

Article

# Foreign direct investment by ultimate controlling economy, UK trends and analysis: 2020

Foreign direct investment (FDI) presented by the economy of the ultimate controlling parent up to 2020.

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# 1 . Main points

- EU companies with direct investment links in the UK (immediate control) accounted for the highest value of the UK inward foreign direct investment (FDI) position in 2020 (£743.1 billion).
- North American companies controlled the highest value (£749.4 billion) when looking at companies at the top of the ownership chain that were controlling their UK affiliates through other countries (ultimate control).
- The United States, Ireland and France all had higher ultimate FDI positions than immediate positions in 2020; this indicates that companies located in all three countries controlled their UK affiliates indirectly through other countries.
- The proportion of UK inward FDI that is ultimately controlled by UK parent companies (round-tripping) accounted for £57.9 billion in 2020, or 3.0% of the UK's total inward FDI position.
- One-fifth of all UK round-tripping in 2020 was through the United States, with 10 economies accounting for more than 80% of all UK round-tripping.

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

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

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

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

A new commercial data source was used for the FDI Survey collecting information from companies for 2020. This source also included information on the ultimate parent company for inward FDI and has been used in these results. For years 2014 to 2019, we linked FDI microdata with the [Inter-Departmental Business Register](#) to produce ultimate controlling parent statistics.

## Continent of the ultimate controlling economy

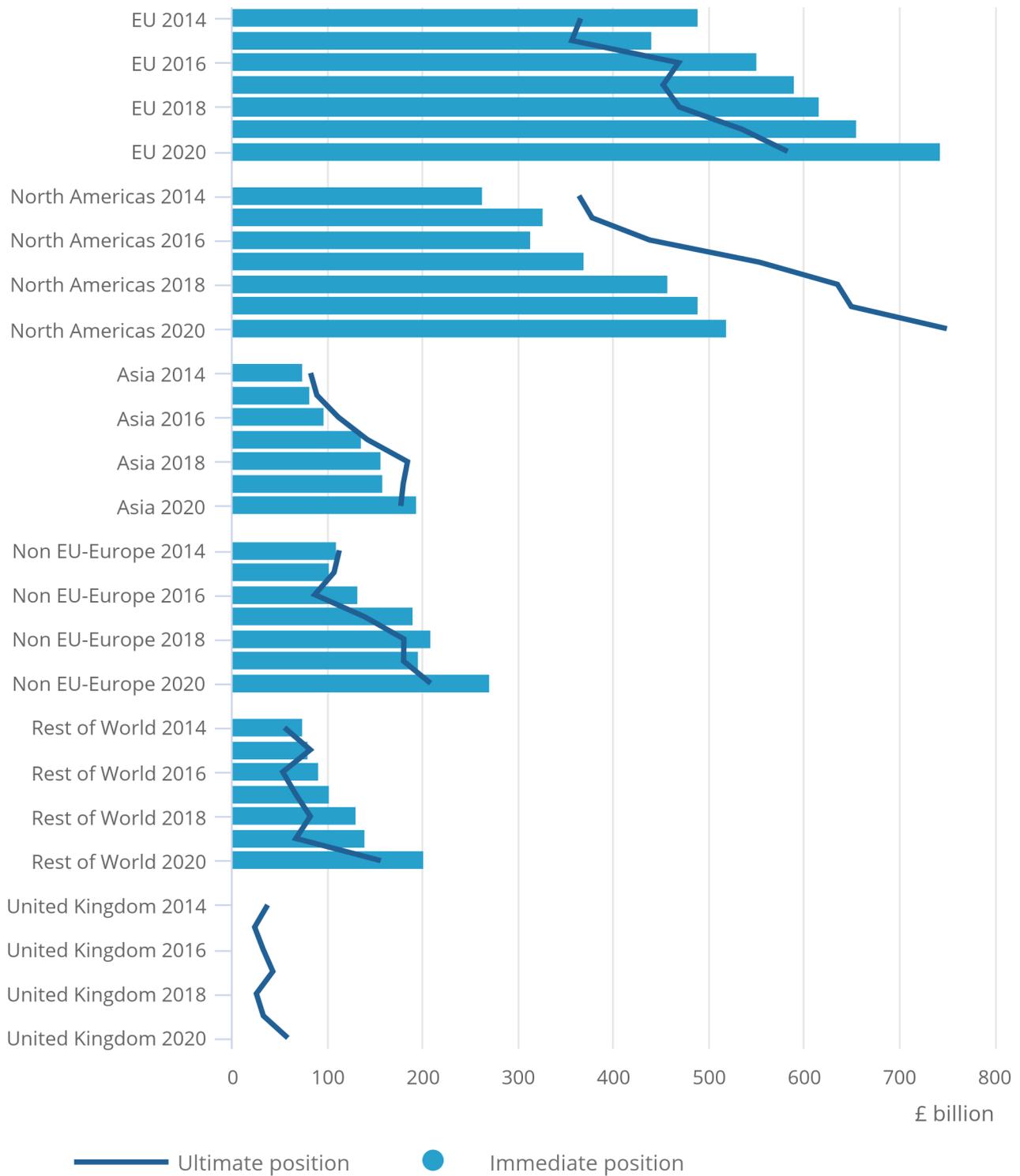
The distribution of the UK's inward direct investment by continent basis shows us the difference when the immediate positions are compared with the ultimate positions. The EU had the highest immediate position in 2020 at £743.1 billion (Figure 1), following an upward trend since 2014. The immediate position value was considerably higher (£160.8 billion) than the ultimate position for the EU in 2020, at £582.3 billion. This indicates that some UK inward investments from immediate parent companies located in the EU were ultimately controlled by businesses based outside the EU.

**Figure 1: The North Americas remained the continent controlling the highest ultimate foreign direct investment position value in 2020**

Inward foreign direct investment position by continent of the immediate and ultimate controlling parent company, 2014 to 2020

# Figure 1: The North Americas remained the continent controlling the highest ultimate foreign direct investment position value in 2020

Inward foreign direct investment position by continent of the immediate and ultimate controlling parent company, 2014 to 2020



Notes:

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

The UK's ultimate inward FDI position with the North Americas was higher than the immediate position in 2020 at £749.4 billion compared with £519.9 billion on an immediate basis, or £229.5 billion higher. By contrast, the ultimate position in the UK with Asia was relatively similar to the immediate position, £176.4 billion and £193.8 billion respectively. This suggests that some North American companies control their direct investments in the UK through other continents whereas those with Asian ultimate owners tended to have either direct control of their UK-based affiliates, or controlled them through other Asian economies.

The values for the UK refer to FDI that enters the UK on an immediate basis from abroad that was ultimately controlled by parent companies based in the UK. This reflects "round-tripping", whereby UK companies' foreign affiliates reinvest back into the domestic economy. UK companies ultimately controlled £57.9 billion of the UK's inward FDI position in 2020. Further analysis on round-tripping is included in [Section 3: Round-tripping involving UK companies](#).

## Economy of the ultimate controlling parent company

The United States controlled the highest inward FDI stock in the UK on both an immediate (£479.2 billion) and ultimate (£699.8 billion) basis in 2020 (Figure 2). Looking at the immediate figures, the Netherlands (£200.3 billion), Jersey (£135.5 billion), Belgium (£131.0 billion), Luxembourg (£114.1 billion), Germany (£106.6 billion) and Japan (£102.3 billion) comprised the countries that immediately controlled more than £100 billion of direct investment in the UK in 2020 other than the United States.

### Figure 2: United States companies ultimately controlled the highest value of inward foreign direct investment in the UK in 2020

Notes:

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

#### Download the data

[.xlsx](#)

United States companies continued to account for the highest value of ultimate inward investment in 2020 at £699.8 billion, or £220.6 billion (46.0%) higher than the immediate position. Other countries that also had a higher ultimate inward FDI position in the UK were Ireland (by £54.9 billion), France (by £17.6 billion) and Japan (by £12.7 billion). This indicates that companies with ultimate parents in these economies were investing in the UK through affiliates in other countries.

Our microdata analysis showed that American companies usually invested in the UK through Japan, Ireland and Canada. For Ireland, this result was dominated by a few companies that reported high inward FDI positions controlled through the United States.

There were also countries that had lower ultimate compared with immediate inward FDI positions in the UK in 2020. These included the Netherlands (by £94.9 billion), Luxembourg (by £57.0 billion) and Germany (by £49.9 billion). Having an ultimate FDI position lower than the immediate position is usually an indicator of being an offshore financial centre, where multinational companies locate for specific functions rather than producing their goods or services. Germany is not normally associated with financial centres, and our analysis indicated that there were a few companies with high FDI positions controlling their UK investments through Germany from the United States and Ireland.

## 3 . Round-tripping involving UK companies

We can identify the economies through which UK parent companies are re-investing back into the domestic economy ("round-tripping"). These values reflect the global corporate structures of UK parent companies and how their functions have been organised internationally. Round-tripping was the ninth-highest ultimate inward FDI position in 2020 (£57.9 billion). This accounted for 3.0% of the total inward FDI position and was slightly higher than the proportion in 2019 (2.0%).

The country through which UK companies invested the most into the UK in 2020 was the United States (Figure 3), which accounted for one-fifth of the UK round-tripping value. The other nine countries in the top 10 for round-tripping accounted for a further three-fifths of the total round-tripping value. This implies that more than 80% of the round-tripping in UK inward FDI was controlled through those 10 countries in 2020.

### Figure 3: The United States was the economy through which the highest value of UK round-tripping was controlled in 2020

10 largest immediate inward foreign direct investment positions in the UK by country with UK-resident ultimate parent companies, 2019 and 2020

#### Notes

1. Caution is required when comparing FDI values for 2020 with previous years, which may also reflect [method changes](#).

#### Download the data

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The results for 2019 and 2020 show that it was not just financial centres that were used by UK companies to control their UK affiliates. There were four countries in 2020 that are not offshore financial centres: United States, Luxembourg, the Netherlands and Japan. This was lower than the number in 2019 (seven), and there were also some changes in the composition of the top 10.

For example, UK companies controlled the 14th highest round-tripping value through Japan in 2019 compared with the eighth-highest value in 2020. These changes will partly reflect the FDI values associated with round-tripping, FDI links between these two years as well as some changes to the FDI populations and methods. The proportion of round-tripping in 2019 accounted for by the 10 highest-value countries was higher than that for 2020.

## 4 . Foreign direct investment data

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

Dataset | Released 28 July 2022

Inward foreign direct investment (FDI) positions into the UK on an immediate and ultimate basis from 2014 to 2020 (directional principle).

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

Dataset | Released 3 February 2022

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 re-investing back in the UK through their foreign affiliates or subsidiaries.

### Offshore financial centres

Offshore financial centres are economic territories through which companies control their investments. We used the same list as Eurostat to identify [offshore financial centres](#).

### Directional measurement principle

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

## 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 in 2020.

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

Our approach allocates FDI values to the economy of the company controlling the majority of the UK-based affiliate. This is one of the methods discussed internationally for estimating these statistics. This approach could also be more appropriate for FDI positions compared with earnings because the majority-owner bears the ultimate risk of the investment. It can, however, lead to some estimates being over-valued in cases where there are minority control relationships with companies in other countries. Caution is also required when comparing 2020 with previous years as raised in our [impact of method changes article](#).

Our FDI Survey is supplemented by data on monetary financial institutions (MFIs), bank holding companies, public corporations and property data. These are collected from other sources such as the Bank of England and the Balance of Payments team in the Office for National Statistics (ONS). These do not contain business identifiers that can be linked to IDBR 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 over estimate the value of round-tripping in our results. Our validation draws on other sources of information to search for such minority relationships and to cross-reference against information on the FDI Survey. For all cases where we judge round-tripping does not exist, we set the ultimate controlling parent to be the economy of the immediate parent instead.

## 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: 2020](#)

Bulletin | Released 3 February 2022

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