

Gains by the Pound: Analyzing the U.K. as a Growing

Global Business Power

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The United Kingdom, historical site of countless monarchies, rebellions, trades, wars, and more than a few Harry Potter film locations, has etched itself into the minds of people all over the globe. In nearly every history classroom in any part of the world, it would be impossible to review human history without mention of one of the great global powers of the New World and the Old. Whether it be the sweeping stories of the Revolutionary War against the soon to be United States, the imperialism in Hong Kong, the countless ruffles with France, or their involvement in two World Wars, the United Kingdom (UK) has had a hand in numerous conflicts and alliances with many of the global powers. It should come as no surprise, then, that this world power is now viewed as one of the most prominent money centers in the entire world. But what has caused this island off the North coast of Europe to become such an economic hub of activity? Certainly anyone who has visited can attest to the beauty and history of the place, but businesses do not spend money for such sentimental reasons. To answer this question, we first have to examine the areas as a whole in terms of marketability to foreign and domestic investors.

Foreign investors have made a significant mark on projects in the UK, with 1,773 new investment projects being started in 2013-2014, roughly a 12% increase from the previous fiscal year (Spickernell). The UK was second only to traditional global power The United States of America in terms of foreign investment brought into the country. The impact of these projects is not limited strictly to the amount of money poured into them, but is extremely far reaching. Over 170,000 jobs in the past year are estimated to have been created from these investments from foreign backers, funneling money to the national economy almost as fast as it could be

counted. Often, when one thinks of the United Kingdom in an economical sense, London comes to mind, one of the largest cities in the world teeming with opportunity and an eager workforce. However, much of these investment projects have taken place in the regions outside of London. For instance, Wales, Northern Ireland, and Scotland have all seen increases in foreign direct investment projects ranging from 16% to 191%, nearly doubling over the course of just one year (Spickernell). All told, the United Kingdom received a net Foreign Direct Investment stock of £975 billion in 2013-2014 (Spickernell), a huge boost to the national economy and GDP. One of the more obvious reasons for such a large FDI is the contribution of fellow European Union members to the UK, aiding one of their own while also promising a hefty return on their initial investment. The second largest regional contributor was, unsurprisingly, the Americas. I found this to be predictable due to the cultural similarities between the United States and the UK, and the ample capital that US investors have burning holes through their pockets, begging to be multiplied in foreign markets.

Perhaps one of the most hotly contested and heavily invested fields in the United Kingdom, particularly in London, is the real estate market. Similar to what is currently happening in New York and, recently, on the West Coast of America, the housing market in London is exploding with high rise condos and over-priced shoebox apartments, and very little middle ground. While this is no doubt enticing for foreign investors looking to get rich quick by buying lower-end real estate and flipping it into extravagant condominiums, hotels, and high rises, it is simultaneously driving the middle, working, and lower classes out of the picture.

Investors with deep pockets seemingly have the art of developing real estate down to a science, offering landlords of buildings with lower to middle income families and individuals lump sums that are simply too much to refuse, essentially denying the middle class, lifeblood of the economy, a spot at the table. While it cannot be argued that this business model is successful for the investors and developers in the short term, it should not be viewed as a long lasting trend capable of constant growth. The reality of these inflated bottom lines is nearly empty skyscrapers, having become too reliant on the small number of the population capable of paying for residence in these luxurious high-rise tombs of the middle-class. These ruthless money making business practices have placed the country on the brink of class warfare, which can be crippling to a nation on almost all levels. With the threat of civil unrest looming over the populace, one cannot help but to wonder just what it is that keeps the foreign investors pouring money into the United Kingdom.

London is viewed as one of the world leaders in innovation and economic growth, largely due to stability across many facets of the burgeoning economy. The United Kingdom is surprisingly self sufficient by European standards, utilizing an extremely efficient and mechanized agricultural system to provide for nearly 60% of the population's food needs, a substantial amount considering the relative size of the farmland in the country compared to the growing population ("United Kingdom: Country Overview."). This remaining 40% of need serves to increase the urgency of trade, facilitating relations with neighboring countries with more ample farmland available. While that amount of self-sufficiency is impressive for any European country, the UK manages to do so using only 2% of the workforce in the region

("United Kingdom: Country Overview."). It should be noted, however, that the rest of the working population is not simply loafing, as the economy of the UK is decidedly service-driven, with banking, insurance, and business services comprising the majority of the GDP for the country. This reliance on services has helped the growth of the region tremendously outpace other countries in Western Europe since 1992, as other nations have suffered from an over reliance on the sale of tangible property as a chief moneymaker. Additionally, many financial experts believe that the countries seemingly stubborn adherence to the Sterling Pound has helped the country to be somewhat change-resistant in terms of the small fluctuations that can take place over the years in global economies, especially considering the reliance of the UK on other countries to supply it with energy since 2005, when it became a net importer of energy ("United Kingdom Country Profile - Overview.").

The United Kingdom has been positioned well to be a global power, both regionally and historically, for quite some time. Due to an increasing importance placed on education, Britain became a leader in the Industrial Revolution of the 18th century. Innovation and technological advances soon lead to the implementation of mechanics in factories and production warehouses, ushering in the world's first service based economy. With a driven workforce focusing on increasing the level of service in businesses, less attention was paid to manufacturing in the country, as there was enough existing capital in the country to simply procure needed goods from neighbors.

It is the close proximity to these neighbors that set the stage for the UK to rise to prominence on the world stage, as the formation of the EU brought 27 willing

trade partners in addition to a less strict immigration policy for the member countries in regards to the UK, flooding the borders with over 2 million UK residents claiming citizenship in EU countries. As of 2013, 52% of the total trading for the UK was done with fellow members of the European Union, with a value estimated at just over £400 billion (Wheeler). A steady influx of human and financial capital have helped to create a uniquely stable and viable economic model that encourages growth and entrepreneurship, which in turn attracts investors that pour large amounts of money into both the public and the private sectors. While this human capital is typically welcome, there is a growing problem of refugees and political asylum seekers, whose inability to legally work in the country has the potential to quickly cripple the countries social support system. Ample evidence supports the claim that a certain level of poverty for this minority group is actually enforced by the government, with little indication that political resolve exists within the government to reform the situation at all. During an inquiry into the treatment of asylum seekers, The Joint Committee of Human Rights determined that the government of the UK was 'practising a deliberate policy of destitution' (Allsop) in order to discourage people without ample financial backing from entering the country in search of assistance.

Of course, when companies both large and small are considering subsidiaries or branches on the international scene, not all is created equal in terms of laws for actually acquiring the human capital necessary to become a productive entity. Recently, the British government has authorized the ability of employees to request flexible employment, in which employees are able to request flexible working

environments, including reporting to an office minimally throughout the week or even working entirely from home, creating a culture where the employees know that things are taken care of at home without losing touch with their business (Association, Press). The UK has a culture that falls in the middle of the road in terms of masculinity by Professor Geert Hofstede's Dimension Rankings, representing a "preference in society for achievement, heroism, assertiveness and material rewards for success", while also recognizing the importance of family and relationships that span beyond the work environment. This legally required consideration of flexible working environments has created longer term employees than usual as well as better job retention, with fewer employees having to self terminate due to family problems unrelated to work performance.

Flexible employment is only one of the ways that the UK legislation has encouraged businesses to practice within its borders. It is extremely simple to begin a business or corporation in the UK, with a decidedly pro-business environment existing as a direct result of the low cost legal structure of establishing a business entity in the country. The difficulty of establishing a subsidiary in the United Kingdom is intentionally kept to a minimum, with most companies needing only to report the name, address, and basic details of the company to the Companies House, the United Kingdom's registrar of companies, where the business is then essentially ratified into documented existence in the country.

It is not unusual for companies to elect to send agents from agencies in other countries to their offices in the UK on expat assignments for a limited amount of time in order to better educate the British staff on company goals and missions. In

this instance, tax reliefs are available for short-term expat assignments, allowing companies and individuals to travel to and from their UK posts with minimal tax penalties. Many companies are hesitant to send out expats to countries due to the intense complexity and sheer logistics of the process, so eliminating one daunting task from the laundry list of duties is certainly an added incentive.

While these are all perks of the United Kingdom, many of these exceptions and laws exist in other countries. One thing unique to the UK is the advent of patent boxes, which allow companies to apply a lower rate of corporation tax to profits earned from patented inventions (Corporation Tax: The Patent Box). This allowance creates additional gains for companies doing business in the country, particularly in the manufacturing business, where patents and trademarks are often requirements. This is beneficial for both the country as a whole, whose manufacturing industry has been noticeably lacking in the past in comparison to the other booming industries such as finance and consulting, and for companies looking for a boost in financial capital while still operating their business at full capacity.

One of the most important, and often overlooked, components of doing business in the United Kingdom is the ease of actually getting there. Whether it be employees on business for an existing company, or executives scoping out the region for investment, a visa is necessary for a prolonged stay. In the United Kingdom it is relatively easy to obtain one of the multiple types of visa available to business people. The most common type, Tier 1, is easily obtainable assuming a certain amount of financial capital (typically £200,00) is readily available to the individual for investment purposes, on top of necessary fees for the cost of living in

the country for the duration of the trip. The majority of the Tier 1 visas allow for application to remain in the country permanently assuming a certain level of investment after a given amount of time, such as £10 million after 2 years or £5 million after 3 years. Should a business feel the need to employ outside of the UK workforce, it need only register as a sponsor in order to actively recruit non-residents to work in the country, a relatively simple process after establishing legitimacy of the business and ample financial capital at their disposal.

Yet another legislative measure taken to entice investment from sources abroad is the capital gains structure that exists in the United Kingdom. Businesses are only liable to pay a capital gains tax on the amount that exists over the stated allowance each year, calculated on a yearly basis by the government ("Capital Gains Tax."). Furthermore, all gains are netted against costs and losses for the year, reducing the likelihood of a company having to absorb a large financial hit from the preferred rate of tax on capital gains. This absorption method allows businesses to use less discretion when selling and buying capital properties, encouraging investment due to the lowered risk of a financial fall out should the gains exceed the company's means.

Although the border may be open, investors are still likely to enter a country unless the banking system, where the actual capital is held, is stable and uncorrupted. The United Kingdom has one of the more stable banking industries in the world, with an existing infrastructure to support and maintain large financial institutions and the educated workforce to be able to manage the systems. Following the global recession in 2008, the banking industry in the UK has bounced

back considerably, being upgraded to “stable” by various rating agencies as soon as 2013, and maintaining that status ever since. This spawned a positive economic outlook for the nation and brought on many changes to the financial sector in the hopes of keeping this status for as long as possible. Some of these changes include temporary tax cuts and nationalizing parts of the banking system, involving the government without being intrusive and contradicting the mission.

After the recession, the government made a concentrated effort to get banks on the right track while simultaneously avoiding the possibility of creating a more fragile system in the time of distress. One of the primary measures the government took was to mandate that banks become more liquid, keeping more cash on hand to reduce systemic risk, one of the major causes of the initial collapse. Additionally the Bank of England, the central bank of the country, expects to keep interest rates low in order to encourage more borrowing in order to help households and companies make other debt payments (“Nationalisation of the British banking system”). It is undoubtedly a fine line to walk, keeping more cash in banks while simultaneously encouraging more borrowing from banks, but if it were easy everyone would do it. The UK is able to keep this delicate balance due to the already plentiful cash coffers available to banks from the existing investors, as well as new sponsors seeking to cash in on the skyrocketing real estate market before the stable banking system enables more domestic buyers to capitalize on their newfound prosperity.

While the UK banking system is certainly not among the worst in the world, it is not without flaws of its own. To their credit, UK leaders have recognized this and have taken great strides to emulate countries with efficient and effective banking

practices, such as Germany. In 2013, a new policy was introduced to build a network of local and regional banks that share much in common with Germany's existing system of smaller savings banks. These banks have the simplified mission of serving only their local region, creating smaller and more efficient processes to be carried out by the local banking professionals, whose practical knowledge of the area serves to aid lending decisions (Pourvand). This flexibility and innovation by the leaders of the UK is critical in both reducing the risk that the UK falls behind countries as competitors for foreign investment while simultaneously building relationships with those same countries, who in turn continue to be trading partners with the United Kingdom.

Of course, some may perceive these changes to be reflective of an over reliance on leadership within the government, which is a fair criticism, considering the extensive policies in place that give policy makers an abundance of freedom in exercising their own best judgment. However, the UK is historically impervious to corruption in their leadership, ranking 14th out of 175 countries on the Corruption Index, according to world ranking service Transparency.Net. The trust generated from the existing lack of depravity in those in charge allows the population to move forward with the policies and legislation in place without needing to second-guess or distrust the government. It would be foolish, of course, to blindly trust an official or law maker without a relatively reliable fail-safe, so the UK does have safeguards implemented in the interest of curbing corruption, including the Bribery Act of 2010 (Eastwood), should a politician or official be swayed by a bag of money or a back room deal. The country also belongs to an OECD (Organization for Economic Co-

operation and Development) working group on bribery in international business transactions, as well as a UN Convention against corruption. Membership in these coalitions against corruption has helped to deter foreign investors from bringing crooked business practices into the country.

While the UK certainly has done an admirable job at deterring corruption within the country, other countries have not been as fortunate. The country has the 6th largest GDP in the world, and has a higher corruption rating than all but two of the countries in front of it, traditional global behemoths Germany and the USA. Though many Eastern countries, particularly in Asia, have strong annual GDP per capita numbers, the corruption on nearly all levels of government greatly hinder foreign attempts at doing business, discouraging companies with strong moral values that may be wary of the bribery that is common, even necessary, in some countries. In addition to a very strong GDP, the UK boasts the fourth ranked logistical system and infrastructure in the world according to The World Bank, with the ease of transporting goods and people from one end of the country to the other cited as one of the major attractions to foreign investors. When infrastructure, transportation, location, and language are included in the mix, it is difficult to argue against the UK as a prime spot for foreign investors looking for the best combination of opportunity in an established market and ease of doing business in a country.

While a corrupt-free government is desirable under any circumstance, the UK also boasts a decidedly open, stable political system. Though bureaucracies typically carry a negative connotation, at one point even inciting Prime Minister David Cameron to lash out at the legal system, restricting judicial review because

“time-wasting” has held up major projects dealing with the country’s infrastructure (Sparrow), in this instance the relative stability that it offers is a desirable trait. The fact that it may take several months to push through a simple instance of paperwork, while frustrating for much of the population, means that several different offices and employees of the government have to first read and approve of any change being made. Administrative duties aside, the government itself operates with a system of checks and balances, meaning that one single individual cannot force an agenda on the population. The government deploys the Civil Service to develop and implement policies in as efficient a manner as possible, further ensuring all sides of a new law or policy are considered before it is enacted. The legislation system itself requires many levels of approval, with Parliament, consisting of the House of Commons and House of Lords, having the sole power to pass laws for the entirety of the United Kingdom. Election to the House of Commons is much like the senatorial system for the United States, with geographic constituencies voting on individual members to represent them in Parliament. Members of the House of Lords are either recommended for appointment by the Prime Minister and then appointed by the Queen, or are individuals who have inherited lordships. Senior bishops of the Church of England are also voting members of the House of Lords. The balance of these two houses within the legislative branch ensure that the population gets a voice in decisions, while also allowing leaders the flexibility to effectively lead the country without feeling too shackled by the very system of which they have been appointed to lead. For instance, the House of Commons is responsible for approving Bills that raise taxes,

which then have to be approved by the House of Lords. As the Commons is publicly elected, the party with the largest number of members in the Commons forms the government, and debate large political issues of the day. The House of Lords complements the work of the elected members of the Commons, working on a more individual level by shaping rather than creating laws, and maintaining the legitimacy of the work done by the elected government (The Two-House System).

Perhaps the most important aspect of doing business in any country is the workforce itself, the employees who will carry out the daily tasks and goals of the company. An educated, motivated workforce can be the difference between being a global power and shutting down as soon as a company takes off. Even the best business model is meaningless if no one is around to help it come to fruition. The United Kingdom has long been boastful of their educational prowess, and rightfully so, boasting three of the top ten ranked universities worldwide. It is estimated by The Debrett's 500 that 40% of the most influential people in the UK attended independent school, the equivalent of American private school (Siddique). This displays both that investment is being made in education on a household level and also that this venture is paying off: the leaders of today received the best schooling of yesterday. In today's modern age, it seems as though the value of a higher education has never been higher and will only increase over the passage of time, as more and more companies begin to seek a competitive edge with the human capital they employ. The government hopes that this investment will pay off when these pupils enter the workforce and either begin a business of their own in the UK or

obtain employment elsewhere and later become one of the foreign investors pouring so much quid into the British coffers.

The future of such a publicly reliant education system, however, is rather bleak. While the UK will still undoubtedly remain among the top countries in the world in terms of education simply due to existing structure and supporting alumni, schools could face up to 12% cuts to their budget. This news, along with rising wage demands for staff and swelling numbers of students seeking to profit from the sterling reputation of the education system, could cause a decrease in spending of up to 7% per student by the year 2020 ("School Budgets 'facing significant cuts"). Both the Conservative and the Liberal Democratic political parties have recognized the growing concern of the British people on this matter, though both parties have only promised to "protect" the school budgets, not accounting for future inflations with increased budgets, actually losing the education system funds by remaining so stagnated.

A major luxury that the UK possesses, of course, is that an educated workforce already exists in massive quantity so an overhaul of the education system is not viewed as a priority by the leadership, in stark contrast to many similar countries such as the US, where many politicians run on a platform centered on a heavy investment in retooling the educational system to keep up with entrenched frontrunners such as the UK.

The added benefit to having such a highly educated workforce already in existence is that the UK can charge much less in terms of tuition to students, removing one common obstacle for many bright minds that crave higher education

but lack the funds needed to receive them. While loans are commonly handed out in such situations, it begins a cycle of debt and debt forgiveness that can cripple the recently graduated before they even enter the workforce, having to make business and personal decisions due to monetary burdens rather than choosing a field that best suits their skills and interests. The UK, while certainly not loan averse, has to resort to student loans less frequently as a result (Wyness). It appears, on a global scale, that education and wealth are directly correlated; with the wealthy being able to afford the best education and the best educated soon becoming the wealthy. The UK, while certainly not loan averse, has to resort to student loans less frequently as a result.

It should be noted that a workforce, no matter how educated, is not worth its weight in gold if it isn't healthy enough to work. The United Kingdom's National Health Service was recently ranked the best in the world by an international panel of experts, scoring the highest of all countries polled in quality, access, and efficiency. In addition to being such a well-oiled machine, the NHS also spends the second least amount per patient, less than half of the money the US spends on a per person basis (Campbell). Educated employees are much less likely than their more desperate, less educated counterparts to sacrifice health in the name of making a few more pounds, so an established and effective health care system is a must have for any country hoping to be a major player in the global employment arena.

So there we have it, the perfect storm that many businesses are slowly finding has developed in an island nation situated north of mainland Europe. The UK offers economic stability and staying power, effective legislation, reliable banking, a

squeaky clean government with a healthy system of checks and balances in play, and an educated workforce capable of operating any business at a high level. It is no wonder that so many foreign investors have found the shores of the United Kingdom inviting for reasons beyond just the scenery (which is breathtaking in its own right). The development of the enticing real estate within London, while volatile, offers incredible opportunity and viability for money-hungry investors, which pours money into the country by the bucket. This money stimulates an already humming economy, affecting households, banks, small businesses, large businesses, and even the government itself. Individuals and businesses in other countries see this and begin to view the UK as more than a vacation destination, looking at the economic landscape and realizing that the location, infrastructure, government, and workforce are nothing if not ideal. With the onset of newer technology making it easier than ever to be in two places at once, the world in a business setting is a shrinking environment teeming with potential possibilities. More and more of these possibilities are becoming realities for business owners and investors, largely in the United Kingdom. The influx of this foreign money breeds economic viability, turning this charming, sea-bound nation into a veritable financial hub, with transactions from all corners of the globe converging in a single place, transforming the UK into a commercial behemoth with no end in sight, leaving the rest of the world to speculate as to just how far this titan of industry can go.

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