Global Britain Briefing Note

No 91 — 22nd February 2014

International Foreign Direct Investment

In 2012, for the first time in modern history, developing economies received more FDI (foreign direct investment) than developed economies

Annual flows of FDI

- Growth in global flows of inward FDI came to a halt in 2007. Growth resumed in 2009 only to fall back again in 2012, when the value of global flows was only two-thirds of its 2007 level. *Table 1*
- In 2012, inward flows of FDI in "Continental EU" – EU-27 less the UK – were less than a third of their 2007 level. *Table 1*
- In 2012, inward flows of FDI in the UK were also less than a third of the 2007 level. *Table 1*

Table 1: Inflows of Foreign Direct Investment: $ bn						
Receiving region/country	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
World $ bn	2003	1816	1216	1408	1652	1351
EU-27 minus the UK $ bn	659	456	283	329	391	196
EU-27 minus the UK/World	*33%*	*25%*	*23%*	*23%*	*24%*	*15%*
UK $ bn	200	89	76	51	51	62
UK/World	10%	5%	6%	4%	3%	5%
Canada + USA $ bn	333	368	166	227	268	213
Canada + USA/World	17%	20%	14%	16%	16%	16%
Source: Unctad[1]						

- The UK accounts for approximately a quarter by value of EU inflows of FDI *Table 1*

- The UK share of global flows of inward FDI was 10% in 2007, 5% in 2012. *Table 1*

- The share of global flows of inward investment accounted for by "North America" (Canada plus the USA) remained roughly stable at around 16% between 2007 & 2012. *Table 1*

- Since 2007, FDI flows to developing countries have been much more resilient than flows to developed countries. In 2012, developing countries accounted for 52% of global inward FDI. *Table 2*

Table 2: FDI inflows: Developing versus Developed Economies: $ bn						
Receiving group	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Developing economies $ bn	589	668	530	637	735	703
Developed economies $ bn	1320	1027	613	696	820	561
Source: Unctad[1]						

- In 2011, the UK was the world's sixth-biggest receiver of inward investment. *Table 3*

Table 3: FDI Inflows: Top Ten Host Economies in 2011		
Rank	**Country**	**Amount $ bn[a]**
1	USA	168
2	China	121
3	Hong Kong	75
4	Brazil	65
5	British Virgin Islands	65
6	UK	62
7	Australia	57
8	Singapore	57
9	Russian Federation	51
10	Canada	45
a: FDI inflows received by listed countries in 2011 alone		
Source: Unctad[1]		

- In 2011, the UK was the world's fifth-biggest outward investor-country. *Table 4*

Table 4: FDI Outflows: Top Ten Investor Economies in 2011		
Rank	**Country**	**Amount $ bn**[b]
1	USA	329
2	Japan	123
3	China	84
4	Hong Kong	84
5	UK	71
6	Germany	67
7	Canada	54
8	Russian Federation	51
9	Switzerland	44
10	British Virgin Islands	42
b: FDI made by listed countries in 2011 alone		
Source: Unctad[1]		

Inward FDI Stock at end-2012

"Stock" means the cumulated net (investment less disinvestment) amount of inward investment since records began. In certain countries, including the UK, inward & outward FDI flows began centuries ago.

- In terms of inward stock, the global share of the whole EU, including the UK, was 34%; that of North America (Canada + USA) was 20%. *Table 5*

- The UK share of global inward stock of FDI was 6%. *Table 5*

Table 5: Inward FDI Stock at end - 2012		
Receiving region/country	**$ bn**	***%***
World	**22,813**	*100*
EU minus the UK	6,485	*28*
UK	1321	*6%*
Canada + USA	4,569	*20%*
Source: Unctad[1]		

Table 6: Inward FDI Stock at end - 2012		
Receiving group	**$ bn**	***%***
Developed economies	14,220	*62*
Developing economies	7,745	*34*
Other economies	848	*4*
World	**22,813**	***100***
Source: Unctad[1]		

- The share of developing economies in global inward FDI stock in 2012 was 34%, compared with 62% for developed countries. *Table 6*

Limitations of the official international FDI statistics

The "official" UNCTAD statistics give only a partial or approximate picture of global FDI flows & "stock".

Statistics on international (i.e. cross-border) flows of FDI are subject to a major distortion baptised by Global Britain some years ago as the **"Netherlands Distortion".**

The **Netherlands Distortion**[2+] arises because investments of capital, and the income generated thereon, are often, principally for tax reasons, channelled by *investor* entities domiciled in one country, through Netherlands "brass-plate" holding companies, to *investee* entities domiciled in a third country. Under current international statistical conventions, the flows of principal, and, in the reverse direction, the income arising thereon, are recorded in the international trade and balance-of-payments statistics as originating in or destined for the Netherlands, despite the fact that those Netherlands holding companies have no *bona fide* economic purpose except tax avoidance.

The Netherlands is not the only country to host such "brass-plate" holding companies. Elsewhere in the European Union, Luxembourg and Belgium are other jurisdictions favoured by investors for tax reasons, where the same statistical FDI distortion occurs. The UK's various dependencies such as the Channel Isles, the Isle of Man & Gibraltar in European waters, and the British Virgin Islands in the Caribbean, are other examples, as are the Netherlands Antilles. In 2011, the British Virgin Islands appeared in the top ten world rankings of both host and investor economies (Tables 3 & 4), which illustrates the magnitude of statistical distortions associated with national & international FDI statistics.

Notes & Data Sources

1. The statistics in this Briefing Note are from the report published during 2013 by the Geneva-based United Nations body, UNCTAD: *World Investment Report 2013,* United Nations Conference on Trade & Development: ISBN: 978-92-1-11268-0: www.unctad.org > Publications > World Investment Report 2013.

2. See Global Britain Briefing Note No 64: *The Rotterdam-Antwerp Effect & the Netherlands Distortion*, 7.1.11 www.globalbritain.org > Briefing Notes; and Global Britain Briefing Note No 32: *Foreign Direct Investment: The Netherlands Distortion*, 4.6.04 www.globalbritain.org > Briefing Notes.

Global Britain

Ewen Stewart

Director

David Stewart

Treasurer

Ian Milne

Chairman

22nd January 2014

Global Britain Briefing Note No 91:

International Foreign Direct Investment

In 2012, for the first time in modern history, developing economies received more FDI (foreign direct investment) than developed economies

www.globalbritain.co.uk