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# BRITISH FOREIGN DIRECT INVESTMENTS IN THE LIGHT OF THE WORLD FINANCIAL CRISIS

This article analyzes outflow of foreign direct investment from the United Kingdom, with particular emphasis on the period of the global financial crisis (2007 +). Examined both flows and resources of British FDI in terms of industry and geography. In the final part of the article analyzes British transnational corporations profits from investments abroad.

**Keywords:** British foreign direct investments, profits of British corporations, stock of British FDI, British FDI flow

## 1. INTRODUCTION

The large number of world factors of production flowing is one of the most spectacular manifestations of globalisation. The greater ease of the transfer of commodities, services as well as persons and capital on the international scale causes the fact that the effects of interdependencies between world leading economies are coming into the limelight. These interdependencies result in the growth of susceptibility of particular markets to external turmoil.

One of the main kinds of international flow of factors of production are nowadays foreign direct investments (hereinafter referred to as FDI). They involve creating new businesses abroad or taking over of business entities already operative (Meyer & Estrin, 1998, pp. 3–4). The capital-related corporations scattered around the world react strongly to the situation in their headquarters – despite the reassurance by their respective heads. Many of these corporations are tycoons whose property is in fact international, but it is in principle allotted to the most developed countries in the world.

The purpose of the paper is to analyse the annual flow and British resources of foreign direct investment. The justification for investigating the said subject matter is provided by the information about multiple capital-related British corporations of transnational character, especially of financial character coupled with the American banks suffering from great economic problems.

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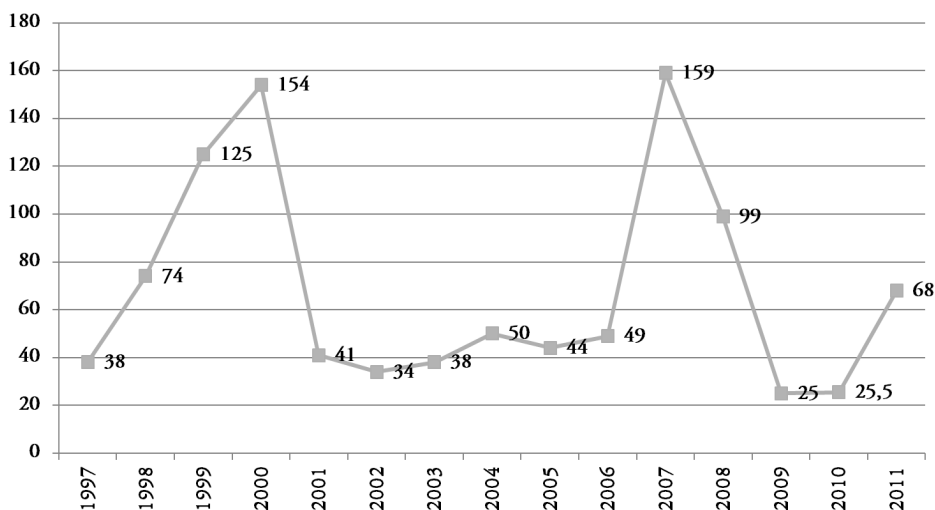
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## 2. THE ANALYSIS OF THE STRUCTURE OF THE FLOW OF BRITISH FOREIGN DIRECT INVESTMENTS DURING THE YEARS 1997-2011

Great Britain is currently one of the biggest provider of foreign direct investments in the world. Each year, these are a few dozen pounds that outflow in the form of foreign direct investments. British companies willingly make investments abroad banking on gaining an easy competitive edge due to its formidable market power.

The annual flow of investments wavered in the scrutinised period; however, it seems that in the recent years, that level correlated with the world business cycle and somehow reflected the state of international economy.

Fig 1. British direct investment abroad in the years 1997–2011 (billion pounds)



Source: S. Harrington, *Foreign Direct Investment 2006*, “Business Monitor MA4”, National Statistics, London 2008, p. 7; *Foreign Direct Investment Involving UK Companies, 2011 (MA4)*, Office for National Statistics, London 2013, p. 3.

During the years 1997–2000, the annual outflow from foreign direct investments in Great Britain steadily grew. The streams of the outflow increased in that period from 38 to 154 billion pounds. It amounts to the growth by almost 300% within merely 3 years. The process of activating British companies on foreign markets was slowed down in 2001. The annual outflow due to foreign direct investment from the UK shrunk then to only 41 billion pounds. The causes of such situations are apparently the world slow-down of economic growth, the growing threat of terrorism or else with the temporary satisfaction with particular local investments (Siemiątkowski, 2005, p. 67).

The forthcoming years brought about – as mentioned already – a sort of stability of the scale of the outflow of foreign investment from Britain. Annual outflows from FDI during the years 2002–2006 reached the spectrum ranging from 34 to about 50 billion pounds.

In 2007, there occurred a sort of outburst of the outflow of British FDI. Despite the fact that the whole world was haunted with the threat of financial crisis, British corporations

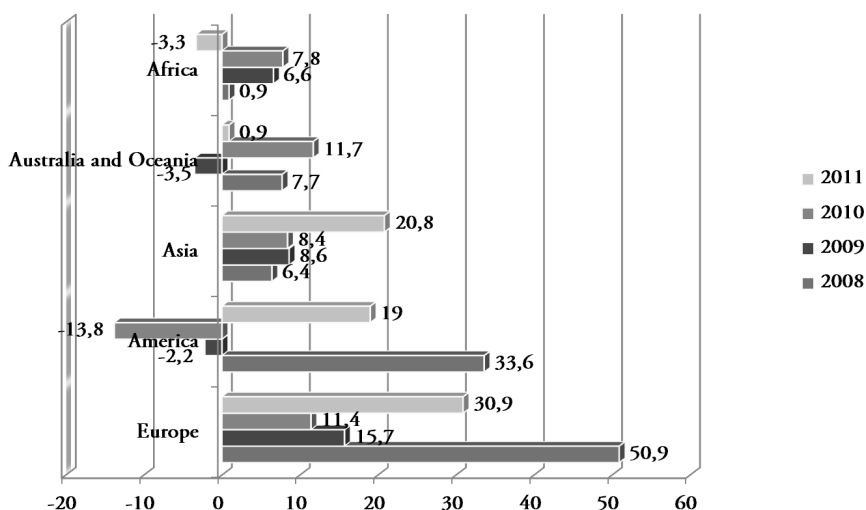
launched new FDI at the unprecedented amount of 159 billion pounds. In the successive year, the flow of investments decreased, and yet it was maintained at the relatively high level of 99 billion pounds. The repercussions of global financial crisis echoed in British FDI only during the years 2009–2010. The annual flow of British FDI were recorded back then at the level of approximately 25 billion pounds. In the last year, as presented in the picture 1, that is in 2011, British corporations invested over 68 billion pounds as far as FDI is concerned. Then, it seems that the negative influence of financial crisis upon foreign investment activity of British corporations was only temporary.

As important as the sheer amount of the outflow of investments is the very structure of the outflow. In that field, one mainly analyses the geographic structure, which points to the directions of flow as well as the department-and-branch structure, which in turn points to interdependencies between specific branches.

The directions of foreign expansion of British enterprises till 2006, that is until the financial crisis, were relatively unexpected (Siemiątkowski, 2008, p. 161). That is because it transpires that – contrary to the directions of the integration process with the European Union structures – the business entities scrutinized here preferred America to Europe as the destination of their respective enterprises (Office for National Statistics, 2006, p. 11).

The situation changed radically after the outburst of financial crisis. British corporations started to more willingly choose different destinations for their investments.

Fig. 2. British FDI abroad by region of the world in 2008–2011 (£ billion)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 7.

Generally speaking, in 2006, America received the flow amounting to 21 billion pounds from Britain, which equals 43% overall capital outflow from that country. Relative to 2003, it was in fact a bigger inflow, but back then it amounted to 47% capital outflow from British Isles. The second most popular direction of expansion of British companies was, in 2006, Europe, who received the inflow of 16 billion pounds, which sum amounts to 32% British overall capital. It means some high growth relative to 2005. Back then, the share of the capital

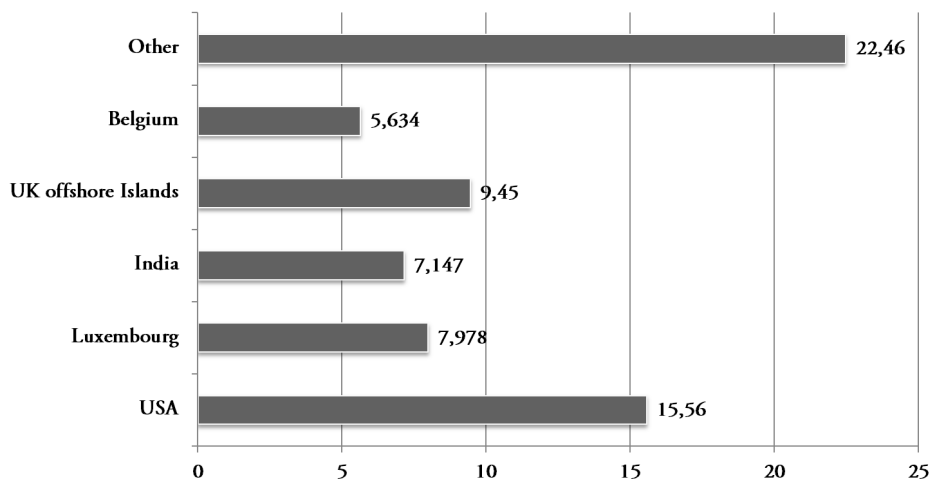
located in Europe relative to the overall British Direct Foreign Investment was 27% (Office for National Statistics, 2006).

The remaining continents were less popular with British enterprises. Asian countries received the inflow of over 8 billion pounds, Australia and Oceania – 3,6 billion pounds and Africa – only 300 million pounds. Special attention should be paid to an over 95% decrease of the inflow of British investments in Africa, which – even in very 2005 – received the inflow of almost 6 billion pounds of foreign direct investment from Great Britain (Office for National Statistics, 2006).

The situation changed significantly after the outburst of financial crisis. The directions of foreign expansion of British investors were considerably modified. It were the countries from Europe which came to the fore as far as the localization of the investment of British corporations are concerned (it amounted to 50 billion pounds in 2008), whereas America was the second best (over 33,5 billion pounds). In the successive year, the above-mentioned trends strengthened and Britons withdrew from America more investments than they actually located (the so-called *divestment*).

The year 2011 was characterized by the considerable growth of the significance of Asia as a destination for British direct foreign investments. British corporations located in Asia almost 21 billion pounds, which is more than in America [see Fig. 2]

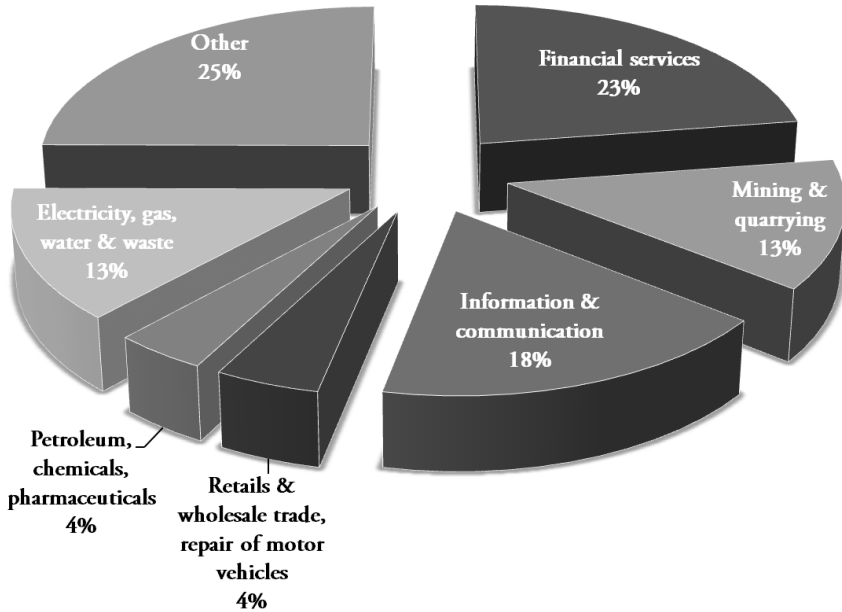
Fig. 3. British FDI in 2011, broken down by country of destination (% share)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 53.

The more detailed data related to the destinations of British foreign direct investments is represented in chart 3. The biggest share in FDI flowing from Great Britain fell on such countries as USA – over 15,5 billion pounds, British dependent territories (mainly the islands at the English Channel) – 9,45 billion pounds and Luxembourg – almost 8 billion pounds. India is another important destination of British expansion. As on the of most populated country, India is regarded as the prospective market for many international companies. The choice of the Isle of Man or Jersey as the location of investments mean that British companies took advantage – on the occasion of simultaneous investments – of tax havens (among which there are the said Isles).

Fig.4. British FDI in 2011, by sector of the economy (share%)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 58.

The branch-and-department structure of the inflow of foreign direct investments is as vital as their geographic structure. The former points to capital dependencies of particular branches as well as specific transnational corporations. That very structure allows for a glimpse into the extent to which a given economy is developed. Less developed countries – in principle – admit the investments to their industrial sectors but they do not invest much themselves. On the other hand, more developed countries are the destinations of investments into the branches normally associated with new technologies. Simultaneously, the corporations from such countries make intensive foreign investments into multifarious branches.

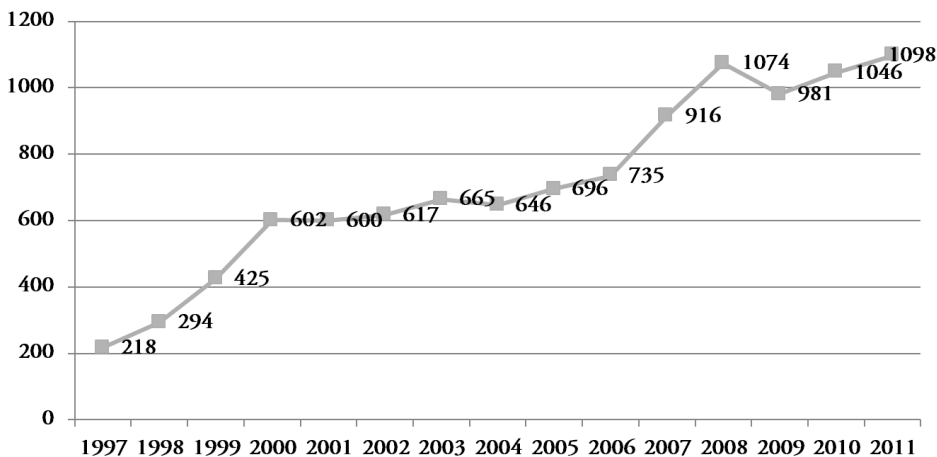
The greatest number of British direct investments fell on – in 2011 – the sector of “financial services” – over 23% overall capital. It means that British capital is mainly located into better developed economies. It is corroborated by the geographical analysis of the destinations of investments. The deeper analysis of the department-and-branch structure of foreign direct investments flows shows that the Britons invested in banking sectors of highly developed countries for many years. These were American banks which boasted a distinctive interest on the part of Great Britain.

The second best in terms of its popularity with Great Britain was the sector of information and communication with about 18% share of the overall capital flow. Mining and natural resources exploitation as well as electricity, gas and providing with water occupied the third position. About 13% overall foreign direct investments from the Commonwealth flew to these sectors each. The facts cited here demonstrate that despite the occurrence of global crisis, British enterprises did not draw conclusions from the predicament they were in during the years 2007-2009. They still invest substantial amounts of money in those sectors of economy which became the cause of troubles for the world economy.

### 3. THE SCALE AND STRUCTURE OF BRITISH RESOURCES FOR FOREIGN DIRECT INVESTMENTS

For the sake of completion of the issue of the flow in the form of foreign direct investments from Great Britain, one should conduct the analysis of the so-called resources of foreign direct investments abroad. That indicator means the aggregate outflows of investments issued from Great Britain. It is to be stated that the resources of investments of British companies considerably increased in the period scrutinized in this paper (Górniewicz & Siemiątkowski, 2006, pp. 146–147).

Fig. 5. British resources FDI abroad in the years 1997–2011 (£ billion)

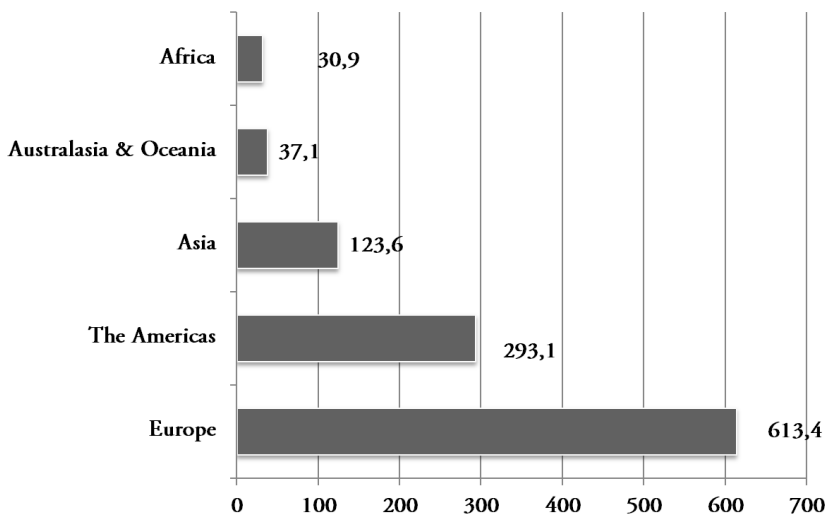


Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 59.

They grew from 218 billion pounds in 1997 to almost one trillion pounds in 2008. The fastest growth was recorded between 1997 and 2000, that is when British resources for foreign direct investments almost tripled. The successive years brought about the slow-down of the growth dynamics of the resources for foreign investments in the country scrutinized here. In 2004, there was even a small decrease of these resources – from 665 to 646 billion pounds. In 2012, British resources for foreign direct investments amounted to 735 billion pounds, which was equal to 12% world resource for outflowing investments. That percentage made British corporations on one of the top positions for providers of foreign direct investments in the world; Great Britain was second best, barely behind USA (UNCTAD, 2007, p. 255; UNCTAD, 2005, pp. 303–307).

The successive year, 2009, brought about the decrease of resources for British investments to barely 1 trillion pounds. As a result of international financial crisis spreading, the value of British corporations scattered around the world decreased by almost 100 billion pounds. The businesses were withdrawn particularly from USA, where the mentioned crisis actually originated.

Fig. 6. The structure of UK FDI stocks in 2011, by region of the world (£ billion)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 59.

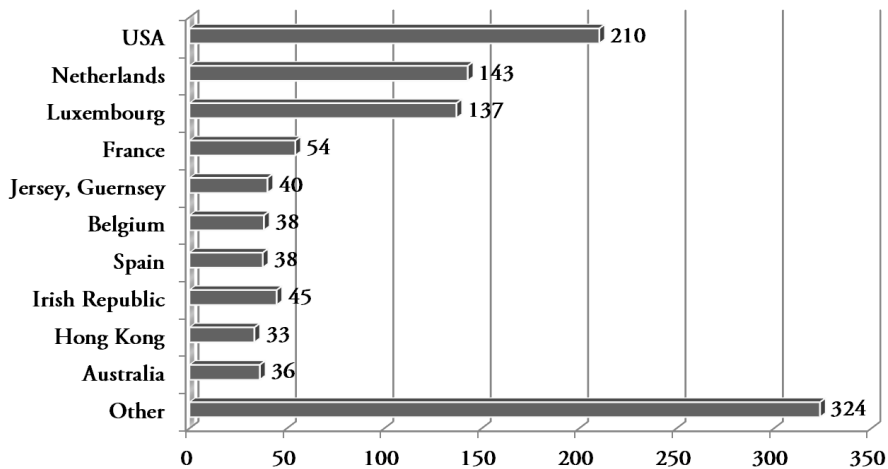
Contrary to the trends of the first half of the first decade of the third millennium, in which the most popular destination of British corporate expansion was America; at the end of 2006, the major part of resources for foreign direct investments issued from United Kingdom was located in Europe.

From the overall amount of 735 billion pounds of British resources in 2006, almost 394 reached European countries, which was the share of 54%. Despite that, Europe slightly decreased its share in that economic variable, because in 2005 its share as far as that variable is concerned was 56%. The cause of all this was the said increased interest in the American continent on the part of transnational British corporations.

Altogether at the end of 2006, British resources for FDI in America amounted to almost 260 billion pounds, which was equal to 36% overall shares. In the previous year, 31% share was recorded. Asian countries received 7% and African and Australia with Oceania received about 2% overall shares each.

As mentioned earlier, in the second half of the decade 2000-2010, there occurred a dynamic growth of British FDI. That very growth was due to the considerable modification of their geographical structure. At the end of 2001, in European countries a similar share of British FDI was located as in 2006, that is approximately 56%. The allocation of British investments among the remaining continents looked a bit different from that in the first half of the decade. In America, about 26% British FDI was located, whereas Asian share in the said resources increased until it reached the level of 11,6%. The share having fallen on Australia and Oceania as well as Africa oscillated at the end of 2011 around 3%. In the light of the above considerations, it seems to be interesting to analyse the geographical structure of British foreign investments in terms of those countries being the biggest beneficiaries of investments.

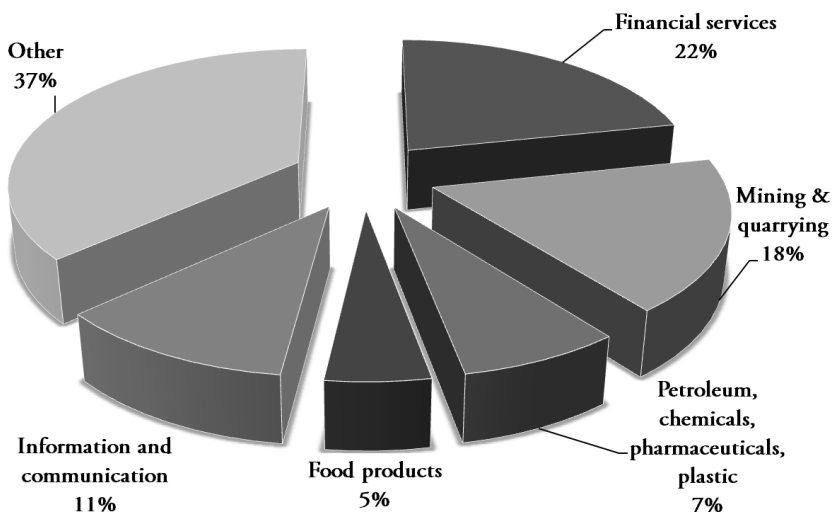
Fig. 7. The ten largest recipients of FDI UK – at the end of 2011 (£ billion)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 59.

Despite the gradually decreasing interest in the American continent on the part of British corporations, it proves that at the end of 2011, the majority of resources for British foreign direct investments located in American went directly to USA. Royal Statistical Society estimates that about 19% overall amount 1098 billion pounds was invested in USA. Considerably lower amount of investments reached Holland – 13 %, slightly less – Luxembourg – 12,4%. Jointly, it was 71% resources for British investments which was located in 10 major

Fig. 8. Structure of British stocks of FDI by sectors of the economy (as of end of 2011)



Source: own preparation: Foreign Direct Investment Involving..., op.cit., p. 64.



beneficiaries of the said investments. It is to emphasized that among that group of countries there are two well-known tax havens – the Isle of Jersey and Guernsey. It hints at the desire to maximize profits by investors as a result of avoiding taxation in their respective homelands.

It is also the data pertaining to the department-and-branch structure that provides the useful information concerning the structure of FDI. It gives a clue as to the increased interest on the part of British investors in financial services – 22% overall resources, mining and natural resources exploitation – 18% and informatisation and computerization – 11%. Relative quite popular were also such branches of economies as chemicals, plastic and petrol derivatives – 7% as well as food production – 5%.

The previously drawn hypothesis is confirmed; that is that British financial sector is grossly involved in American sector. It might be said that, analyzing the data pertaining to the property structure of British banking sector, these two countries virtually possess property-interrelated banking sectors.

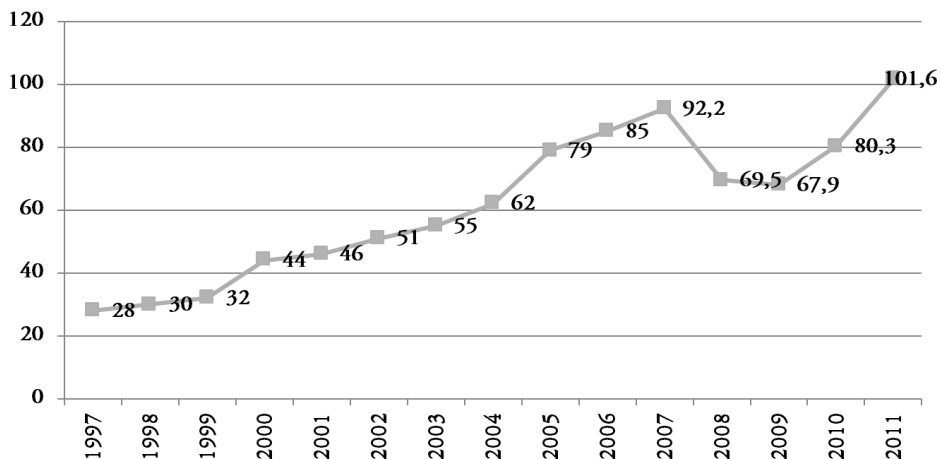
#### 4. THE STRUCTURE OF PROFITS BY BRITISH DIRECT INVESTORS DURING THE YEARS 1997–2011

In the last section of the present paper, the proportions and the structure of the profits by British foreign investors due to direct investments shall be presented. Such an analysis demonstrates whether or not the value of located capitals in different parts of the world as well as specific countries has a bearing on tangible effects in the form of profits for foreign investors.

Thus, in a sense, it is a sort of confirmation of the investment attractiveness of given countries and economic sectors.

The value of profits by British foreign direct investors rose each successive year during the years 1997–2007. Annual amounts of profits increased then from 28 billion pounds in 1997 to over 92 billion pounds in 2007. The highest rate of growth in the analysed period fell in 2000 and 2005.

Fig. 9. Net income from British direct investors in the years 1997–2006 (£ billion)

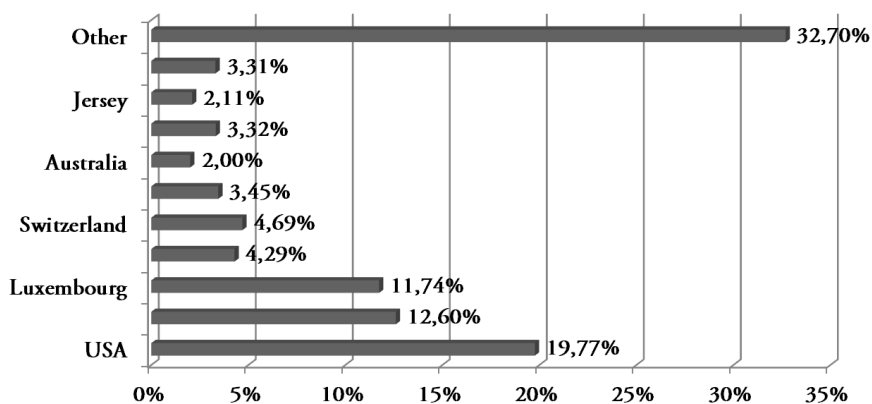


Source: S. Harrington, op. cit., s. 53; Foreign Direct Investment Involving..., op.cit., p. 65.

During the years 2008-2009 the decreases of profits by British direct investors from their foreign activity were recorded. The decreases were quite significant and reached almost 25% annually. The profits of British FDI rebounded and during the years 2010-2011 started to increase intensively. At the end of 2011, they reached the unprecedented value of over 101 billion pounds.

The major source of profits for British foreign direct investors were investments in USA. The profits gained there amounted to almost 20% overall profits of British investors. The second best in that rating was Holland, which provided about 12.6% profits, and the third best was Luxemburg – 11.7%. Altogether, the ten best countries in that rating provide 67% profits to British foreign investors.

Fig. 10. Top 10 of British FDI location by the size of profits to foreign investors in 2011

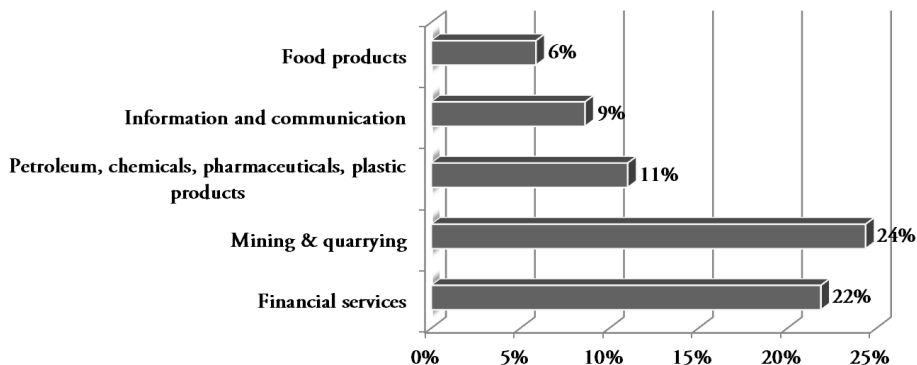


Source: Foreign Direct Investment Involving..., op.cit., p. 65.

It is worth mentioning that the presented above rating of 10 biggest receivers of British investments in terms of resources contributed to the concentration of the capital at the level of 71%. Therefore, a considerable disproportion in that respect is conspicuous. By the same token, when it comes to what both lists comprise, considerable differences occur. The conclusion – the amount of the capital invested alone is not the determinant of the profits gained due to capital share. It is the structure of the capital that plays the significant role.

The department-and-branch structure of British investors demonstrate that in 2011, the major part fell on financial services – 22%. Mining and natural resources exploitation brought about 24% overall amount of profits and chemical branch, plastic and oil derivatives about 11%. The presented data complements the analysis of the structure of British foreign direct investments. The data confirms the excessive concentration of investments in two sectors which were also the source of the major part of profits, that is financial services and mining coupled with natural resources exploitation.

Fig. 11. Profits of British FDI by sectors in 2011 (% share of sectors)



Source: Foreign Direct Investment Involving..., op.cit., p. 70.

## 5. SUMMARY

From the presented analysis, one can easily infer the fact that there is a connection between international capital flow (in the form of foreign direct investments) and the troubles of British financial sector. The mutual interdependencies of British and American banking sector caused the troubles across the ocean to resonate in the British Isles. Yet, it cannot be stated with confidence that it is the only cause of British economic troubles. Unsuccessful investments into American securities based on mortgages, real estate crisis and the overall weakening of economic growth did their job too. However, it can be asserted with certainty that the rigid capital relations of transnational corporations are not devoid of any significance.

The troubles of British banking sector are so crucial that the government decided to assume the significant part of that sector, thus involving hundreds of billion pounds as an aid to the banks threatened with bankruptcy. "It was only a couple of months ago that four British banks belonged to the world leaders of that branch. Now, the only institution willing to subsidize it is the government" (Cieślak-Wróblewska, 2008).

The above-mentioned situation should serve as a worthy piece of advice for transnational corporations which make international transfers of the factors of production. The far-reaching conclusions are to be drawn for the future and instead of rushing headlong to maximize profits at any cost, one should rather diversify investment packet. Locating foreign direct investments into multifarious branches may bring about smaller short-time effects but portfolios are less risky.

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