

Article

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

Inward foreign direct investment (FDI) positions and earnings presented by the economy of the ultimate controlling parent up to 2021.

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# 1 . Main points

- Companies in the North Americas ultimately controlled £868.9 billion (or 43.4%) of the UK's total inward foreign direct investment (FDI) stock in 2021; this was £150.8 billion higher than the immediate position.
- This was in contrast to inward FDI with the EU where the ultimate position was £128.4 billion lower than the immediate FDI position.
- This is the first time that we have published FDI earnings (profits) statistics by ultimate controlling economy; North American companies ultimately controlled the highest proportion of the UK total FDI earnings (37.7%).
- UK companies investing back into the domestic economy through foreign affiliates (round-tripping) accounted for 2.7% of total UK inward FDI positions and less than 0.5% of total UK inward FDI earnings.

Several factors affected FDI statistics for 2020, including disruption from the coronavirus (COVID-19) pandemic, global recession and changes to the FDI statistical populations and sampling methods. We advise caution when comparing 2020 and 2021 results with earlier years. More detail can be found in our [Foreign direct investment statistics, overview of methods changes: 2020](#) article.

## 2 . Foreign direct investment positions

UK foreign direct investment (FDI) statistics follow international guidance and are presented on an immediate parent company basis. This means geographical compositions can be affected by complex multinational corporate structures, where investment chains cross many borders.

Presenting on an ultimate basis can help to understand where the ultimate risk-taker and beneficiary of the investment is based. Although geographical compositions will be different, the aggregate world figures will be the same for both the ultimate and immediate controlling economy.

The FDI Survey has been enhanced using a commercial data source from 2020 onwards. This source also includes information on the ultimate parent company for inward FDI, which has contributed to these results. For 2014 to 2019, FDI microdata were linked with the [Inter-Departmental Business Register](#) to produce our ultimate statistics.

## Ultimate positions by continent

Companies in the North Americas continued to control the highest value of the UK's ultimate inward FDI position in 2021, accounting for £868.9 billion (or 43.4%) of the UK total. This was an increase of £103.2 billion (13.5%) compared with 2020.

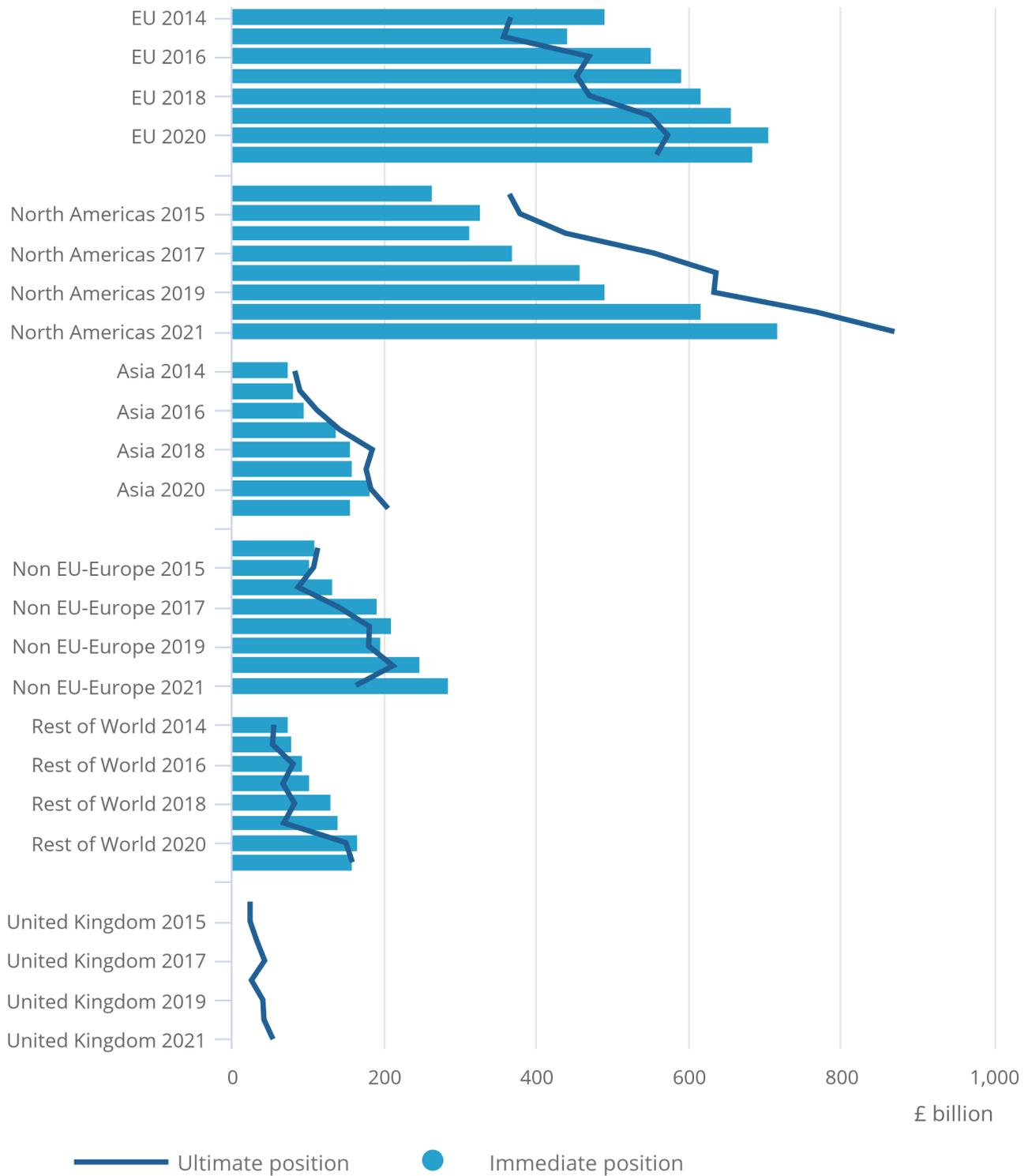
It was also £150.8 billion higher than the immediate position, continuing the trend of higher positions on an ultimate basis for this region in every year since 2014 (Figure 1). This indicates that North American companies were more likely to control their UK affiliates through other continents, rather than directly. Microdata analysis highlights the main routes for this investment, which include the Netherlands, Switzerland, Japan and Luxembourg.

**Figure 1: The UK's ultimate inward FDI position with the North Americas was higher than the immediate position in every year between 2014 and 2021**

Inward foreign direct investment position by continent of the immediate and ultimate controlling parent company, 2014 to 2021

Figure 1: The UK's ultimate inward FDI position with the North Americas was higher than the immediate position in every year between 2014 and 2021

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Notes:

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

A similar comparison can be drawn with Asian companies. In 2020, ultimate and immediate FDI position values were very similar (£181.6 billion and £182.0 billion respectively). In 2021, the value ultimately controlled by Asia increased by 12.4% whereas the immediate value fell by 14.5%. These changes reflect corporate decisions by companies in Japan and Hong Kong.

By contrast, FDI with the EU was more likely to be immediately controlled through that region rather than ultimately by it. For example, the immediate inward FDI position was £128.4 billion higher than the ultimate FDI position in 2021. The results also show a stable inward FDI relationship with the EU where the ultimate FDI position in 2021 was 2.5% lower than the value in 2020, while the immediate position was 2.9% lower over the same period.

The values for the UK refer to FDI that both enters the UK on an immediate basis from foreign countries but is ultimately controlled by parent companies within the UK. This is "round-tripping" and refers to UK companies' foreign affiliates reinvesting back into the domestic economy.

UK round-tripping was £53.2 billion (2.7% of total UK inward FDI position) in 2021. Microdata analysis of UK companies showed a mix of round-tripping destinations in large economies such as the United States and Germany as well as offshore financial centres such as the British Virgin Islands, Cayman Islands and Singapore.

## Ultimate positions by economy

The United States continued to control the highest inward FDI position on both an immediate (£675.7 billion) and ultimate (£817.4 billion) basis in 2021 (Figure 2). The ultimate control value with United States companies was 21.0% (£141.7 billion) higher than the immediate position and accounted for 40.8% of the total inward position. The values for Japan (8.8%) and France (6.2%) were the second and third highest ultimate positions with the UK respectively.

### Figure 2: Countries that were more likely to control their UK inward FDI through foreign affiliates in 2021 included the United States, Ireland, Japan and Germany

Comparison between the top 20 countries with the largest inward UK foreign direct investment positions on an immediate and ultimate basis, 2021

Notes:

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

#### Download the data

[.xlsx](#)

There were also countries where the immediate value was higher than the ultimate UK inward FDI position in 2021. For example, companies in the Netherlands immediately controlled £217.5 billion (10.9%) of UK inward FDI, compared with £42.6 billion (2.1%) by ultimate control. Ultimate control from the Netherlands fell by £68.9 billion (61.8%) compared with 2020. Microdata analysis suggests this is because of small decreases in a large number of companies.

### **3 . Foreign direct investment earnings**

Foreign direct investment (FDI) earnings statistics effectively measure the profits generated on the stock (position) of these investments. FDI earnings can vary from year to year, and aggregate totals can be affected by the results of a few companies. It is also possible for companies to report negative FDI earnings (losses). This is the first time that we have published FDI earnings statistics by economy of the ultimate controlling parent.

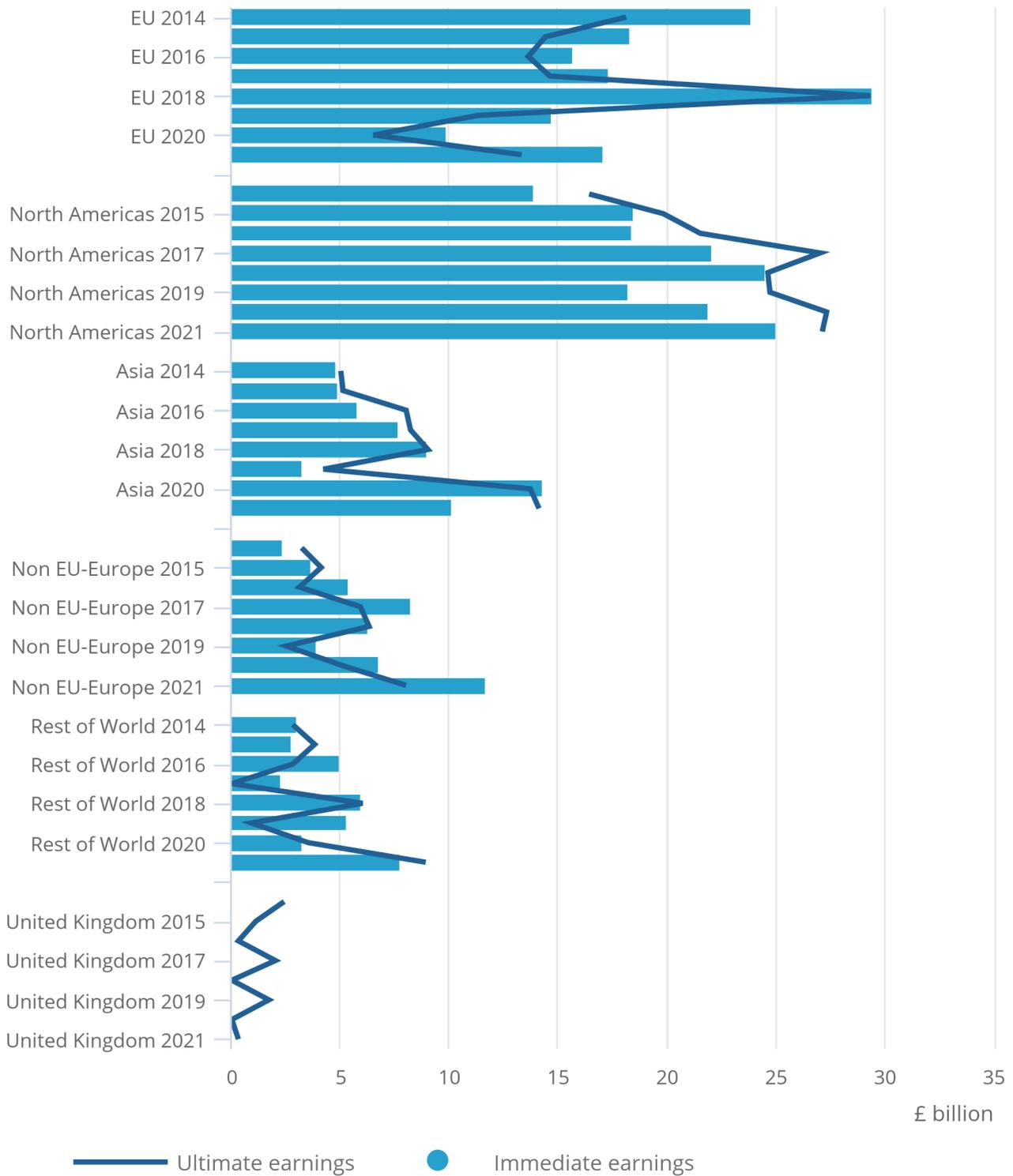
Companies in the North Americas ultimately earned £27.1 billion from their direct investments in 2021, accounting for over one-third (37.7%) of the inward UK FDI total. As with FDI positions, FDI earnings with this region were also higher on an ultimate basis in all years between 2014 and 2021 (Figure 3). The difference was much smaller (£0.1 billion) in 2018, which partly reflects changes in the profits of companies ultimately controlled from the North Americas compared with those controlled directly, in addition to any changes in corporate structures between 2014 and 2021.

**Figure 3: Ultimate FDI earnings were higher than immediate earnings with the North Americas, Asia and rest of the world in 2021**

Inward foreign direct investment earnings by continent of the immediate and ultimate controlling parent company, 2014 to 2021

### Figure 3: Ultimate FDI earnings were higher than immediate earnings with the North Americas, Asia and rest of the world in 2021

Inward foreign direct investment earnings by continent of the immediate and ultimate controlling parent company, 2014 to 2021



Notes:

1. Values might not sum to UK totals because of rounding.
2. The values for the UK were below £50 million in 2018 and 2020, appearing as £0.0 billion in this figure.
3. "Low" indicates nil or value below £500,000.

Ultimate FDI earnings with the EU more than doubled between 2020 and 2021, while immediate earnings increased by 73.8%. This partly reflects the lower values reported in the region in 2020.

Like FDI positions, UK earnings with the EU were also higher when calculated on an immediate basis compared with an ultimate basis. The Netherlands controlled the highest value of inward FDI earnings within the EU on both the immediate (£7.9 billion) and ultimate (£2.7 billion) basis in 2021. This was followed by ultimate earnings with Germany (£1.8 billion) and Ireland (£1.7 billion).

FDI earnings with non-EU European countries saw a large 71.7% (£4.9 billion) increase on an immediate basis between 2020 and 2021, mainly from a £3.5 billion increase with the UK Offshore Islands, such as Jersey and Guernsey. On the other hand, ultimate earnings with non EU-Europe increased by 57.8% even though they fell to negative £1.5 billion in 2021 with members of the European Free Trade Association.

Earnings on UK round-tripping have followed a downward trend, from £2.4 billion in 2014 to £0.3 billion in 2021. Despite the increase (£0.3 billion) in ultimate FDI earnings from round-tripping in 2021 compared with 2020, these earnings accounted for less than 0.5% of the UK's total FDI earnings in that year.

## 4 . Foreign direct investment data

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

Dataset | Released 25 July 2023

Inward foreign direct investment (FDI) positions and earnings into the UK on an immediate and ultimate basis from 2014 to 2021 (directional principle).

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

Dataset | Released 23 January 2023

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

## 5 . 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 and inward. Outward refers to the direct investments of UK-resident companies in other countries, while inward refers to 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 reinvesting back in the UK through their foreign affiliates or subsidiaries.

## Position

The FDI position is the value of the stock of investment held at a point in time. These statistics are presented as the stock of FDI controlled by UK-resident companies abroad (outward) or the stock of FDI in the UK controlled by foreign companies. FDI positions are net values for the investments held by the direct investor (parent company) minus reverse investment by direct investment enterprises.

## Earnings

Earnings can be thought of as the profits generated from the stock of FDI over a period of time. FDI earnings are net values measuring the profits and interest generated by the direct investor (parent company) from their affiliates minus interest generated by affiliates from their parent companies.

# 6 . Data sources and quality

## Data sources

Presenting foreign direct investment (FDI) statistics by the ultimate controlling parent required matching company microdata from a new commercial data source and FDI Survey from 2020 onwards.

The [Inter-Departmental Business Register \(IDBR\)](#) was the main source of information on ultimate control used in these statistics for 2014 to 2019. Since 2020, we used information on the ultimate controlling parent company from the same commercial data source that enhanced the FDI populations. By linking these sources with FDI microdata in the respective years, we aim to establish from where inward FDI was ultimately controlled.

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. We used the same method to calculate the ultimate FDI positions and ultimate earnings so that the statistics are consistent with each other. This gives values to the majority owner who 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 or continents.

Caution is also required when comparing results for 2020 and 2021 with previous years. Value changes may also reflect [different methods to compile FDI statistics](#) in addition to changes in the FDI involving UK companies.

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 the IDBR or the new commercial data sources. These entities used 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 overestimate 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.

## 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](#).

## 7 . Related links

[Foreign direct investment involving UK companies: 2021](#)

Bulletin | Released 23 January 2023

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

## 8 . Cite this article

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