HOUSE OF COMMONS LIBRARY

DEBATE PACK

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Foreign Direct Investment into the UK, 2016/17

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Contents

Summary

This pack has been prepared ahead of the debate on Foreign Direct Investment to take place in Westminster Hall on Tuesday 12 September at 9:30am. The subject for the debate has been chosen by Michael Tomlinson MP.

1. Background

1.1 What is FDI?

FDI, or Foreign Direct Investment is defined as an 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 purpose is to have an 'effective voice' in the management of the enterprise. In FDI statistics, an 'effective voice' is measured as 10% of the share capital of a company; any investment below this is counted as 'portfolio' investment under balance of payments statistics and not included FDI.[1]

Inward FDI is concerned with foreign company investments in UK companies, while outward FDI is the investment by UK companies abroad. The stock measure records the accumulated value of all past investment in the UK from international investors. The flow measures the amount being invested each year.

1.2 UK FDI in 2015

The Office for National Statistics publish a breakdown of FDI by country of origin (inflows) and destination country (outflows) for the UK. The most recent full set of data is for 2015.

- EU countries accounted for **45% of the stock of FDI in the UK** (£431 billion out of a total of £950 billion), **compared with 27% for the USA and 28% from all other countries**. The EU's share of the stock of FDI in the UK fluctuated between 45% and 54% over the last decade; over the same period the USA's share has fluctuated between 24% and 29%.

- In terms of UK investment abroad, **the EU accounted for 43% of the total UK FDI stock in 2015**, compared to **23% for the USA and 34% for all other countries**. The EU's share of the stock of UK outward investment fluctuated between 52% and 41% over the last decade; over the same period the USA's share has fluctuated between 16% and 24%.

- Net investment flows from foreign investors into the UK were **£21.6 billion** in 2015, up from £15.0 billion in 2014.

- Inward FDI flows from the United States were **£20.1 billion**, the highest recorded value since 2011.

- Inward FDI flows from Europe fell, with **a disinvestment of £12.1 billion** in 2015, compared with a disinvestment of £8 million in 2014.
- Net direct investment earnings generated in the UK by overseas investors were **£47.9 billion** in 2015, down from £48.0 billion in 2014 and the lowest total since 2012. The EU accounted for

[1] See Background notes, Foreign direct investment involving UK companies: 2015, ONS, December 2016

£18.8 billion (39%) of these; the USA accounted for **£17.5 billion (37%).**

1.3 Provisional results for 2016

In July 2017, the ONS published some provisional FDI data for 2016 in UK foreign direct investment: trends and analysis: summer 2017. The main points are:

- First estimates of foreign direct investment (FDI) based on the quarterly survey show that both net earnings and stock of FDI improved in 2016 overall.
- While both the values of UK overseas FDI earnings and stocks increased, the implied rate of return continued to decline in 2016 and reached the same rate as the returns on investments in to the UK (at 4.3%) for the first time since 2008.
- The rise in the value of both FDI credits and assets were supported by the depreciation in sterling throughout 2016; however, exchange rate effects only explain 15% of the rise in the value of FDI credits over the year.
- Returns on UK overseas FDI in mining and quarrying positions have declined across all regions between 2011 and 2015.
- Geographical breakdowns of inward FDI stocks using the ultimate controlling parent concept indicate that 30.7% of FDI stocks held in the UK by overseas investors originated ultimately from the EU, compared with 45.4% when presented using the immediate counterpart; in contrast, all other continents see an increase in their proportions of inward FDI stocks.
- Initial research suggests that financial centres play an important role for inward FDI in the UK, with nearly three-fifths of special purpose entities (SPEs) immediate parents of UK companies located in one of these centres.
- Experimental Statistics from linking FDI micro-data to other ONS business surveys identifies that businesses in receipt of FDI accounted for 18% and 28% of the UK's total employment and gross value added (excluding financial services and other smaller industries) respectively; businesses in receipt of FDI were also found to be more productive.
- Experimental Statistics show that over 2 million employees work for businesses in receipt of FDI from the European Union.[2]

1.4 UK FDI in 2016/17

The Department for International Trade report Inward Investment Results 2016-17 reports that in 2016/17, there were 2,265 inward investment projects in the UK (up 2% from 2015/16), securing 75,226 new jobs (down 9% from 2015/16). Of these 2,265 projects, 55% were

2 ONS, UK foreign direct investment: trends and analysis: summer 2017., p3

new investments, 35% were expansions and 11% were as a result of mergers and acquisitions.

A regional breakdown of projects and new jobs are shown in the table below:

New projects and jobs from FDI into the UK, 2016/17

	FDI projects	New jobs
North East	69	4,609
North West	147	6,501
Yorkshire and Humber	132	3,872
East Midlands	74	1,796
West Midlands	151	6,570
East of England	125	3,634
London	891	20,753
South East	217	5,432
South West	101	3,402
Scotland	183	5,547
Wales	85	2,581
Northern Ireland	34	1,622

Source: Department for International Trade

1.5 Implications of leaving the EU

The April 2016 Treasury publication The long-term economic impact of EU membership and the alternatives states "there is a general consensus that certain types of regional integration increase FDI", estimating that that foreign direct investment flows into the UK would fall by between 10% and 26% in the event of the UK leaving the EU, depending on the alternative arrangement.[3]

Ernst and Young's 2017 UK Attractiveness Survey Time to Act reported that while the UK remained Europe's number one recipient of FDI projects in 2016 (ahead of Germany), the UK's market share of all projects across Europe fell from 21% to 19%. 31% of surveyed investors expected the UK's FDI attractiveness to decline over the next three years, while 32% expected it to improve, figures which it states are "significantly worse than the long-term average", suggesting "Brexit may be starting to colour investors' views of the UK."[4]

[3] HM Treasury, The long-term economic impact of EU membership and the alternatives, Cm 9250, April 2016, pg. 62
[4] Time to act: EY's UK Attractiveness Survey, EY, May 2017 pg. 3-5

2. Press Articles

Globalisation in retreat: capital flows decline since crisis The volume of funds crossing borders has fallen sharply and long-term investment is playing a bigger role. But is the system more resilient?

Shawn Donnan

Financial Times, 21 August 2017

Direct investment in UK from EU companies created over 110,000 new jobs since 2012, new figures show

Ashley Cowburn

The Independent, 8 August 2017

'Lost decade' of investment comes to an end as businesses ramp up spending

Tim Wallace

Daily Telegraph, 31 July 2017

Brexit: Hammond warns of UK investment uncertainty

BBC, 21 July 2017

Two million UK employees work for companies reliant on EU investment

Ben Chu

Independent, 10 July 2017

Brexit, the UK and FDI: one year on

Jacopo Dettoni

FDI Intelligence, 15 June 2017

Foreign investors back Brexit Britain

Szu Ping Chan

Daily Telegraph, 27 April 2017

UK's competitiveness as a business market place has already dropped, says KPMG study

Josie Cox

The Independent, 4 April 2017

Post-Brexit Britain: Could Singapore be an effective model in the twenty-first century?

Ashley Kirk and Patrick Scott

Daily Telegraph, 27 January 2017

Old schemes counted in post-Brexit vote inward investment tally: Trade department study of '£16bn' projects coming to UK shows deals unveiled years ago

Jim Pickard

Financial Times, 10 January 2017

Britain has secured more than £15 billion of extra foreign investment since EU referendum

Laura Hughes, Peter Dominiczak and Christopher Hope

Daily Telegraph, 30 December 2016

The good, the bad and the ugly: Capital mobility

The Economist, 1 October 2016

Foreign investment will hold key to post-Brexit prospects

Andrew Wilson

Daily Telegraph, 21 July 2016

Rules and Britannia: Uncertainty, especially about regulation, spreads among industries most exposed to Britain

The Economist, 7 July 2016

Reality Check: How important is foreign investment?

BBC, 1 July 2016

3. Parliamentary materials

3.1 Oral questions

[Technology Sector]

HC Deb 9 Feb 2017 c 628

Mr Mark Prisk (Hertford and Stortford) (Con): What steps his Department is taking to increase exports from and foreign direct investment in the technology sector. [908688]

The Minister for Trade and Investment (Greg Hands): Since 23 June, the UK has continued to attract investment from global technology companies, including SoftBank's purchase of ARM, Facebook expanding by 50% in the UK, Google pledging to invest an estimated £1 billion, Snapchat's new global headquarters in London and more. This Department additionally promotes and showcases the UK's leading technology capability through our overseas network, and via our recently launched digital platform, GREAT.gov.uk.

[Foreign Direct Investment]

HC Deb 15 Dec 2016

Craig Williams (Cardiff North) (Con): What steps his Department is taking to support foreign direct investment into the UK. [907889]

The Parliamentary Under-Secretary of State for International Trade (Mark Garnier): My Department is working globally to attract foreign firms to set up or expand their businesses in the UK and to generate new jobs and contribute to national wealth creation. We are promoting the UK as a prime destination for inward investment from across our global network, with dedicated support for investors in 50 overseas markets. With the support of sector specialists, we are ensuring that the UK has the best opportunities to attract higher-quality foreign direct investment.

Craig Williams: Latest gross value added figures show that Wales is the fastest growing area outside London, and Cardiff is unabashedly the engine room of the Welsh economy. What positive steps is the Department taking to ensure that Welsh businesses and Cardiff businesses get the help they expect to get?

Mark Garnier: Let me say that my hon. Friend, given that his constituency is Cardiff North, is the engine-room of the Cardiff economy. The Department for International Trade works for the whole of the UK, but I stress that my right hon. Friend the Secretary of State has already visited Wales, and I am working with the Wales Office to see what more we can do. We also support the Welsh Government by offering them support in posts overseas. We see the opportunities presented by Wales as very exciting.

Bill Esterson (Sefton Central) (Lab): Today we are told that it could take up to 10 years to reach a trade agreement with the EU after we leave, while research from the National Institute of Economic and Social Research suggests a drop in trade of up to 60% if we are outside the customs union. Foreign investors are vital for the British economy, so will the Minister give those investors some of the certainty they so desperately need—and that we need, as well? Will he tell them whether he wants Britain to be inside the customs union and whether he wants tariff-free access to the single market or not?

Mark Garnier: It has been made very clear that the Government are not going to give a running commentary on what we are proposing to do. I also stress that the comments of Ivan Rogers are opinions and words taken from interlocutors and do not necessarily define how long it will take to create a trade deal. It is worth bearing in mind, if we look at various trade deals around the world, that while the Trans-Pacific Partnership has taken potentially eight years, the US-Jordan trade deal took just four months. It is very difficult to establish exactly how long any trade deal will take.

Mr Alan Mak (Havant) (Con): As the UK becomes a world leader in the fourth industrial revolution—new technology—will the Minister update the House on what steps his Department is taking to secure foreign direct investment in this vital new sector?

Mark Garnier: I congratulate my hon. Friend on launching the all-party parliamentary group on the fourth industrial revolution. This type of innovative approach by businesses moving forward is incredibly important to the success of this country's economy. We are working extraordinarily hard to make sure that this innovative approach is being transmitted around the world through our posts overseas, and that we can secure foreign direct investment to support it.

Nick Smith (Blaenau Gwent) (Lab): What is the Minister's best estimate on when an EU trade deal will be completed?

Mark Garnier: I refer the hon. Gentleman to my earlier answer.

UK Economy

HC Deb 29 June 2016 c 348

George Kerevan (East Lothian) (SNP): Does the shadow Chancellor agree that the current account deficit is essentially being funded by foreign direct investment, which includes the purchase of assets in this country by Chinese organisations? How does that relate to Britain taking back control?

John McDonnell: Labour has consistently presented arguments in the House about the asset sales that have taken place. In the past, they have been described as selling the family silver, but in recent years we have been selling the floorboards and the fabric of the building itself.

Investors in the rest of the world have been willing to overlook some of the fundamentals of our economy in the belief that the country is politically stable, and has secure banks and a booming property market. Overseas investors have been willing to buy assets and lend money on a grand scale as a result. Owing to the leave vote, however, that "kindness of strangers" is now in short supply. Given the uncertainty over the UK's relationship with the rest of the world, the confidence of international investors in its position has been undermined.

3.2 Written questions

Department for Business, Energy and Industrial Strategy: Foreign Investment in UK: Written question - 56537

Asked by Dr Andrew Murrison (South West Wiltshire)

Asked on 07 December 2016

To ask the Secretary of State for Business, Energy and Industrial Strategy, what safeguards his Department has to ensure that rules on mergers and acquisitions do not damage foreign direct investment.

Answered by Margot James

Answered on 14 December 2016

The UK has one of the highest rates of foreign direct investment in the world. Our merger regime, based on transparent rules that are administered by independent bodies, supports this. Ministers can intervene in mergers that concern public interest issues relating to national security, financial stability, and media plurality. This provides confidence to investors.

Department for International Trade: Foreign Investment in UK: Written question - 54842

Asked by Barry Gardiner

Asked on 24 November 2016

To ask the Secretary of State for International Trade, pursuant to the Answer of 8 September 2016 to Question 906161, how many of the priority global high-value export campaigns and campaigns for foreign direct investment are planned to begin before 31 March 2017; and if he will make it his policy to publish regular summaries of the effect of those campaigns.

Answered by Greg Hands

Answered on 02 December 2016

The Department has 191 priority high-value export campaigns for exports, and 250 campaigns for Foreign Direct Investment. At present there are no plans to introduce further campaigns before 31 March 2017. Although the Department will continue to remain responsive to new opportunities to trade around the world as they emerge. The impact of these campaigns will be summarised within the Department's Annual Report.

3.3 Debates

Exiting the European Union and Global Trade

HC Deb 6 July 2017 c 1356-1415

4. Press releases

New figures show UK attracts more investment than ever: UK attracted over 2,200 new inward investment projects in 2016 to 2017 with over 107,000 jobs across the country safeguarded or created.

Department for International Trade

6 July 2017

Figures published by the Department for International Trade have today revealed that the UK attracted more foreign direct investment (FDI) projects than ever before for the year 2016 to 2017.

With more than 2,200 projects recorded, the post-referendum figures show an increase of 2% on the previous year. The data also shows that 75,226 new jobs were created, and 32,672 safeguarded, amounting to over 2,000 jobs per week across the country.

Overall, the UK is the number one destination for inward investment in Europe, with the technology, renewable energy, life sciences and creative industries all seeing an increase in the number of projects.

International Trade Secretary, Dr Liam Fox, said:

> Almost one year on since the EU referendum, the UK continues to attract record levels of inward investment and remains extremely attractive to foreign investors.
>
> As an international economic department, we continue to promote the strengths of the UK as a great inward investment destination, with an open, liberal economy, world-class talent and business-friendly taxation.

Overview

Of the record number of projects that the UK attracted, the Department for International Trade helped to secure over 80% of them.

The US retains the top spot investing in 577 projects in the UK, with China (including Hong Kong) remaining in second place with 160 projects. In third place is France with 131 followed by last year's third place India and Australia and New Zealand with 127 projects each.

Government support for investment

As part of the government's drive to attract inward investment, in January this year the department launched a major global marketing campaign - Invest in GREAT Britain and Northern Ireland - to promote the UK's offering to international investors.

To date, the campaign has generated 1.4 million page views of the invest section of the great.gov.uk digital service and recorded over 540 prospective investor enquiries. It is already producing positive results with Chinese e-commerce company Kuajing.com opening a London office and UpCloud, a Finnish cloud hosting company, setting up a UK base with plans in place to expand this – both investment decisions that were made after engaging with the campaign.

Investment across the UK

Looking across the UK, inward investment continues to spread to the regions and devolved administrations:

- the Northern Powerhouse attracted 348 projects, creating nearly 15,000 new jobs
- the Midlands Engine attracted 223 projects which resulted in 8,341 new jobs being created
- through 183 FDI projects, 5,547 new jobs were created in Scotland
- Northern Ireland secured 34 projects, which created a total of 1,622 new jobs
- Wales attracted 85 projects, with 2,581 new jobs created

UK is top destination for inward investment, but investors predict a decline in its future appeal

EY, 23 May 2017

- UK retains its position as the leading destination for foreign direct investment in Europe, but with a reduced market share - Germany is 'hot on its heels'
- Mixed picture - while investor sentiment in the short-term remains buoyant, significant concerns have been expressed about the UK's medium to long-term attractiveness
- Time to act – the UK has a short window to address the concerns of international investors and needs a clear strategy with trade, skills and infrastructure at the core

The UK secured its highest ever level of inward investment in 2016 and retained its title as Europe's most attractive location for international investment, ahead of Germany, France and Spain, according to EY's latest annual Attractiveness Report.

The UK attracted 1,144 foreign direct investment (FDI) projects last year, an increase of 7% on 2015, compared to the European market, which saw a 15% rise and enjoyed the best year for international investment since the Eurozone crisis, securing 5,845 projects.

After the UK's stellar performance in 2015, which saw a 20% increase in the number of FDI projects, a 172% surge in HQ's locating, and an influx of investment into the regions outside of London, the UK's market share of European FDI in 2016 fell from 21% to 19%.

Steve Varley, EY UK Chairman, commented: "Although the UK's relative FDI performance in 2016 was not as strong as in recent years, there were no signs of any immediate collapse in investment as a result of the outcome of the EU Referendum."

Short-term plans are in line with historic trends and are especially positive among Asian investors, 30% of whom say they intend to invest in the UK in the next 12 months, followed by Western Europe (24%) and North America (21%). In addition, 37% of investors that are already established in the UK plan to invest further in the next 12 months.

Varley continues: "However, the relatively positive perceptions of the UK's attractiveness in the short term, are offset by a significant and worrying deterioration in investors' longer-term expectations of the UK's future evolution as an FDI location.

"Most notably there has been a sharp decline in how global investors rank the UK on key attractiveness criteria such as: quality of life; educational standards; stability and transparency of the political, legal and regulatory environment; transport and logistics infrastructure; and local labour skills, which have all been the major sources of strength for the UK's FDI proposition in recent years."

Brexit impact

Global investors had mixed views when asked about the future attractiveness of the UK. 32% of respondents, surveyed between March and April 2017, say they expect the UK's attractiveness to FDI to improve over the coming three years, while 31% expect it to decline. Both figures are significantly worse than recorded long-term averages of 53% and 8% respectively. In fact, since March 2016 the share of investors with a negative view of the UK's medium term prospects for FDI have almost doubled.

Mark Gregory, EY's chief economist says: "The research suggests that the EU Referendum vote and its aftermath may be having an influence on global perceptions of the UK's medium to long-term attractiveness. Western European investors are twice as negative as Asian and North American investors.

"Decisions on the majority of investments made in 2016 would have been made up to three years ago, which helps to explain the UK's solid performance last year, but signs of a slowdown are on the horizon."

9% of investors surveyed said leaving the European Single Market will prompt them to change their investment plans or re-locate from the UK to Europe in the next three years.

Germany 'hot on UK heels'

Germany, which saw a 12% increase in FDI projects in 2016, extended its lead in attracting 'new' or 'first time investments', a position it has held since 2012 when it overtook the UK. In 2016 Germany marginally increased (0.5%) its share of all new FDI projects coming into Europe, compared to the UK which saw a fall of 2%. The UK did see a 30% increase in the number of logistics projects, double the European-wide growth rate, but the number of research and development (R&D) projects fell in the UK to a low of 16% (since 2011) from 26% in 2015. Headquarters locating in the UK also fell by 32%.

Mark comments: "This slow-down for the UK compared to a growing R&D project flow across Europe, may raise concerns over the UK's influence and access to EU research funds and skills to fuel future innovation."

The success of the 'super regions'

London remained the UK's dominant location for FDI, followed by Scotland, which maintained its second place. The 'super regions', the Northern Powerhouse and the Midlands Engine, continued to do well attracting roughly double the number of projects they secured at the beginning of the last decade.

Mark Gregory commented: "Taken together, the regional FDI figures for 2016 do suggest that the strong 'super regions' are thriving whilst more geographically peripheral regions – for instance Wales, the East, North East and South West of England – are slipping behind. Finding ways to share the benefits of FDI more evenly across the country is a critical challenge that future policy needs to address."

UK's e-commerce strength

In the top ten sectors for FDI in Europe, the UK is the leading destination for: software; business services; automotive assembly; financial services; and food. Germany leads in machinery and equipment; chemical; electrical; electronics; and plastics and rubber.

In 2016, the UK saw a very positive performance from both business services – with projects increasing by 38%, fuelling London's success. Software FDI held up well, along with manufacturing, which saw a 5% increase in the number of projects, driven by a growth in logistics investment.

Notably, food manufacturing projects rose by 59% and online retail by 24%, underlying the strength of e-commerce in the UK. International investors expect financial services, IT and business services to lead the way for the UK economy in the coming years. The information, communication technologies, IT (ICT) sector is seen as Europe's fastest growing, which the UK shows clear strength in. "This could be an opportunity for the UK to reposition itself, drawing on its strength in this sector and helping to future proof the UK's FDI performance," added Mark.

Europe the dominant source of investment in the UK

The proportion of UK FDI projects generated from the European Economic Area (EEA) was the highest ever at 39% last year, up from 32% in 2007, whilst the proportion of investment in 2016 from the US – historically the UKs most important FDI origin - fell to its lowest level in the past decade.

The UK's top ten origins of FDI were from: Ireland (+79%), France (+37%), Germany (+31%), and Australia (+29%). Conversely significant declines were recorded in the number of projects from China (-13%), the Netherlands (-21%) and India (-30%).

The proportion of investment recorded into the UK from the Asian economic area has generally remained static over the past ten years – unlike Europe as a whole, where FDI projects originating from China now outstrips those from India by almost 3:1.

The UK secured 40% of all Indian projects compared to 20% of Chinese projects. "Chinese investments into Europe are increasing, but the UK is securing only half of many as them as Germany. The UK will need to chase down Chinese investment to keep ahead," added Mark.

Time to act

The UK economy has performed well after the EU Referendum vote and the outlook for FDI remains strong in the short-term. However, there are a number of indicators suggesting that the outlook for the UK is likely to be challenging and the UK needs to move quickly to position for future success.

"What is clear, is that the UK has a short window to act. On a positive note, the UK has a solid base to build from, with globally renowned strengths. A rapid response and clear strategy can help the UK to protect its leading position for inward investment in Europe and capitalise on future opportunities," said Mark.

In the view of global investors, the priorities for the UK are clear: Infrastructure, cited by 31% of investors; negotiating trade deals with new countries (32%) – US, China and India identified as most important; skills (28%); retaining existing EU trading arrangements (28%); the approach to migration (22%); and creating incentives for foreign investors (21%).

"Once defined, the strategy will need to be communicated effectively to investors to ensure their concerns over the medium-term can be understood and addressed as far as possible," Mark concluded.

5. Further reading

Inward investment results 2016-2017

Department for International Trade

July 2017

Time to act: EY's attractiveness survey UK

EY

May 2017

Succeeding in uncharted waters: Assessing the competitiveness of the UK

May 2017

KPMG

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