

Article

Foreign direct investment by ultimate controlling economy, UK trends and analysis: July 2021

Foreign direct investment (FDI) presented by the economy of the ultimate controlling parent up to 2019.

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1 . Main points

- EU companies immediately controlled the highest value of the UK's inward foreign direct investment (FDI) position (£681.0 billion) in 2019 whereas North American companies controlled the highest value on an ultimate basis (£591.7 billion).
- The US controlled the highest inward FDI stock in the UK on an immediate (£381.6 billion) and ultimate (£562.4 billion) basis in 2019.
- The value of "round-tripping" - UK companies investing in the UK through foreign affiliates - was £19.3 billion in 2019, equivalent to 1.2% of the total inward FDI position.
- Hong Kong, Bermuda and the US were among the top 10 countries through which round-tripping was linked in 2019.
- While FDI with most offshore financial centres was lower on an ultimate compared with immediate basis in 2019, Jersey was an example where these values were very similar; this reflects negative immediate FDI positions for some companies as well as the positions of companies ultimately resident in Jersey.

2 . Foreign direct investment by economy of the ultimate controlling parent

In line with international guidance, UK foreign direct investment (FDI) statistics are presented on an immediate parent company basis; as such, geographical compositions reflect direct relationships between investing parties. However, the geographical composition can become distorted, as the increase in the complexity of multinationals' corporate structures often results in investment chains crossing many borders.

Presenting FDI statistics on an ultimate parent company basis reveals the economy where the ultimate risk-taker and beneficiary of the investment is based. While this affects the geographical composition of FDI, aggregate world figures will be the same whether shown on the ultimate or immediate parent company basis.

We linked FDI microdata with the Inter-Departmental Business Register (IDBR) to produce these ultimate controlling parent statistics. Further information can be found in Section 7.

The North Americas had the largest UK inward FDI position on an ultimate basis whereas the EU controlled the highest immediate FDI position in 2019

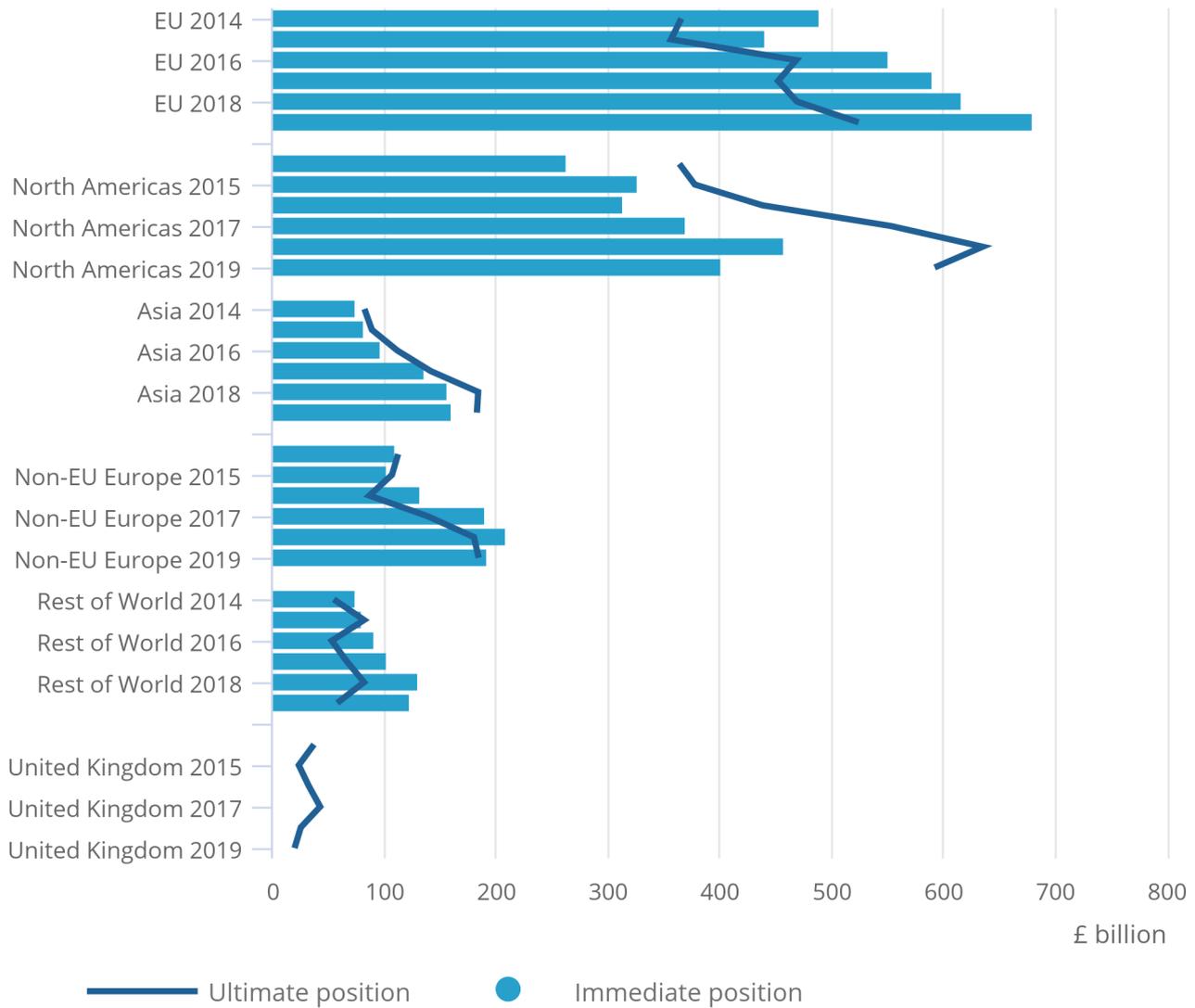
The continental distribution of the UK's inward direct investment shows us different patterns when the immediate position is compared with the ultimate position. The EU had the highest immediate value in 2019 at £681.0 billion, which was higher than the 2018 position (£616.6 billion). This was also considerably higher (by £157.3 billion) than the ultimate position in 2019 at £523.7 billion (Figure 1). This indicates that some UK inward investments from immediate parent companies located in the EU were ultimately controlled by businesses based outside the EU.

Figure 1: The North Americas remained the continent controlling the highest ultimate FDI position value in 2019

Inward foreign direct investment position by continent of the immediate and ultimate controlling parent company, 2014 to 2019

Figure 1: The North Americas remained the continent controlling the highest ultimate FDI position value in 2019

Inward foreign direct investment position by continent of the immediate and ultimate controlling parent company, 2014 to 2019



Source: Office for National Statistics – Foreign Direct Investment Survey

Notes:

- 1. Values might not sum to totals because of rounding

In contrast with the EU, the UK's inward ultimate FDI position with the North Americas was higher than the immediate position in any given year. The North Americas remained the continent controlling the highest ultimate position in 2019 at £591.7 billion, despite it falling by £42.9 billion in 2019 from 2018. The ultimate FDI positions in the UK for Asia and Non-EU Europe saw small changes in their values between 2018 and 2019 consistent with their respective upward trends.

The values for the UK refer to FDI that enters the UK on an immediate basis from abroad that was ultimately controlled by parent companies based in the UK. This reflects "round-tripping", whereby UK companies' foreign affiliates reinvest back into the domestic economy. The values have been following a slight downward trend between 2014 and 2019. UK companies ultimately controlled £19.3 billion of the UK's inward FDI position in 2019, equivalent to 1.2% of the UK total inward position, which was slightly lower than in 2018 (£24.9 billion, or 1.6% of the UK FDI position). Further analysis on round-tripping is included in Section 3.

The US, Japan and Jersey ultimately controlled the three highest-value FDI positions in the UK in 2019

The US controlled the highest inward FDI stock in the UK on an immediate (£381.6 billion) and ultimate (£562.4 billion) basis in 2019 (Figure 2). Alongside the US, the Netherlands (£167.2 billion), Luxembourg (£134.3 billion) and Belgium (£116.4 billion) comprised the other three countries that immediately controlled more than £100 billion of direct investment in the UK in that year.

Figure 2: US companies ultimately controlled the highest value of inward FDI in the UK in 2019

Comparison between the top 20 countries with the largest inward UK foreign direct investment positions on an immediate and ultimate basis, 2019

Notes:

1. "." denotes values suppressed to mitigate disclosure.
2. "-" indicates not applicable.

[Download the data](#)

On an ultimate parent basis, US companies still accounted for the highest value of inward investment in 2019 at £562.4 billion, which was £180.8 billion higher than the immediate position. This was the largest increase in positions between the immediate and ultimate parent basis among all countries. This indicates that companies with ultimate parents in the US are investing in the UK through affiliates in other countries. Furthermore, the US and Japan were the only countries with UK inward ultimate FDI position values above £100 billion. Jersey had the third-highest ultimate position of £95.8 billion compared with an immediate value of £95.5 billion in 2019. More information on FDI with offshore financial centres can be found in Section 4.

Luxembourg and the Netherlands saw the largest decreases from immediate position to ultimate position (by £113.7 billion and £82.9 billion respectively). This suggests that a large proportion of companies that have an immediate parent company in the Netherlands or Luxembourg have an ultimate parent elsewhere.

3 . Round-tripping involving UK companies

We can identify the economies through which UK parent companies are re-investing back into the domestic economy ("round-tripping"). These values reflect the global corporate structures of UK parent companies and how their functions have been organised internationally.

In 2019, the country through which UK companies invested the most into the UK was Hong Kong, which accounted for around 21% of the UK-controlled ultimate inward positions. This was followed by Bermuda (percentage not available) and the US (15%). All of the other economies in Figure 3 each accounted for less than 10% of the UK's inward foreign direct investment (FDI) round-tripping value in 2019. The ranking of Hong Kong and the US changed considerably between 2018 and 2019, becoming the first and third-highest immediate economies respectively for UK round-tripping after much lower rankings in 2018. In both cases, this reflects very low or negative FDI positions in 2018 that became bigger positives in 2019. Such changes are likely to reflect corporate decisions in a few companies.

Figure 3: Hong Kong was the economy through which the highest value of UK round-tripping was controlled in 2019

Ten largest immediate inward foreign direct investment positions in the UK by country with UK-resident ultimate parent companies, 2018 and 2019

[Download the data](#)

4 . Offshore financial centres with UK inward FDI

We can also analyse the stock of foreign direct investment (FDI) with [offshore financial centres](#), which highlight how corporate structures affect FDI when comparing immediate with ultimate FDI positions. Where companies use these centres to control their investments in other countries, it implies that the ultimate position could be lower than the immediate position. In 2019, there were 16 offshore financial centres where the immediate position was bigger than the ultimate position.

This was not the case for Jersey, which controlled the highest inward FDI stock among financial centres in the UK on an immediate (£95.5 billion) and ultimate (£95.8 billion) basis in 2019 (Table 1). Our microdata analysis indicated that the similar FDI values between the immediate and ultimate values were from a few Jersey-based ultimate companies reporting higher positions. Another factor was some companies with negative immediate FDI positions being ultimately controlled outside Jersey.

Table 1: Immediate and ultimate inward FDI positions for offshore financial centres with the UK
Top 10 by immediate inward foreign direct investment positions, 2019, £ billion

	Immediate	Ultimate	Difference
Jersey	95.5	95.8	0.3
Cayman Islands	34.8	3.7	-31.1
Bermuda	24.3	12.5	-11.8
Hong Kong	22.2	27.4	5.2
Barbados	19.6	..	-
British Virgin Islands	17.9	10.1	-7.8
Guernsey	13.6	9.4	-4.2
Singapore	8.6	2.8	-5.8
Isle of Man	6.4	15.5	9.1
Bahamas	3.4	..	-

Source: Office for National Statistics – Foreign Direct Investment Survey

Notes:

1. ".." denotes values suppressed to mitigate disclosure.
2. "-" denotes values not available.
3. The difference is the value of each economy's ultimate position less their immediate position.
4. We used [Eurostat's](#) list to identify offshore financial centres in this analysis.

Of the remaining seven offshore financial centres in Table 1 for which ultimate position values are available, five of them had a lower ultimate compared with immediate FDI position with the UK. The biggest differences of the ultimate compared with the immediate position was with the Cayman Islands (£31.1 billion lower) and Bermuda (£11.8 billion lower). This implies that the ultimate FDI position with the Cayman Islands was 89.4% lower than the immediate, and was 48.6% lower with Bermuda. These patterns are more in line with what we would expect to see in these results. This indicates that some UK inward direct investments from immediate parent companies located in those financial centres were ultimately controlled by businesses based outside that economy.

5 . Foreign direct investment data

[Inward foreign direct investment involving UK companies: immediate and ultimate basis](#)

Dataset | Released 19 July 2021

Inward foreign direct investment (FDI) positions into the UK on an immediate and ultimate basis from 2014 to 2019 (directional principle).

[Foreign direct investment involving UK companies \(directional\): inward](#)

Dataset | Released 21 December 2020

Annual statistics on the investment of foreign companies into the UK, including for investment flows, positions and earnings.

6 . Glossary

Foreign direct investment (FDI)

Foreign direct investment (FDI) is cross-border investment made with the objective of establishing a lasting interest in the host economy. FDI is also defined by control relationships, where the direct investor (parent company) controls at least 10% of the voting power (ordinary shares) of the direct investment enterprise. These relationships can be measured in two directions:

- outward: the direct investments of UK-resident companies in other countries
- inward: the direct investments in the UK from non-resident companies

Ultimate parent company

The ultimate parent company is the one that is at the top of the ownership chain and is not controlled by any other entity. It is the source of control of the stock of inward FDI for a reporting economy.

Immediate parent company

An immediate parent company is a direct investor of a UK-based affiliate. It holds 10% or more of the voting power of an affiliate and may have its own foreign parent company.

Round-tripping

Round-tripping refers to UK-based companies re-investing back in the UK through their foreign affiliates or subsidiaries.

Offshore financial centres

Offshore financial centres are economic territories through which companies control their investments. We used the same list as [Eurostat](#) to identify these economies, which are listed by continent in Section 7.

Directional measurement principle

The directional measurement principle presents FDI statistics based on the direction of influence of the direct investor (parent company). These statistics are of most use when considering the direction of influence for UK-based companies and therefore in data linking FDI to other sources of information.

7 . Measuring the data

Data sources

Presenting foreign direct investment (FDI) statistics by the ultimate controlling parent requires matching company microdata from the Inter-Departmental Business Register (IDBR) and Foreign Direct Investment Survey. By linking the two files, we aim to establish from where inward FDI ultimately originates. Our approach allocates FDI values to the economy of the company controlling the majority of the UK-based affiliate. This is one of the methods discussed internationally for estimating these statistics. This approach could also be more appropriate for FDI positions compared with earnings because the majority-owner bears the ultimate risk of the investment. It can, however, lead to some estimates being over-valued in cases where there are minority control relationships with companies in other countries.

Our FDI Survey is supplemented by data on Monetary Financial Institutions (MFIs), bank holding companies, public corporations and property data. These are collected from other sources such as the Bank of England and the Balance of Payments team in the Office for National Statistics (ONS). These do not contain business identifiers that can be linked to IDBR data. These gaps were included using the immediate country information in the ultimate position results.

We also validate the highest value companies by FDI stock for round-tripping. These are companies that have a UK-based ultimate parent company that control some of their UK-based affiliates through another country. In cases where there are minority-control relationships with non-UK companies, this can over-estimate the value of round-tripping in our results. Our validation draws on other sources of information to search for such minority relationships and to cross-reference against information on the FDI Survey. For all cases where we judge round-tripping does not exist, we set the ultimate controlling parent to be the economy of the immediate parent instead.

Offshore financial centres by continent

Asia

Bahrain, Hong Kong, Lebanon, Philippines, Singapore.

EU Europe

None.

Non-EU Europe

Andorra, Gibraltar, Guernsey, Isle of Man, Jersey, Liechtenstein.

North Americas

None.

Central and South Americas

Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Curaçao, Dominica, Grenada, Montserrat, Panama, Saint Lucia, Sint Maarten, St Kitts and Nevis, St Vincent and the Grenadines, Turks and Caicos Islands, British Virgin Islands, US Virgin Islands.

Rest of the World

Cook Islands, Liberia, Marshall Islands, Mauritius, Nauru, Niue, Samoa, Seychelles, Vanuatu.

Source: [Eurostat](#)

Quality

More quality and methodology information on strengths, limitations, appropriate uses, and how statistics were calculated is available in the [Foreign direct investment Quality and Methodology Information \(QMI\) report](#).

8 . Related links

[Foreign direct investment involving UK companies: 2019](#)

Bulletin | Released 21 December 2020

Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry using the directional and asset & liability measurement principles.