Inward Investment Report 2012/13 // UK Trade & Investment – July 2013. [Electronic resource] – Access mode: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225424/-UKTI_Inward_Investment_Report_2012-13.pdf

[27] The Pink Book 2013: Balance of Payments – UK Office for National Statistics. [Electronic resource] – Access mode: http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2013/index.html

Table 6 **New projects in Great Britain with participation of foreign investors**[28]

Investor country	New projects	Number of newly created working places
USA	396	12 793
Japan	114	3 169
France	93	5 243
Italy	93	1 754
India	89	4 112
Germany	78	2 316
China	70	1 016

We should note that over half (787) of the specified investment projects have scientific or innovative orientation aimed at formation and consolidation of the knowledge-driven economy (*«knowledge intensive» sector*)[29], which allows the country not only to maintain the appropriate level of competitiveness and to expand potential and perspective economic opportunities gradually. The most attractive sectors for FDI are business services and software, which covered 43% of all investment projects in Great Britain in 2012. Naturally, this will act as a factor of guarantee of the outstripping economic dynamics in the nearest decades.

We should note that the legislative sphere is quite favourable for the arrival of investors to the country. There are no normative standards in Great Britain which directly concern regulation of foreign investments or requirements regarding their registration. Also, there are no restrictions for the shares in the authorized capitals of British companies which can be owned by foreigners. Practically, introduction of FDI is allowed on the basis of a case-by-case permit of the Bank of England according to the law on foreign currency control, and respective permits are obtained without any extra encumbrances.

Along with this, it should be noted separately that the investment prospects are confirmed by national and international surveys of investors and business representatives. Among the main

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[28]Inward Investment Report 2012/13. // UK Trade & Investment – July 2013. [Electronic resource] – Access mode: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225424/-UKTI_Inward_Investment_Report_2012-13.pdf

[29] The country occupies the 16th place among the countries of the world in the rating “Most Innovative Economies” calculated by the international rating agency “*Bloomberg”*: See: Most Innovative in the World 2014: Economies. [Electronic resource] – Access mode: http://www.bloomberg.com/visual-data/best-and-worst/most-innovative-in-the-world-2014-economies

factors which, on the opinion of investors, facilitate improvement of conditions for FDI accumulation, one might distinguish the following ones[30]:

— Flexible financial system facilitating access to finances – noted 44 % of all respondents;

— Expansion of support for small and medium sized enterprises – 28 %;

— Efficient policy of business facilitation in general – 20 %.

— Besides, the experts have determined that the country has practically the lowest barriers (compared to other countries of the world) for performance of entrepreneurial activity, the corporate governance standards are the most transparent, and the corporate taxation level is notably smaller (Table 7).

Table 7 **Corporate tax rates, %**[31]

	2006	2010	2013
Germany	38.34	29.41	29.55
France	33.33	33.33	33.33
Italy	37.24	31.4	31.4
Great Britain	30	28	21

A general remark should be made. An important feature of both Great Britain and the USA in the part of investment prospects is that the labour value in these countries is among the highest of the world. As high competitiveness is characteristic of the markets in the specified countries, strict requirements are set for workforce regarding qualification, productivity and due experience. In a certain way, this denies the thesis that cheap workforce is an essential factor of investment prospects. In the terms of enhancement of global competitiveness, it is qualified and productive labour (except for strong institutions) that becomes an outstripping factor for investor decisions. Meanwhile, requirements on workforce qualification and high institutional facilitation of business ensure stable capital inflow, thus facilitating constant renewal and consolidation of competitiveness along with further investment prospects of the leading countries.

[30] Ernst&Young's attractiveness survey UK 2013: No Room for Complacency // Ernst&Young – 2013. [Electronic resource] – Access mode: http://www.ey.com/Publication/vwLUAssets/Ernst-and-Youngs-attractiveness-survey-UK-2013-No-room-for-complacency/$FILE/EY_UK_Attractiveness_-2013.pdf.

[31] Corporate tax rate table – KPMG, 2014. [Electronic resource] – Access mode: http://www.-kpmg.com/Global/en/services/Tax/tax-tools-and-resources/Pages/corporate-tax-rates-table.aspx

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Foreign Trade

Foreign trade flows are connected to investment flows to a great extent, and among the trade partners of the Great Britain an important place is held by the countries which are simultaneously the largest investors (Table 8). Such interconnection only enhances mutual orientation and support of partnership economies both in trade and investments.

Table 8 **Main countries-partners in foreign trade of Great Britain, % of total (2012)**[32]

Export		***Import***	
Germany	11.3	Germany	12.6
USA	10.5	China	8.0
Netherlands	8.8	Netherlands	7.5
France	7.4	USA	6.7
Ireland	6.2	France	5.4
Total amount – USD 476 billion		*Total amount – USD 646 billion*	

Great Britain holds quite a large level of foreign trade deficit (Figure 7), which also determines high deficit of current account balance. Namely, in 2012 the deficit achieved record-breaking amount of J59.2 billion, which is equal to 3.8 % of GDP (the highest rate since 1989).

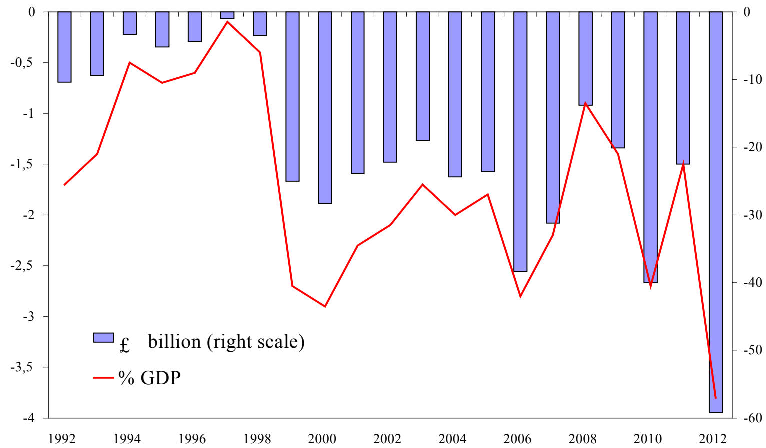

Fig. 7. Great Britain current account balance[33]

[32] The World Factbook: United Kingdom – Central Intelligence Agency. [Electronic resource] – Access mode: https://www.cia.gov/library/publications/the-world-factbook/geos/uk.html

[33] The Pink Book 2013: Balance of Payments – UK Office for National Statistics. [Electronic resource] – Access mode: http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2013/index.html

In the majority of cases, the specified deficit was caused by negative balance of commodity trade and financial transfers. At the same time, the balance of service trade had a stable positive trend (Figure 8), also as a result of the fact that (as specified) business services and services related to informational and communication technologies were the most attractive sectors for FDI engagement, thus enhancing export competence.

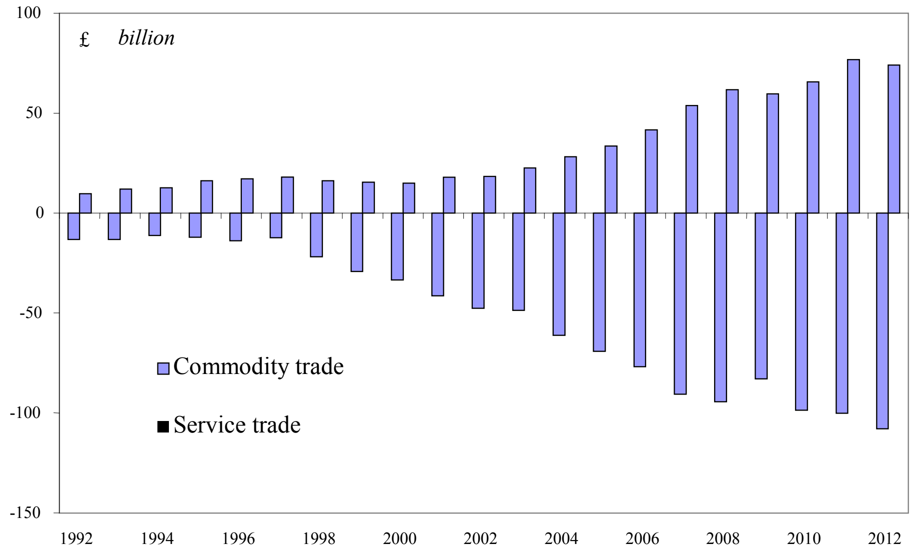

Fig. 8. Balance of commodity and service trade in Great Britain[34]

We should also note that the trade deficit is mostly formed by negative balance of trade with continental Europe in general and the leading EU countries in particular. In the pre-crisis period, the trade deficit of Great Britain with other EU countries made USD 30—40 billion. In 2012, the specified deficit achieved record-breaking values by exceeding USD[35]. Nevertheless, although Great Britain supplies about 50 % of its total export to the EU countries, this share keeps going down year by year. While before the middle 2000-ies over 60 % of British export was forwarded to the European countries, in 2009 the Great Britain export to the

[34] The Pink Book 2013: Balance of Payments – UK Office for National Statistics. [Electronic resource] – Access mode: http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2013/index.html

[35] Batten G. How much does the European Union cost Britain? // UKIP – 2013. [Electronic resource] – Access mode: http://www.ukip.org/media/pdf/CostofEU.pdf;

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Eurozone countries made 49.1 %, and in 2011 reduced to 47.0 %. Perhaps such a trend shall continue, considering, first of all, the increasing orientation of the British economy towards the USA markets and certain «displeasure» of British business caused by enhancement of administration at some EU markets (including joint customs policy of the European Union). The prospects of convergence of the USA and Great Britain economies today, besides all else, are related to further liberalization of foreign trade within the frameworks of the so-called Transatlantic Trade and Investment Partnership (TTIP) between the USA and the EU. Great Britain is the advocate (contrary to the position of many European countries) and initiator of further reduction of non-tariff barriers in trade, liberalization of services trade etc.

Another general remark should be made. The essential peculiarity of the results of global economy in 2010—2012 has been the formation of mid-term trend (for 2012—2015) of global trade misbalance reduction.

First of all, regarding the largest countries, the point is:

— Reduction of foreign trade deficit of the USA – in the structure of the country economy, the current account deficit reduced from GDP 4.9 % in 2007 to GDP 2.7 % in 2012 with further gradual reduction in the nearest 2—3 years (Table 9);

— Reduction of foreign trade surplus of China and Japan. In the structure of Japan economy positive balance of the current account reduced from GDP 4.9 % in 2007 to approximately 1 % in 2012 and further maintenance of such level[36];

— Certain deterioration of foreign trade balances of individual developed countries. The current account deficit of Great Britain exceeded GDP 3 %, and it is expected to reach its moderate level of 2—2.5 % only in 2015. Yet, such «crisis» short-term increase of deficits (in developed countries) can be interpreted as positive for the global economy as it allows maintaining aggregate demand along with the export of developing countries (which prevents deployment of new recession waves);

— Increase of domestic demand in the Asian countries, which facilitates certain re-orientation of export flows to domestic and regional markets as well as increase of import in the largest economies of the region (China, Japan);

— Preservation of positive dynamics foreign exchange rates (for the global trade), first of all, preservation of relatively weak US dollar and absence of shock exchange rate changes for the

[36] It should be noted that reduction of positive balance occurred also due to force majeure circumstances – an earthquake in Japan which caused great damage to industrial and export potential of the Asian countries and broke global industrial and sale networks.

largest global currencies[37], which certainly is a favourable factor both for the international trade and investment solutions.

Table 9 **Great Britain current account balance, % of GDP**[38]

	2007	2008	2009	2010	2011	2012	2013	2014(p)	2015(p)
USA	-4.9	-4.6	-2.6	-3.0	-2.9	-2.7	-2.3	-2.2	-2.6
Eurozone	0.4	-0.7	0.3	0.6	0.8	2.0	2.9	2.9	3.1
Japan	4.9	3.3	2.9	3.7	2.0	1.0	0.7	1.2	1.3
Great Britain	-2.2	-0.9	-1.4	-2.7	-1.5	-3.7	-3.3	-2.7	-2.2

Debt Effect

In the nearest years, the most important risks for the global economy shall be financial risks in general and debt risks, first of all, public risks, in particular. Naturally, such situation will be of decisive importance for decision-making by the investors. Still, it seems that relatively high debts are not a serious obstacle for the economic and investment acceleration of Great Britain.

True, public debts (most often it concerns debts of the so-called generalized government or public administration sector) of the largest global economies have increased rapidly in the later years and are at the GDP level (although «safe» level, according to the Maastricht criteria, is equal to 60 %)[39]. At the same time, considering mutual crediting and loans of economic agents from various countries, transnational «mutual penetration» of assets and liabilities, gross and net investment and debt positions of countries can be essentially different (Table 10).

Another important component of the debt position of the country is the public debt structure. Let us draw attention to some peculiarities of the Great Britain public debt (Figure 9).

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[37] Lately, the British pound mostly cost USD 1.5-1.6, and Euro – USD 1.3-1.4.

[38] World Economic Outlook Database // IMF – 2012. [Electronic resource] – Access mode: http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weoselgr.aspx

[39] It should also be considered that today less differences are seen between domestic and foreign debt, taking into account the easiness of capital flows, entry of non-residents in the national capital markets, access to foreign currency resources (including loans and assets) both in public and private sectors. For more information, see: Global Financial Stability Report: Moving from Liquidity- to Growth-Driven Markets. // IMF – April 2012. – [Electronic resource] – Access mode: http://www.imf.org/-external/pubs/ft/GFSR/index.htm

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Table 10 **Dynamics of net and gross public debt, % of GDP**[40]

	2008	2009	2010	2011	2012	2013	2014(p)	2015(p)
USA								
Net debt	50.4	62.1	69.7	76.2	80.1	81.3	82.3	82.7
Gross debt	72.8	86.1	94.8	99.0	102.4	104.5	105.7	105.7
Eurozone								
Net debt	54.1	60.2	64.3	66.5	70.2	72.4	73.2	72.6
Gross debt	70.3	80.1	85.7	88.1	92.8	95.2	95.6	94.5
Great Britain								
Net debt	48.0	62.4	72.2	76.8	81.4	83.1	84.4	85.7
Gross debt	51.9	67.1	78.5	84.3	88.6	90.1	91.5	92.7

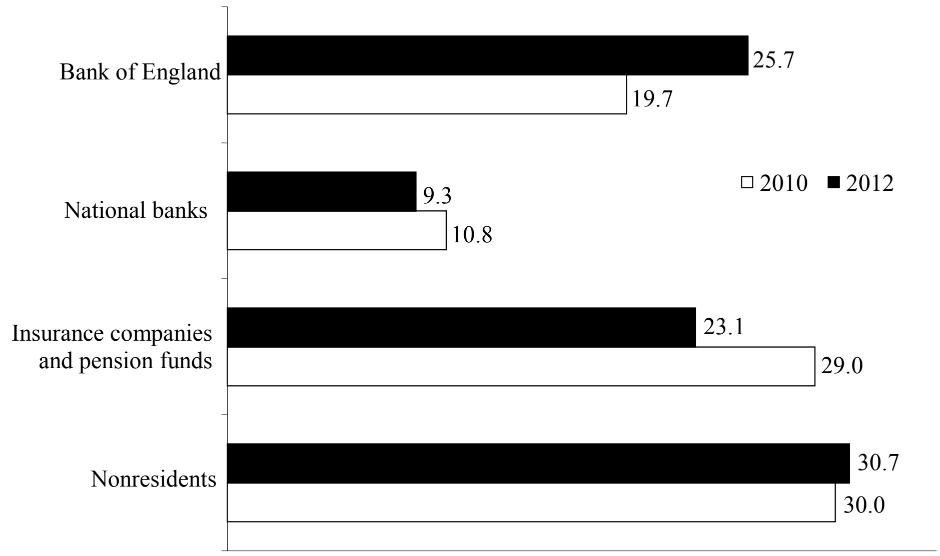

Fig. 9. Structure of the national (sovereign) debt of Great Britain, % of total[41]

The consolidated public debt of Great Britain truly exceeds 90 % of the GDP level. Still, one third consists of debts between national economic agencies and institutions (national banks, in-

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[40] World Economic Outlook 2014: Recovery Strengthens, Remains Uneven // IMF – April 2014. [Electronic resource] – Access mode: http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf

[41] Pettinger Tejvan. Who Owns UK Debt? – October 2013. [Electronic resource] – Access mode: http://www.economicshelp.org/blog/1407/economics/who-owns-government-debt

surance companies, pension funds etc.). Along with this, the role of country`s central bank has grown. While in 2010 the Bank of England maintained about 20 % of the government debts, in 2012 – about 26 %. Such dynamics prove the efficiency of «quantitative easing» policy[42], aimed at further stimulation of the national economy by means of public monetary injections. The latter led to the increase of cash amount, which facilitated consumption and production growth.

As to the so-called category of potential risks – debts to non-residents – the share of liabilities during the specified years practically did not change (at the level of 30 %), and it is unlikely this category of investors could be a practical problem for servicing and repayment.

In this context, the following generalization is important. One of the most important peculiarities of the debt structure of the largest economies (USA, Great Britain, Japan and Eurozone) is that their national currencies (dollar, pound, yen and euro) are simultaneously acknowledged as global currencies on which there is a stable global demand and (in spite of exchange rate fluctuations) an «understandable» purchasing power (which is conditioned by their highly competitive economies in many aspects). Accordingly, debts of economic entities (both residents and non-residents) are also formed mostly in their own currency (large shares of 80% to almost 100% of foreign debts of the USA, Great Britain or Japan are nominated in dollars, pounds or yens). That's why the specified countries and the leading Eurozone countries will never be insolvent or bankrupt. (Due to restructuring of their and public balances in case of acute need, central banks will always be able to ensure coverage of all sovereign debts.). Thus, the debt structure of the largest developed economies of the world practically contains no so-called default risks. This means that the debt effect upon making investment decisions in Great Britain is actually minimal.

The impact of leaving the EU

There is no doubt that the investment prospects of Great Britain are related to strong business contacts with the continental Europe countries to a great extent. In this context, the intention of the country (or the dominating majority of the population) to

[42] Great Britain, following the USA (but much earlier than in other EU countries) introduced the "quantitative easing" programme in March 2009 (purchase of securities by the central bank of the country, first of all public securities, to grow money supply and support banking system liquidity).

leave the EU looks somewhat unexpected as it allegedly could lead to the loss of economic potential of the country.

Discussions regarding rationality and expedience of leaving of Great Britain from the EU have been going on for several years, and it looks like the prospects of the British membership in the European Union are getting more and more illusory. The actions of the British government during the latest couple of years are clearly aimed at restriction and even prevention of transfer of national parliament authorities, government and the Bank of England authorities to joint institutions and structures of the EU. Considering the current non-popularity of British membership in the EU among the Britons, it is most probable that the country will host a referendum on leaving the European Union at the end of 2017. Nevertheless, even disintegration development, according to our assessments, will not become an important negative factor of the investment prospects of Great Britain but might even improve the economic and investment prospects of the country.

The factors and characteristics of the policy of (possible) Great Britain leaving from the EU is a subject to be considered separately. Here we would point out individual components of such process in the context of the global investment centre, which is (and expected to remain), Great Britain:

— Unsatisfactory (for Great Britain) terms of the EU budget policy. Great Britain is a «clear» donor of the joint EU budget – British contributions exceed incomes significantly, and the difference keeps growing. While in 2008 Great Britain paid EUR 10.1 billion to the joint budget and received EUR 7.3 billion back, in 2012 these indices were EUR 16.2 billion and EUR 6.9 billion respectively[43].

Moreover, Great Britain favours strict financial policy aimed at reduction of expenditures and state budget deficit. That's why London actively speaks against increase of the expenditure part of the EU budget;

— Naturally, budget restrictions can restrain business activity and hinder economic growth. As Great Britain is not a part of the Eurozone, it uses independent monetary policy (including its currency component) to maintain proper monetary proposition and mitigation of internal and external misbalance along with stimulation of economic activity;

— Quite negative attitude of the Great Britain to the formation of the Banking Union of the EU – the mechanism which has

[43] Financial Programming and Budget: EU expenditure and revenue. – European Commission. [Electronic resource] – Access mode: http://ec.europa.eu/budget/figures/interactive/index_en.cfm

to resolve problems of financial sector of individual countries at the European level, including provision of assistance to banks directly from the costs of a Single Resolution Fund (which shall be filled by contributions of the banks avoiding national budgets)[44]. The Great Britain financial institutions are not interested in «external» control of national banking and financial systems activity. Besides, not all British banks might be interested in consolidated financial support of weak continental banks due to their unsatisfactory (risky) activity (i.e. financing of weak banks at the expense of weakening stronger banks).

At the same time, the formation of general European banking institutions means concentration of financial power in Frankfurt, which would lead to enhancement of power of the European Central Bank compared to the Bank of England;

— Unwillingness of Great Britain to introduce additional taxation for the financial sector of the country, namely refusal of the country to introduce the so-called Tobin tax (according to which all international transactions shall be taxed), as such taxation, *on the one hand,* would lead to weakening London positions as the global financial centre[45], *and on the other hand* – it is the Great Britain banks which would pay the largest amount of funds. A third of all global currency contracts are fulfilled through the London Foreign Exchange. Although Great Britain is not a part of the Eurozone, still, sales of Euro in London exceed the rates of trade in all other European countries.

The maximal freedom of foreign currency operations has become one of the most important reasons why London transformed into the leading global foreign exchange market, as the British economists acknowledged. Enhancement of regulation of banking and foreign currency sectors, as specified, would deteriorate their global competitiveness and cause deceleration of financial resource inflow to Great Britain.

This means that currently such enhancement of the Great Britain financial system independence (in case of leaving the EU) can really consolidate the status of the country as one of the largest investment centres of the global economy.

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[44] Enhancement of the banking sector regulation system, which has to control the British banking system, makes the latter less competitive (and today the London City feels tighter competition from New York, Singapore and Hong Kong).

[45] London is one of the largest global financial centres, and its foreign exchange market is the largest in the world. London occupies the first rating place according to the Global Financial Centres Index (see: The Global Financial Centres Index 2013 // Long Finance – March 2013. [Electronic resource] – Access mode: http://www.geneve-finance.ch/sites/default/files/pdf/2013_gfci_25march.pdf).

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Moreover, attractiveness of Great Britain leaving the EU is strengthened by the fact that the «saved» resources (please mind that Great Britain is a net donor of the EU budget) will be forwarded for domestic markets development, enhancement of investment and innovative model of the economy. Global foreign exchange and financial markets (no doubt, London will still preserve leadership among the global financial centres, including due to prevention of international transactions taxation) would increase attractiveness of the country for further expansion of capital inflow (including FDI) along with provision of stable long-term growth.

Conclusions

The Great Britain economy which is one of the global investment leaders, despite the complex terms of post-crisis restoration, has wide opportunities to become the leading economy of Europe in the nearest decades due to its purposeful and active introduction of investment and innovative model of development.

The elaborated governmental programme of economic restoration and development of the country is aimed at the increase of efficiency and competitiveness of the British economy, establishment of efficient working places, introduction of new technologies and consolidation of the position of the country at international markets. The base of the programme is to consolidate the Great Britain positions in the global financial and investment flows.

The perspectives of converging economies of the USA and Great Britain can provide the latter with an additional positive impulse, including due to further liberalization of foreign trade between the USA and the EU, as Great Britain is an active well-wisher and initiator of further liberalization of trade and free capital flows.

The investment prospects of Great Britain are greatly conditioned by competitiveness of workforce which meets high requirements regarding qualification, efficiency and due experience. In the terms of global competitiveness tightening, it is qualified and productive work along with strong institutions that becomes the determinant factor when international investors make their decisions.

The debt position of Great Britain is also favourable for investments. Although lately the debts of the public and private sectors have grown considerably, the debt structure of the country contains practically no so-called default risks, as the debts of economic entities (both residents and non-residents) are formed and nominated in their own national currency. Along with this, the debt effect upon making investment decisions in Great Britain is actually minimal.

Although lately the intentions of Great Britain leaving from the EU have strengthened, even such de-integration process will not become a factor which deteriorates investment prospects of the country, but might even improve the economic and investment prospects, as Great Britain will manage to preserve its relative advantages in the foreign economic and financial spheres and consolidate the status of the country as one of the largest investment centres of the global economy.

As to Ukraine, currently the country has quite unsatisfactory level of economic and financial cooperation with Great Britain. That's why activation and intensified interrelations and business contacts between the two countries might provide Ukraine with an additional chance for economic restoration.

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