Statistical bulletin

Foreign direct investment involving UK companies: 2011

Investment of UK companies abroad (outward) and foreign companies into the UK (inward), including investment flows, positions and earnings, by country, component and industry.

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1 . Main findings

- UK companies continued to increase their net investment overseas in 2011 (£68.2 billion), the highest value since 2008
- Inward investment flows into the UK continued to fall during 2011, decreasing to £31.9 billion, the smallest inflow since 2004, although the rate of decrease appears to be slowing
- The UK's outward and inward investment positions reach record highs in 2011 (£1098.2 billion and £766.2 billion respectively)
- Net earnings from outward investment by UK companies stood at £101.6 billion in 2011, the highest value since records began in 1958
- In 2011, net earnings from direct investment in the UK are recovering from the large fall seen in 2008. Earnings from investment in the UK by overseas companies increased from £37.6 billion in 2010 to £43.6 billion in 2011, the highest value since 2007
- Net investment abroad by UK companies may indicate strong growth in some emerging markets such as China and India

2 . Overview

This statistical bulletin provides data on Foreign Direct Investment (FDI) flows, positions and earnings involving UK companies. The investment figures are published on a net basis, that is, they consist of investments minus disinvestments. The data in this bulletin are broken down by region and country. A more detailed analysis of the data, including breakdowns by industry, will be published in a second 2011 FDI Statistical Bulletin to be published on 7 February 2013.

FDI estimates are essential for measuring the UK's Balance of Payments and the UK's international investment position. FDI earnings figures feed into the Balance of Payments current account, whilst FDI flows form an integral part of the financial account.

3 . User engagement

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have and would be particularly interested in knowing how you make use of these data to inform our work. Please contact us via email: fdi@ons.gsi.gov.uk or telephone Ciara Williams-Fletcher on +44(0) 1633 456455.

4 . Summary

Table A: Net investment for outward and inward flows, positions and earnings, 2011

Values in £ billion

	Direct investment abroad			Direct Investment in the UK		
	Flows in 2011	Positions at end of 2011	Earnings in 2011	Flows in 2011	Positions at end of 2011	Earnings in 2011
Europe	30.9	613.4	46.6	13.2	437.5	20.5
The Americas	19.0	293.1	27.3	14.3	247.9	20.9
Asia	20.8	123.6	19.1	3.0	66.0	1.9
Australasia & Oceania	0.9	37.1	2.4	1.4	12.5	0.2
Africa	-3.3	30.9	6.3	<0.1	2.2	<0.1
World Total	68.2	1,098.2	101.6	31.9	766.2	43.7

Source: Office for National Statistics

Notes:

1. All values are current prices (see Background Notes).

2. A minus sign indicates net losses.

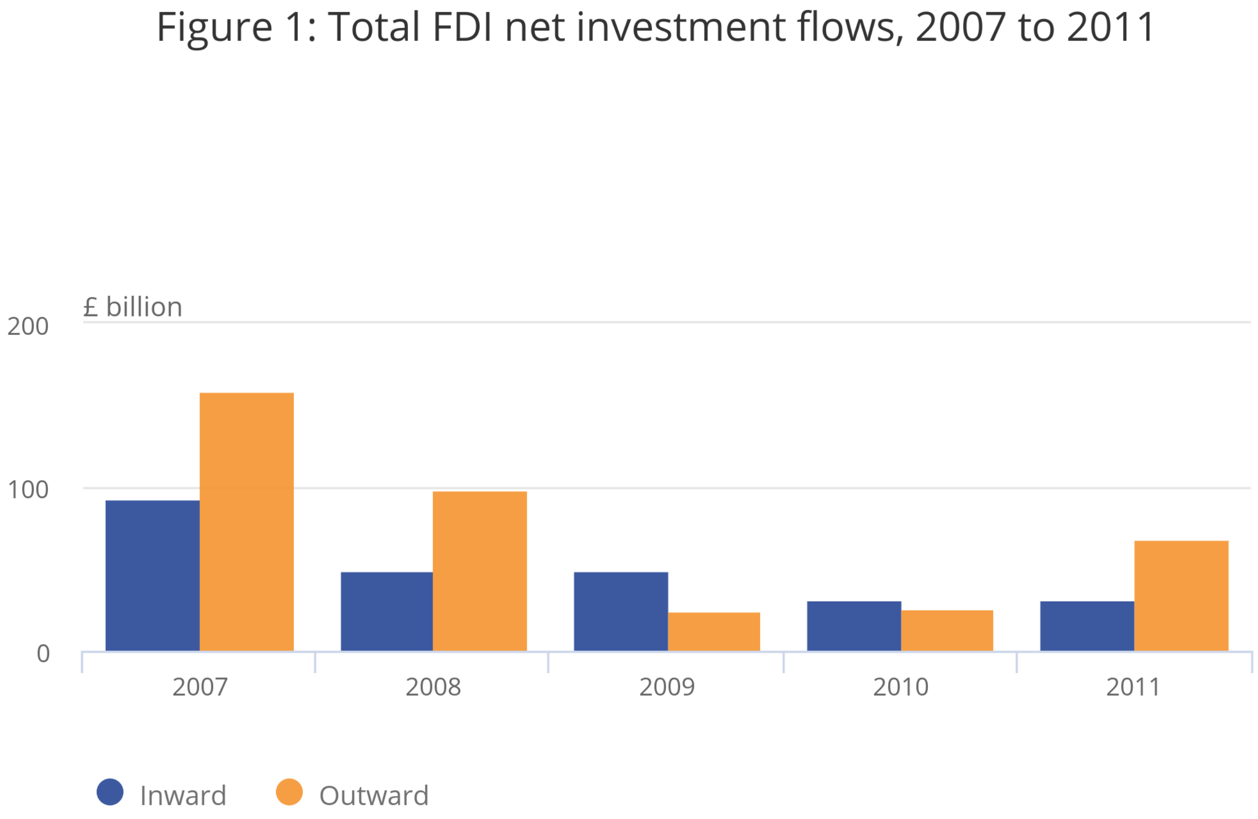
The growth rate of the global economy slowed in 2011 compared with 2010. The IMF estimated that the world economy contracted by 0.6% in 2009 before expanding by 5.3% in 2010, and at 3.5% in 2011, the world GDP growth rate perhaps hints at the more mixed underlying contributions to world growth across regions. The advanced economies, and the euro area in particular, saw slower growth that was somewhat compensated by strong growth in some emerging markets.

These trends are partly reflected in the destinations of net investment aboard by UK companies. For example, net investment in China and India increased substantially in 2011 compared with 2010. However, net inward investment to the UK showed a more mixed picture, with net investment from all regions falling, except from Australasia & Oceania and Europe. Much of the improvement in net FDI from Europe stems from the low increase in 2010, however it remains below the increase in 2008.

Total FDI analysis (outward and inward investment)

Total FDI net investment flows, 2007 to 2011 (Figure 1 and Table A)

Figure 1: Total FDI net investment flows, 2007 to 2011



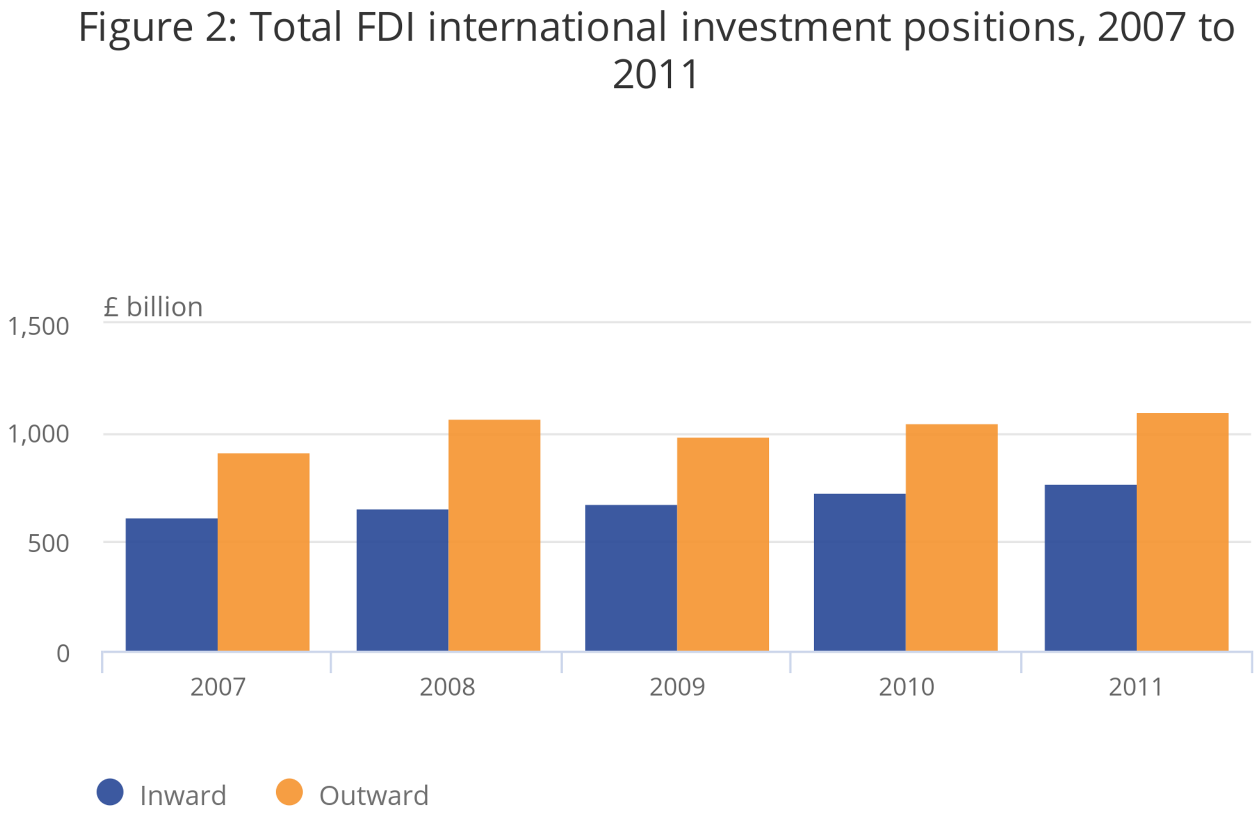
Source: Office for National Statistics

The flow of direct investment abroad by UK companies (outward investment) increased from £25.5 billion in 2010 to £68.2 billion in 2011, an upturn of £42.7 billion. This is the highest net outward flow since 2008, yet it continues to remain substantially lower than the peaks observed in 2000 and 2007 of £154.2 billion and £159.1 billion respectively.

Net investment flows into the UK (inward investment) fell slightly during 2011 (£31.9 billion) to a level comparable with 2004. This continues a downward trend, which started in 2007, although the rate of decrease appears to be slowing.

Total FDI international investment positions, 2007 to 2011 (Figure 2 and Table A)

Figure 2: Total FDI international investment positions, 2007 to 2011



Source: Office for National Statistics

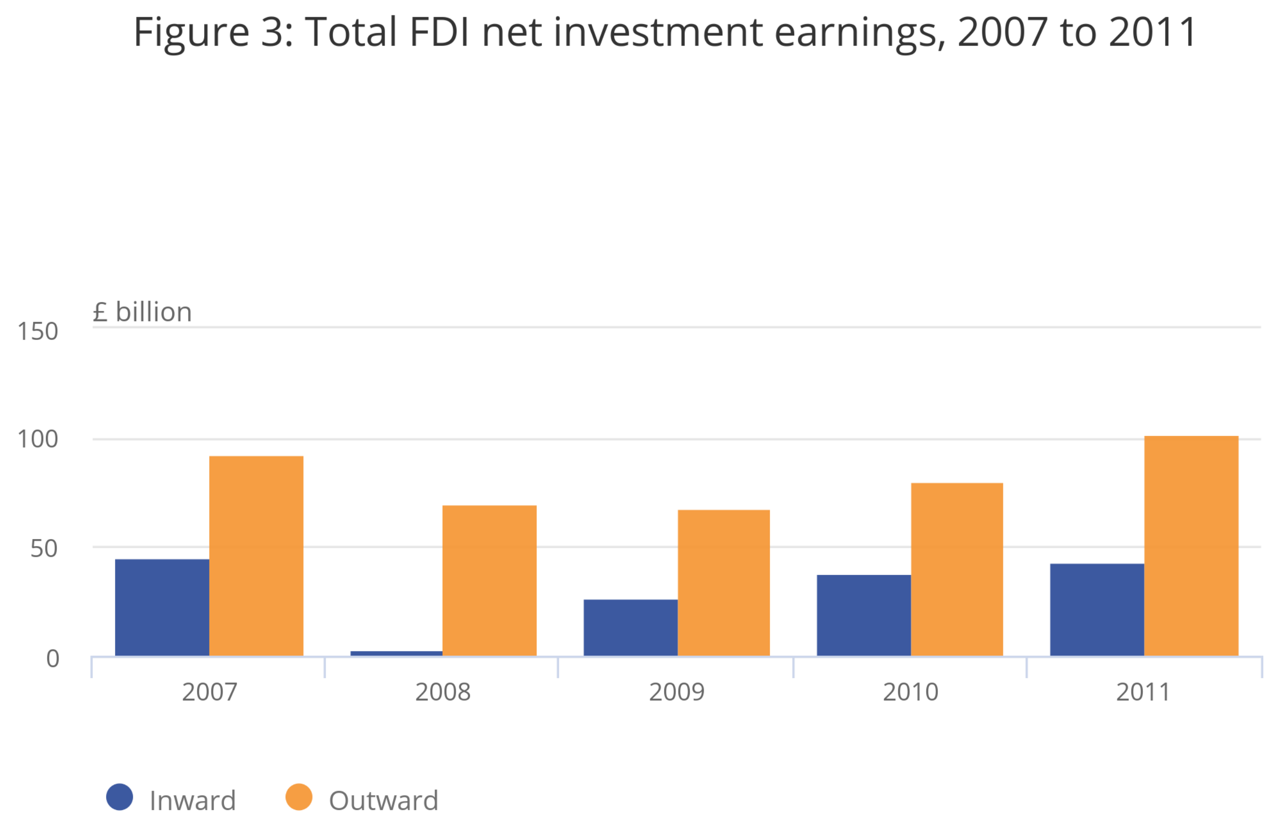
At the end of 2011, total levels of outward and inward international investment continued on an upward trend. Inward positions (over the last five years) show a steady year on year increase, whereas outward positions demonstrate an upturn since 2008.

The total position of direct investment abroad by UK companies stood at £1,098 billion (£1.1 trillion). This was marginally higher than the levels reported at the end of 2008. The total level of direct investment in the UK by overseas companies at the end of 2011 was estimated at £766 billion.

Both inward and outward levels for 2011 are the largest values reported since 1987, when ONS began collecting position data on an annual basis.

Total FDI net investment earnings, 2007 to 2011 (Figure 3 and Table A)

Figure 3: Total FDI net investment earnings, 2007 to 2011



Source: Office for National Statistics

Net earnings due to and from the UK have shown signs of recovery over the last three years. Net earnings from FDI in the UK (inward earnings) have continued to recover from the large fall seen in 2008. In 2011, net earnings into the UK increased to a level broadly similar to 2007, yet remain below net earnings figures published in 2006. After a fall in net earnings abroad by UK companies (outward earnings) in 2008 and 2009, these have now also risen to a level above the net earnings figures published in 2007.

Net earnings from direct investment by UK companies abroad (outward earnings) amounted to £101.6 billion in 2011, the highest value reported since records began in 1958. This was an increase of £21.3 billion on the amount earned in 2010, indicating that UK businesses may be investing wisely in projects abroad.

Net earnings by foreign companies from direct investment in the UK (inward earnings) also rose in 2011 to £43.6 billion, an increase of £6.0 billion on the amount reported in 2011, indicating that there may be a growing attractiveness by overseas companies to invest in the UK.

5 . Outward investment

Net direct investment abroad by UK companies (Table 1)[1]

The total figure for outflows from the UK masks some variation in outward direct investment flows by geographic region and country. While outward investment flows to Europe, the Americas and Asia showed positive increases, UK investment into Australasia & Oceania fell from £11.7 billion in 2010 to £0.9 billion in 2011, a decrease of £10.8 billion. This was primarily a consequence of a reduction in the debt owed to UK parent companies by their overseas subsidiaries. This may have been due to the redemption of inter-company loans or movements in short-term trade credit.

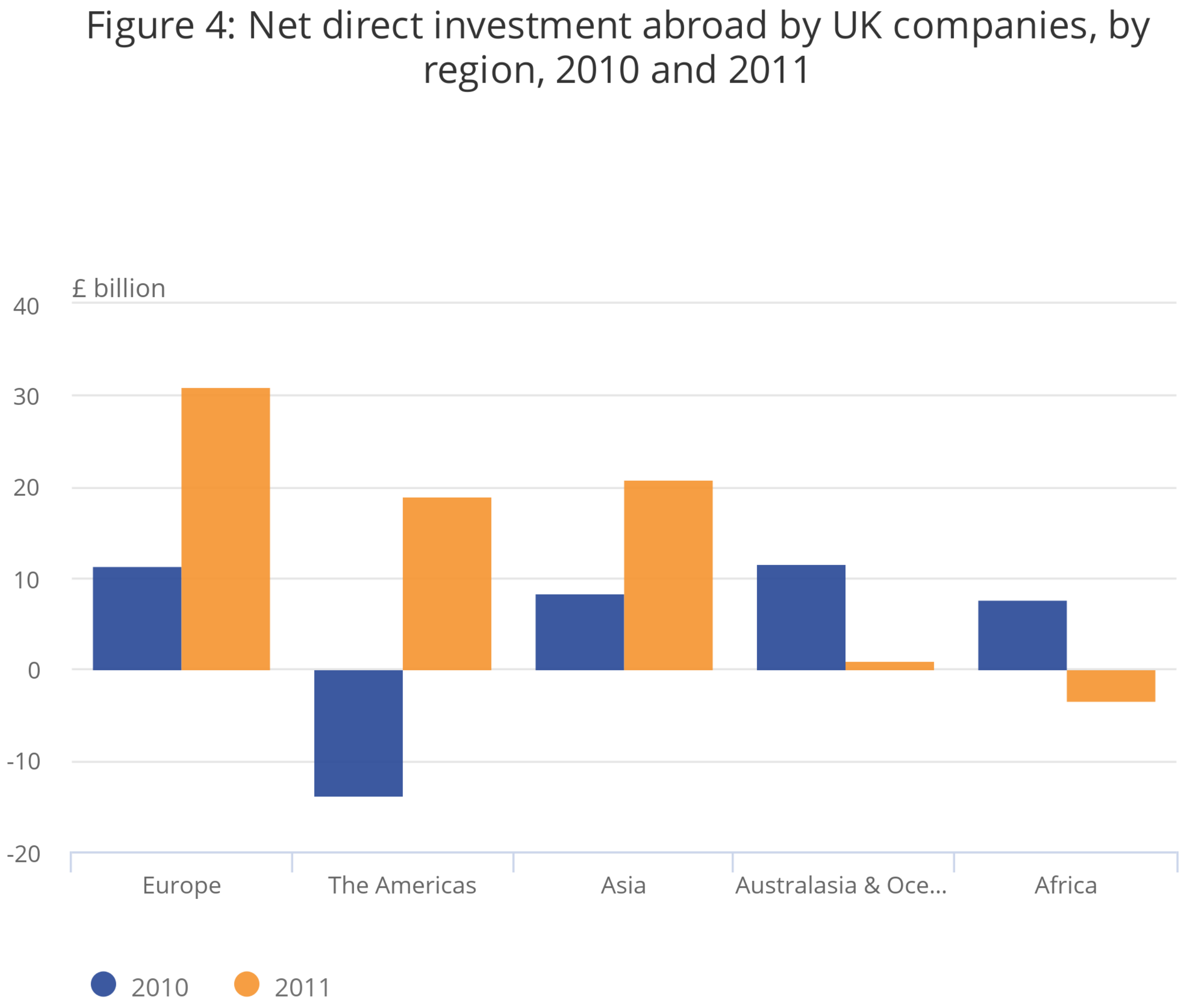
Outward investment flows to Europe stood at £30.9 billion in 2011, a substantial increase from £11.4 billion the previous year and the highest value since 2008. This overall figure masks some variation by country. Luxembourg was the primary destination in 2011 for direct investment from the UK, accounting for £8.0 billion of outward investment flows. However, the relative importance of the of Luxembourg (and the Netherlands) as a destination for direct investment by UK companies may partly reflect the presence of so-called Special Purpose Entities (SPEs) in these countries. The term SPE is used to refer to entities such as financing subsidiaries, shell companies and conduits, which typically do not conduct any significant operations in the country in which they are resident other than to pass through investment from their parent company to an affiliate in another country.

The next largest destination within Europe for flows abroad by UK companies was Belgium, accounting for net outflows of £5.6 billion during 2011. In contrast, outward flows to Spain showed a disinvestment of £1.1 billion. The flows to both Luxembourg and Belgium were driven largely by an increase in equity capital transactions during 2011.

The largest increase in outward investment flows in 2011 was to The Americas where UK investment rose to £19.0 billion in 2011 from a disinvestment of £13.8 billion in 2010. This increase was due to substantial levels of reinvested earnings, net change in inter-company debt positions and, again, large transactions of equity capital.

Regional analysis

Figure 4: Net direct investment abroad by UK companies, by region, 2010 and 2011



Source: Office for National Statistics

Notes:

1. See background note 5 for further guidance on interpreting FDI by country.

The Americas moved from disinvestment to substantial investment between 2010 and 2011 with a change of £32.8 billion. Some of the main drivers contributing to this swing included transactions of equity capital and also the repayment of inter-group loans and debt between UK parent companies and their subsidiaries in the Americas.

Investment abroad to Europe increased by £19.5 billion, from an investment of £11.4 billion in 2010 to £30.8 billion in 2011.

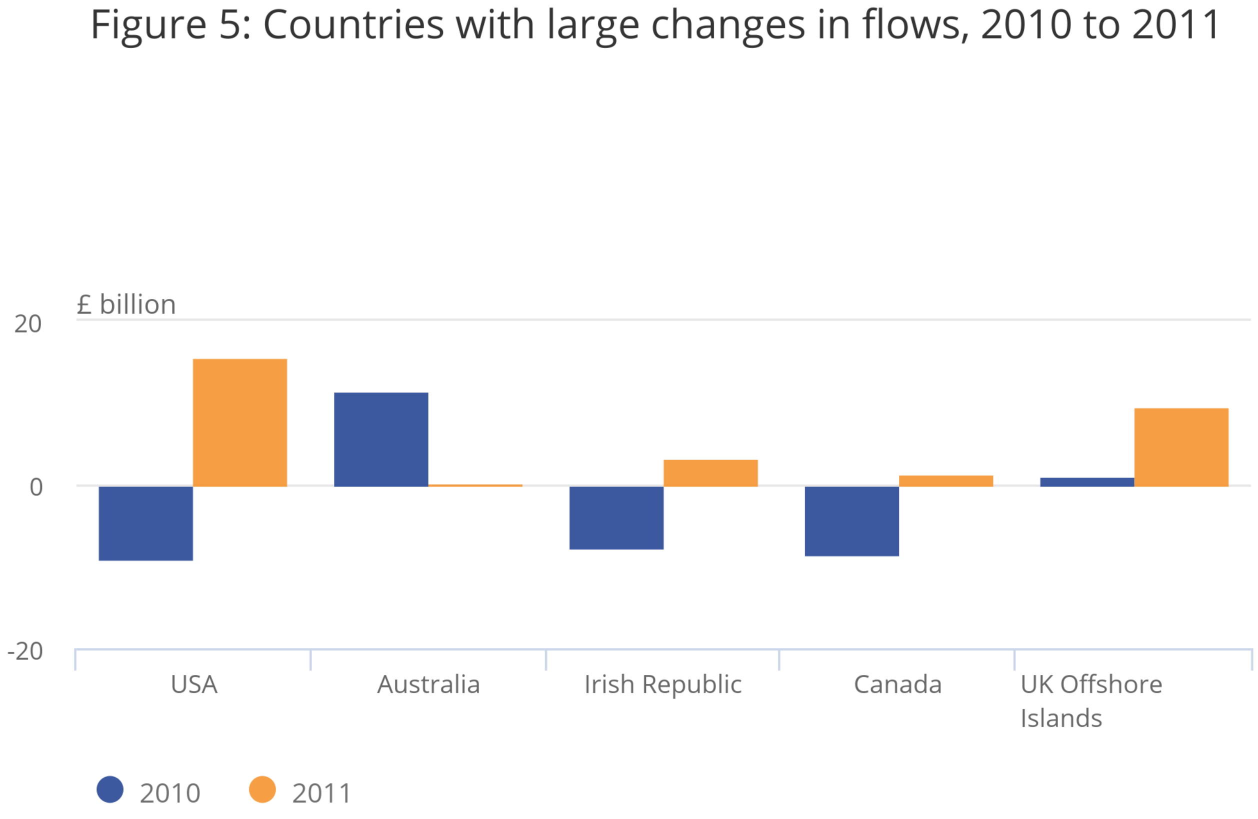
Of the remaining regions, Asia saw the largest change, where there was an increase in investment from £8.4 billion in 2010 to £20.8 billion in 2011. This was driven by strong growth in emerging markets such as China and India. For example Vodafone Group Plc acquired a controlling stake in Vodafone Essar Ltd of India for a press reported value of £2.6 billion.

Australasia & Oceania saw a reduction in investment, from £11.7 billion in 2010 to £0.9 billion in 2011. This was mainly driven by a substantial drop in investment flows to Australia.

Outward investment to Africa also decreased in 2011, falling from an investment of £7.8 billion in 2010 to a disinvestment of £3.3 billion.

Country analysis

Figure 5: Countries with large changes in flows, 2010 to 2011



Source: Office for National Statistics

USA witnessed the largest investment change, from a disinvestment of £9.0 billion in 2010 to an investment of £15.6 billion in 2011. This can be attributed to large acquisitions, such as Ensco Plc acquiring Pride International Inc. in the USA for £4.6 billion.

Australia saw the second largest change in flows, from an investment of £11.5 billion in 2010 to £0.4 billion in 2011, a decrease of £11.1 billion.

These changes were largely offset by increases in investment to the Irish Republic, Canada and UK Offshore Islands:

- The Irish Republic had an increase of £11.0 billion, from a disinvestment of £7.7 billion in 2010 to an investment of £3.2 billion in 2011

- Investment to Canada increased by £10.0 billion in 2011, from a disinvestment of £8.5 billion in 2010 to an investment of £1.4 billion

- UK Offshore Islands, which consist of Jersey, Guernsey and the Isle of Man, increased by £8.4 billion, from a net investment of £1.0 billion in 2010 to £9.5 billion in 2011

International investment position - level of direct investment abroad by UK companies (Table 2)[1]

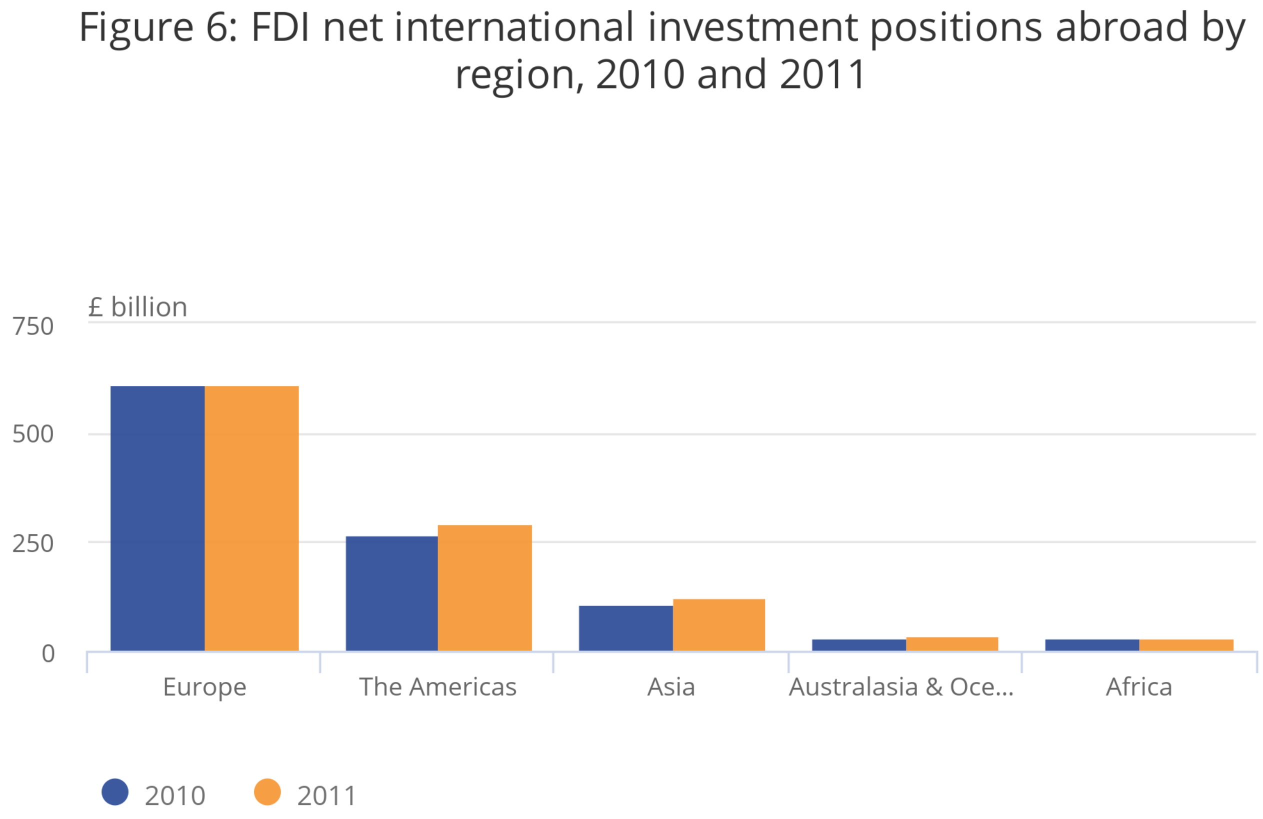
Europe continues to report the highest levels of direct investment abroad by UK companies and this accounted for 56% of the UK's outward investment position in 2011. Within Europe, the most dominant locations for direct investment by the UK were the Netherlands and Luxembourg, accounting for £142.8 billion (13% of the world total) and £137.2 billion (12.5% of the world total) respectively.

The Americas remained the most favoured location for UK direct investment abroad with the USA continuing to be the country within this region with the largest level of outward investment. This stood at £293.1 billion in 2011, an increase of £27.7 billion, compared with the previous year. This is equivalent to 27% of the overall level of direct investment abroad at the end of 2011, compared with 25% at the end of 2010.

By the end of 2011, the levels of investment in Asia and Australasia & Oceania both rose by £17.9 billion and £5.1 billion respectively.

Regional analysis

Figure 6: FDI net international investment positions abroad by region, 2010 and 2011



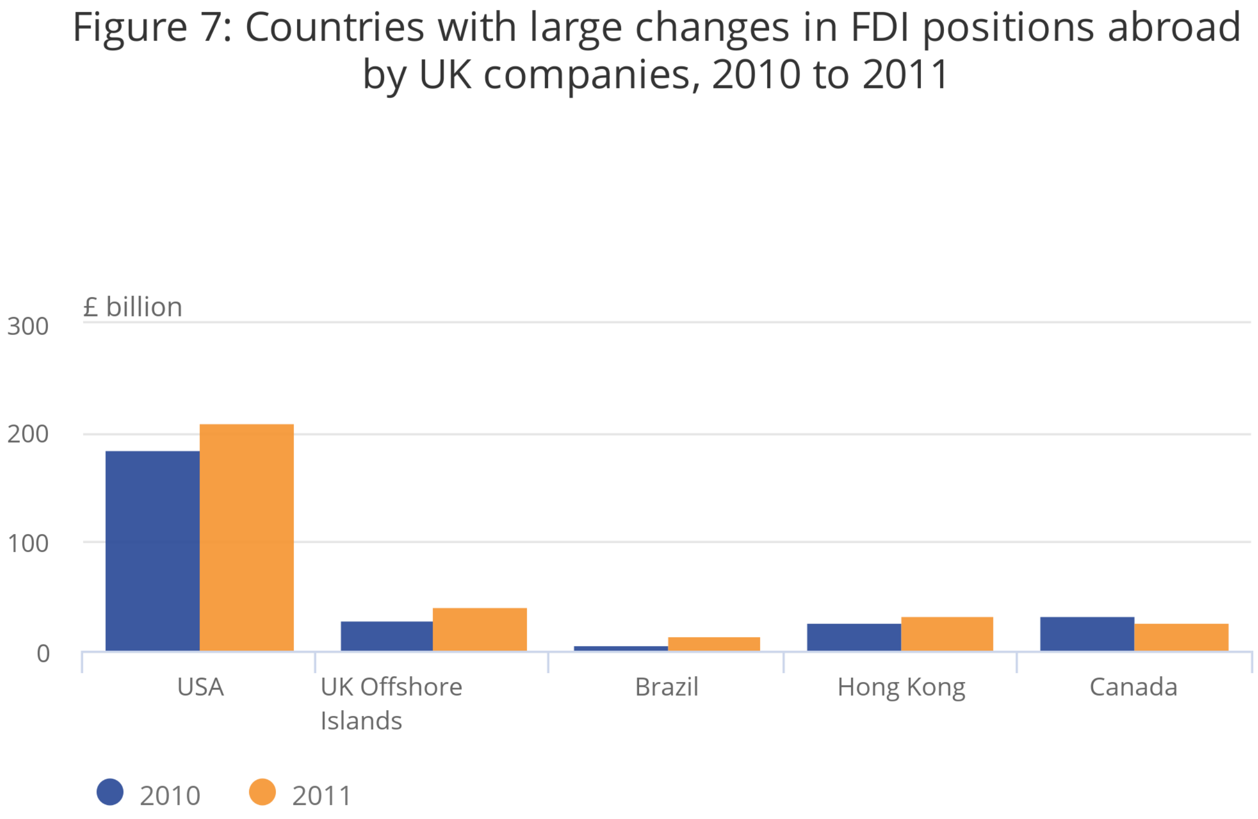
Source: Office for National Statistics

Notes:

1. See background note 5 for further guidance on interpreting FDI by country.

Country analysis

Figure 7: Countries with large changes in FDI positions abroad by UK companies, 2010 to 2011



Source: Office for National Statistics

The largest change in the value of outward positions between 2010 and 2011 was seen by the USA, where levels increased by £25.6 billion, from £184.8 billion at the end of 2010 to £210.4 billion at the end of 2012.

UK Offshore Islands also witnessed an increase in outward position values, reporting £40.1 billion at the end of 2011, a rise of £10.6 billion. However, it should be noted that these countries contain SPE's, which could distort the outward investment figures.

The outward position figures for both Brazil and Hong Kong also increased during 2011 by £7.9 billion and £5.6 billion respectively.

The overall increase in net outward positions was offset by Canada, where the positions abroad by UK companies decreased by £5.1 billion, from a value of £32.5 billion at the end of 2010 to £27.5 billion at the end of 2011.

Net earnings from direct investment abroad by UK companies (Table 3)[1]

The largest change came from Europe where the net earnings from direct investment by UK companies increased by £15.7 billion. Earnings from Asia and Africa also increased slightly, by £3.2 billion and £0.2 billion respectively. These increases were partially offset by a decrease in earnings from Australasia & Oceania (£3.7 billion).

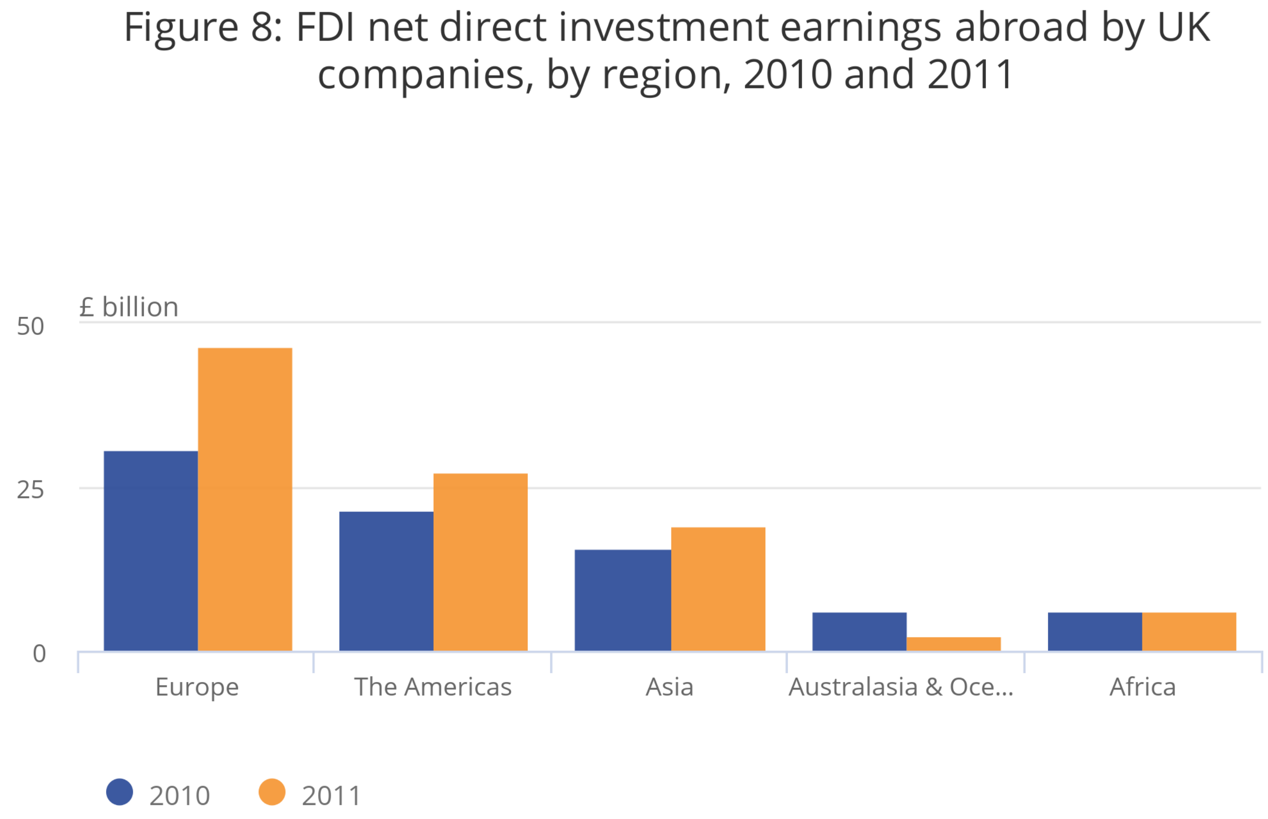
UK owned companies resident in the USA were the single largest source of earnings, accounting for 20% of the overall total, followed by those resident in the Netherlands and Luxembourg, contributing 13% and 12% respectively[2]. These increases were offset by net losses of £0.7 billion by UK owned companies resident in the Republic of Ireland.

One useful indicator related to direct investment earnings is the rate of return. This is normally defined as income on direct investment equity as a percentage of the overall direct investment position. As rates of return increase, it implies that direct investment enterprises are more profitable and can be used, in combination with consideration of many other factors, in drawing inferences about the competitiveness of different economies. Overall, the rate of return for outward direct investment abroad by UK companies was 9% in 2011, steadily increasing on both 2010 (8%) and 2009 (7%) figures.

There was some substantial variation in rates of return across geographic areas and countries. Rates of return for UK outward investment in both Africa and Asia were both around 20% and 15% respectively in 2011, while the overall rate of return from direct investment in Europe and Australasia & Oceania was considerably lower at approximately 7% and 6% respectively.

Regional analysis

Figure 8: FDI net direct investment earnings abroad by UK companies, by region, 2010 and 2011



Source: Office for National Statistics

Notes:

1. See background note 5 for further guidance on interpreting FDI by country.

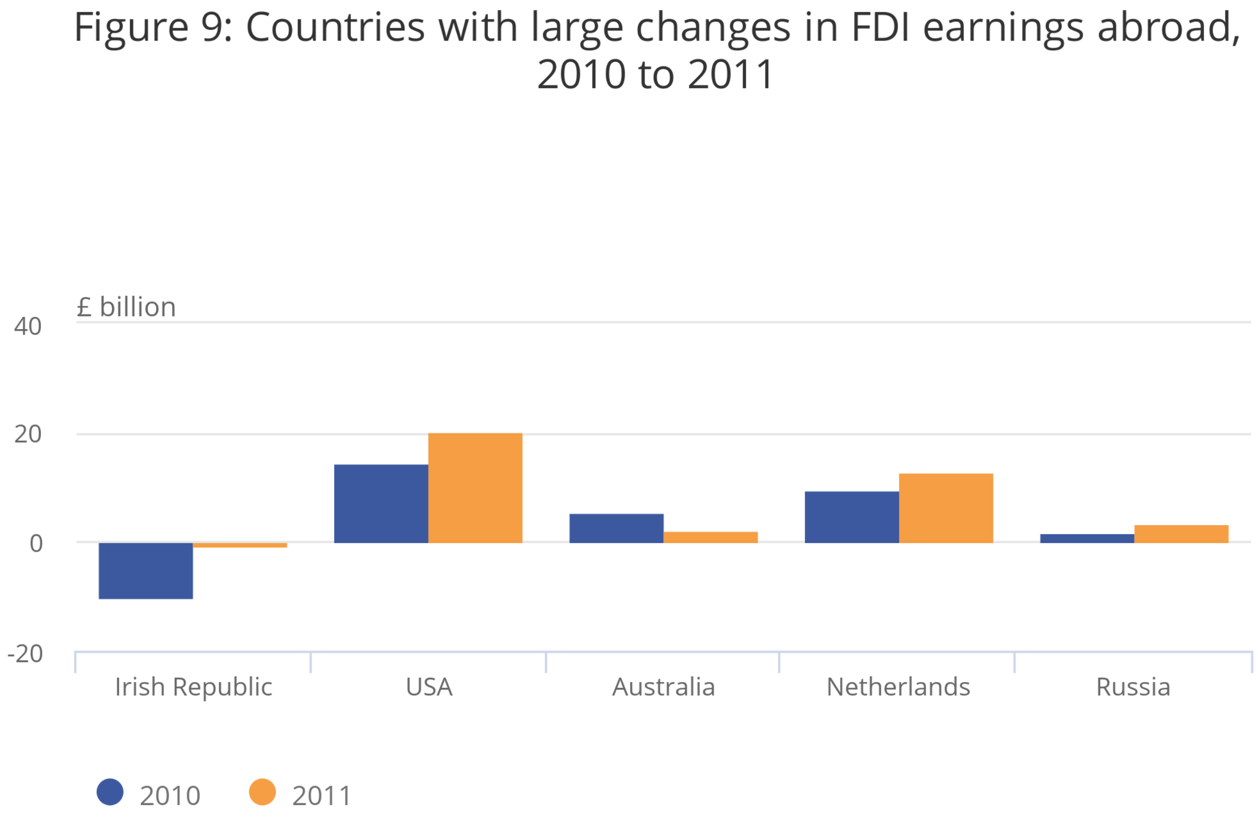
The largest change in net earnings abroad by UK companies was attributed to Europe where net earnings increased from £30.9 billion in 2010 to £46.6 billion in 2011.

The Americas saw a £5.8 billion increase in net earnings abroad in 2011, from £21.5 billion in 2010 to £27.2 billion in 2011.

In addition, net outward earnings to Asia rose from £15.9 billion in 2010 to £19.1 billion in 2011, an increase of £3.2 billion.

Country analysis

Figure 9: Countries with large changes in FDI earnings abroad, 2010 to 2011



Source: Office for National Statistics

The Irish Republic reported the largest change in net earnings abroad by UK companies in 2011. They rose from a negative net figure of £10.1 billion in 2010 to a reduced negative earnings value of £0.7 billion.

At the end of 2011, the net earnings abroad from the UK to the USA increased by £5.5 billion, from £14.6 billion in 2010 to £20.1 billion in 2011.

Net earnings abroad to the Netherlands and Russia also increased between 2010 and 2011 by £3.1 billion and £1.8 billion respectively.

The overall increase in net earnings abroad by UK companies in 2011 were offset by Australia, which reported a decrease in net earnings of £3.5 billion, from £5.5 billion in the 2010 to £2 billion in 2011.

Notes for outward investment

1. See background note 3 for an explanation of foreign direct investment.

2. See background note 5 for further guidance on interpreting FDI by country.

6 . Inward investment

Net direct investment in the UK by foreign companies (Table 4)[1]

The Americas continue to report the highest levels of foreign direct investment into the UK by foreign companies accounting for 45% of the UK's inward investment position in 2011. However, the figure of £14.2 billion at the end of 2011 reflects a substantial fall of £14.4 billion of inward flows when compared to the previous year and is the lowest value since 2004.

Europe saw an increase of inflows between 2010 and 2011, reporting a net inward flow to the UK of £13.2 billion at the end of 2011, compared with a low value of £0.4 billion reported in 2010.

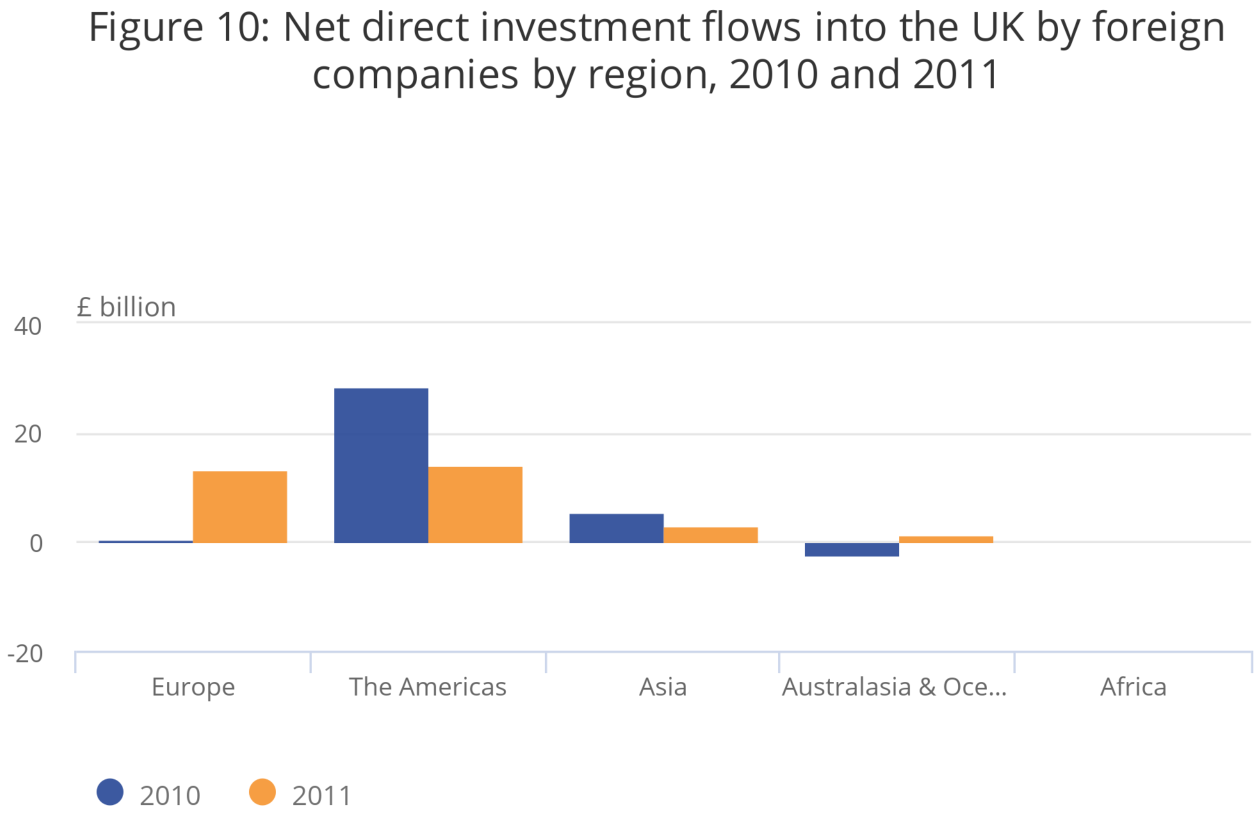
This low level of inward investment from the Americas and Europe may be due to a number of factors such as a relatively low level of acquisitions of equity capital, the reporting of large losses and some substantial disposals and reductions in inter-company loans.

Inward investment into the UK companies from the Netherlands rose from a net disinvestment of £4.2 billion in 2010 to £13.1 billion in 2011 and reflects an increase in net inflows of £17.3 billion during 2011.

Inward investment from Belgium also increased from a net investment of £0.1 billion in 2010 to a net investment of £9.1 billion in 2011, a rise of £8.9 billion. The large proportion of this increase came from flows of equity capital, with large transactions including the acquisition of GDF Suez of 70% interest in International Power Plc.

Regional analysis

Figure 10: Net direct investment flows into the UK by foreign companies by region, 2010 and 2011



Source: Office for National Statistics

Notes:

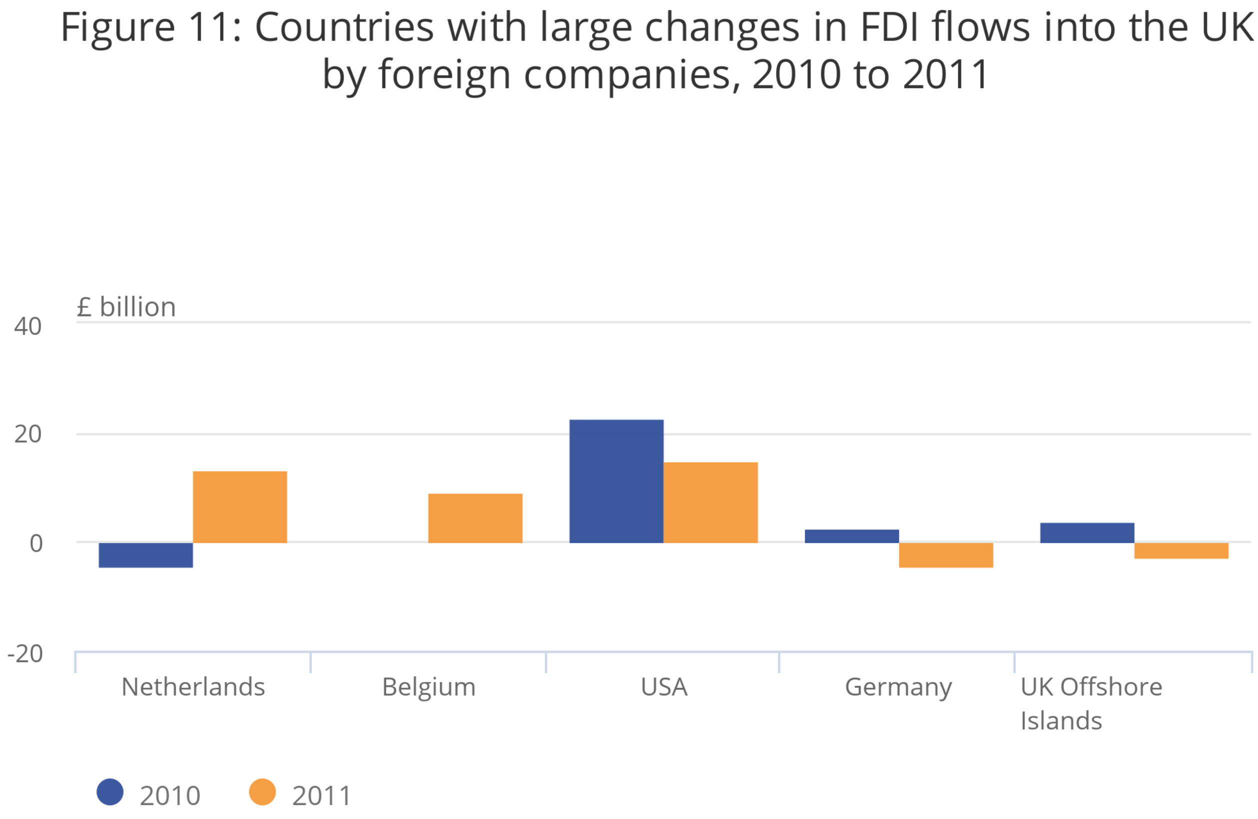
1. See background note 5 for further guidance on interpreting FDI by country.

The following regions witnessed large changes of net direct investment flows into the UK by foreign companies:

- Australasia & Oceania showed an increase in flows to the UK of £3.8 billion, reporting a net investment of £1.4 billion in 2011 compared with a net disinvestment figure of £2.4 billion in 2010
- The Americas saw a decrease of £14.4 billion, reporting a net inflow figure of £14.3 billion in 2011
- Asia also reported a decrease in flows into the UK, from £5.3 billion in 2010 to £3.0 billion in 2011

Country analysis

Figure 11: Countries with large changes in FDI flows into the UK by foreign companies, 2010 to 2011



Source: Office for National Statistics

The Netherlands incurred the highest increase value for net flows of direct investment into the UK for 2011, reporting a net investment value of £13.1 billion. This figure represents an increase of £17.4 billion on the 2010 net disinvestment value of £4.2 billion.

The value of net inward flows to the UK at the end of 2011 decreased from the following countries:

- USA saw reduced inward flows investment of £15.0 billion by the end of 2011, a decrease of £7.8 billion
- Germany reported a £7.2 billion reduction of flows of direct investment to the UK in 2011, a net disinvestment value of £4.4 billion
- UK Offshore Islands also reported a decrease in net flows of direct investment to the UK for 2011 (£6.3 billion), showing the 2011 value as a net disinvestment of £2.7 billion

Net international investment position - direct investment in the UK by foreign companies (Table 5)[1]

Overall the rise in the level of inward investment in the UK in 2011 was primarily attributed to an increase in the value from Europe, where investment rose by £20.3 billion, from in £417.2 billion in 2010 to £437.5 billion in 2011. Asia also showed an increase in inward investment by £11.2 billion between 2010 and 2011.

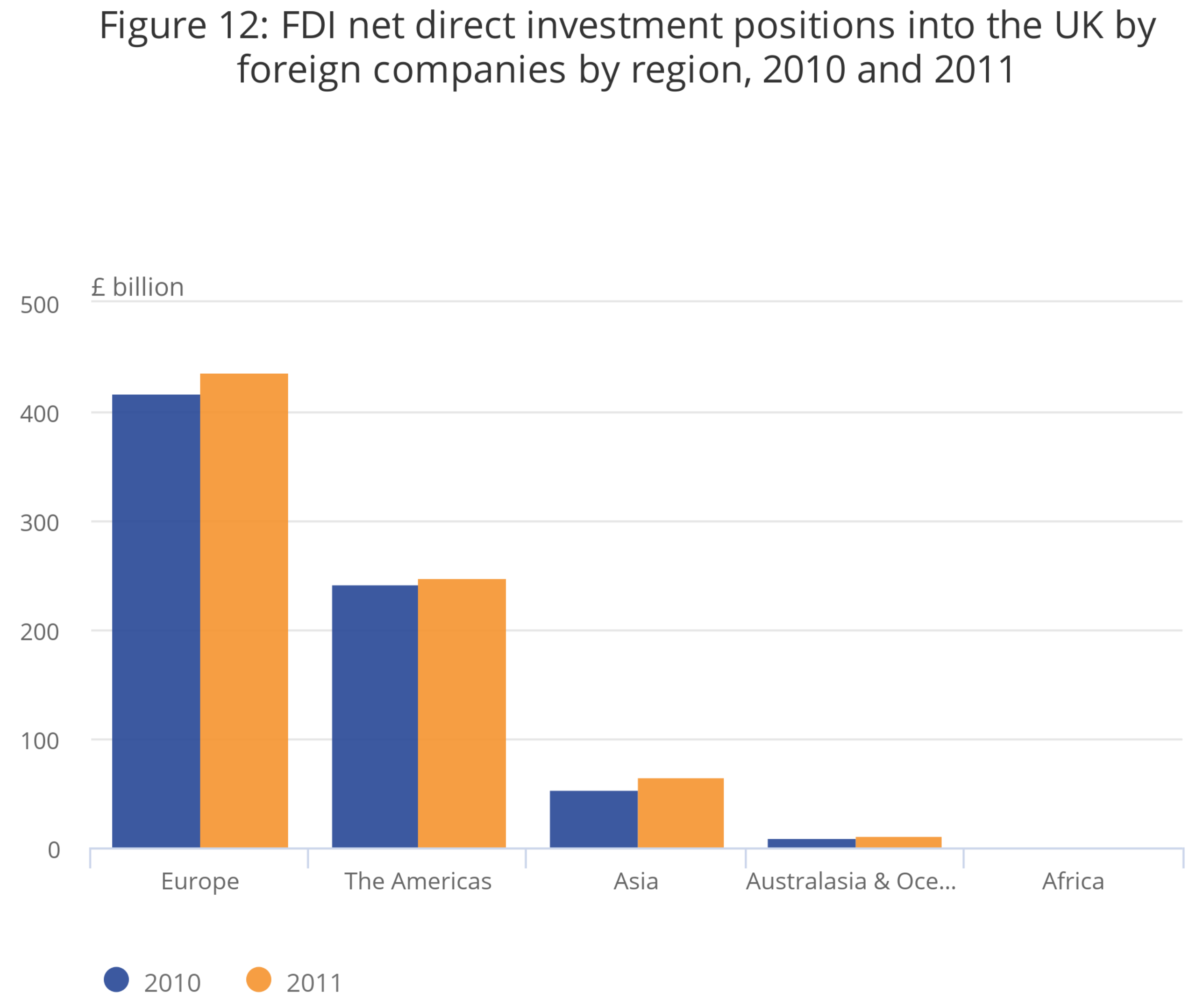
The UK's largest inward investment positions within Europe were from the Netherlands (£123.2 billion), France (£58.9 billion), Germany (£49.2 billion) and Luxembourg (£48.5 billion) accounting for approximately 22% of the total level in 2011.

International reporting standards require inward direct investment to be reported according to the immediate investing country rather than the ultimate source of investment. As noted in the section on outward investment positions, a consequence of this is that the relative importance of certain countries such as the Netherlands and Luxembourg may be partly due to the presence of relatively high numbers of 'Special Purpose Entities' (companies whose primary purpose is to 'pass through' investment) in those economies.

The USA remained a prime source of inward investment into the UK, with companies from the USA holding £203.8 billion of investment in the UK at the end of 2011, accounting for approximately 27% of the overall inward investment position. This was an increase of £5.6 billion from the previous year, mainly due to an increase of equity capital and a reduction in the inter-company debt position.

Regional analysis

Figure 12: FDI net direct investment positions into the UK by foreign companies by region, 2010 and 2011



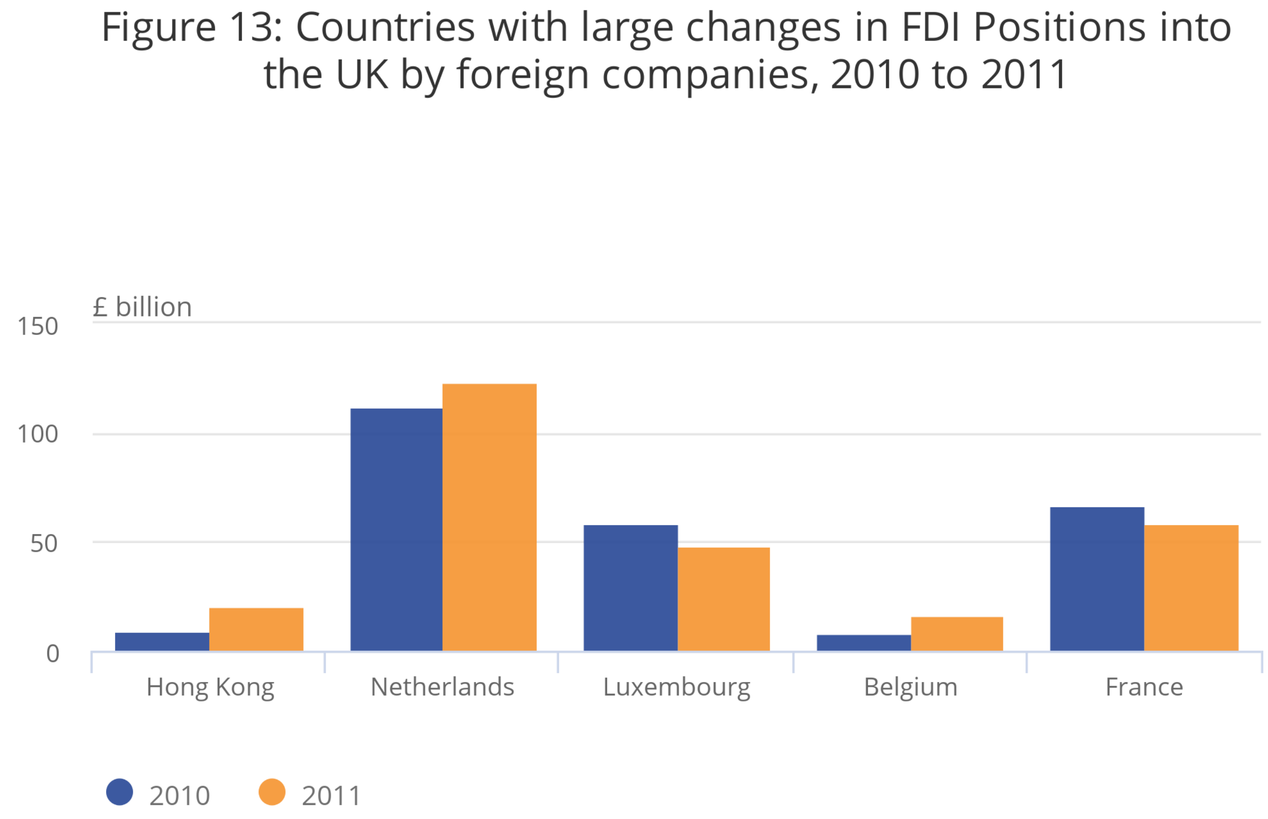
Source: Office for National Statistics

Notes:

1. See background note 5 for further guidance on interpreting FDI by country.

Country analysis

Figure 13: Countries with large changes in FDI Positions into the UK by foreign companies, 2010 to 2011



Source: Office for National Statistics

Similarly to the Netherlands Hong Kong reported a large change in international investment positions into the UK during 2011 (£20.5 billion). Both countries saw increases of £10.9 billion on their 2010 values.

Belgium witnessed the second largest change of inward positions at the end of 2011, reporting a value of £16.6 billion, an increase of £8.7 billion.

The overall increase in the international investment position figures for 2011 were offset by a reduction in the level of positions in both Luxembourg and France. Luxembourg reported a decrease in value from £58.2 billion at the end of 2010 to £48.5 billion at the end of 2011, while France reported a value of a £58.9 billion at the end of 2011, a reduction of £8.3 billion.

Net earnings from direct investment in the UK by foreign companies (Table 6)[1]

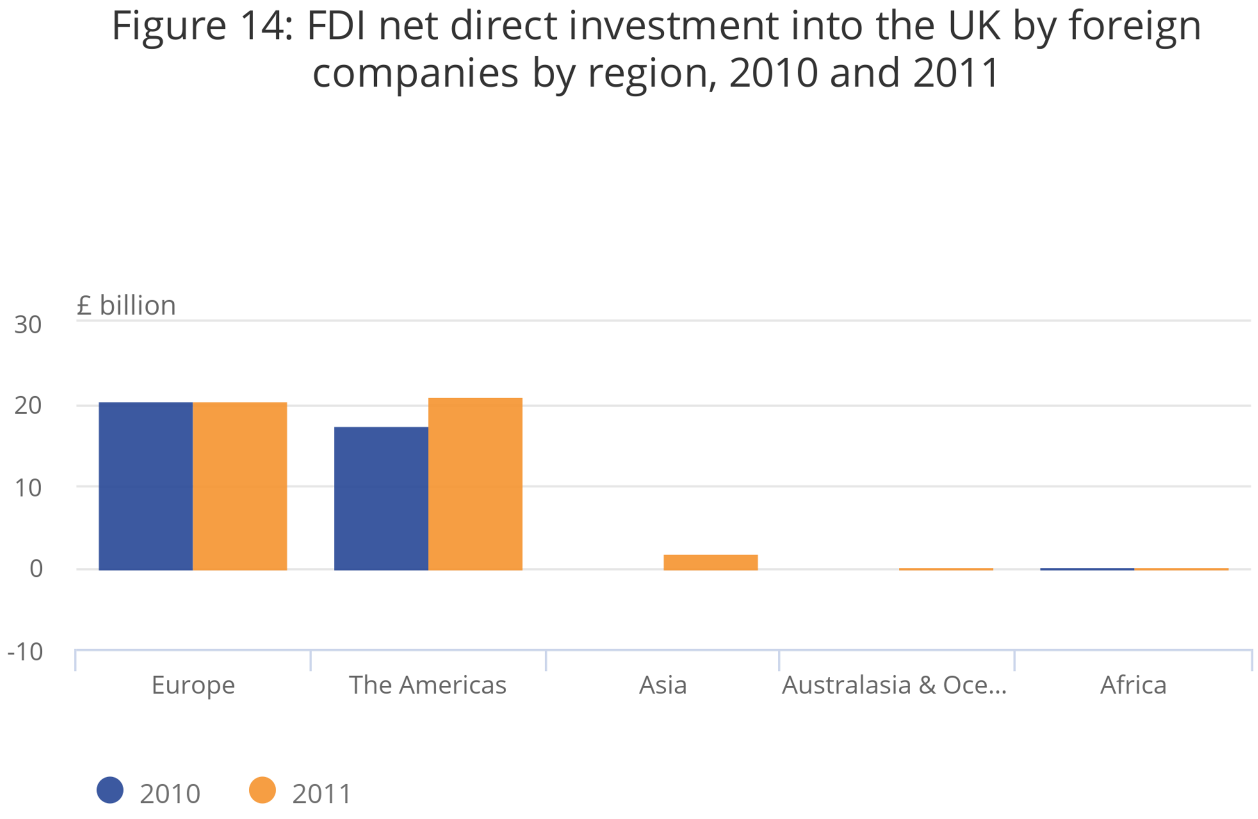
UK companies owned by parents in the USA reported the highest net earnings in 2011, with a value of £18.0 billion. This was followed by France, with net earnings of £5.2 billion in 2011.

Net earnings of UK companies with parents in Asia, increased by £2.1 billion on the negative value in the previous year, to a net investment of £1.9 billion at the end of 2011, while net earnings of UK companies with parents in Australasia & Oceania were reported as £0.2 billion.

As noted in the section on outward investment, one useful indicator related to direct investment earnings is the rate of return. Overall the implied rate of return for inward investment into the UK increased to 6.0%, up from 5.0% seen in the previous year. However, the rate of return remains lower than the 2007 value of 7.0%.

Regional analysis

Figure 14: FDI net direct investment into the UK by foreign companies by region, 2010 and 2011



Source: Office for National Statistics

Notes:

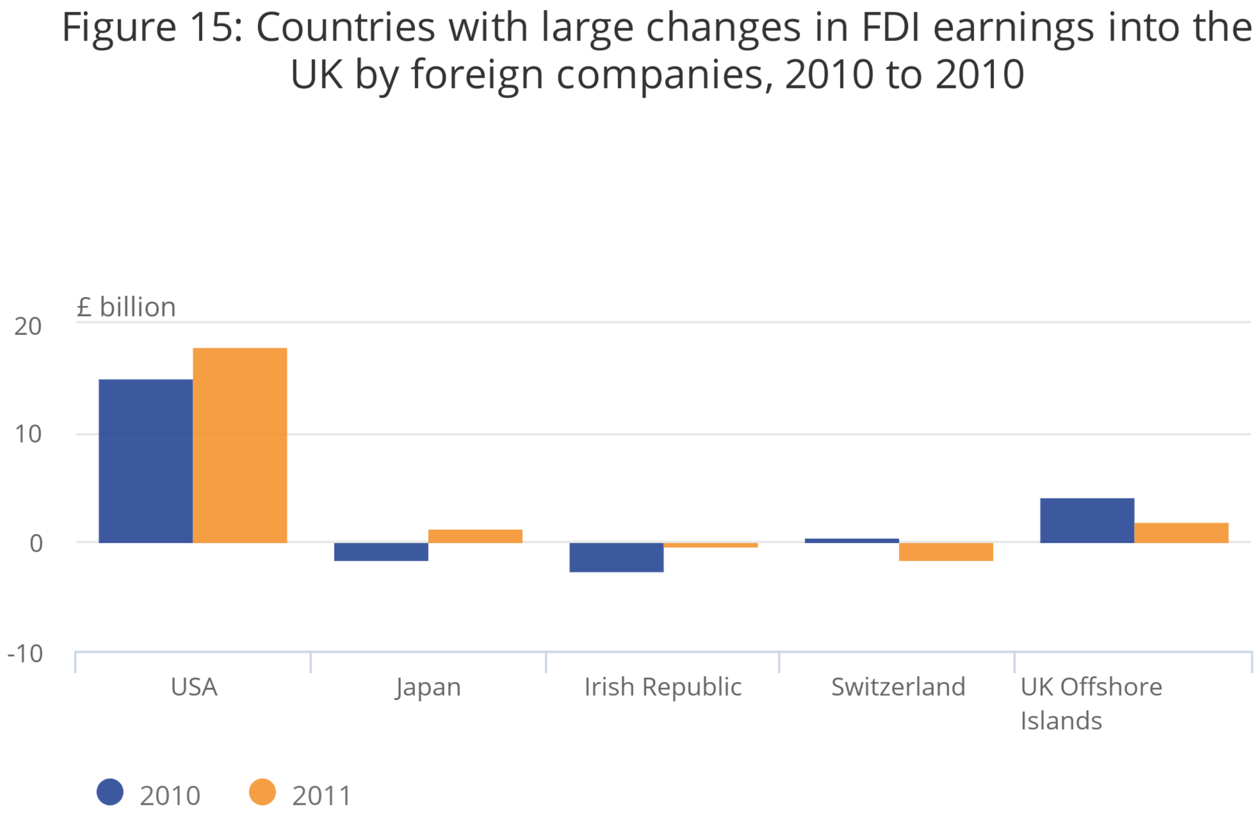
1. See background note 5 for further guidance on interpreting FDI by country.

The Americas saw the largest change in net earnings from direct investment in the UK by foreign companies. Net earnings increased from £17.3 billion in 2010 to £20.9 billion in 2011, an increase of £3.6 billion. Furthermore, in 2011, net earnings into the UK by the Americas slightly overtook net earnings into the UK from Europe. This substantial increase put the Americas marginally ahead of Europe.

Asia also reported an increase of inward earnings for 2011 with an investment value of £1.9 billion, up from a disinvestment value of £0.2 billion reported in 2010.

Country analysis

Figure 15: Countries with large changes in FDI earnings into the UK by foreign companies, 2010 to 2010



Source: Office for National Statistics

The following countries reported reductions in their values of net earnings to the UK during 2011:

- UK Offshore Islands reported a decrease of £2.2 billion on the 2010 figure of £4.1 billion, falling to £1.9 billion in 2011.
- Switzerland reported a decrease of £2.0 billion on their 2010 value, reporting a value of negative earnings for 2011 of £1.5 billion.

Notes for inward investment

1. See background note 3 for an explanation of foreign direct investment.
2. See background note 9 for further guidance on interpreting FDI by country.

7. Background notes

1. **Basic quality information**

   The Summary Quality Report (629.3 Kb Pdf) for Foreign Direct Investment describes, in detail, the intended uses of the statistics presented in this publication, their general quality and the methods used to produce them.

2. **Key issues specific to this release**

   The estimates in this Statistical Bulletin are based on annual surveys into foreign direct investment for 2011. Provisional estimates for 2011, derived from quarterly surveys, have already been published in the quarterly Balance of payments Statistical Bulletins but the annual surveys provide firmer and more detailed figures. The aggregates for 2011 will be included in the Q3 2012 Balance of Payments Statistical Bulletin to be published on 21 December 2012. Further details from the 2011 annual surveys, including analyses by industry and by components of direct investment, will be published within the next three months in MA4 – Foreign Direct Investment 2011.

3. **Key concepts and definitions**

   Associates: Associates are incorporated companies which are not subsidiaries, but companies in which the investing company participates in the management without having a controlling interest that is a holding of less than 50% of the equity capital.

   Branches: Branch means a permanent establishment as defined for UK corporation tax and double taxation relief purposes.

   Direct Investment: Foreign Direct Investment (FDI) refers to investment that adds to, deducts from or acquires a lasting interest in an enterprise operating in an economy other than that of the investor where the investor's purpose is to have an effective voice in the management of the enterprise. For the purposes of FDI statistics, an effective voice is taken as equivalent to holding 10% or more of the equity share capital in the direct investment enterprise. Other investments in which the investor does not have an effective voice in the management of the enterprise are mainly portfolio investments and these are not covered in this release. From the 2005 survey, cross-border investment by public corporations and private property investments are included, as in the Balance of Payments data.

   Direct investment is a financial concept and is not the same as capital expenditure on fixed assets. It covers only the money invested in a related enterprise by the parent company with the enterprise having the discretion on how to use it. A related enterprise may also raise money locally without reference to the parent company. The investment figures are published on a net basis, that is, they consist of investments net of disinvestments by a company into its subsidiaries.

   Direct investment earnings: Direct investment earnings (or income) provide information on the earnings of direct investors. These can arise from both equity and debt.

   Direct investment flows: Direct investment flows (or transactions) show the net inward and outward investments made during any given reference period. FDI flows comprise of:

- acquisitions/disposals of equity capital
- reinvestment of earnings
- inter-company debt

FDI inward flows provide a useful indicator in relation to the attractiveness of economies but such interpretations require additional information on which to base sound conclusions.

Direct investment positions: Direct investment positions (also known as levels or stocks) provide information on the total level of investment made abroad/received from abroad for a given reference date.

Inward direct investment: From a UK perspective, inward direct investment is investment in a UK resident subsidiary, associate or branch by a non-UK parent company or head office. Can also be referred to as direct investment in the UK.

Outward direct investment: From a UK perspective, outward direct investment is investment by a UK resident company in a non-UK subsidiary, associate or branch. Can also be referred to as direct investment abroad.

Reinvested earnings: Reinvestment of earnings or reinvested earnings refer to earnings on equity accruing to direct investors less the value of distributed earnings. Reinvested earnings are included in direct investment income because the earnings of the subsidiary, associate or branch are deemed to be the income of the direct investor (proportionate to the direct investor's holding of equity), whether they are reinvested in the enterprise or remitted to the direct investor. Reinvested earnings are also treated as a flow of direct investment from the direct investor to their overseas enterprise.

Special Purpose Entities (SPEs): The term SPE is used to refer to entities such as financing subsidiaries, shell companies and conduits, which typically do not conduct any significant operations in the country in which they are resident other than to pass through investment from their parent company to an affiliate in another country.

Subsidiaries: Subsidiaries are as defined in section 258 of the Companies Act 1989 and in the main are companies in which the parent company owns more than half of the equity share capital.

4. **Relevance to users**

The UK's FDI statistics are produced according to the agreed international standards set out in the third edition of the OECD's Benchmark Definition of FDI (BD3) and the fivth edition of the IMF's Balance of Payments Manual (BPM5). The definitions and standards set out in BD3 and BPM5 were adopted in 1997. The changes made since 1997 are detailed in the Summary Quality Report linked in background note 2 above. Complying with these standards ensures that the FDI statistics produced by the UK are comparable with those from other countries, something that is critical to many users of these estimates.

The OECD and IMF have recently released new versions of their manuals concerning FDI statistics (BD4 and BPM6). These revised manuals reflect the changes that have occurred in international finance since the previous updates. Along with other countries, the UK is currently working to implement these manuals. In line with the Code of Practice for Official Statistics, the Office for National Statistics will consult fully with data providers and users of the statistics regarding any changes that occur as a result of the adoption of the new manuals.

FDI estimates are essential for measuring the UK's Balance of Payments and the UK's international investment position. FDI earnings figures feed into the Balance of Payments current account, whilst FDI flows form an integral part of the financial account.

FDI statistics are also of great interest in their own right. By its very nature, FDI is seen as promoting stable and long-lasting economic links between countries. It is generally believed that FDI can assist host countries in developing local enterprises, promote international trade through access to markets and contributes to the transfer of technology and know-how. FDI can also have an impact on the development of labour and financial markets. Regular analysis of FDI trends and developments is therefore an integral part of most macro-economic and cross-border financial analysis. Identifying partner countries and industries is central to most such analysis.

Within the UK, FDI estimates are used by a large number of government departments for briefing and policy formation purposes, including HMRC, Cabinet Office, HM Treasury, UK Trade Investment, the Bank of England, the Department for Business, Innovation and Skills and the Department for International Development.

UK FDI figures are also extensively used for policy, analysis and negotiations by international organisations, including Eurostat, UNCTAD, OECD and IMF, as well as a number of foreign embassies. More widely the FDI estimates are utilised by commercial companies, academics and independent researchers.

User Engagement

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have and would be particularly interested in knowing how you make use of these data to inform our work. Please contact us via email: fdi@ons.gsi.gov.uk or telephone Ciara Williams-Fletcher on +44 (0)1633 456455.

5. **Guidance on interpreting foreign direct investment statistics**

FDI by country: The analysis of inward investment is based on the country of ownership of the immediate parent company. Thus, inward investment in a UK company may be attributed to the country of the first foreign parent, rather than the country of the final ultimate parent. As an example, to the extent that foreign direct investment in the UK is channeled through holding companies in the Netherlands, the flow of investment from this country is overstated at the immediate parent level and the underlying inflow from the ultimate parent level is understated. However, attribution on the basis of the immediate level is in accordance with the internationally agreed definition of foreign direct investment and allows for international comparability of data.

The same principle also applies on the outward survey where, in accordance with international standards, outward investment is attributed to the country of the immediate subsidiary rather than the ultimate destination of the investment.

Table B: Geographic breakdown

Europe			
EU			
Austria	Belgium	Bulgaria	Cyprus
Czech Republic	Denmark	Estonia	Finland
France	Germany	Greece	Hungary
Irish Republic	Italy	Latvia	Lithuania
Luxembourg	Malta	Netherlands	Poland
Portugal	Romania	Slovakia	Slovenia
Spain	Sweden		
EFTA			
Iceland	Liechtenstein	Norway	Switzerland
Other European Countries			
Albania	Andorra	Belarus	Bosnia - Herzegovina
Croatia	Faroe Islands	Gibraltar	Macedonia, Former Yugoslav republic of
Moldova, Republic of	Montenegro	Russia	Serbia
Turkey	UK Offshore Islands (Guernsey, Jersey, other Channel Islands & Isle of Man)	Ukraine	Vatican City State
The Americas			
Anguilla	Antigua & Barbuda	Argentina	Aruba
Bahamas	Barbados	Belize	Bermuda
Bolivia	Bonaire	Brazil	British Virgin Islands
Canada	Cayman Islands	Chile	Colombia
Costa Rica	Cuba	Curacao	Dominica
Dominican Republic	Ecuador	El Salvador	Falkland Islands
Greenland	Grenada	Guatemala	Guyana
Haiti	Honduras	Jamaica	Mexico
Montserrat	Nicaragua	Panama	Paraguay
Peru	Puerto Rico	St Kitts Nevis	St Lucia

St Maarten	St Vincent & the Grenadines	Saint Eustatius & Saba	Suriname
Trinidad & Tobago	Turks & Caicos Islands	Uruguay	US Virgin Islands
USA	Venezuela		
Asia			
Near & Middle East Countries			
Armenia	Azerbaijan	Gaza & Jericho (Palestinian Territories)	Georgia
Iran, Islamic Republic of	Israel	Jordan	Lebanon
Syrian Arab Republic			
Gulf Arabian Countries			
Abu Dhabi	Bahrain	Dubai	Iraq
Kuwait	Oman	Other Gulf States	Qatar
Saudi Arabia	Yemen		
Other Asian Countries			
Afghanistan	Bangladesh	Bhutan	Brunei Darussalam
Cambodia (Kampuchea)	China	Hong Kong	India
Indonesia	Japan	Kazakhstan	Korea, South (Republic of)
Kyrgyzstan	Laos, Peoples democratic republic of	Macao	Malaysia
Maldives	Mongolia	Myanmar (Burma)	Nepal
Pakistan	Philippines	Singapore	Sri Lanka
Taiwan	Tajikistan	Thailand	Timor - Leste
Turkmenistan	Uzbekistan	Vietnam	
Australasia & Oceania			
American Samoa	Antarctica	Australia	Bouvet Island
Christmas Islands	Cocos (Keeling) Islands	Cook Islands	French Polynesia
French Southern Territories	Fiji	Guam	Heard Island & Macdonald Islands
Kiribati	Marshall Islands	Micronesia, Federated states of	Nauru
New Caledonia	New Zealand	Niue	Norfolk Islands
Northern Mariana Islands (excl Guam)	Palau	Papua New Guinea	Pitcairn
Solomon Islands	South Georgia & South Sandwich Islands	Tokelau	Tonga
Tuvalu	US Minor Outlying Islands	Vanuatu	Wallis & Futuna Islands
Samoa			
Africa			
Algeria	Angola	Benin	Botswana
	Burkina Faso	Burundi	Cameroon

British Indian Ocean Territory			
Canary Islands	Cape Verde	Central African Republic	Chad
Comoros	Congo	Democratic Rep of the Congo (Zaire)	Djibouti
Egypt	Equatorial Guinea	Eritrea	Ethiopia
Gabon	Gambia	Ghana	Guinea
Guinea Bissau	Ivory Coast (Cote d'Ivorie)	Kenya	Lesotho
Liberia	Libyan Arab Jamahiriya	Madagascar	Malawi
Mali	Mauritania	Mauritius	Morocco
Mozambique	Namibia	Niger	Nigeria
Rwanda	Sao Tome & Principe	Senegal	Seychelles & dependencies
Sierra Leone	Somalia	South Africa	St Helena & Dependencies
Sudan	Swaziland	Tanzania	Togo
Tunisia	Uganda	Zambia	Zimbabwe
OECD			
Australia	Austria	Belgium	Canada
Czech Republic	Denmark	Estonia	Finland
France	Germany	Greece	Hungary
Iceland	Irish Republic	Italy	Japan
Korea, South (Republic of)	Luxembourg	Mexico	Netherlands
New Zealand	Norway	Poland	Portugal
Slovakia	Spain	Sweden	Switzerland
Turkey	USA		
Central & Eastern Europe			
Albania	Bosnia - Herzegovina	Croatia	Macedonia, former Yugoslav republic of
Montenegro	Serbia		

Source: Office for National Statistics

Valuation of equity: Enterprises were asked to returns values in sterling, as entered in their accounts, rounded to the nearest £0.1 million. Where conversion from a foreign currency was involved, they were asked to use the same rate of exchange as in their own accounts. Book values are likely to be significantly different from current market values as book values tend to reflect values at earlier periods when assets were acquired or subsequently revalued.

6. **Accuracy:**

Sampling and non-sampling error: Sampling error is the error caused by observing a sample instead of the whole population. While each sample is designed to produce the 'best' estimate of the true population value, a number of equal sized samples covering the population would generally produce varying population estimates.

Sample surveys are employed rather than censuses, because the process is too lengthy and costly to be viable for these surveys. Standard errors are an estimate of the sampling error and provide a measure of the precision of the estimate. A low standard error indicates a precise estimate. A table summarising the standard errors for the 2011 FDI survey will be included in the MA4 Business Monitor publication, to be released on 7 February 2013.

In addition to sampling errors there is the potential for non-sampling error that cannot be easily quantified. One potential source of non-sampling error is non-response, which relates to the failure to obtain data from some businesses selected in the sample.

Various efforts are made to minimise non-response. Written reminders are sent to non-responding businesses. These are followed up with telephone, fax and email reminders. In addition, there is the possibility of using the legal powers of the Statistics of Trade Act to force a response, though ONS prefers to work together with businesses to produce the necessary information.

The response rates for the 2011 annual surveys are shown below:

Table C: Response rates 2011

	Outward FDI	Inward FDI
Selected Sample Size	1,716	2,740
Numbers co-operating fully or partially	1,336	2,264
Non- Contacts/refusals	380	476
Overall response rate (%)	78	83

Source: Office for National Statistics

Notes:

1. All values are current prices (see Background Notes).

2. A minus sign indicates net losses.

Imputation techniques are used to estimate values for those members of the population where data are not available, either due to the enterprise being outside the sample or a non-respondent. The imputation process accounts for the following figures and percentages of the final published figures:

Table D: Imputed proportion of final published FDI figures

£ million

	FDI Investment Flows		FDI International Investment Positions		FDI Earnings	
FDI Outward	7,498.9	11.0%	69,999.8	6.4%	8,125.3	8.0%
FDI Inward	10,060.8	31.5%	144,443.3	18.9%	9,834.1	22.5%

Source: Office for National Statistics

Notes:

1. All values are current prices (see Background Notes).

2. A minus sign indicates net losses.

Non-response bias is a potential issue for all statistical surveys. Non-response bias occurs where the answers of respondents differ from the potential answers of those who did not answer. The risk of non-response bias is minimised by efforts to maximise response rates and estimation techniques can attempt to correct for any bias that might be present. Despite this, it is not easily possible, on any survey, to quantify the extent to which non-response bias remains a problem. However, there is no evidence to suggest that non-response bias presents a particular issue for the FDI surveys.

7. **Revisions**

Revisions to earlier years are one indication of the reliability of the key indicators in this release; these can be obtained by monitoring the size of revisions. The table below records the size of revisions for the last five years. The information was revised taking into account new information received. This is mainly due to respondents to the surveys revising the values they have already returned and also late returns replacing data that was initially imputed or constructed for. The revised data may itself be subject to sampling or other sources of error.

Table E: Size of revisions for last five years

	Value in latest period	Revisions between first publication and estimates three years later	
		Average revision over the last five years (bias)	Average over the last five years without regard to sign (average absolute revision)
Outward flows	25,501.6	3840	4,841
Outward positions	1,046,111.2	485	8,399
Outward earnings	80,276.2	-355	1,690
Inward flows	32,106.1	2204	4,642
Inward positions	725,556.8	-575	6,505
Inward earnings	37,533.2	-942	1,152

Source: Office for National Statistics

Notes:

1. All values are current prices (see Background Notes).

2. A minus sign indicates net losses.

A statistical test is applied to the average revisions to find out if there is bias in the estimates. The revisions are considered to be biased if the mean revision is significantly different from zero. In 2011, these tests were not statistically significant for any of the key variables, implying that any observed bias was due to chance.

8. **Notes to tables**

The sum of the constituent items in tables may not always agree exactly with the totals shown due to rounding of the figures.

9. **Office for National Statistics**

The Office for National Statistics (ONS) is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to Parliament. ONS is the UK government's single largest statistical producer. It compiles information about the UK's society and economy, and provides the evidence-base for policy and decision-making, the allocation of resources, and public accountability. The Director General of ONS reports directly to the National Statistician who is the Authority's Chief Executive and the Head of the Government Statistical Service.

The UK Statistics Authority has reviewed this publication in their report: "Assessment of compliance with the Code of Practice for Official Statistics": Statistics of International Transactions, which was published on 8 December 2011. This review recommended that the Foreign Direct Investment Involving UK Companies estimates be designated as National Statistics, subject to ONS carrying out certain requirements. ONS is working hard to meet the requirements set out in this assessment report.

National Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

10. **Social media**

Follow ONS on Twitter and receive up to date information about our statistics.

Like ONS on Facebook to receive our updates in your newsfeed and to post comments on our page.

11. **The Government Statistical Service (GSS)**

    The GSS is a network of professional statisticians and their staff operating both within the Office for National Statistics and across more than 30 other government departments and agencies.

12. **Special events**

    ONS has recently published commentary, analysis and policy on 'Special Events' which may affect statistical outputs. For full details go to the special events page on the ONS website.

13. **Discussing ONS business statistics online**

    There is a Business and Trade Statistics community on the StatsUserNet website. StatsUserNet is the Royal Statistical Society's new interactive site for users of official statistics. The community objectives are to promote dialogue and share information between users and producers of official business and trade statistics about the structure, content and performance of businesses within the UK. Anyone can join the discussions by registering via either of the links above.

    Release policy

14. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

    These National Statistics are produced to high professional standards and released according to the arrangements approved by the UK Statistics Authority.