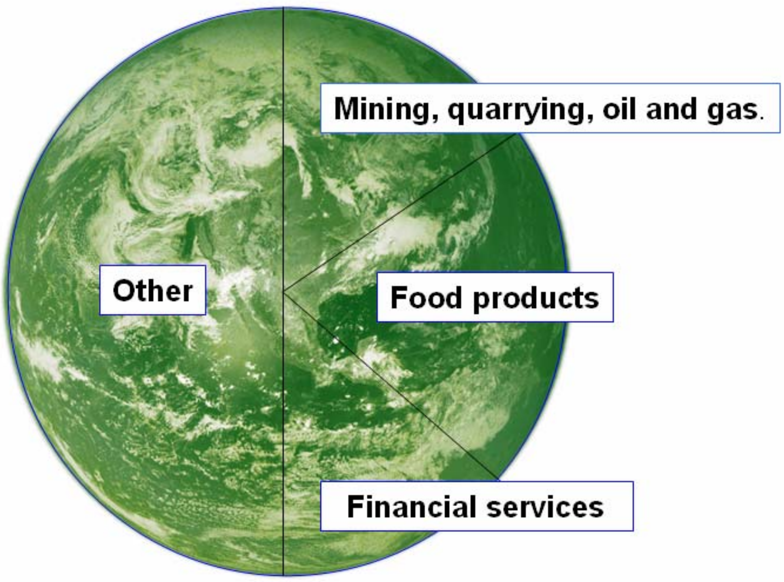
Tracking UK Foreign Direct Investment (FDI) into selected overseas economies.

Phase I report

Summary



Joint Nature Conservation Committee

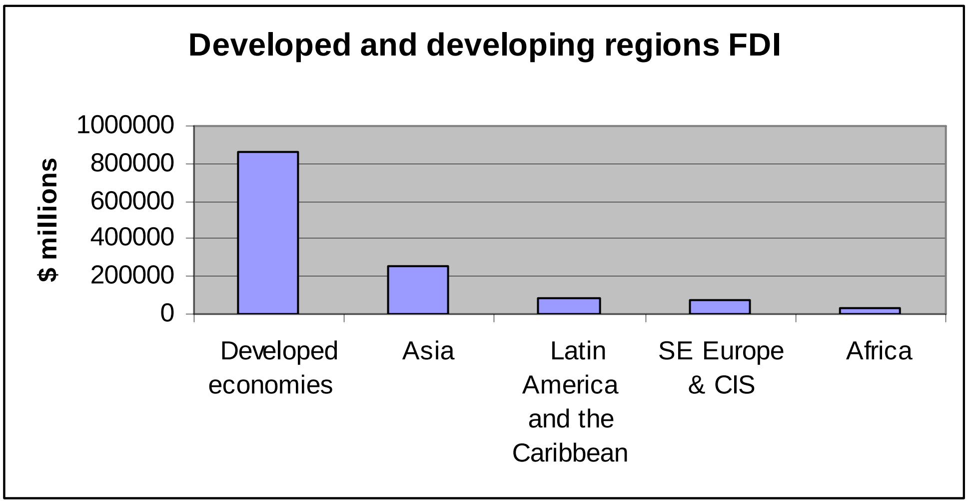
May 2008

Global Foreign Direct Investment (FDI)

In 2006 global flow of FDI exceeded $1.3 trillion (£800 billion at the then exchange rates) with inflows of FDI accounting for half of all net capital flows to developing countries. The established pattern of FDI flows, with investments moving from 'north' to 'south', is changing. New countries are emerging as significant originating and receiving economies. FDI from developing and transition economies and the growth of 'South-South' FDI are important recent trends. Well established bilateral relationships between individual countries, which have dominated international investment flows, are being replaced by a more complex global position reflecting the involvement of more countries.

In spite of these changing patterns of FDI flow, the developed countries currently provide the major source of funding with outflows from developed countries growing by 45% in 2006 to $1 trillion. This investment flow carries with it the potential to impact upon the environment in countries receiving investment and also the potential for corporations and investment institutes based in developed countries to apply and share sustainability best practice within their business sector. The United States and four EU countries comprised the 5 largest outward investor economies in the world. The EU as a whole was the greatest single global source of FDI contributing $572 billion out of a total of $1.3 trillion global flows. Within the EU France, Spain, the UK and Germany are the major FDI sources.

Three principal investment groups are recognised, namely primary resources, manufacturing and services. Since 2002, there has been a steady overall growth in FDI[1] with increased investment in services and less in manufacturing. Until recently there had been a decline in investment into primary resources but in some regions this changed in 2006 as a response to increased primary commodity prices.



[1] The effects of recent stock market falls and the uncertainties within the global financial system will certainly affect this upward trend.

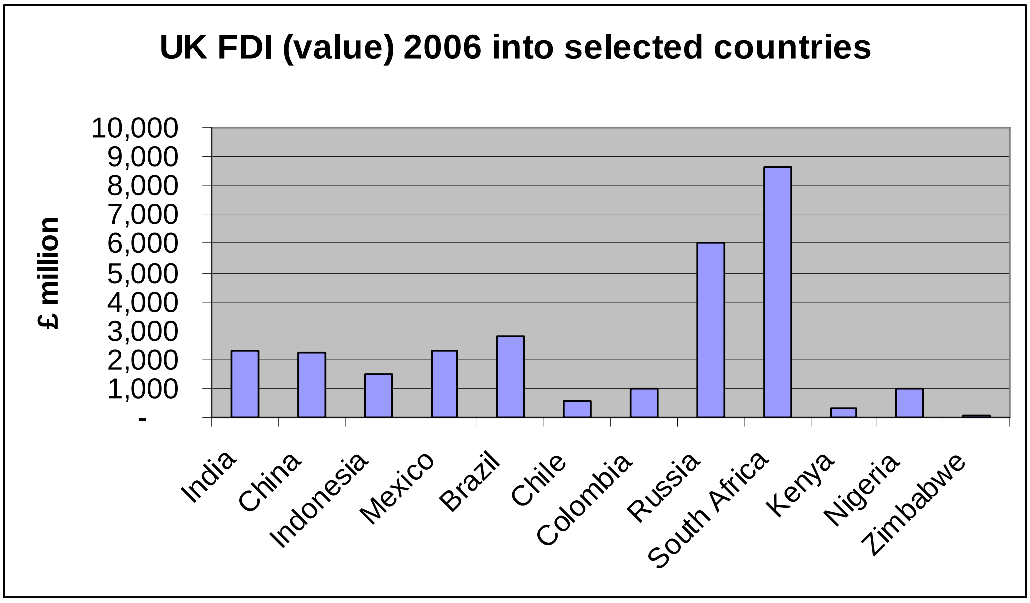
UK Foreign Direct Investment

There has been an overall increase in *annual flows* of investment funds from the UK over the period 2002-2006 reaching £49 billion in 2006 with the *value*[2] of these investments reaching £735 billion in that year. In 2006 the UK was the 4th largest global source of outward FDI, after the USA, France and Spain.

In 2006 UK investment flows overseas changed from previous years with a greater emphasis on investment into resource industries. The trend of UK FDI flows between the three principal industry sectors in 2006 was as follows:

- UK FDI into *Services* in general fell to £14.5 billion (down 59 per cent compared to the £35.5 billion reported in 2005) but financial services FDI rose to £22.1 billion (up from £10.5 billion in 2005);
- UK FDI into *Manufacturing* fell to £16.4 billion (down 11 per cent compared to the £18.5 billion reported in 2005) but FDI into food products rose to £15.5 billion (up from £5.0 billion in 2005;
- UK FDI into *Resources* rose to £18.5 billion (compared with a net disinvestment of £9.5 billion reported in 2005) with the emphasis on the extractive industries, mining, quarrying and hydrocarbons.

In 2006 54% of UK FDI went into Europe and 25% into North America. The principal areas of interest for this report are outside these geographical areas, and outside the OECD, and in particular in a suite of countries across South America, Africa, Asia and eastern Europe. These regions currently attract less than 5% of total UK FDI, but they represent investment in some of the major growing global economies including the Sustainable Development Dialogue countries[3] (Brazil, South Africa, India, China, Mexico) and Indonesia and Russia which are referred to in this report collectively as the 'SDD+2' countries.



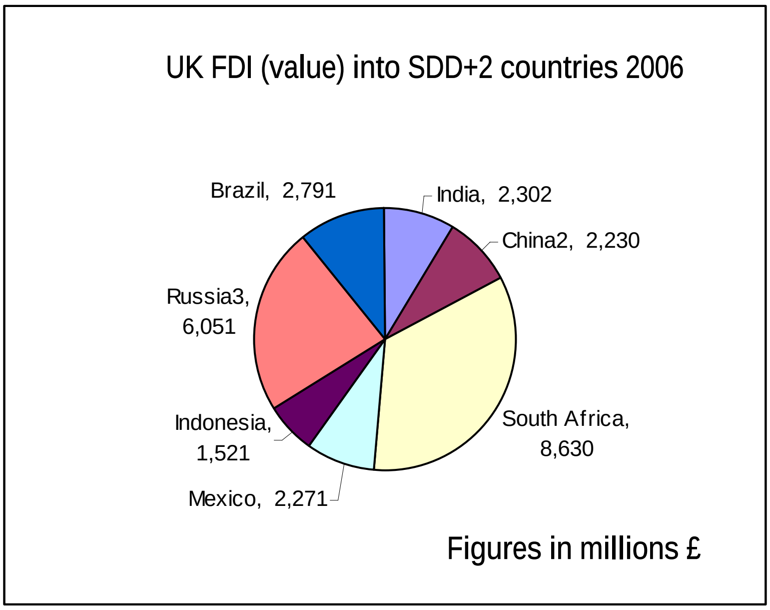
2 Annual **flow** and cumulative investment **value** (net investment position) are both used in this report.

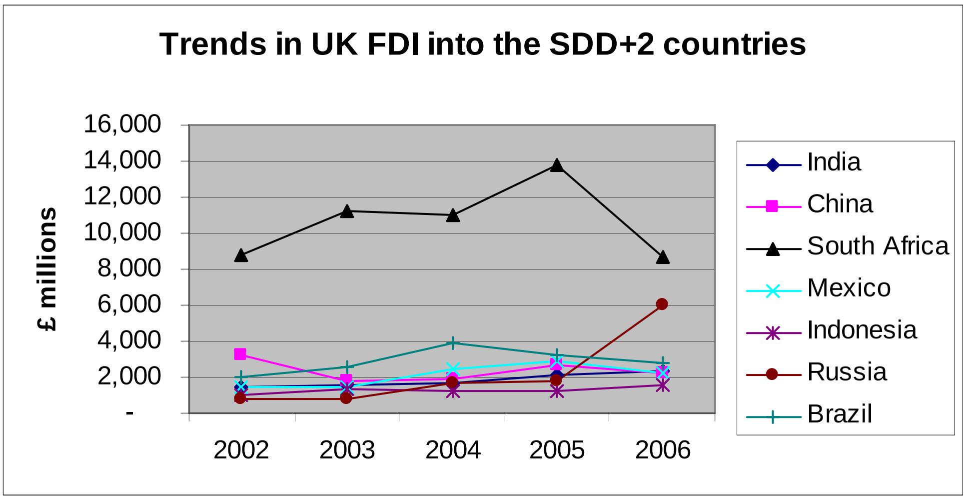
3 http://www.sustainable-development.gov.uk/international/dialogues/

UK investment into the 'SDD + 2' countries

General conclusions in respect of FDI investment into the 'SDD+2'countries are:

- The share of the UK FDI (by value) in the 'SDD+2'countries was approximately £26 billion (3.5% of global value) in 2006;
- South Africa and Russia are the largest recipients of UK FDI onto the 'SDD+2'with the latter growing in importance.
- India, China and Brazil receive a relatively high proportion of UK investment in the manufacturing sectors, accounting for just over half of all UK investment in each of these three countries relative to a global average for UK FDI of 33%.
- Mexico, South Africa, Indonesia and Russia, all have a relatively low proportion of UK investment in manufacturing sectors, compared to the global average.





Sustainable Development implications for UK FDI

The seven the 'SDD+2' countries referred to in this document include some of the fastest growing global economies, in particular the BRICs countries (Brazil, Russia, India, China) which are forecast to be the major centres of economic growth in the future.

Understanding the UK investment role in these growing economies is essential to understand the ways and means through which UK corporations, and government, may be involved in generating or alleviating growing environmental pressures resulting from economic expansion in South America, Africa, the CIS and Asia. Understanding the relative importance of UK investment in different countries and different business sectors, and the different sustainability issues associated with each sector within each country is also essential.

Analysis of global and UK patterns of FDI suggests that on the basis of global investment trends, and likelihood of environmental impact, the following sectors are of prime importance:

- financial services;
- food products;
- the extractive industries;
- forestry, fisheries and agriculture - although attracting low levels of direct investment these activities are highly significant from an ecosystem impact perspective, and are also related to investment in financial services (which may involve investment into these sectors) and the food industry.

This Phase I report makes no attempt to analyse the sustainability implications of UK FDI into the 'SDD+2'countries but does identify UK government and other work that will be collated, along with additional FDI data, into the next work phase. This work is in progress, undertaking such an analysis against the following provisional framework;

- extending the analysis from the current seven countries to include other non-OECD countries;
- identification of existing indicators and reviews of sustainability impacts for the four key sectors, including biodiversity specific impacts;
- use industry and UK Stock Exchange indicators to identify UK companies that qualify as 'Sustainability leaders' in their respective sectors;
- link UK FDI analysis to ongoing JNCC work on identifying high conservation value areas within priority countries which have strong political and economic links to the UK;
- link the FDI research to ongoing JNCC work on biomass for bioenergy programmes identifying links between UK FDI and bioenergy programmes in selected countries;
- integrate results – statistics and analysis – into the project website.

A Phase II report will be available in late Summer 2008 complimented by additional content on the project website – www.ukglobalinfluence.org.