

Article

UK foreign direct investment, trends and analysis: May 2019

Insights from analysing micro-data on the distribution of foreign direct investment positions and earnings using the asset and liability measurement principle.

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1 . Main points

- The largest 25 outward investors by stock of foreign direct investment (FDI) accounted for 46% of UK FDI assets in 2017, compared with 38% for the top 25 inward investors.
- The share of FDI assets held by the largest investors in 2017 was lower than that in 2014, whereas the share of liabilities for inward investors was higher in 2017 than in 2014.
- The FDI credits of the companies not among the top 25 outward investors have contributed the most (£20 billion) to net FDI earnings growth between 2014 and 2017.
- However, FDI credits for the top 25 outward investors were £20 billion lower in 2016 than 2014, which were offset by a £21 billion increase in credit values from 2016 to 2017.
- This article is part of our continued research on FDI statistics to provide a better understanding of cross-border direct investments involving the UK.

2 . About UK foreign direct investment statistics

Foreign direct investment (FDI) refers to cross-border investments made by residents and businesses from one country into another, with the aim of establishing a lasting interest in the country receiving investment. FDI assets capture the investments made by UK-based companies abroad whereas FDI liabilities cover investments in the UK made by foreign companies.

Statistics used in this analysis are presented using the asset and liability principle, which are consistent with the [FDI involving UK companies \(asset and liability\): 2017 statistical bulletin](#), the [balance of payments](#), and [Pink Book](#)). Our [Foreign direct investment involving UK companies statistical bulletin](#), last published in December 2018, presents FDI statistics on a directional basis. Those statistics are more useful when assessing the transactions of parent company cross-border investments and for data linking. Both measurement principles are fully-consistent with international best practice. The differences between the calculations under these two approaches can be seen in [Foreign direct investment measurement principles explained](#).

This article is part of our continued research on foreign direct investment (FDI) statistics. It analyses the distribution of UK FDI, which is important to understand how FDI is allocated between companies. This can help to understand better the impact of the largest foreign direct investors involving the UK economy.

Traditionally, a small number of the largest multinational companies have accounted for a large proportion of UK assets and liabilities. These companies are defined as the top 25 by stock of foreign direct investment (FDI). This article will focus on how important these top 25 companies are for FDI positions and earnings, in comparison with the other size groups of companies, cumulatively grouped in decreasing order by value of FDI positions held. The top 25 companies are the largest 25 companies for each of the years analysed and they do not necessarily refer to the same companies.

3 . FDI is concentrated among the UK’s largest outward and inward investors

Grouping foreign direct investment (FDI) companies by decreasing value of FDI positions shows how these investments are distributed across the population. Analysis for FDI assets – the stock of direct investments held abroad by UK companies – shows the top 25 companies accounting for just under half (46%) of the total value of UK assets abroad in 2017. The next 25 companies accounted for a further 11 percentage points of UK assets, reflecting how important these largest companies are for UK foreign direct investment abroad. The impact of adding each group diminishes, despite the number of companies in later groups increasing. All firms accounted for 82% of total UK FDI assets, with the rest held by monetary financial institutions (MFIs) and other categories of investment, which are counted separately.

The distribution of UK asset values abroad has changed compared with 2014. The proportions accounted by the top 100 companies in 2017 were below those in 2014, while we can see the opposite for the remaining size groups. This reflects the faster growth in asset values for investments of companies not in the top 100.

Figure 1: The largest companies accounted for most of the UK's FDI assets in 2017

Distribution of UK foreign direct investment assets grouped by asset values in descending order, 2017 compared with 2014

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Distribution of UK foreign direct investment assets grouped by asset values in descending order, 2017 compared with 2014



Source: Office for National Statistics – Foreign Direct Investment Survey

The distribution of UK liabilities (stock of foreign-owned direct investments in the UK) differs from that of UK assets. Figure 2 shows that the largest 25 investors held just over one-third of total UK FDI liabilities, whereas it was closer to half of the total for assets. This means that for liabilities the smaller companies are accounting for greater proportions compared with UK assets. Adding the next 25 largest inward FDI companies (top 50) by liability values accounted for 49% of total UK liabilities, which was close to the 46% of UK assets accounted for by the top 25 outward investors.

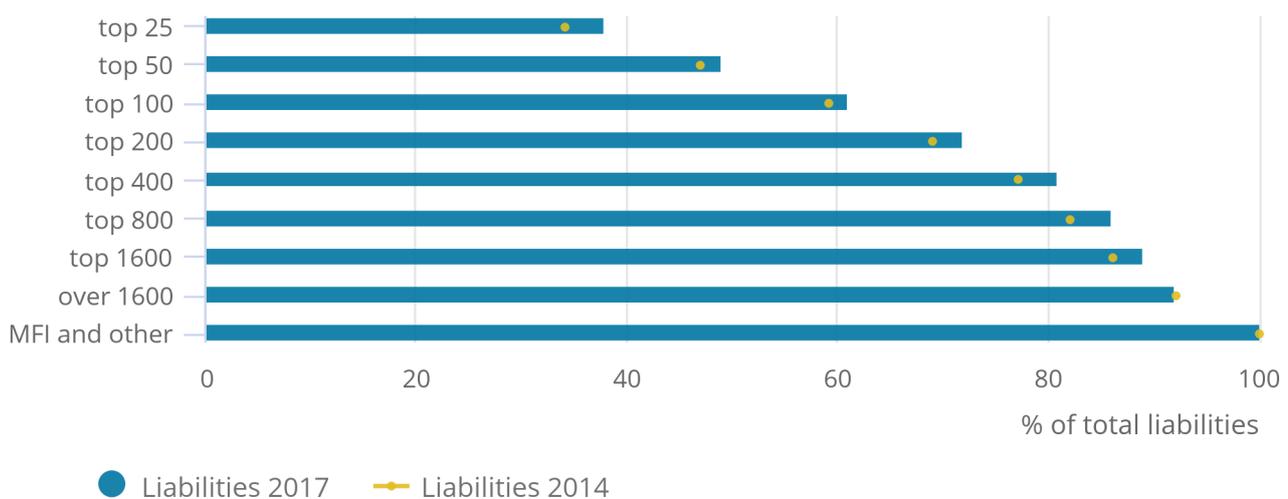
If all companies except MFIs and other categories of investment are excluded, then 92% of UK liabilities are represented compared with 82% of UK assets. The distribution of UK FDI liabilities has moved more towards the largest investors from 2014 to 2017, as shown by the proportion of liabilities held by the different company groups, which have all increased in 2017 from 2014.

Figure 2: The proportion of UK FDI liabilities with the largest investors increased in 2017 compared with 2014

Distribution of UK foreign direct investment liabilities grouped by liabilities values in descending order, 2017 compared with 2014

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Distribution of UK foreign direct investment liabilities grouped by liabilities values in descending order, 2017 compared with 2014



Source: Office for National Statistics – Foreign Direct Investment Survey

The different distributions for assets and liabilities can be partly explained by the structure of global multinational companies and how UK FDI statistics are collected. These focus on the UK-side of both outward and inward investments. A parent company in the UK is likely to own a number of subsidiaries across the world, resulting in UK assets being concentrated in a small number of the largest multinationals. In contrast, it is companies in receipt of investment in the UK that are identified, as opposed to the foreign multinational making the investment. Therefore, companies that all receive investment from one multinational but are separate legal entities will be recorded in the microdata as individual companies, since the focus of the FDI survey is on the UK-side of the transaction.

Nevertheless, between 2014 and 2017 it is possible to see that the difference in distribution of UK assets and liabilities for the largest companies has reduced. Precisely, the proportions of UK assets accounted by the top 100 companies in 2017 were below those in 2014, while the proportions of UK liabilities held by the top 100 companies have increased in 2017 from 2014.

4 . Largest 25 outward investors contributed to the fall (up to 2016) and rise (2017) in FDI earnings

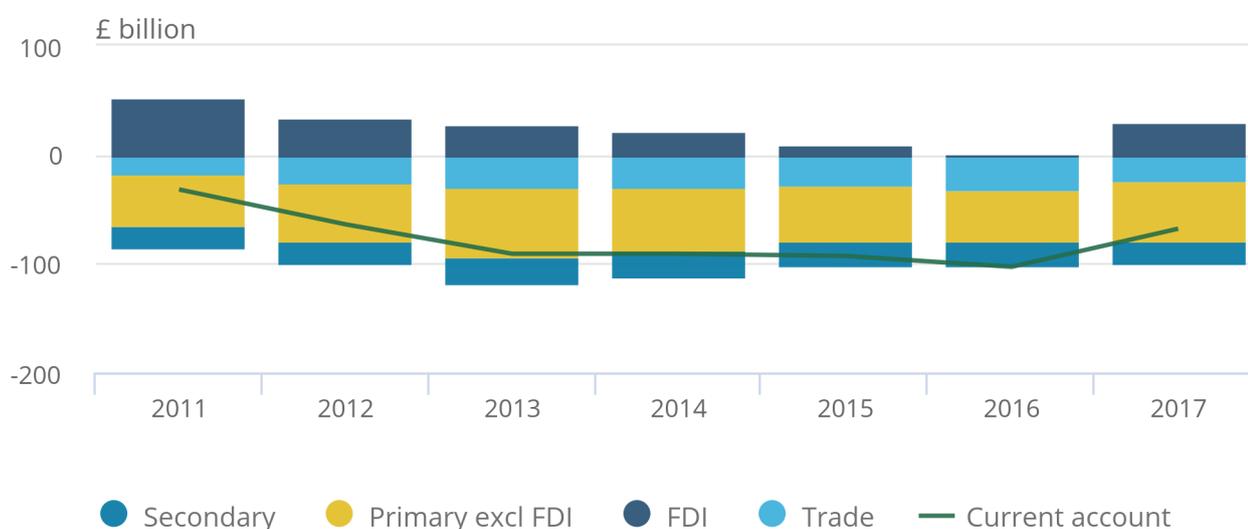
The foreign direct investment (FDI) net earnings balance, which is the difference between the values of FDI credits and FDI debits, is a component of the balance of payments and affects the primary income account. Figure 3 shows that the decrease in the FDI net earnings balance from 2011 to 2016 has been the main contributor to the decline of the current account balance, which partially recovered in 2017 as the FDI net earnings balance increased.

Figure 3: Changes to net FDI earnings have been the main contributor to the current account balance between 2011 and 2017

The UK current account balance and its components, 2011 to 2017

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The UK current account balance and its components, 2011 to 2017



Source: Office for National Statistics – Foreign Direct Investment Survey

This section looks at the composition of the changes in FDI credits and debits from 2014 to 2017, analysing whether these changes come from the top 25 companies or from a broader base. Looking at the changes in earnings between 2016 and 2017 shows different results across these groups compared with changes over the period 2014 to 2016. So looking at just the overall changes between 2014 and 2017 would hide some of these details.

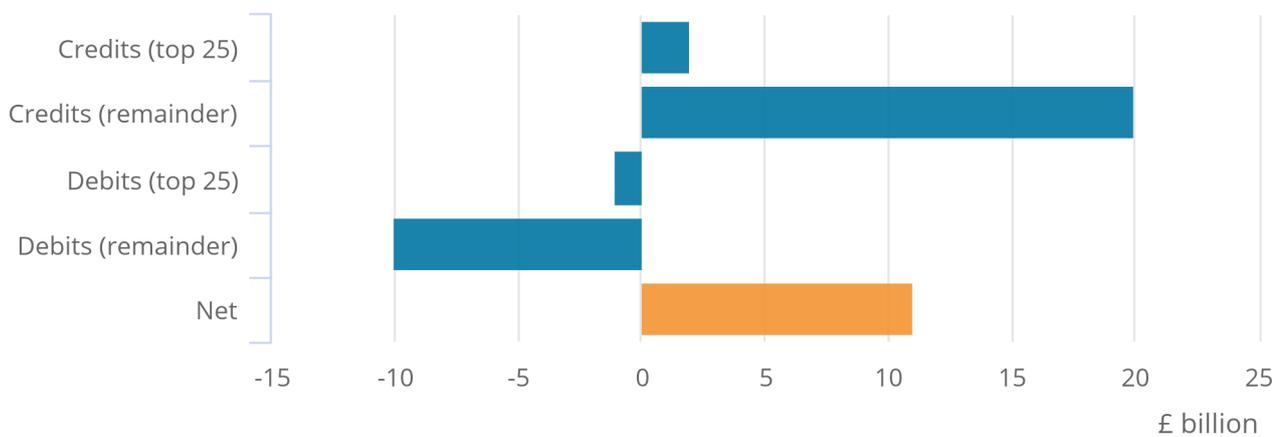
Looking at the period from 2014 to 2017 shows that UK net FDI earnings were £10 billion higher in 2017 compared with 2014. The outward and inward investors not in the respective top 25 contributed the most to this change. Credits for the remainder of companies increased by £20 billion between 2014 and 2017, whereas the remainder for debits increased by £10 billion. This is shown as a negative value in Figure 4 because higher debit values subtract from net FDI earnings (and the current account balance). By contrast, the 25 largest companies by credit values accounted for £2 billion of that increase, while debits were £1 billion higher.

Figure 4: FDI credits and debits for the remainder of companies have increased by more than that of the top 25 between 2014 and 2017

Cumulative change in UK credits and debits from 2014 to 2017, broken down by the top 25 companies and the remainder

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Cumulative change in UK credits and debits from 2014 to 2017, broken down by the top 25 companies and the remainder



Source: Office for National Statistics – Foreign Direct Investment Survey

Notes:

1. Top 25 companies are based on the credits or debits for the largest companies by asset or liability values.
2. Increases in debits are shown as negative values in the chart because they subtract from the net.
3. The net value in the Figure may not match the FDI net earnings balance in Figure 3 and the text due to rounding in the compilation of the chart.

Looking at the changes in FDI credits and debits between 2014 and 2016 (Figure 5) shows that credits for the top 25 outward investors fell by £20 billion over that period. This decrease was partly offset by credits among the remaining companies increasing by £5 billion. The decline in credit values among the top 25 was mainly due to companies in the mining and quarrying industry group reporting negative credits, which mirrored lower crude oil prices.

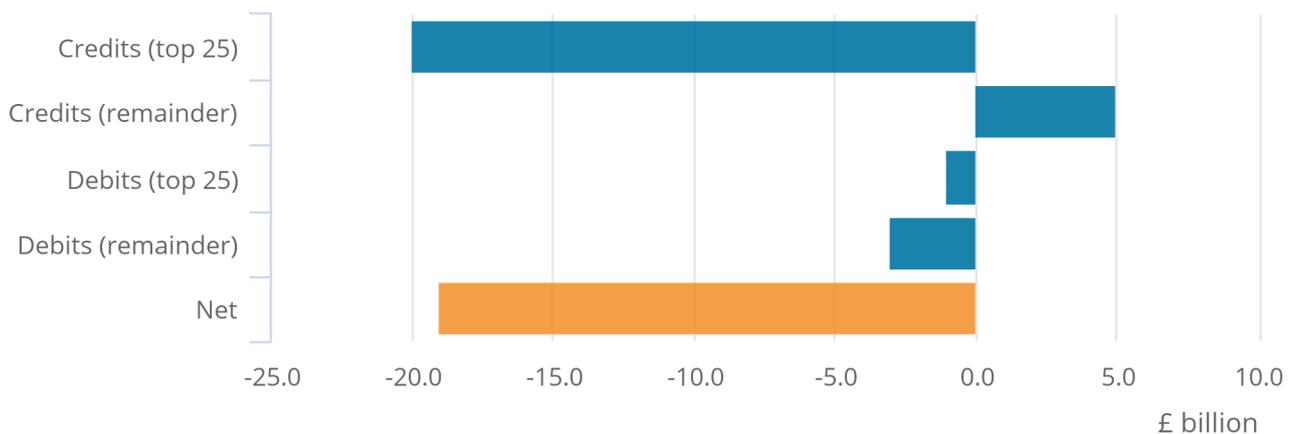
On the other hand, FDI debits were £4 billion higher in 2016 than 2014, further lowering net FDI earnings. The top 25 inward investors accounted for £1 billion of that £4 billion increase, which overall was from a mix of different industry groups.

Figure 5: FDI credits from the top 25 outward investors were much lower in 2016 than 2014

Cumulative change in UK credits and debits from 2014 to 2016, broken down by the top 25 companies and the remainder

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Source: Office for National Statistics – Foreign Direct Investment Survey

Notes:

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The changes in credits values from 2014 to 2016 were then reversed in 2017. Figure 6 shows that the value of credits from the top 25 companies increased by £21 billion. The remainder for credits rose by a further £15 billion, reflecting a general increase across most industries and countries.

The sizeable increase in the value of FDI credits reflects two main changes which were:

- there were some companies that reported exceptionally low outward FDI earnings in 2015 and 2016, which returned to values in 2017 closer to those reported previously
- a few other companies reported a notable increase in their overseas profitability in 2017 compared with the previous year

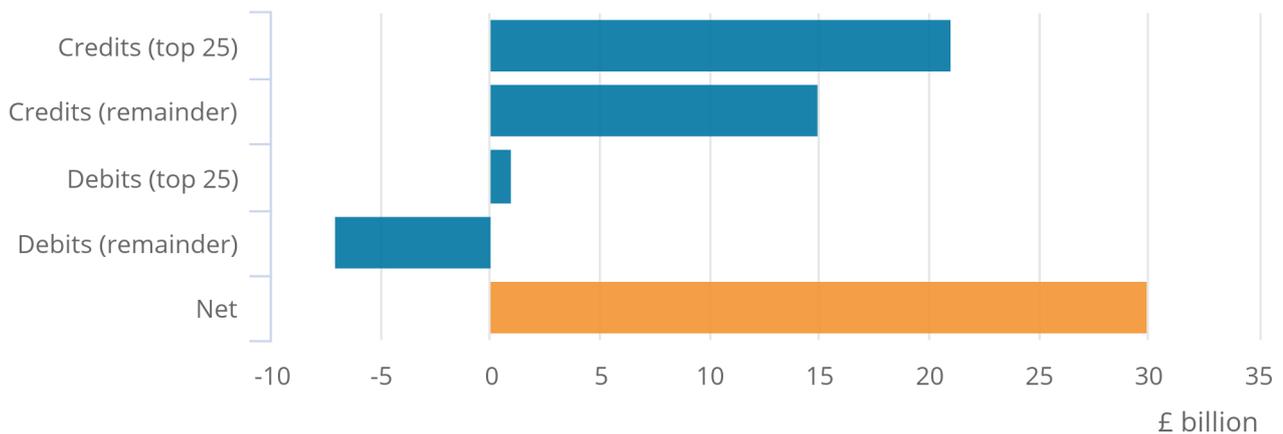
Effectively, this high value for credits by the top 25 companies offsets the decrease in credits from the previous two years (Figure 4) and the change from the top 25 companies between 2014 and 2017 (Figure 3) appears not to change at all.

Figure 6: FDI credits increased between 2016 and 2017 for the top 25 and the remainder

Cumulative change in UK credits and debits in 2017, broken down by the top 25 companies and the remainder

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Cumulative change in UK credits and debits in 2017, broken down by the top 25 companies and the remainder



Source: Office for National Statistics – Foreign Direct Investment Survey

Notes:

1. Top 25 companies are based on the credits or debits for the largest companies by asset or liability values.
2. Increases in debits are shown as negative values in the chart because they subtract from the net.

The top 25 inward direct investors reported lower FDI earnings. Debits values were £1 billion lower in 2017 than 2016 – contributing positively to the FDI net earnings balance. Debit values among the remaining companies increased by £7 billion, which slightly offset the increase in the value for credits. While a few industries contributed to the fall in net FDI earnings through lower credit values, the increase in 2017 from 2016 has been more evenly observed across industries.

5 . Acknowledgements

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